

**SAMMONS FINANCIAL GROUP, INC.
AND SUBSIDIARIES**

(an indirect wholly owned subsidiary of Sammons Enterprises, Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

SAMMONS FINANCIAL GROUP, INC. AND SUBSIDIARIES

(an indirect wholly owned subsidiary of Sammons Enterprises, Inc.)

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Report of Independent Auditors

To Management and the Board of Directors of Sammons Financial Group, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Sammons Financial Group, Inc. and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, of comprehensive income, of stockholder’s equity and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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



In performing an audit in accordance with US GAAS, we:

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

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

Priscilla Housel Cooper

Des Moines, IA
March 18, 2024

SAMMONS FINANCIAL GROUP, INC. AND SUBSIDIARIES

(an indirect wholly owned subsidiary of Sammons Enterprises, Inc.)

CONSOLIDATED BALANCE SHEETS

(Amounts in Millions, except share amounts)

| | December 31, | |
|--|-------------------|-------------------|
| | 2023 | 2022 |
| ASSETS | | |
| Investments | | |
| Fixed maturities available-for-sale, at fair value (net of allowance for credit losses of \$90 and \$0, respectively); amortized cost; \$92,043 and \$93,087, respectively, (portion under fair value option: \$840 and \$815, respectively) | \$ 83,019 | \$ 80,791 |
| Fixed maturities, trading, at fair value | 350 | 473 |
| Equity securities, at fair value | 1,232 | 2,410 |
| Mortgage loans (net of allowance for credit losses of \$24 and \$0, respectively; includes \$9 and \$9, respectively, under the fair value option) | 6,413 | 5,909 |
| Policy loans | 724 | 618 |
| Short-term investments | 2,318 | 296 |
| Derivative instruments | 3,072 | 977 |
| Other invested assets (net of allowance for credit losses of \$2 and \$0, respectively; portion at fair value under fair value option; \$126 and \$135, respectively) | 7,484 | 6,416 |
| Total investments | <u>104,612</u> | <u>97,890</u> |
| Cash | 1,269 | 1,226 |
| Accrued investment income | 882 | 893 |
| Deferred policy acquisition costs | 7,342 | 6,997 |
| Deferred sales inducements | 1,257 | 1,135 |
| Other assets | 1,291 | 682 |
| Reinsurance receivables (net of allowance for credit losses of \$10 and \$0, respectively) | 2,848 | 3,013 |
| Deferred income tax asset | 1,424 | 2,118 |
| Separate account assets | 2,941 | 2,685 |
| Total assets | <u>\$ 123,866</u> | <u>\$ 116,639</u> |
| LIABILITIES | | |
| Policyholder account balances | \$ 89,496 | \$ 87,815 |
| Policy benefit reserves | 7,027 | 6,130 |
| Policy claims and benefits payable | 651 | 592 |
| Notes payable | 2,036 | 2,034 |
| Repurchase agreements, other borrowings and collateral on derivative instruments | 12,584 | 12,156 |
| Derivative instruments | 1,393 | 412 |
| Other liabilities | 2,920 | 2,677 |
| Separate account liabilities | 2,941 | 2,685 |
| Total liabilities | <u>119,048</u> | <u>114,501</u> |
| Redeemable noncontrolling interests | 142 | — |
| STOCKHOLDER'S EQUITY | | |
| Common stock, \$1 par value, 1,000 shares authorized, issued and outstanding | — | — |
| Additional paid-in capital | 1,813 | 1,801 |
| Retained earnings | 8,840 | 8,624 |
| Accumulated other comprehensive income | (5,985) | (8,297) |
| Total Sammons Financial Group Inc. stockholder's equity | <u>4,668</u> | <u>2,128</u> |
| Noncontrolling interests | 8 | 10 |
| Total stockholder's equity | <u>4,676</u> | <u>2,138</u> |
| Total liabilities and stockholder's equity | <u>\$ 123,866</u> | <u>\$ 116,639</u> |

The accompanying notes are an integral part of these consolidated financial statements.

SAMMONS FINANCIAL GROUP, INC. AND SUBSIDIARIES

(an indirect wholly owned subsidiary of Sammons Enterprises, Inc.)

