Management's Discussion and Analysis of Financial Condition and Results of Operations of SBL Holdings, Inc.

Subject to Notice to Investors

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial information included in the following discussion and analysis of the Company's financial condition and results of operations is presented on the basis of generally accepted accounting principles in the United States ("GAAP").

SBL Holdings, Inc., together with its subsidiaries ("we", "our", "SBLH", or the "Company"), is a life insurance holding company organized under the laws of the State of Kansas. Its primary insurance subsidiary, Security Benefit Life Insurance Company ("SBLIC"), is a Kansas stock life insurance company that was initially organized in 1892. Through SBLIC, we conduct business in the District of Columbia and every state except New York, and in New York we conduct business through our subsidiary First Security Benefit Life Insurance and Annuity Company of New York ("FSBL"). We offer life insurance policies in 49 states, through our indirectly owned subsidiary, Everly Life Insurance Company ("Everly Life").

Business and Profitability

The Company's business principally consists of spread-based fixed index annuities ("FIA") and fixed rate annuities, fee-based variable annuities and retirement plan products (*i.e.*, mutual fund custodial). The Company's strategy is focused on growing its spread and fee assets under management ("AUM") and earning returns by managing net investment spreads and investment and product risks. The Company's profitability depends in large part upon its amount of AUM, the net investment spreads the Company earns on policyholder account balances, its ability to manage its investment portfolio to maximize returns and manage risks such as interest rate changes and defaults or impairment of investments, its ability to manage interest rates credited to policyholders and costs of the options purchased to fund the index credits on our FIAs, its ability to manage the costs of acquiring new business (principally commissions to producers and premium bonuses credited to policyholders), and its ability to manage operating expenses. The Company generates fee-based revenue from its variable annuity and retirement plan products, where the customer takes the investment risk and the Company earns a specified fee based on the level of AUM, as well as other administrative fees.

After discontinuing sales of life insurance products in 1997, the Company made the strategic decision to reenter the life insurance market in 2021. Our goal is to diversify our business, acquire younger clients and provide innovative financial solutions as clients move through life stages. We seek to do so through Everly Life.

The Company has a non-controlling minority interest in SkyRidge Cayman Holdings, LLC ("SkyRidge Holdings"), which is the ultimate parent company of SkyRidge Re Limited ("SkyRidge Re"), representing approximately 23.8% of its capital and 9.9% of its voting power. SBLIC manages the funds withheld assets relating to the ceded liabilities under an agreement with SkyRidge Re. Security Benefit Business Services, LLC ("SBBS"), an affiliate and related party of the Company, provides certain services to SkyRidge Holdings and its subsidiaries. As of December 31, 2024, the Company has net business ceded based on statutory reserves of $8.7 billion to SkyRidge Re, and of this amount, $2.0 billion was the ceded premium during the twelve months ended December 31, 2024. SkyRidge Holdings and its subsidiaries are not consolidated with SBLH on its GAAP financial statements.

Market Conditions

The following is an overview of certain market conditions for the twelve months ended December 31, 2024 compared to December 31, 2023;

- *The 10-year Treasury rate increased 70 basis points ("bps") during the twelve months ended December 31, 2024 to 4.58%, and was flat compared to the* twelve *months ended December 31, 2023 to 3.88%.*
- *The three month USD Secured Overnight Financing Rate ("SOFR") decreased 102 bps during the twelve months ended December 31, 2024 to 4.31%, compared to an increase of 74 bps during the twelve months ended December 31, 2023 to 5.33%.*
- *Bloomberg BBB Long Credit gross yields increased 55 bps during the twelve months ended December 31, 2024 to 6.07%, compared to a decrease of 42 bps during the twelve months ended December 31, 2023 to 5.52%. The spread decreased 20 bps during the twelve months ended December 31, 2024 to 1.26% compared to a decrease of 46 bps during the twelve months ended December 31, 2023 to 1.46%.*
- *CLO credit gross yields for "A" tranches decreased 171 bps during the twelve months ended December 31, 2024 to 6.37%, compared to a decrease of 22 bps during the twelve months ended December 31, 2023 to 8.08%.*

- *CLO credit gross yields for "BBB" tranches decreased 199 bps during the twelve months ended December 31, 2024 to 7.50%, compared to a decrease of 54 bps during the twelve months ended December 31, 2023 to 9.49%.*
- *The S&P 500 index increased 23.31% during the twelve months ended December 31, 2024, compared to an increase of 24.23% during the twelve months ended December 31, 2023.*

Revenues and Expenses

The principal sources of the Company's revenues are (i) net investment income from invested assets, (ii) net realized gains (losses) on investments, (iii) policy and contract fees on products, (iv) surrender and other product charges deducted from the account balances of policyholders, (v) changes in fair value of options, futures and swaps due to the performance of the underlying benchmark, and (vi) fees for other services.

The Company's expenses consist primarily of (i) annuity product benefits (primarily interest and index credits to account balances), (ii) changes in fair value of embedded derivatives on FIA products, (iii) changes in benefit reserves for guaranteed benefits greater than account value, (iv) amortization of deferred acquisition costs ("DAC"), deferred sales inducement costs ("DSI"), and value of business acquired ("VOBA"), (v) other operating expenses, (vi) interest expense on debt, and (vii) income taxes.

Under GAAP, premium collections for annuities are reported as deposit liabilities and not as revenues. Similarly, cash payments to policyholders are reported as decreases in the liabilities for policyholder account balances and not as expenses.

Operating Income (a Non-GAAP Financial Measure)

The Company uses operating income, a non-GAAP financial measure commonly used in the life insurance industry, as an economic measure to evaluate its financial performance. Operating income equals income before income tax expense adjusted to eliminate the impact of (1) investment-related gains and losses (including the reinsurance embedded derivative and change in fair value of certain derivatives), net of impacts on benefit reserves and DAC, DSI and VOBA; (2) changes in fair value of call options and embedded derivatives associated with the FIA products, net of impacts on benefit reserves and DAC, DSI and VOBA, and excludes realized gains and losses on call options used primarily to hedge index credits on FIA products; (3) changes in the fair value of the variable annuity guaranteed living benefit ("VA GLB") rider embedded derivatives, including guaranteed minimum withdrawal benefits ("GMWB") and guaranteed minimum accumulation benefits ("GMAB"), net of changes in rider reserve and amortization of DAC, DSI and VOBA; and (4) changes in reserves and DAC, DSI and VOBA amortization related to actuarial assumption unlocking and model refinements. Because the reconciling items fluctuate from year to year in a manner unrelated to core operations, the Company believes a measure excluding the impact is useful in analyzing operating trends. The Company believes the combined presentation and evaluation of operating income together with net income provides information that may enhance an investor's understanding of the Company's results and profitability.

Operating income is not a substitute for net income determined in accordance with GAAP. The adjustments made to derive operating income are important to understanding the Company's overall results from operations, and, if evaluated without proper context, operating income possesses material limitations, including the following:

- As an example, the Company could produce a low level of net income in a given period, despite strong operating performance, if in that period it generates significant net realized losses from the Company's investment portfolio. The Company could also produce a high level of net income in a given period, despite poor operating performance, if in that period it generates significant net realized gains from the Company's investment portfolio.
- Another limitation of operating income is that it does not include the decrease in cash flows expected to be collected as a result of credit loss. Management reviews investment-related gains (losses) and analyses of the Company's net investment income in connection with the review of the Company's investment portfolio.

The following table presents the adjustments made to net income to arrive at operating income for the periods presented.

	Twelve Months Ended December 31, 2024	Twelve Months Ended December 31, 2023	$ Change	% Change
	(unaudited)			
		(dollars in thousands)		
Non-GAAP Financial Measures				
Net income	$ 882,160	$ 695,382	$ 186,778	26.9%
Income tax expense	224,300	174,474	49,826	28.6%
Income before income tax expense	1,106,460	869,856	236,604	27.2%
Investment-related (gains) losses [a]	72,270	69,655	2,615	3.8%
Change in fair value of fixed index annuity call options and embedded derivatives [b]	(31,705)	150,955	(182,660)	(121.0)%
Change in fair value of variable annuity guaranteed living benefit rider embedded derivatives [c]	1,495	837	658	78.6%
Assumption/model refinements and unlocking [d]	49,523	28,755	20,768	72.2%
Operating income	$ 1,198,043	$ 1,120,058	$ 77,985	7.0%

(a) Investment-related (gains) losses (including the reinsurance embedded derivative and change in fair value of certain derivatives) are net of the impacts of change in reserves and amortization of DAC, DSI and VOBA.

(b) Change in fair value of fixed index annuity call options and embedded derivatives is net of pro-rata amortization of option cost. The change in fair value of embedded derivatives equals the change in the difference between policy benefit reserves for FIA products computed under the derivative accounting standard and the long-duration contracts accounting standard. These amounts are reflected net of impacts of changes in reserves and amortization of DAC, DSI and VOBA. Realized gains and losses on call options used to hedge index credits on FIA products are excluded.

(c) Change in fair value of variable annuity guaranteed living benefit rider embedded derivatives includes GMWB and GMAB, net of impacts of changes in reserves and amortization of DAC, DSI and VOBA.

(d) Assumption/model refinements and unlocking represents the impact of the unlocking of actuarial assumptions and model refinements.

The change in operating income was driven by favorable net investment spread due to a higher investment yield, additional returns realized due to favorable adjustments on limited partnership and limited liability company investments accounted for under the equity method, and higher average spread-based AUM of $39.4 billion as of December 31, 2024, compared to $38.2 billion at December 31, 2023, partially offset by higher product experience expense and general expenses.

Consolidated Results of Operations

Twelve months ended December 31, 2024 compared to twelve months ended December 31, 2023

Net income

Net income increased by $186.8 million, or 26.9%, to $882.2 million for the twelve months ended December 31, 2024 from $695.4 million for the twelve months ended December 31, 2023. The increase was driven by a $740.6 million increase in revenues, partially offset by a $504.0 million increase in benefits and expenses.

Revenues

The following table presents a summary of components of the Company's revenues on a comparative basis for the periods presented.

	Twelve Months Ended December 31, 2024	2023	$ Change	% Change
	(unaudited)	*(audited)*		
		(dollars in thousands)		
Net investment income	$ 3,257,385	$ 2,836,141	$ 421,244	14.9%
Asset-based and administrative fees	147,640	129,157	18,483	14.3%
Other product charges	273,455	245,708	27,747	11.3%
Change in fair value of options, futures and swaps	459,480	184,326	275,154	149.3%
Investment-related gains (losses)	(82,924)	(86,330)	3,406	3.9%
Other revenues	112,316	117,723	(5,407)	(4.6)%
Total revenues	$ 4,167,352	$ 3,426,725	$ 740,627	21.6%

Net investment income

The increase in net investment income was driven by higher investment yield and higher average spread-based AUM of $39.4 billion as of December 31, 2024, compared to $38.2 billion at December 31, 2023. Investment operating earned rate increased 81 bps from 7.44% for the twelve months ended December 31, 2023, to 8.25% for the twelve months ended December 31, 2024, primarily due to an increase in investment earned book yield of 57 bps from 7.00% for the prior period to 7.57% for the later period, along with an increase of 24 bps, or $97.6 million, in additional returns on investments.

Change in fair value of options, futures and swaps

The increase in the change in fair value of options, futures and swaps was primarily due to the performance of the derivatives used to hedge FIA index crediting obligations and the strong performance of the underlying indices. The associated market indices (e.g., S&P 500 index) of the derivatives generally had stronger performance for the twelve months ended December 31, 2024. For that period, the 1-year point to point monthly average of the S&P 500 index increased 26.36% compared to 6.71% for the same period for 2023.