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Millions)

| | Year Ended December 31, | |
|--|-------------------------|-----------------|
| | 2023 | 2022 |
| REVENUES | | |
| Premiums | \$ 942 | \$ 945 |
| Charges on interest sensitive and investment-type products | 1,159 | 1,064 |
| Net investment income | 3,850 | 3,665 |
| Net gains (losses) on derivatives and derivative instruments | (193) | 1,468 |
| Net realized investment losses | (448) | (940) |
| Other income | 137 | 131 |
| Total revenue | <u>5,447</u> | <u>6,333</u> |
| BENEFITS AND EXPENSES | | |
| Index credits and interest credited to policyholder account balances | 1,742 | 1,459 |
| Benefits incurred | 1,824 | 1,362 |
| Amortization of deferred sales inducements | 124 | 175 |
| Total benefits | <u>3,690</u> | <u>2,996</u> |
| Operating and other expenses (net of commissions and other expenses deferred) | 914 | 845 |
| Amortization of deferred policy acquisition costs and present value of future profits of acquired businesses | 370 | 601 |
| Total benefits and expenses | <u>4,974</u> | <u>4,442</u> |
| Income before income taxes | 473 | 1,891 |
| Income tax provision | (17) | 305 |
| Net income | <u>490</u> | <u>1,586</u> |
| Plus: Net loss attributable to noncontrolling interests and redeemable noncontrolling interests | 2 | — |
| Net income attributable to Sammons Financial Group Inc. | <u>\$ 492</u> | <u>\$ 1,586</u> |

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SAMMONS FINANCIAL GROUP, INC. AND SUBSIDIARIES
 (an indirect wholly owned subsidiary of Sammons Enterprises, Inc.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Amounts in Millions)

| | Year Ended December 31, | |
|---|--------------------------------|--------------------|
| | 2023 | 2022 |
| Net income | \$ 490 | \$ 1,586 |
| Other comprehensive income: | | |
| Net unrealized gain (loss) on available-for-sale investments | 2,285 | (12,429) |
| Non-credit component of other-than-temporary impairment losses | — | 8 |
| Other | 27 | (14) |
| Total other comprehensive income (loss) | <u>2,312</u> | <u>(12,435)</u> |
| Comprehensive income (loss) | <u>2,802</u> | <u>(10,849)</u> |
| Plus: Comprehensive loss attributable to noncontrolling interests and redeemable noncontrolling interests | <u>2</u> | <u>—</u> |
| Comprehensive income (loss) attributable to Sammons Financial Group Inc. | <u>\$ 2,804</u> | <u>\$ (10,849)</u> |

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SAMMONS FINANCIAL GROUP, INC. AND SUBSIDIARIES

(an indirect wholly owned subsidiary of Sammons Enterprises, Inc.)

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

(Amounts in Millions)

| | Redeemable Noncontrolling Interests | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Noncontrolling Interests | Total Stockholder's Equity |
|--|---|-----------------|----------------------------------|----------------------|---|-----------------------------|----------------------------------|
| Balance at December 31, 2021 | \$ — | \$ — | \$ 1,799 | \$ 7,370 | \$ 4,138 | \$ — | \$ 13,307 |
| Total comprehensive income (loss) | — | — | — | 1,586 | (12,435) | — | (10,849) |
| Equity transaction with noncontrolling interests | — | — | — | — | — | 10 | 10 |
| Capital contribution | — | — | 2 | — | — | — | 2 |
| Dividends paid on common stock | — | — | — | (332) | — | — | (332) |
| Balance at December 31, 2022 | — | — | 1,801 | 8,624 | (8,297) | 10 | 2,138 |
| Total comprehensive income | — | — | — | 492 | 2,312 | (2) | 2,802 |
| Cumulative effect of change in accounting principle | — | — | — | (20) | — | — | (20) |
| Equity transaction with noncontrolling interests | 142 | — | — | — | — | — | — |
| Capital contribution | — | — | 12 | — | — | — | 12 |
| Dividends paid on common stock | — | — | — | (256) | — | — | (256) |
| Balance at December 31, 2023 | \$ 142 | \$ — | \$ 1,813 | \$ 8,840 | \$ (5,985) | \$ 8 | \$ 4,676 |

The accompanying notes are an integral part of these consolidated financial statements.