The Company sells FIA policies that credit interest based on a percentage of the gain in a specified market index. This index crediting feature is an embedded derivative within the FIA reserve liability. A portion of the policyholder deposits is used to purchase derivatives, primarily call options, on the applicable indices to fund the index credits due to the FIA policyholders. Both the embedded derivative and call options are measured at fair value. Generally, the mark-to-market call option unrealized gain (loss) is offset by the change in reserve for the embedded derivative and guarantee reserve, with differences arising from the timing of the recognition of the index credits at the time of expected termination of the options and the valuation of the FIA embedded derivative which requires the inclusion of future index crediting periods beyond the current period. The option proceeds, supplemented by dynamic hedging in certain situations, generally offset the index credits. These call options are highly correlated to the portfolio allocations of the policyholders, such that the Company is economically effectively hedged with respect to index returns.

Benefits and expenses

The following table presents a summary of and the change in benefits and expenses for the periods presented.

	Twelve Months Ended December 31, 2024 (unaudited)	2023 (audited)	$ Change	% Change
		(dollars in thousands)		
Benefits and expenses:				
Index credits and interest credited to account balances	$ 1,174,693	$ 603,212	$ 571,481	94.7%
Change in fixed index annuity embedded derivative and related benefits	(81,719)	377,405	(459,124)	(121.7)%
Other benefits	624,352	458,214	166,138	36.3%
Total benefits	1,717,326	1,438,831	278,495	19.4%
Other operating expenses	504,642	467,024	37,618	8.1%
Amortization of deferred policy acquisition costs, deferred sales inducement costs, and value of business acquired	525,415	393,092	132,323	33.7%
Interest expense	313,509	257,922	55,587	21.6%
Total benefits and expenses	$ 3,060,892	$ 2,556,869	$ 504,023	19.7%

Index credits and interest credited to account balances

The increase in index credits was primarily driven by more favorable performance of associated indices over the index crediting period and the increase in interest credited was primarily driven by higher AUM and increased crediting rates in response to competitive conditions.

Change in fixed index annuity embedded derivative and related benefits

The decrease in the change in FIA embedded derivative and related benefits was primarily driven by (i) the realization of index credits which increased the account value causing an offsetting reduction of $(493.2) million, (ii) $(80.7) million attributable to an increase in discount rates from December 31, 2023 to December 31, 2024, used to determine the fair value of the FIA embedded derivative, compared to a decrease in discount rates from December 31, 2022 to December 31, 2023, and (iii) $(73.4) million attributable to unrealized option gains being lower in 2024 compared to 2023. These decreases were partially offset by $196.0 million of policyholder account activity differing from expectations. The differing expectations were primarily transfers of fixed account assets by policyholders to indexed crediting options which resulted in higher future index credit excess benefits.

Other benefits

The increase in other benefits was primarily driven by $79.7 million attributable to change in fair value of index credit payable to SkyRidge Re and $109.8 million reserve increase related to the guaranteed lifetime withdrawal benefits ("GLWB") and guaranteed minimum death benefits ("GMDB"). This $109.8 million increase is primarily related to (i) $75.0 million of unfavorable assumption unlocking and model refinements and (ii) $46.5 million due to unfavorable GLWB utilization experience.

Amortization of deferred policy acquisition costs, deferred sales inducement costs, and value of business acquired

The increase in the amortization of DAC, DSI, and VOBA was primarily driven by (i) $55.8 million primarily related to the impact of option gains, (ii) $42.0 million related to FIA embedded derivatives due to discount rate changes, and (iii) $38.0 million primarily related to higher investment income and AUM. However, there was also a partially offsetting impact of $8.0 million of favorable assumption unlocking and model refinements due to more favorable impacts of $34.6 million in 2024 compared to $26.6 million in 2023.

Interest expense

The increase was primarily driven by higher interest paid on repurchase agreements of $34.8 million due to an increase in the average repurchase agreement balance period over period, as well as an increase in interest expense on VIE debt of $4.9 million. There was also an increase of $14.2 million of interest expenses paid to derivative counterparties for collateral received on derivative positions.

Financial Condition

Assets

The following table presents the Company's assets for the periods presented.

	As of			
	December 31, 2024	**December 31, 2023**	**$ Change**	**% Change**
	(unaudited)	*(audited)*		
		(dollars in thousands)		
Assets				
Investments: [(a)]				
Fixed maturities, available for sale	$ 37,807,643	$ 40,285,008	$ (2,477,365)	(6.1)%
Fixed maturities, trading	376,922	412,450	(35,528)	(8.6)%
Equity securities	993,616	705,296	288,320	40.9%
Notes receivable from related parties	2,170,394	995,715	1,174,679	118.0%
Mortgage loans	2,745,425	787,674	1,957,751	248.5%
Policy loans	70,373	71,647	(1,274)	(1.8)%
Cash and cash equivalents	3,905,070	1,647,403	2,257,667	137.0%
Short-term investments	20	160,893	(160,873)	(100.0)%
Call options	1,020,039	759,014	261,025	34.4%
Other invested assets	2,131,919	1,878,736	253,183	13.5%
Total investments	51,221,421	47,703,836	3,517,585	7.4%
Accrued investment income	684,931	815,687	(130,756)	(16.0)%
Reinsurance recoverable	10,979,006	9,604,904	1,374,102	14.3%
Deferred income tax asset	174,847	95,616	79,231	82.9%
Deferred policy acquisition costs, deferred sales inducement costs and value of business acquired	2,777,732	2,854,536	(76,804)	(2.7)%
Other assets	728,269	801,056	(72,787)	(9.1)%
Separate account assets	6,579,840	5,785,040	794,800	13.7%
Total assets	$ 73,146,046	$ 67,660,675	$ 5,485,371	8.1%

(a) See the accompanying Notice to Investors under "Categories of Investments."

Fixed maturities, available for sale

The decrease in fixed maturities classified as available for sale for the twelve months ended December 31, 2024, was primarily driven by $3,393.7 million of net disposals, partially offset by $515.7 million of a favorable net change in value, and $400.6 million of interest capitalized under contractual payment-in-kind agreements.

Equity securities

The increase in equity securities for the twelve months ended December 31, 2024, was primarily driven by $208.6 million of net acquisitions, and $79.8 million of favorable net change in value during the period.

Notes receivable from related parties

The increase in notes receivable from related parties for the twelve months ended December 31, 2024, was driven by net acquisitions of $1,171.6 million. Related parties use this funding for the Company's direct origination investments as well as to warehouse underlying assets to be used for CLOs securitized by related parties.

Mortgage loans

The increase in mortgage loans for the twelve months ended December 31, 2024, was primarily attributable to gross acquisitions of $2,162.1 million, $157.1 million of interest capitalized under contractual payment-in-kind agreements, partially offset by net proceeds of $361.5 million. Net acquisitions were primarily driven by the origination of a single mezzanine loan in the first quarter of 2024 totaling $1,234.4 million.

Cash and cash equivalents

The increase in cash and cash equivalents for the twelve months ended December 31, 2024, was primarily attributable to (i) the Company holding a higher cash balance while the Company seeks to invest under its current asset allocation strategy and (ii) a $246.6 million increase in derivative collateral received from counterparties during the period.

Short-term investments

The decrease in short-term investments for the twelve months ended December 31, 2024, was primarily attributable to maturities of $740.7 million, partially offset by net acquisitions of $577.9 million

Call options

The increase in call options for the twelve months ended December 31, 2024, was driven by favorable changes in fair value of the options used to hedge the index crediting options offered in the Company's FIAs by $443.6 million. These options were primarily indexed to the S&P 500 which increased 23.3% during the twelve months ended December 31, 2024. This change was partially offset by $182.6 million of expirations.

Other invested assets

The increase in other invested assets for the twelve months ended December 31, 2024, was primarily attributable to equity method adjustments of $318.7 million, partially offset by $65.5 million of net proceeds received during the period.

Accrued investment income

The decrease in accrued investment income for the twelve months ended December 31, 2024, was primarily driven by an overall decrease in fixed maturities, available for sale positions as well as a decrease in SOFR at December 31, 2024 compared to December 31, 2023.

Reinsurance recoverable

The increase in reinsurance recoverable for the twelve months ended December 31, 2024, was primarily attributable to additional ceded business associated with the SkyRidge Re reinsurance treaty.

Deferred income tax asset

The increase in deferred income tax asset for the twelve months ended December 31, 2024, was primarily attributable to policyholder benefits partially offset by investment adjustments.

Liabilities and stockholders' equity

The following table presents the Company's liabilities and stockholders' equity as of the periods presented.

	As of			
	December 31, 2024	**December 31, 2023**	**$ Change**	**% Change**
	(unaudited)	*(audited)*		
		(dollars in thousands)		
Liabilities and stockholders' equity				
Liabilities:				
Policy reserves and annuity account values	$ 45,375,066	$ 42,468,945	$ 2,906,121	6.8%
Funds withheld and held liability	9,514,659	8,082,827	1,431,832	17.7%
Senior notes	1,577,830	941,240	636,590	67.6%
Revolving credit facility	—	633,358	(633,358)	(100.0)%
Delayed draw term loan	2,883	50,489	(47,606)	(94.3)%
Surplus notes	113,170	114,299	(1,129)	(1.0)%
Debt from consolidated variable interest entities	47,255	237,533	(190,278)	(80.1)%
Derivative collateral	894,549	647,922	246,627	38.1%
Repurchase agreements	328,443	1,012,497	(684,054)	(67.6)%
Other liabilities	1,197,073	711,946	485,127	68.1%
Separate account liabilities	6,579,840	5,785,040	794,800	13.7%
Total liabilities	65,630,768	60,686,096	4,944,672	8.1%
Stockholders' equity:				
Common stock [1]	—	—	—	—%
Preferred stock	770,491	770,491	—	—%
Contributed capital	2,339,595	2,339,595	—	—%
Accumulated other comprehensive income (loss)	(128,964)	(238,209)	109,245	45.9%
Retained earnings	4,394,102	4,096,922	297,180	7.3%
Total SBL Holdings, Inc. stockholders' equity	7,375,224	6,968,799	406,425	5.8%
Noncontrolling interest	140,054	5,780	134,274	2,323.1%
Total stockholders' equity	7,515,278	6,974,579	540,699	7.8%
Total liabilities and stockholders' equity	$ 73,146,046	$ 67,660,675	$ 5,351,097	7.9%

[1] $.001 par value, 260,000,000 shares authorized, 1,000 issued and outstanding

Policy reserves and annuity account values

The increase in policy reserve and annuity account values for the twelve months ended December 31, 2024, was due primarily to interest and index credits to account values and deposits outpacing withdrawals, reserve increases related to "GLWB" and "GMDB", and changes in FIA embedded derivatives and related benefits. This was partially offset by a funding agreement reserve decrease due to the maturity of a $500.0 million FABN funding agreement.

Funds withheld and held liability

Under our coinsurance with funds withheld agreements, we transfer all or a portion of the risks and benefits associated with specific policies to reinsurers, while retaining the invested assets backing the ceded reserves on our balance sheet. The funds withheld and held liability represents our obligation to the reinsurers for the assets we hold and which we, or other third parties, manage for such reinsurers.

For the twelve months ended December 31, 2024, the funds withheld and held liability increased by $1,431.8 million, primarily driven by a $1,323.1 million increase in reserves as a result of additional business ceded and related overcollateralization to SkyRidge Re under our quota share agreement for certain FIA and FA products. Additionally, the funds withheld and held liability fluctuates based on the embedded derivative that exists for which the fair value is estimated based on the change in fair value of the assets supporting the funds withheld payable. Unrealized gains on the underlying portfolio increased the funds withheld and held liability $118.7 million for the twelve months ended December 31, 2024.

Senior notes

The increase in senior notes for the twelve months ended December 31, 2024, was primarily driven by a new senior note issuance on October 30, 2024 of $650.0 million. See “Long-Term Debt and Future Principal Payments”.

Revolving credit facility

The decrease in revolving credit credit facility for the twelve months ended December 31, 2024, was primarily driven by a paydown of the revolving credit facility with proceeds from the senior note issuance.

Delayed draw term loan

The decrease in delayed draw term loan for the twelve months ended December 31, 2024, was primarily driven by a pay down of the delayed draw term loan with proceeds from the senior note issuance.

Debt from consolidated variable interest entities

The decrease in debt from consolidated variable interest entities for the twelve months ended December 31, 2024, was primarily driven by the unwinding and subsequent deconsolidation of our investments in the Senior Loan Fund investment vehicles ("SLF"), which resulted in derecognition of the consolidated debt within the entities.

Derivative collateral

The increase in derivative collateral for the twelve months ended December 31, 2024, was driven by additional derivative exposure and related increases in fair value. The majority of the call options are purchased with the S&P 500 as the underlying index, which increased 23.3% for the twelve months ended December 31, 2024.

Repurchase agreements

The decrease in repurchase agreements for the twelve months ended December 31, 2024, was due to the organic cash flow from operations which allowed the Company to repay borrowings under repurchase agreements.

Other liabilities

The increase in other liabilities for the twelve months ended December 31, 2024, was primarily driven by increases in accounts payable due to investment trades of $469.3 million, unearned hedge fee revenues of $73.2 million, and $26.0 million of policyholder activity in process.

Stockholders’ Equity

The change in stockholders’ equity for the twelve months ended December 31, 2024, was primarily driven by net income of $882.2 million, $103.2 million of additional noncontrolling interest as a result of an investment transaction which consolidates within the Company with a minority interest held by our parent, Eldridge Wealth Solutions, Inc. (previously Security Benefit Corporation), and $109.2 million of net changes in AOCI as a result of net unrealized gains on fixed maturities, available for sale, offset by shadow adjustments on DAC, DSI, VOBA, and reserves. These increases were offset by $553.9 million of dividends paid by the Company.

Investments

General

The Company had total investments of $51.2 billion as of December 31, 2024. In addition, the Company had assets in separate accounts of $6.6 billion as of December 31, 2024. Except in certain limited situations permitted by applicable laws, separate account assets are not available to pay liabilities of the Company’s general account and would not be available to any general account creditors in the liquidation or rehabilitation of the Company.

The Company has an active approach to investments and seeks to maximize total investment return while prudently managing investment risk. The Company’s investment approach also takes into account the required capital levels of the Company’s insurance subsidiaries and the treatment of its investments under statutory accounting practices and the related insurance laws and regulations, which limit the type and amount of investments the Company can make in certain asset classes and individual investments. It also takes into account criteria known to it to be applied by the nationally recognized statistical rating organizations ("NRSROs") in rating the Company and its obligations.

The Company seeks to obtain higher rates of investment return while managing credit risk by engaging, to a greater extent than certain peers, in directly originated, secured corporate lending and purchasing of securities versus buying a portfolio of broadly syndicated investments. It does so through its direct origination investments, as well as close involvement in the accumulation of underlying assets of CLOs. More generally, the Company seeks to deliver higher rates of investment return by capitalizing on less-conventional investment strategies with better risk-adjusted return profiles. The Company believes its relatively stable policy liabilities permit it to hold appropriate levels of relatively illiquid investments.

Subject to the foregoing, the Company intends to maintain an investment portfolio that is predominantly comprised of high-quality, (*i.e.*, investment grade) fixed-income investments that can provide a high level of cash flow predictability in light of the Company's obligations to policyholders and investors.

The Company's investments principally consist of corporate debt, CLOs and other asset backed securities. Since December 31, 2023, on a percentage basis and based on fair value, the Company has increased its allocation to mortgage loans and notes receivable from related parties, while decreasing its relative allocation to CLOs, other asset backed securities, redeemable preferred stock, and equity securities at fair value.

From December 31, 2023 to December 31, 2024, on a statutory basis, SBLIC's collateral loan investments, net of investments supporting the Company's funds withheld coinsurance agreements, increased by $1.0 billion, from $11.6 billion to $12.6 billion. From December 31, 2023 to December 31, 2024, SBLIC's equity investments decreased $0.3 billion on a statutory basis. On a statutory basis and for capital purposes, collateral loans and equity investments generally carry higher required capital charges than investment-grade bonds. The NAIC is considering changing the way the RBC charges are assigned to collateral loans. Currently, there is one-specific RBC charge for all collateral loans regardless of the underlying collateral or the loan to value ratio. However, in June 2024, the NAIC's Life Risk Based Capital (E) Working Group adopted interim changes that provide for look-through treatment for collateral loans secured by mortgage loans to be treated as Schedule BA mortgages, beginning year-end 2024. The NAIC has stated that in 2025 it will continue to consider the extent to which look-through treatment for collateral loans secured by other types of underlying collateral should apply for RBC purposes. If as part of this initiative, the NAIC required a look-through for all types of collateral, such as equity and unrated debt, and absent credit for subordination as a result of an LTV below one hundred percent and/or management actions, such changes could adversely affect SBLIC's RBC, and such adverse effect could be material. Although the entity to which the Company extends its collateral loan may have substantial equity or subordinated capital, there is uncertainty about the extent, if any, to which such equity or subordinated capital would be credited or otherwise recognized for RBC purposes under this NAIC initiative

As stated in the accompanying Notice to Investors under "Categories of Investments":

- Collateral loan investments are reflected (i) on a GAAP basis, in "corporate debt" and "corporate," (ii) on a statutory basis, in "other invested assets," and (iii) as viewed by management in "management's view" and similar formulations, in "ABS." In the "management view" and similar formulations, "ABS" and "asset-backed securities" are used differently, with "asset-backed securities" being the term that does not include collateral loan investments.
- Equity investments are reflected (i) on a GAAP basis, in "other invested assets" and "equity securities." (ii) on a statutory basis, primarily in "other invested assets" and "stocks" and (iii) as viewed by management in "management's view" and similar formulations, in "alternative investments."

As used by the Company, "collateral loan" means a loan secured by collateral owned by the borrower of the loan. Most of the collateral loan borrowers are affiliates of SBLIC, and SBLIC is generally the only lender to a borrower. The collateral supporting SBLIC's portfolio of collateral loans includes various equity investments (including common equity, preferred equity and CLO equity), debt investments and structured securities in various sectors. The collateral pool changes over time. The collateral may be held through one of more intermediate entities. As of December 31, 2024, $9.9 billion of these loans were subject to cross-collateralization agreements and a separate master guaranty. Collateral loans are advanced by the Company at an individual loan to value ratio ("LTV") no greater than 80%, and the loan documentation provides for regular reporting on each collateral loan borrower's LTV and generally includes an LTV maintenance covenant. Collateral loans are generally not rated by any NRSRO. Collateral loans are different from CLOs and other securitization products.

The following table summarizes the composition of the Company's investment portfolio on a GAAP basis as of the dates presented.

	December 31, 2024		December 31, 2023	
	Carrying Amount	Percent	Carrying Amount	Percent
	(unaudited)		*(audited)*	
	(dollars in thousands)			
Securities available for sale				
Fixed maturity investments:				
U.S. Treasury securities and other U.S. government corporations and agencies	$ 30,104	0.1%	$ 37,791	0.1%
Obligations of government-sponsored enterprises	646,663	1.3%	569,421	1.2%
Corporate	23,662,216	46.2%	22,719,932	47.6%
Municipal obligations	25,865	0.1%	28,970	0.1%
Commercial mortgage-backed	51,579	0.1%	52,974	0.1%
Residential mortgage-backed	23,502	n/m	18,614	n/m
Collateralized debt obligations	5,111	n/m	7,861	n/m
Collateralized loan obligations	11,232,509	21.9%	14,436,990	30.3%
Redeemable preferred stock	27,862	0.1%	23,313	n/m
Other asset backed	2,102,232	4.1%	2,389,142	5.0%
Total fixed maturity investments	37,807,643	73.8%	40,285,008	84.4%
Fixed maturities, trading	376,922	0.7%	412,450	0.9%
Equity securities at fair value	993,616	1.9%	705,296	1.5%
Notes receivable from related parties	2,170,394	4.2%	995,715	2.1%
Mortgage loans	2,745,425	5.4%	787,674	1.7%
Policy loans	70,373	0.1%	71,647	0.2%
Cash and cash equivalents	3,905,070	7.6%	1,647,403	3.5%
Short-term investments	20	n/m	160,893	0.3%
Call options	1,020,039	2.0%	759,014	1.6%
Other invested assets	2,131,919	4.2%	1,878,736	3.9%
Total investments	$ 51,221,421	100.0%	$ 47,703,836	100.0%

n/m - not meaningful

Note: See the accompanying Notice to Investors under "Categories of Investments" for a discussion of certain investments and how they are reflected in various presentations.

The following table presents, as viewed by the Company's management, a summary of the NRSRO ratings distribution (based on statutory assets and carrying value) of the Company's rated investments[(A)] as of the dates presented.

	Fixed Maturity Investments[(A)(B)]			
	December 31, 2024		December 31, 2023	
	Carrying Amount	Percent	Carrying Amount	Percent
	(unaudited)			
	(dollars in thousands)			
AAA	$ 2,842,604	17%	$ 3,978,428	18%
AA	807,088	5%	802,585	4%
A	4,065,548	25%	5,745,981	27%
BBB	6,839,712	42%	8,012,738	37%
Subtotal investment grade	14,554,952	89%	18,539,732	86%
BB	1,519,767	9%	2,355,251	11%
B	334,413	2%	659,228	3%
CCC+ and lower	7,126	n/m	30,356	n/m
Subtotal below investment grade	1,861,306	11%	3,044,835	14%
Total	$ 16,416,258	100%	$ 21,584,567	100%
n/m - not meaningful				
Fixed maturity investments not rated	$ 20,433,306		$ 15,655,993	

(A) NRSRO rating is based on the lowest S&P equivalent when two ratings are present and on the second lowest rating when three or more ratings are present. This is consistent with the National Association of Insurance Commissioners ("NAIC") Purposes and Procedures Manual. Only assets with NRSRO ratings are presented, which represented $16.4 billion (or 45%) of the Company's total investments, excluding cash, contract loans, derivatives, receivables for investments, and aggregate write-ins, on a statutory basis as of December 31, 2024.

(B) Derivatives, cash, collateral loans, commercial mortgage loans, short-term loans, separate account variable, mutual fund custodial assets, and funds withheld assets are excluded.

The following table presents, as viewed by management, a summary of the NRSRO rating distribution (based on statutory assets and carrying value) of our rated CLOs and rated other asset backed securities as of December 31, 2024 and December 31, 2023.

	Collateralized Loan Obligations[(A)(B)]		Collateralized Loan Obligations[(A)(B)]	
	December 31, 2024		December 31, 2023	
	Carrying Amount	Percent	Carrying Amount	Percent
	(unaudited)			
	(dollars in thousands)			
AAA	$ 2,354,580	29%	$ 3,444,928	29%
AA	707,384	9%	696,586	6%
A	1,604,092	20%	2,387,711	20%
BBB	2,691,252	33%	3,542,384	30%
Subtotal investment grade	7,357,308	91%	10,071,609	85%
BB	641,799	8%	1,503,600	13%
B	121,670	1%	264,178	2%
CCC+ and lower	3,245	n/m	17,901	n/m
Subtotal below investment grade	766,714	9%	1,785,679	15%
Total	$ 8,124,022	100%	$ 11,857,288	100%
n/m - not meaningful				
Not rated	$ 209,813		$ 11,966	

	Other Asset Backed Securities[A]			Other Asset Backed Securities[A]		
	December 31, 2024			December 31, 2023		
	Carrying Amount		Percent	Carrying Amount		Percent
	(unaudited)					
	(dollars in thousands)					
AAA	$	12,401	1%	$	23,993	1%
AA		74,652	4%		77,035	3%
A		579,269	29%		637,617	29%
BBB		854,013	43%		997,347	44%
Subtotal investment grade		1,520,335	77%		1,735,992	77%
BB		280,451	14%		337,753	15%
B		169,365	9%		169,289	8%
CCC+ and lower		—	—%		3,370	n/m
Subtotal below investment grade		449,816	23%		510,412	23%
Total	$	1,970,151	100%	$	2,246,404	100%
n/m - not meaningful						
Not rated	$	12,551,638		$	11,610,264	

(A) NRSRO rating is based on the lowest S&P equivalent when two ratings are present and on the second lowest rating when three or more ratings are present. This is consistent with the NAIC Purposes and Procedures Manual. Only assets with NRSRO ratings are displayed.

(B) Certain statutory investments are characterized as CLOs due to their underlying exposure to both rated and unrated CLO tranches. Such investments have exposure to approximately $0.1 billion and $0.5 billion in unrated CLO tranches as of December 31, 2024 and December 31, 2023. CLO assets with NRSRO ratings are presented, which represented $$8.1 billion (or 22%) and $2.0 billion (or 32%) of the Company's total investments, excluding cash, contract loans, derivatives, receivables for investments, and aggregate write-ins, on a statutory basis as of December 31, 2024 and December 31, 2023, respectively.

Fixed Maturity, Available for Sale

The following table presents the amortized cost and fair value of the Company's fixed maturity available for sale investments as of the dates presented, by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost		Fair Value	
	(dollars in thousands)			
December 31, 2024 ***(unaudited)***				
Due in one year or less		$3,110,142		$3,060,305
Due after one year through five years		16,711,523		16,661,907
Due after five years through ten years		2,834,053		2,644,066
Due after ten years		1,378,192		1,351,907
Securities with variable principal schedules [a]		14,093,697		14,089,458
Total		$38,127,607		$37,807,643
December 31, 2023 ***(audited)***				
Due in one year or less	$	4,423,216	$	4,393,233
Due after one year through five years		14,943,921		14,764,900
Due after five years through ten years		2,463,869		2,406,509
Due after ten years		1,269,220		1,222,050
Securities with variable principal schedules [a]		17,845,094		17,498,316
Total	$	40,945,320	$	40,285,008

(a) Included within the securities with variable principal schedules are collateralized debt obligations, collateralized loan obligations, commercial mortgage backed securities, obligations of government sponsored enterprises, other asset backed securities, redeemable preferred stock, and residential mortgage backed securities.

Assets and Liabilities Measured and Reported at Fair Value

The following table presents categories measured at fair value on a recurring basis as of the dates presented.

	December 31, 2024			
		Fair Value Hierarchy Level		
	Fair Value	Level 1	Level 2	Level 3
	(unaudited)			
	(dollars in thousands)			
Assets:				
Cash equivalents	$ 1,316,613	$ 1,316,613	$ —	$ —
Fixed maturity investments:				
U.S. Treasury securities and other U.S. government corporations and agencies	35,113	—	35,113	—
Obligations of government-sponsored enterprises	684,383	—	684,383	—
Corporate	23,853,274	—	3,074,977	20,778,297
Municipal obligations	39,041	—	20,421	18,620
Commercial mortgage-backed	70,743	—	66,587	4,156
Residential mortgage-backed	56,626	—	56,626	—
Collateralized debt obligations	5,111	—	5,111	—
Collateralized loan obligations	11,258,898	—	7,714,456	3,544,442
Redeemable preferred stock	27,862	—	27,862	—
Other asset backed	2,153,514	—	617,029	1,536,485
Total fixed maturity investments	38,184,565	—	12,302,565	25,882,000
Equity securities:				
Consumer	340,981	76,861	228,177	35,943
Mutual funds	5,115	5,115	—	—
Preferred stocks	647,520	—	314,079	333,441
Total equity securities	993,616	81,976	542,256	369,384
Other invested assets	271,382	—	—	271,382
Short-term investments	20	—	20	—
Call options	1,020,039	—	1,020,039	—
Currency forwards and swaps	191,359	—	191,359	—
Interest rate swaps and total return swaps	42,219	39,573	2,093	553
Futures	325	325	—	—
Other derivatives	6	4	2	—
Embedded derivatives:				
Reinsurance contracts	1,241,785	—	—	1,241,785
Commission assignment	126	—	—	126
Funds withheld receivable	(5,532)	—	—	(5,532)
Separate account assets	6,579,840	3,537,640	—	3,042,200
Total assets	$ 49,836,363	$ 4,976,131	$ 14,058,334	$ 30,801,898
Liabilities:				
Call options	12,059	—	12,059	—
Currency forwards and swaps	64,403	—	64,403	—
Interest rate swaps and total return swaps	45,218	17,377	27,589	252
Hedge accounting liability for MYGA product	47,236	—	—	47,236
Futures	6,915	6,915	—	—
Interest rate caps	2,470	—	2,470	—
Derivatives and embedded derivatives:				
GMWB and GMAB reserves	2,662	—	—	2,662
Funds withheld liability	(34,206)	—	—	(34,206)
Reinsurance contracts	295,764	—	—	295,764
Fixed index annuity contracts	3,939,643	—	—	3,939,643
Total liabilities	$ 4,382,164	$ 24,292	$ 106,521	$ 4,251,351

Note: See the accompanying Notice to Investors under "Categories of Investments" for a discussion of certain investments and how they are reflected in various presentations.

	December 31, 2023			
		Fair Value Hierarchy Level		
	Fair Value	Level 1	Level 2	Level 3
	(audited) (dollars in thousands)			
Assets:				
Cash equivalents	$ 145,810	$ 145,810	$ —	$ —
Fixed maturity investments:				
U.S. Treasury securities and other U.S. government corporations and agencies	42,826	—	42,826	—
Obligations of government-sponsored enterprises	610,720	—	610,720	—
Corporate	22,925,749	—	4,145,664	18,780,085
Obligations of foreign governments	428	—	428	—
Municipal obligations	45,856	—	26,292	19,564
Commercial mortgage-backed	68,157	—	64,318	3,839
Residential mortgage-backed	51,801	—	51,801	—
Collateralized debt obligations	7,861	—	7,861	—
Collateralized loan obligations	14,477,952	—	9,059,455	5,418,497
Redeemable preferred stock	23,313	—	—	23,313
Other asset backed	2,442,795	—	731,062	1,711,733
Total fixed maturity investments	40,697,458	—	14,740,427	25,957,031
Equity securities:				
Consumer	257,539	32,384	193,141	32,014
Mutual funds	4,733	4,733	—	—
Preferred stocks	443,024	—	104,804	338,220
Total equity securities	705,296	37,117	297,945	370,234
Short-term investments	160,893	—	100,363	60,530
Call options	759,014	—	759,014	—
Currency forwards and swaps	175,632	—	175,632	—
Interest rate swaps and total return swaps	73,578	59,561	14,017	—
Futures	5,253	5,253	—	—
Other derivatives	781	316	—	465
Embedded derivatives:				
Funds withheld receivable	(12,306)	—	—	(12,306)
Commission assignment	1,255	—	—	1,255
Reinsurance contracts	814,694	—	—	814,694
Separate account assets	5,785,040	3,398,140	—	2,386,900
Total assets	$ 49,312,398	$ 3,646,197	$ 16,087,398	$ 29,578,803
Liabilities:				
Call options	$ 16,913	$ —	$ 16,913	$ —
Currency forwards and swaps	139,965	—	139,965	—
Interest rate swaps and total return swaps	22,442	15,931	6,511	—
Hedge accounting liability for MYGA product	(22,122)	—	—	(22,122)
Futures	304	304	—	—
Interest rate cap	5,747	—	5,747	—
Derivatives and embedded derivatives:				
GMWB and GMAB reserves	3,705	—	—	3,705
Funds withheld liability	(154,635)	—	—	(154,635)
Reinsurance contracts	211,297	—	—	211,297
Fixed index annuity contracts	2,810,892	—	—	2,810,892
Total liabilities	$ 3,034,508	$ 16,235	$ 169,136	$ 2,849,137

The Company has a high propensity to Level 3 valuations of its fixed maturity investments as an outcome of its direct origination strategy, which may result in a limited number of investors in the instrument. However, the Company believes that the valuation level of an asset is not necessarily a key indicator of the quality of such asset.

See “Critical Accounting Policies – Valuation of Investments” for additional information about valuation.

Unrealized Losses

The following table presents the amortized cost and fair value of fixed maturity available for sale investments (including the allowance for credit losses) in an unrealized loss position as of the dates presented.

	December 31, 2024					
	Less Than 12 Months		Greater Than or Equal to 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(unaudited) (In Thousands)					
Fixed maturity investments, available for sale:						
U.S. Treasury securities and other U.S. government corporations and agencies	$ 1,603	$ 50	$ 27,461	$ 2,720	$ 29,064	$ 2,770
Obligations of government-sponsored enterprises	254,719	2,023	78,204	10,378	332,923	12,401
Corporate	7,700,139	195,060	2,534,371	314,949	10,234,510	510,009
Municipal obligations	10,741	85	14,407	1,792	25,148	1,877
Commercial mortgage-backed	4,252	156	32,571	5,343	36,823	5,499
Residential mortgage-backed	1,369	8	8,937	1,380	10,306	1,388
Collateralized loan obligations	606,296	14,605	865,527	89,828	1,471,823	104,433
Other asset backed	446,918	3,542	623,656	25,621	1,070,574	29,163
Total fixed maturity investments, available for sale	$ 9,026,037	$ 215,529	$ 4,185,134	$ 452,011	$ 13,211,171	$ 667,540
Number of securities investment grade with unrealized losses		600		977		1,577
Percent investment grade with unrealized losses		63%		77%		71%
Number of securities below investment grade with unrealized losses		137		98		235
Percent below investment grade with unrealized losses		14%		8%		11%
Number of securities not rated with unrealized losses		216		195		411
Percent not rated with unrealized losses		23%		15%		18%
Number of securities investment grade with unrealized losses		953		1,270		2,223
Percent with unrealized losses		100%		100%		100%

	December 31, 2023					
	Less Than 12 Months		Greater Than or Equal to 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(audited) (In Thousands)					
Fixed maturity investments, available for sale:						
U.S. Treasury securities and other U.S. government corporations and agencies	$ 352	$ 8	$ 34,707	$ 2,597	$ 35,059	$ 2,605
Obligations of government-sponsored enterprises	107,409	469	93,078	9,074	200,487	9,543
Corporate	7,229,352	325,862	6,588,066	178,393	13,817,418	504,255
Municipal obligations	250	—	16,105	1,847	16,355	1,847
Commercial mortgage-backed	3,839	196	37,553	7,694	41,392	7,890
Residential mortgage-backed	950	13	11,310	1,478	12,260	1,491
Collateralized debt obligations	—	—	2,823	152	2,823	152
Collateralized loan obligations	869,340	32,226	7,098,571	424,978	7,967,911	457,204
Other asset backed	161,774	6,060	966,442	75,122	1,128,216	81,182
Redeemable preferred stock	—	—	23,313	716	23,313	716
Total fixed maturity investments, available for sale	$ 8,373,266	$ 364,834	$ 14,871,968	$ 702,051	$ 23,245,234	$ 1,066,885
Number of securities investment grade with unrealized losses		190		1,033		1,223
Percent investment grade with unrealized losses		78%		82%		81%
Number of securities below investment grade with unrealized losses		15		132		147
Percent below investment grade with unrealized losses		6%		11%		10%
Number of securities not rated with unrealized losses		48		92		140
Percent not rated with unrealized losses		16%		7%		9%
Number of securities investment grade with unrealized losses		253		1,257		1,510
Percent with unrealized losses		100%		100%		100%

Alternative Investments

The Company holds a portion of the investment portfolio in alternative investments, as viewed by management, reflected at statutory carrying value. The following table presents the Company's alternative investments on a statutory basis as of the dates presented.

	December 31, 2024		December 31, 2023	
	Statutory Asset Carry Value [(a)]	Percent	Statutory Asset Carry Value [(a)]	Percent
	(unaudited) (dollars in thousands)			
Private equity	$ 1,208,031	57.6 %	$ 1,458,430	72.9 %
Credit	761,010	36.3 %	319,750	16.0 %
Public equity	1,072	n/m	31,219	1.6 %
Real estate	58,931	2.8 %	48,199	2.4 %
Aircraft	—	— %	54,305	2.7 %
Other	69,608	3.3 %	88,942	4.4 %
Total	$ 2,098,652	100.0 %	$ 2,000,845	100.0 %

(a) Represents alternative assets in management's view.

Note: See the accompanying Notice to Investors under "Categories of Investments."

Alternative investments are reflected in the Company's GAAP consolidated balance sheets primarily within equity securities at fair value and other invested assets. The dollar decrease in private equity is primarily due to a dividend in-kind to

SBLH from SBLIC, as well as the dispositions of certain credit alternative investments. This in-kind dividend is not presented on the GAAP financial statements as the transaction is eliminated through consolidation.

International Exposure

The Company holds fixed maturity available for sale investments issued by non-U.S. issuers. As of December 31, 2024, 10.8% of the carrying value of the Company's fixed maturity securities was comprised of securities in issuers based outside the United States and securities of foreign governments. The Company's investment professionals analyze each holding for credit risk by economic and other factors of each country and industry.

The following table presents the Company's international exposure in its fixed maturity portfolio by country or region as of the dates presented.

	Amortized Cost	Fair Value	Percent of Total Fixed Maturity Carrying Amount
		(unaudited)	
		(dollars in thousands)	
December 31, 2024			
Non-U.S. North America	$ 1,590,842	$ 1,570,957	4.3%
Europe	2,374,178	2,315,822	6.1%
Australia & New Zealand	29,714	29,687	n/m
Asia/Pacific	1,980	1,635	n/m
GIIPS	101,377	87,730	0.2%
Other	83,669	67,640	0.2%
Total	$ 4,181,760	$ 4,073,471	10.8%
December 31, 2023			
Non-U.S. North America	$ 2,297,249	$ 2,223,890	5.5%
Europe	2,226,980	2,135,116	5.0%
Australia & New Zealand	3,048	3,010	n/m
Asia/Pacific	1,971	1,605	n/m
Other	88,087	75,001	0.2%
Total	$ 4,617,335	$ 4,438,622	10.7%

The Company uses a currency hedging strategy to manage and hedge the currency risk in foreign currency denominated investments. Since all known non-USD cash flows are fully hedged, net foreign currency exposure is minimized. The strategy is executed through various derivatives (foreign currency forwards and cross currency swaps) that hedge the foreign currency risk embedded in certain asset positions (EUR- or GBP-denominated loans) or asset classes in the Company's portfolio.

Watch List

At each balance sheet date, the Company identifies invested assets that have characteristics creating uncertainty as to the Company's ability to recover the amortized cost basis of the investment (*e.g.*, significant unrealized losses compared to amortized cost and industry trends). As part of this assessment, the Company's review includes, but is not limited to, factors such as a change in current price relative to a security's amortized cost, changes to the issuer's current credit rating, and the probability of full recovery of principal based upon the issuer's financial strength. Certain investments included on the watch list may have unrealized losses related to market movements in interest rates, but the Company anticipates recovery of all contractual or expected cash flows. The Company does not consider these investments to have credit losses. Furthermore, the Company does not intend to sell these investments, nor is it more likely than not that it will be required to sell these investments before the recovery of amortized cost, which may be at maturity.

The following table presents the amortized cost and fair value of the Company's fixed maturity investments on the Company's watch list as of the dates presented.

	Number of Positions	Amortized Cost	Unrealized Losses	Fair Value
		(unaudited)		
December 31, 2024		*(dollars in thousands)*		
Investment grade				
Commercial mortgage backed	2	$ 1,015	$ (302)	$ 713
Corporate	3	1,218	(335)	883
Municipal obligations	3	450	(113)	337
Residential mortgage backed	5	1,893	(421)	1,472
Below investment grade				
Collateralized loan obligations	7	100,960	(26,975)	73,985
Corporate	4	890	(312)	578
Commercial mortgage backed	2	5,363	(1,767)	3,596
Not rated				
Collateral loans	2	262,469	(94,966)	167,503
Collateralized loan obligations	1	6,870	(1,890)	4,980
Corporate	2	1,500	(488)	1,012
Municipal obligations	1	250	(52)	198
Total	32	$ 382,878	$ (127,621)	$ 255,257
December 31, 2023				
Investment grade				
Commercial mortgage backed	9	$ 19,807	$ (6,018)	$ 13,789
Corporate	16	21,429	(4,780)	16,649
Obligations of GSE	8	3,325	(1,033)	2,292
Other asset backed	4	10,994	(2,821)	8,173
Residential mortgage backed	3	1,976	(436)	1,540
Below investment grade				
Collateralized loan obligations	17	274,931	(84,974)	189,957
Corporate	2	4,350	(1,328)	3,022
Commercial mortgage backed	1	2,717	(1,026)	1,691
Other asset backed	1	64,505	(16,023)	48,482
Not rated				
Collateralized loan obligations	4	50,314	(15,160)	35,154
Corporate	7	54,471	(14,013)	40,458
Municipal obligations	1	46,075	(10,101)	35,974
Total	73	$ 554,894	$ (157,713)	$ 397,181

Note: See the accompanying Notice to Investors under "Categories of Investments" for a discussion of certain investments and how they are reflected in various presentations.

Credit Losses

The Company has a policy and process in place to identify investments in its fixed maturity available for sale investment portfolio for which the Company should recognize a credit loss allowance. See "Critical Accounting Policies - Allowance for Credit Losses on Fixed Maturity Available for Sale Investments and Mortgage Loan Portfolio."

Mortgage Loans and Other Real Estate-Related Investments

As of December 31, 2024, 17.0% (by carrying value) of the Company's general account investments consisted of real estate-related investments. 5.4% of the general account investments consisted of direct commercial mortgage lending in the form of mezzanine real estate loans ("MRELs" or "mezzanine loans") (3.4%) and commercial mortgage loans ("CMLs") (2.0%), with a small amount of residential mortgage loans ("RMLs") (0.0% after rounding). 1.4% of the general account investments consisted of mortgage-related securities in the form of CMBS (0.1%) and RMBS (1.3%). In addition the remaining 10.0% consisted of general account investments in other categories but having real estate-related exposure. These other categories of investments consisted primarily of long-term and short-term debt of real estate management and development companies (8.3%). The balance (1.7%) consisted of debt or equity investments in REITs (0.8%) and real estate-related equities and alternative investments (0.9%). The foregoing percentages include certain investments that are collateral within collateral loan structures.

The Company's CMLs are collateralized by the underlying properties, and the portfolio is diversified as to property type, location and loan size. In evaluating potential mortgage loan investments, the Company evaluates the risks inherent in the CML based on the property's operational results supporting the loan. The Company's MRELs are not secured by the underlying properties but are secured by a pledge of one or more entities in the chain of ownership of the properties.

The weighted average loan to value ratio of the Company's CML portfolio was 61.8% as of December 31, 2024 and December 31, 2023. based on adjusted loan to value calculations utilizing current net operating income, cap rates, and construction costs, where appropriate and available. The Company believes this loan to value ratio is indicative of its conservative underwriting policies and practices for CMLs. The Company's current practice is to obtain market value appraisals of the underlying collateral at the inception of the loan unless the Company identifies indicators of impairment in its ongoing analysis of the portfolio, in which case the Company either calculates a value of the collateral using a capitalization method or obtains a current appraisal of the underlying collateral.

Derivative Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The Company's risk of loss is typically limited to the fair value of its derivative instruments and not to the notional or contractual amounts of these derivatives. Risk arises from changes in the fair value of the underlying instruments. Such changes in value are generally offset by opposite changes in the value of the hedged item. For non-exchange traded derivative instruments, the Company is exposed to credit losses in the event of nonperformance of the counterparties. This credit risk is minimized by purchasing such agreements from financial institutions with high credit ratings, daily exchange of collateral, and establishing and monitoring of transfer threshold amounts.

The primary risks managed by using derivative instruments are equity market risk, foreign currency risk and interest rate risk. The most common types of derivatives used by the Company are call options, foreign currency forwards, exchange traded futures, equity total return swaps, interest rate options, and interest rate swaps.

The Company purchases call options to manage the equity and market risk associated with products in which the interest credited is tied to an external equity or other market index. The Company sells FIA policies where interest is credited to policyholders based on a percentage of the gain in a specified market index, which cannot be less than zero. Most of the premium received is invested in fixed income securities and a portion is used to purchase derivatives, typically call options, consisting of a range of maturities up to five years to fund the index credits due to the FIA policyholders. On the applicable anniversary dates of the FIA, the market index used to compute the index credits is reset and new call options are purchased to fund the next index credit. These call options are highly correlated to the portfolio allocations of the policyholders, such that the Company is economically hedged with respect to equity and/or market returns for the period covering the current policyholder crediting period.

The Company uses foreign currency forwards to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and expected asset cash flows denominated in foreign currencies. In a foreign currency forward transaction, the Company agrees with another party to deliver a specified amount of an identified currency at a specified future date. The price is agreed upon at the time of the contract and payment for such a contract is made in a different currency at the specified future date. No cash is exchanged at the time the agreement is entered into. The Company uses foreign currency forwards to hedge the spot rates associated with its assets denominated in foreign currencies ("fair value FX hedge").

The Company uses interest rate swaps and interest rate options to reduce market risks from changes in interest rates and to manage interest rate exposure arising from duration mismatches between assets and liabilities. In a swap, the Company agrees with counterparties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional amount. The Company uses interest rate swaps to synthetically convert fixed rate liabilities to floating rate liabilities (together with fair value FX hedges, "fair value hedges"). The Company also uses interest rate swaps to synthetically convert variable rate coupons on existing financial instruments to fixed rates ("cash flow hedge").

The Company's accounting for the ongoing changes in fair value of a derivative depends on the use of the derivative and whether it is designated in a hedge accounting relationship. Derivatives designated as fair value hedges and which are determined to be highly effective hedges are reported in the same consolidated statement of operations line item that is used to report the earnings effect of the hedged item. Derivatives that are designated for cash flow hedging and determined to be highly effective hedges are reported at fair value as a component of OCI. At the time when the variability of cash flows being hedged impact net income, the related portion of the deferred gain or loss on the derivative is reclassified and reported in net income. For derivatives which either do not qualify or are not designated for hedge accounting, all changes in fair value are reported in net income.

Liabilities

The Company's liability for policy reserves and annuity account values increased to $45.4 billion at December 31, 2024, from $42.5 billion at December 31, 2023, primarily due to 2024 annuity sales. Most of the Company's annuity products have a surrender charge and market value adjustment features designed to reduce the risk of early withdrawal or surrender of the policies. Notwithstanding these policy features, the withdrawal rates of policyholder funds may be affected by changes in interest rates and other factors. The Company believes that annuity policies with GLWB riders are less likely to be surrendered, and 80% of the out of surrender charge category have a GLWB rider. Based on account value, 84% of the Company's annuity policies have surrender charge of at least three-years or an income rider. As of December 31, 2024, the Company's fixed annuity and FIA liabilities existing surrender charge protection is as follows:

5 or more years	39 %
3-4 years	15 %
Less than 3 years	21 %
Out-of-surrender charge with income rider	20 %
Out-of-surrender charge without income rider	5 %
Total	100 %

The Company's funds withheld and held liabilities were $9,514.7 million and $8,082.8 million at December 31, 2024 and December 31, 2023, respectively. These liabilities are maintained in accordance with the Company's funds withheld reinsurance agreements to contractually secure the ceded statutory reserves. A corresponding investment portfolio is separately maintained and recorded as part of the Company's investment portfolio. A separate reinsurance recoverable asset is reflected on the consolidated balance sheets for the ceded GAAP reserves.

Liquidity and Capital Resources

Liquidity for Insurance Operations

The Company's primary sources of cash are annuity deposits, investment income, and proceeds from the sale, maturity, pay down and redemption of investments. The primary uses of cash are investment purchases, payments to policyholders in connection with surrenders and withdrawals, policy acquisition costs, interest expense, preferred stock dividends and other operating expenses. The Company also has multiple sources of additional liquidity, including additional sources of institutional funding, retail funding, contractual cash flows from the asset portfolio, and sales of investment assets. The Company has liquidity risk policies and guidelines for the management of the aggregate liquidity risk of the Company.

Liquidity requirements are met primarily by funds provided from cash flow from annuity deposits and investment income. Annuity liabilities are generally long-term in nature. However, a primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. The Company includes provisions within its annuity policies, such as surrender charges and market value adjustments, that help limit and provide an economic disincentive to early withdrawals. At December 31, 2024, approximately 71% of FIA, fixed annuity, and fixed option of variable annuity account value, net of reinsurance, was subject to a charge upon surrender, with a weighted average remaining surrender charge period of 3.7 years and a weighted average surrender charge percentage of 5.3%. The weighted average life of the Company's annuity policies in force as of December 31, 2024, was 8.78 years. The weighted average life of the Company's fixed and FIA as of December 31, 2024, was 8.74 years. The weighted average life of new annuity policies written during the twelve months ended December 31, 2024, was 8.24 years. The surrender charge level excludes market value adjustments and premium bonus recapture.

Liquidity

As of December 31, 2024, SBLH on a standalone basis had $29.4 million in unrestricted cash available to pay long-term obligations. The Company had no contributions to its subsidiary, SBLIC, for the twelve months ended December 31, 2024 and $435.0 million of contributions to SBLIC for the year ended December 31, 2023. The $435.0 million capital contribution in 2023 was funded with a $435.0 million draw under the Revolving Credit Facility. Neither SBLH nor any of its affiliates has any obligation to make any future capital contributions to SBLIC.

As of December 31, 2024, the Company had no outstanding borrowings on its Revolving Credit Facility of $1.0 billion. As of that date, the Company could incur an additional $1,490.5 million of debt while maintaining debt leverage at 25%, and $1,827.8 million while maintaining financial leverage (debt and preferred stock) at 35%.

SBLIC's membership in the Federal Home Loan Bank of Topeka ("FHLB") allows the Company to borrow through various financial instruments, including but not limited to, funding and repurchase agreements tied to the variable short-term Federal Funds rate (4.33% at December 31, 2024). These borrowings provide additional liquidity for the Company. Borrowings are secured by eligible collateral pledged, primarily government and agency securities, to FHLB by the Company. As of December 31, 2024, the Company has issued no funding agreements with the FHLB. As of December 31, 2024, the total maximum borrowing capacity under the FHLB facilities was $370.9 million. As of December 31, 2023, the Company had no outstanding borrowings with FHLB.

The Company uses repurchase agreements (which may be executed bilaterally or in tri-party form) as a form of institutional borrowing as a tool to manage liquidity. When engaging in repurchase agreements, the Company must receive net cash in an amount equal to or greater than 95% of the market value of the collateral provided. The value of the collateral is required to be marked to market daily and timely receipt/delivery of additional cash/collateral must be made to maintain the 95% minimum cash/collateralization ratio.

As of December 31, 2024 and December 31, 2023, the payables for repurchase agreements were $328.4 million and $1.0 billion, respectively. The fair values of securities held by the counterparties backing the repurchase agreements as of December 31, 2024 and December 31, 2023, were $344.7 million and $1.1 billion, respectively. The Company has $2.0 billion and 1.3 billion in committed repurchase facilities with various counterparties as of December 31, 2024 and December 31, 2023, respectively. The Company has $3.3 billion in uncommitted repurchase facilities with various counterparties as of December 31, 2024 and December 31, 2023. As of December 31, 2024 and December 31, 2023, the Company had no outstanding payables under these facilities.

The amount of dividends that SBLIC can pay to SBLH is restricted under applicable insurance laws and regulations. For 2025, the maximum amount of ordinary dividends that SBLIC could pay under applicable laws and regulations is the greater of (i) 10% of surplus as regards policyholders as of December 31, 2024, and (ii) its net gain from operations, not including realized capital gains for the 12-month period ended December 31, 2024, although ordinary dividends can only be paid from earned surplus (sometimes referred to as "unassigned surplus"). The greater of (i) and (ii) above is $1,168.0 million for 2025. The ordinary dividend capacity in 2024 was $1,156.4 million ordinary dividend capacity is also reduced by dividends paid in the prior twelve months. SBLIC paid dividends to SBLH of $225.0 million on March 5, 2024, and $100.0 million (in-kind) on March 14, 2024. SBLIC paid a $50.0 million dividend on May 9, 2024 and declared another $400.0 million (in-kind) dividend on May 17, 2024. In addition, SBLIC paid a $30.0 million and $50 million dividend on August 15, 2024 and November 12, 2024, respectively. Accordingly, because of the prior dividends that have been paid, SBLIC's remaining ordinary dividend capacity at January 1, 2025, was $313.0 million. SBLIC can seek approval to pay dividends in excess of these permitted amounts, but there can be no assurance that it would receive regulatory approval if sought.

In May 2021, SBLIC established a $2.0 billion program for a trust, Security Benefit Global Funding, to periodically issue funding agreement-backed notes ("FABNs"). Security Benefit Global Funding is not an affiliate or related party of the Company. These notes are backed by funding agreements issued by SBLIC to the trust. In May 2021, the trust issued its first series of 1.250% Fixed Rate Notes in the principal amount of $500.0 million. These fixed rate notes matured on May 17, 2024, as did the related funding agreement. No other series of FABNs have been issued.

The annual dividend rate on the shares of the Company's Series A preferred stock is currently 7.000%. On May 13, 2025 and every five years thereafter, the rate will reset to the then applicable Five-year U.S. Treasury Rate (as defined in the Series A preferred share documentation) plus 5.58%. On each reset date, the Company has the right to redeem the Class A share, in whole or in part, at their issue price ($1,000.00 for each of the 375,000 shares) plus accrued and unpaid dividends.

Company NRSRO Ratings

The Company meets at least annually with its rating agencies to update them on its business. The ratings agencies may take action on the Company's ratings after such meetings, or at any other time.

On January 16, 2025, A.M. Best affirmed its "A-" financial strength rating on SBLIC. The A.M. Best outlook is stable.

On September 25, 2024, S&P affirmed its ratings on SBLIC (issuer credit rating and financial strength rating of "A-") and SBLH (issuer credit rating of "BBB-", senior unsecured rating of "BBB-" and preferred stock rating of "BB"). Each S&P outlook is stable.

On September 10, 2024, Morningstar DBRS ("DBRS") affirmed its "A" financial strength rating on SBLIC. In addition, it affirmed its "BBB (high)" and "BBB (low)" ratings on SBLH's senior unsecured notes and non-cumulative preferred stock, respectively. The DBRS trends are stable.

On August 27, 2024, Fitch affirmed its "A-" financial strength rating on SBLIC. It also affirmed its "BBB" issuer credit rating, its "BBB-" senior unsecured rating and its "BB" preferred stock rating on SBLH. Each Fitch outlook is stable.

Long-Term Debt and Future Principal Payments

The Company had outstanding senior notes with a carrying value of $1,577.8 million and $941.2 million at December 31, 2024 and December 31, 2023, respectively. They consisted of $374.5 million with a fixed interest rate of 5.125% and a maturity date of November 2026 and $579.4 million with a fixed interest rate of 5.000% and a maturity date of February 2031. In October 2024, the Company issued $650.0 million of senior notes with a fixed interest rate of 7.200%. The maturity date of these notes is October 2034. The proceeds from the October senior note were used to repay all outstanding borrowings under the Revolving Credit Facility and to repay a significant amount of the delayed draw term loan ("DDTL").

The Company had outstanding surplus notes with a carrying value of $113.2 million and $114.3 million at December 31, 2024 and December 31, 2023, respectively. The surplus notes consist of $100 million of 7.450% notes issued by SBLIC in October 2003, and maturing on October 1, 2033. The surplus notes are subject to repayment conditions and restrictions, whereby each payment of interest or principal on the surplus notes may be made only with the prior approval of the Kansas Insurance Commissioner and only out of surplus that the Kansas Insurance Commissioner determines to be available for such payment under the Kansas Insurance Code.

The Company has a credit agreement with a syndicate of lenders that provides the Revolving Credit Facility, which has a total capacity of $1.0 billion. Each draw under the Revolving Credit Facility has a maturity date of August 2027 and has an interest rate of SOFR plus 1.975%. The Company did not have a balance outstanding at December 31, 2024. Debt issuance costs are capitalized and reported as a reduction of the debt balances on the consolidated balance sheets and amortized over the term of the debt. The Revolving Credit Facility has various affirmative and negative covenants.

The Company also has a credit agreement with a syndicate of lenders that provides the DDTL. Each DDTL has a maturity date of August 30, 2025, and has an interest rate of SOFR plus 3.100%. The Company had an outstanding balance of $3.7 million under the DDTL Facility as of December 31, 2024. Debt issuance costs were capitalized and reported as a reduction of the debt balances on the consolidated balance sheets and amortized over the term of the debt. The credit agreement has various affirmative and negative covenants similar to those in the Revolving Credit Facility, which remains in effect.

At December 31, 2024, future principal payments for the years ended December 31 were as follows.

	Senior Notes	Revolving Credit Facility	Delayed Draw Term Loan	Surplus Notes
		(unaudited)		
		(dollars in thousands)		
2025	$ —	$ —	3,688	$ —
2026	374,457	—	—	—
2027	—	—	—	—
2028	—	—	—	—
2029	—	—	—	—
Thereafter	1,229,426	—	—	100,000
Total amount of future principal payments	$ 1,603,883	$ —	$ 3,688	$ 100,000

Contractual Obligations

In connection with the Company's investments in certain limited partnerships, the Company committed to invest additional capital of $493.9 million, of which $7.9 million was with related parties, at December 31, 2024, as required by the general partner compared to $391.3 million and $26.8 million at December 31, 2023. The Company had committed up to $3,934.9 million and $4,383.4 million in unfunded bridge loans, unfunded revolvers, and other private investments, of which $1,762.0 million and $1,488.9 million is with related parties or securitizations in which related parties act as collateral managers, as of December 31, 2024 and December 31, 2023 respectively. The portion of the total unfunded commitments that are considered to be on-demand funding obligations not controlled by the Company or its affiliated parties was $2,133.2 million as of December 31, 2024. As per the Company's liquidity guidelines, the Company maintains sufficient liquidity capacity to fund the segment of the total unfunded commitments that are considered to be on-demand funding obligations not controlled by the Company or its affiliated parties.

Other Legal and Regulatory Matters

SBLIC is a defendant in a putative class action, Ella Clinton, et al., v. Security Benefit Life Insurance Company, initially filed in the United States District Court, Southern District of Florida, on November 20, 2019. A First Amended Class Action Complaint ("FAC") that includes additional named plaintiffs and causes of action was filed on January 21, 2020. The action was transferred to the United States District Court, District of Kansas. The allegations of the FAC arise out of the marketing and sale of SBLIC's leading FIA products at the time. In their FAC, Plaintiffs assert claims for violation of the federal Racketeer Influenced and Corrupt Organizations Act, violations of California's, Illinois', and Arizona's respective unfair competition, consumer fraud, and/or deceptive business practices acts, and common law fraud under the laws of Florida, California, Illinois, and Arizona. SBLIC's motion to dismiss was granted by the District Court on February 12, 2021, but the dismissal was reversed by the United States Court of Appeals for the Tenth Circuit on March 28, 2023 in a split decision. The reversal was not based on the merits of any issue; the applicable Federal Rules of Civil Procedure required the Court to assume plaintiffs' allegations were true, which led to the decision that the allegations were sufficient to require that an evidentiary record be developed at the District Court. On February 7, 2025, the District Court issued an amended scheduling order setting a June 13, 2025, deadline for plaintiffs' motion for class certification, an August 15, 2025, deadline for defendant's opposition to the motion for class certification and an October 17, 2025, deadline for plaintiffs' reply in support of the motion for class certification. The Court has ordered the parties to engage in mediation no later than June 6, 2025. Although potential liability is reasonably possible for SBLIC from this lawsuit, no reasonable estimate can be made at this time regarding the amount or range of any possible loss that may result. SBLIC believes that it has substantial defenses to the claims alleged and intends to continue to defend itself vigorously in the lawsuit.

In addition, the Company is periodically party to legal and arbitral proceedings and subject to complaints and the like, and is periodically examined by its regulators and may discuss certain subjects with its regulators that come up during such examinations or otherwise. Management currently does not believe that any of the foregoing matters in this paragraph will, alone or collectively, materially adversely affect the Company's results of operations or financial condition. In addition, the Company is subject to extensive regulation by, among others, governmental authorities and the NAIC, and it is subject to the effects of periodic changes in laws, regulations, and other standards that apply to it.

Off-Balance Sheet Arrangements

Other than the contractual obligations described above, the Company has not entered into any significant off-balance sheet arrangements.

Critical Accounting Policies

The Company has identified the following critical accounting policies as being those that are complex and require significant judgment. The following summary of such critical accounting policies is intended to enhance your ability to assess the Company's financial condition and results of operations and the potential volatility due to changes in estimates.

Valuation of Investments

GAAP defines fair value 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. The Company categorizes its investments into three levels of fair value hierarchy based on the priority of inputs used in determining fair value. The hierarchy defines the highest priority inputs (Level 1) as quoted prices in active markets for identical assets or liabilities. The lowest priority inputs (Level 3) are the Company's own assumptions about what a market participant would use in determining fair value such as estimated future cash flows. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. The Company's policy is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

The Company categorizes investments recorded at fair value in the consolidated balance sheets as follows:

Level 1 Valuations are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 Valuations are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, model-based valuation techniques for which significant assumptions are observable in the market, and option pricing models using inputs observable in the market.

Level 3 Valuations are generated from techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's assumptions that market participants would use in pricing the asset or liability. Valuation techniques include discounted cash flow models, spread-based models and similar techniques, using the best information available in the circumstances.

Management's assessment of all available data when determining fair value of the Company's investments is necessary to appropriately apply fair value accounting. See "Financial Condition – Assets and Liabilities Measured and Reported at Fair Value" for additional information about the scope of investments recorded at fair value.

Evaluation of Allowance for Credit Losses on Fixed Maturity Available for Sale Investments and Mortgage Loan Portfolio

The Company adopted its current guidelines for recognition of CECL on fixed maturity available for sale investments in 2023. As part of those guidelines, the methodology used to determine incurred loss impairment for loans and other financial instruments was replaced by a methodology that reflects expected credit losses, and which requires the Company to consider a broader range of reasonable and supportable details when determining expected credit losses.

The evaluation of fixed maturity available for sale investments for credit loss involves significant judgment and estimates by management. The Company reviews and analyzes all fixed maturity available for sale investments on an ongoing basis for changes in market interest rates and credit deterioration. This review process includes analyzing the Company's ability to recover the cost basis of each fixed maturity investment that has a fair value that is materially lower than its cost basis. It requires a high degree of management judgment and involves uncertainty. The evaluation of fixed maturity investments for credit loss is a quantitative and qualitative process, which is subject to risks and uncertainties.

The Company has a policy and process in place to identify fixed maturity investments that could potentially have a credit loss. The Company considers relevant facts and circumstances in evaluating whether the impairment of a security is credit related. Relevant facts and circumstances considered include but are not limited to (1) changes in the financial position and access to capital of the issuer, including the current and future impact of any specific events; (2) the Company's intent to sell a security or whether it is more likely than not the Company will be required to sell the security before the recovery of its amortized cost basis; and (3) in the evaluation of the potential impairment of ABS, including CLOs, several factors are taken into account, including cash flow, collateral sufficiency, liquidity and economic conditions. For fixed maturity investments, the Company recognizes the difference between the amortized cost and fair value in net income if it intends to sell the security or it is more likely than not it will be required to sell the security before the recovery of the amortized cost basis. For fixed maturity investments that the Company does not expect to recover the amortized cost basis and does not plan to sell, and for which it is not more likely than not that it would be required to sell the security before recovery of the amortized cost basis, a credit loss allowance would be established on the security and recognized in net income. The difference between the present value of expected future cash flows and the amortized cost basis of the security is the amount of credit loss recognized. The recognized credit loss is limited to the total unrealized loss on the security.

The credit loss component of ABS, including CLOs, is estimated as the difference between amortized cost and the present value of the expected cash flows of the security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. For fixed rate investments, the present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security just prior to impairment. For variable rate investments, the present value is determined using the best estimate cash flows discounted at the variable rate that exists as of the date the cash flow estimate is made. The ABS, including CLOs, cash flow estimates are based on bond-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity, prepayment speeds, and structural support, including subordination and guarantees.

The Company has established an allowance to provide for the risk of credit losses inherent in its commercial mortgage loan portfolio. The allowance for each of the Company's commercial mortgage loans for which the borrower is not under common control is estimated by utilizing third-party modeling software to derive probability of default and loss given default assumptions based on the characteristics of each loan, historical economic and loss information, and current and forecasted economic conditions. Key loan characteristics impacting the estimate for the Company's commercial mortgage loan portfolio include factors such as loan-to-value ratio, debt service coverage ratio, property type and location, and origination year. In addition, the Company reviews commercial mortgage loans for which the borrower is under common control for the need for a general allowance for probable losses on a quantitative and qualitative basis. The amount of the general loan allowance is based upon management's evaluation of the collectability of the loan portfolio.

Policy Liabilities for Fixed Index Annuities

The Company offers or maintains FIAs with crediting strategies linked to 19 different indices that are either equity only or multi-asset. The Company purchases derivatives, primarily call and call spread options, on the applicable indices as an investment to provide the income needed to fund the index credits on the index products. See "Financial Condition — Derivative Instruments." Certain derivative instruments embedded in the FIA contracts are recognized in the consolidated balance sheets at their fair values and changes in fair value are recognized immediately in the Company's consolidated statements of operations in accordance with accounting standards for derivative instruments, since the embedded derivative is not clearly or closely related to the economic characteristics of the host contract.

Accounting for derivatives prescribes that the contractual obligations for future index credits are treated as a "series of embedded derivatives" over the expected life of the applicable contracts. Policy liabilities for FIAs are equal to the sum of the "host" (or guaranteed) component, the embedded derivative component and the fixed account value for each FIA policy. The host value is established at inception of the contract and accreted over the policy's life at a constant rate of interest. The Company estimates the fair value of the embedded derivative component at each valuation date by (i) projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and (ii) discounting the excess of the projected contract values over the projected minimum guaranteed contract values at the applicable risk-free interest rates adjusted for the Company's nonperformance risk related to those liabilities. The projections of policy contract values are based on the Company's best estimate assumptions for future policy growth and future policy decrements. The Company's best estimate assumptions for future policy growth include assumptions for the expected index credits at the end of the index crediting periods which are derived from the fair values of the underlying call options purchased to fund such index credits and the expected costs of annual call options the Company will purchase in the future to fund index credits beyond the end of the current index crediting periods. The projections of minimum guaranteed contract values include the same best estimate assumptions for policy decrements as were used to project policy contract values.

In general, the change in the fair value of the embedded derivatives will correspond to, but not exactly match, the change in fair value of the purchased call options because the purchased call options are either one year, two year, or five year options depending upon the crediting strategy in the product while the options valued in the embedded derivatives represent the rights of the contract holder to receive index credits over the entire period the FIAs are expected to be in force. See "Consolidated Results of Operations- Investment-related gains (losses)" for additional information.

The Company offers guarantees on its FIA contracts for the benefit of the annuity contract holder. The primary guarantees offered to FIA contract holders are GMDB and GLWB riders. The Company's GMDB and GLWB reserves, accounted for pursuant to Financial Accounting Standards Board ASC 944, Financial Services-Insurance, are equal to the current benefit ratio multiplied by the cumulative assessments less cumulative excess death and income benefit payments plus accrued interest. The current benefit ratio is equal to the present value of actual and expected excess payments divided by the present value of actual and expected assessments.

As of March 2020, the Company ceased accepting applications for substantially all FIA contracts with GMDB and GLWB riders, although there are outstanding blocks of policies with such riders.

Policy Liabilities for Fixed and Variable Annuities

Liabilities for future policy benefits for fixed annuities and the fixed account on variable deferred annuity products represent contract values accumulated at interest without reduction for potential surrender charges. Interest on accumulated contract values is credited to contracts as earned. For the separate account on variable annuities the investment income and gains and losses on investments accrue directly to, and investment risk is borne by, the contract holder.

Associated with these variable annuity contracts, the Company provides guarantees for the benefit of the annuity contract holder. The primary guarantees provided to variable annuity contract holders are GMDB, GMAB, GMWB, and guaranteed minimum income benefits ("GMIB"). The Company's GMDB and GMIB reserves, accounted for pursuant to ASC 944, Financial Services-Insurance, are equal to the current benefit ratio multiplied by the cumulative assessments less cumulative excess death and income benefit payments plus accrued interest. The current benefit ratio is equal to the present value of actual and expected excess payments divided by the present value of actual and expected assessments. Separate benefit ratios are maintained for GMDB and GMIB. The Company records guarantees for GMAB and GMWB as derivative instruments. The fair value of the obligation is calculated based on actuarial and capital market assumptions related to the projected cash flows, including benefits and related contract charges, over the anticipated life of the related contracts. The cash flow estimates are produced using stochastic techniques under a variety of market return scenarios and other best estimate assumptions.

As of February 2010, the Company ceased issuing variable annuity contracts with GMAB, GMWB, and GMIB riders, although there is an outstanding block of policies with such riders.

Policy Liabilities for Funding Agreements

General account funding agreement liabilities, which have a balance of $509.9 million at December 31, 2024, consist of fixed interest rate contracts and are held at contract value. These funding agreements have call provisions that allow the holder the right to put the agreement back to the Company if certain adverse conditions occur.

Deferred Policy Acquisition Costs, Deferred Sales Inducement Costs, and Value of Business Acquired

Costs relating to the production of successful new or renewal business have been deferred and capitalized as DAC or DSI. Only costs which are expected to be recovered from future policy revenues and gross profits may be deferred.

DAC and DSI are subject to loss recognition testing periodically or when an event occurs that may warrant loss recognition. DAC consists principally of commissions and certain costs of policy issuance. DSI consists of premium and interest bonuses credited to policyholder account balances.

For annuity products, these costs are amortized generally in proportion to expected gross profits from interest margins and, to a lesser extent, from product charges. Current and future period gross profits/margins for FIAs also include the impact of amounts recorded for the change in fair value of derivatives and the change in fair value of embedded derivatives. Current period amortization is adjusted retrospectively through an unlocking process when estimates of current or future gross profits/ margins (including the impact of realized investment gains and losses) to be realized from a group of products are revised. The Company's estimates of future gross profits/margins are based on actuarial assumptions related to the underlying policies' terms, lives of the policies, yield on investments supporting the liabilities, and level of expenses necessary to maintain the polices over their entire lives. Revisions are made based on historical results and the Company's best estimates of future experience.

Deferred Income Taxes

The Company accounts for income taxes using the liability method. This method provides for the tax effects of transactions reported in the consolidated financial statements for both taxes currently due and deferred. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and income tax bases of assets and liabilities and are measured using the enacted tax rates and laws. A temporary difference is a transaction, or amount of a transaction, that is recognized currently for financial reporting purposes but will not be recognized for tax purposes until a future tax period, or is recognized currently for tax purposes but will not be recognized for financial reporting purposes until a future reporting period. Deferred income taxes are measured by applying enacted tax rates for the years in which the temporary differences are expected to be recovered or settled to the amount of each temporary difference.

Deferred income tax expense or benefit, reflected in the Company's consolidated statements of operations as a component of income tax expense, is based on the changes in deferred income tax assets or liabilities from period to period (excluding unrealized capital gains and losses on securities available for sale).

Deferred income tax assets are subject to ongoing evaluation of whether such assets will be realized. The ultimate realization of deferred income tax assets depends on generating future taxable income during the periods in which temporary differences become deductible. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence, it is more likely than not that a portion, or all, of the deferred income tax asset will not be realized. Significant judgment and use of estimates are required in determining whether valuation allowances should be established, as well as the amount of such allowances. When making such determination, consideration is given to, among other things, the following:

- future taxable income of the necessary character exclusive of reversing temporary differences and carryforwards;
- future reversals of existing taxable temporary differences;
- taxable income in prior carryback years; and
- tax planning strategies.

Actual realization of deferred income tax assets and liabilities may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting related income tax balances.

The realization of deferred tax assets related to unrealized loss on the Company's available for sale fixed maturity securities is based on the Company's ability and intent to hold the securities for a period of time sufficient to allow for recovery of the value.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-12, Financial Services-Insurance (Topic 944) Targeted Improvements to the Accounting for Long-Duration Contracts, which changes the measurement and disclosures of insurance liabilities and deferred acquisition costs ("DAC") for long-duration contracts issued by insurers. The standard is effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. The transition date (the remeasurement date) is January 1, 2023. The ultimate effects the standard will have on the financial statements are highly dependent on policyholder behavior, actuarial assumptions and macroeconomic conditions, particularly interest rates and spreads. However, we estimate the impact from adoption of this standard will increase total stockholders' equity as of the transition date, January 1, 2023, up to approximately $670.0 million, net of tax. The transition adjustment is expected to primarily increase retained earnings. The most significant drivers of this transition adjustment include:

(i) the measurement of certain benefits historically recorded as insurance liabilities which will now be classified and measured as market risk benefits ("MRB"), along with their subsequent changes in fair value, excluding changes attributable to instrument-specific credit risk, which are recorded as a component of other comprehensive income ("OCI"), and;

(ii) the removal of prior period "shadow" DAC adjustments in accumulated other comprehensive income ("AOCI").

The specific impacts on retained earnings and OCI upon adoption of this standard on January 1, 2025 may also differ materially from the transition impact based on the performance of the Company's business and macroeconomic conditions, including changes in interest rates.

After adoption of this standard on January 1, 2025, the Company's annual financial statements for the year ended December 31, 2025 will reflect the impact on various amounts in the financial statements from the transition date of January 1, 2023, through the year ended December 31, 2025. The specific impacts to the annual financial statements for each of the three years ended December 31, 2025, may differ materially from the transition impacts mentioned above based on the performance of the Company's business and macroeconomic conditions, including changes in interest rates. This is only a GAAP concept and does not impact Statutory reporting.

Market Risk

The Company seeks to invest its available funds in a manner that will maximize shareholder value and fund future obligations to policyholders and lenders, subject to appropriate risk considerations. The Company seeks to meet this objective through investments that: (1) consist substantially of investment grade fixed maturity investments; (2) have projected returns which satisfy its spread targets; and (3) have characteristics which support the underlying liabilities. Many of the Company's products incorporate surrender charges, market value adjustments, or other features to encourage persistency.

The Company seeks to maximize the total return on its available for sale investments through active investment management. Accordingly, the Company has determined that its available for sale portfolio of fixed maturity investments is available to be sold in response to: (i) changes in market interest rates; (ii) changes in relative values of individual investments and asset sectors; (iii) changes in prepayment risks; (iv) changes in credit quality outlook for certain investments; (v) liquidity needs; and (vi) other factors. A loss in net income equal to the difference between amortized cost and fair value will be recorded when the Company intends to sell an available for sale investment in an unrealized loss position. If the Company does not intend to sell a debt security, it considers all available evidence to make an assessment of whether it is more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. If it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, a loss in net income equal to the difference between amortized cost and fair value will be recognized.

Interest Rate Risk

Interest rate risk is considered to be one of the Company's primary risk exposures. Substantial and sustained increases and decreases in market interest rates can affect the profitability of the Company's products and the fair value of its investments. The profitability of many of the Company's products depends on the spreads between interest yield on investments and rates credited on insurance liabilities. The Company has the ability to adjust crediting rates (caps, participation rates or spreads for index annuities) on a substantial portion of its annuity liabilities every two years, as most of the Company's business is within two years of credit reset (subject to minimum guaranteed values). In addition, substantially all of the Company's annuity products have surrender charge provisions designed to encourage persistency and to help ensure targeted spreads are earned. However, competitive factors, including the impact of the level of surrenders and withdrawals, may limit the Company's ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

The Company manages interest rate risk through structuring its investment portfolios to align investment types (*i.e.*, fixed and floating) and yield values with corresponding liabilities portfolios (i.e., FIA and fixed). The Company periodically rebalances the assets and liability portfolios by evaluating the adequacy of expected cash flows from its assets to meet the expected cash requirements of its liabilities and to determine if it is necessary to lengthen or shorten the average life and duration of the Company's investment portfolio.

Assuming a 100 bps parallel increase in interest rates that persists for a 12-month period, from levels as of December 31, 2024, the estimated impact to operating income would be an increase of approximately $74.8 million. A decrease of 100 bps is estimated to decrease operating income by $74.8 million. These changes are driven by increases or decreases in investment income from floating rate assets, offset by DAC, DSI, and VOBA amortization and rider reserve change, all calculated without regard to future changes to assumptions.

Assuming an immediate 100 bps parallel increase in interest rates from levels as of December 31, 2024, the estimated impact to AOCI would be a decrease of approximately $358.2 million. A decrease of 100 bps is estimated to increase AOCI by $358.2 million. The estimated point in time impact is driven by a net increase or decrease in the value of the Company's available for sale fixed maturity investments which are carried at fair value with unrealized gains and losses, net of certain offsets, reported in AOCI. The estimated changes include the impact of related amortization of deferred revenue and expenses and related rider reserve change.

The models used to estimate the impact of a 100 bps change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management action to counteract such a change. Consequently, potential changes in the Company's valuations indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because the Company actively manages its investments and liabilities, its net exposure to interest rates can vary over time. However, any such decreases in the fair value of the Company's fixed maturity investments (unless related to credit concerns of the issuer requiring establishment of a credit loss allowance) would generally be realized only if it were required to sell such investments at losses prior to their maturity to meet the Company's liquidity needs, which it seeks to manage using the surrender and withdrawal provisions of its annuity contracts and through other means.

The Company purchases call options on the applicable indices or replicates the option payoff through the use of other derivative instruments, to fund the index credits on its FIAs. These options generally match the term of the index credits (generally ranging from one to five years) of the underlying policies. Proceeds associated with those investments are substantially offset by an increase or decrease in the amounts added to policyholder account balances for FIA products. For the twelve months ended December 31, 2024 and 2023, the index credits to policyholders at the end of their index crediting period were $961.3 million and $251.2 million, respectively. Proceeds received at expiration or termination of these options used to hedge such index credits were $948.5 million and $248.5 million for the twelve months ended December 31, 2024 and 2023, respectively. Index credits of $259.9 million were ceded to SkyRidge under reinsurance agreements in 2024, and $43.0 million were ceded in 2023. Option proceeds will not exactly match index credits primarily due to the use of futures and total return swaps to hedge a portion of the index credit obligations, selling of certain options prior to expiration in order to purchase better priced options, the use of futures and total return swaps to reduce hedged positions for partial and full withdrawals, and policyholder surrenders.

At the end of the crediting period of the index crediting strategies, the Company purchases new one-year, two-year, and five-year call options to fund the next period's expected index credits. The risk associated with these prospective purchases of call options is the uncertainty of the cost, which is a significant determining factor in whether the Company is able to earn its spread on its FIA business. The Company seeks to manage this risk through the terms of its FIAs, which permit the Company to change caps, participation rates, and index crediting spreads. By modifying caps, participation rates, or index crediting spreads, the Company can limit option costs to budgeted amounts, except in cases where the contractual features would prevent further modifications. The Company also makes use of volatility-controlled indices to help ensure the cost of call options purchased in the future will be within its pricing assumptions. Based upon actuarial testing which the Company conducts as a part of the design of its FIA products and on an ongoing basis, the Company believes the risk that current contractual features would prevent it from controlling option costs is not material.

The Company performs sensitivity analysis to assess the impact that certain assumptions and equity market shocks have in determining the policy liabilities and the amortization of DAC/DSI/VOBA for the Company's FIAs. The following table presents the estimated impact to GAAP income, before income taxes, of equity market shocks and various assumption changes that affect the Company's FIAs. The effects presented are not representative of the aggregate impacts that would result if a combination of changes in equity markets, interest rates, and other assumptions occurred.

Equity Market Shock/Assumption Change	Change in Fair Value of FIA Derivatives	Reserve Change [a]	DAC/DSI/VOBA Amortization Change	Statement of Operations Impact as of December 31, 2024
	(unaudited)			
	(dollars in thousands)			
Decrease in equity index by 5% (2.5% for low volatility indices)	$ (271,419)	$ (89,911)	$ (28,826)	$ (152,682)
Increase in equity index by 5% (2.5% for low volatility indices)	254,327	92,373	24,766	137,188
Decrease in discount rate by 100 bps		189,575	(120,784)	(68,791)
Increase in discount rate by 100 bps		(168,708)	110,858	57,850
Decrease in long-term portfolio yields by 50 bps		152,420	(29,621)	(122,799)
Increase in long-term portfolio yields by 50 bps		(143,257)	29,141	114,116

[a] Reserve changes based on ASC Topic 815, *Derivatives and Hedging* and ASC Topic 944, *Financial Services-Insurance.*

In general, decreases in equity markets result in a decrease to income before income taxes. The decrease in fair value of the FIA derivatives is partially offset by decreases in policy reserves and a decrease to DAC/DSI/VOBA amortization. In contrast, increases in equity markets result in an increase to income before income taxes. The increase in fair value of the FIA derivatives is partially offset by an increase in policy reserves and an increase in DAC/DSI/VOBA amortization.

In addition, lower discount rates tend to increase future policy reserves and increase the balances of DAC/DSI/VOBA, resulting in a decrease to income before income taxes. Higher discount rates tend to decrease future policy reserves and decrease the balances of DAC/DSI/VOBA, resulting in an increase to income before income taxes.

Lowering the long-term portfolio return assumption tends to increase future policy reserves, thus decreasing income before income taxes. In contrast, increasing the long-term portfolio return assumption decreases future policy reserves, thus increasing income before income taxes.

Credit Risk

In addition to interest rate risk, the Company's investment portfolio is subject to credit risk associated with obligors. The Company attempts to mitigate this risk by adhering to investment policies that provide for portfolio diversification by security types, creditors and industry sectors, and complying with investment codes applicable to the Company pursuant to state law and regulation. The Company actively manages and monitors exposures and records credit loss allowances in periods that such determinations are made. The Company also considers all relevant objective information available in estimating the cash flows related to its portfolios. The Company monitors and manages exposures to determine whether investments are impaired or loans are deemed uncollectible. The aggregate credit risk taken in the Company's investment portfolio is influenced by the risk/return preferences, the economic and credit environment and other considerations.

The Company uses derivative instruments to fund the index credits of the underlying policyholders and executes these derivative instruments with a number of counterparties. The Company's policy is to acquire such options from counterparties rated investment grade by a nationally recognized rating agency. In addition, the Company has entered into credit support agreements which allow it to require posting of collateral by its counterparties to secure their obligations to the Company under the derivative instruments.

The Company also has credit risk related to the reinsurance counterparties' ability to honor their obligations to pay the contracted amounts under various agreements. To minimize the Company's exposure to losses from reinsurer credit and performance risk, the Company evaluates the financial condition of its reinsurers, and monitors the concentration of credit risk arising from similar activities or economic characteristics of such reinsurers, and requires collateralization of balances where allowable by contract.