SAMMONS FINANCIAL GROUP, INC. AND SUBSIDIARIES

(an indirect wholly owned subsidiary of Sammons Enterprises, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

| | Year Ended December 31, | |
|--|-------------------------|---------------|
| | 2023 | 2022 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 490 | \$ 1,586 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Amortization of deferred policy acquisition costs, deferred sales inducements and present value of future profits of acquired businesses | 494 | 776 |
| Net amortization of premiums, discounts, capitalized interest on investments and intangibles | (322) | (209) |
| Policy acquisition costs deferred | (997) | (899) |
| Sales inducements deferred | (280) | (100) |
| Net realized investment losses | 448 | 940 |
| Net derivative activity | 1,548 | (363) |
| Provision for deferred income taxes | 84 | 142 |
| Net index credits, interest credited and product charges on interest sensitive and investment-type products | 708 | 332 |
| Non-cash income from other invested assets | (257) | (269) |
| Distributions of income on equity method investments | 141 | 115 |
| Depreciation and amortization expense | 29 | 20 |
| Changes in other assets and liabilities | | |
| Accrued investment income | 11 | (136) |
| Net receivables | (220) | (231) |
| Net payables | 434 | (502) |
| Policy benefits and reserves | 1,192 | 693 |
| Derivatives, net of collateral | (1,146) | (1,483) |
| Net cash provided by operating activities | <u>\$ 2,357</u> | <u>\$ 412</u> |

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SAMMONS FINANCIAL GROUP, INC. AND SUBSIDIARIES

(an indirect wholly owned subsidiary of Sammons Enterprises, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

| | Year Ended December 31, | |
|--|-------------------------|-------------------|
| | 2023 | 2022 |
| INVESTING ACTIVITIES | | |
| Proceeds from investments sold, matured or repaid | | |
| Fixed maturities, available-for-sale | \$ 15,143 | \$ 16,939 |
| Fixed maturities, trading | 232 | 217 |
| Equity securities | 1,057 | 582 |
| Mortgage loans | 639 | 1,045 |
| Other invested assets | 532 | 377 |
| Short-term investments | 132,811 | 15,083 |
| Cost of investments acquired | | |
| Fixed maturities, available-for-sale | (14,150) | (23,954) |
| Fixed maturities, trading | (100) | (153) |
| Equity securities | (12) | (342) |
| Mortgage loans | (1,157) | (1,218) |
| Other invested assets | (1,520) | (1,635) |
| Short-term investments | (134,744) | (14,504) |
| Payment for business acquisition, net of cash acquired | (154) | — |
| Purchase of property and equipment | (50) | (28) |
| Net change in policy loans | (106) | (79) |
| Net cash used in investing activities | <u>\$ (1,579)</u> | <u>\$ (7,670)</u> |

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SAMMONS FINANCIAL GROUP, INC. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

| | Year Ended December 31, | |
|---|-------------------------|-----------|
| | 2023 | 2022 |
| FINANCING ACTIVITIES | | |
| Receipts from interest sensitive and investment-type products | \$ 11,266 | \$ 11,837 |
| Benefits paid on interest sensitive and investment-type products | (11,727) | (6,144) |
| Net change in repurchase agreements | (21) | 377 |
| Increase in FHLB borrowings | 1,528 | 1,226 |
| Decrease in FHLB borrowings | (1,528) | (1,226) |
| Payment of contingent earn-out | (9) | — |
| Borrowings on notes and loans payable | — | 500 |
| Payment of debt issuance costs | — | (3) |
| Capital contributions received | 12 | 2 |
| Capital contributions received from NCI | — | 10 |
| Dividends paid on common stock | (256) | (332) |
| Net cash provided (used) by financing activities | (735) | 6,247 |
| Net change in cash | 43 | (1,011) |
| Cash at beginning of year | 1,226 | 2,237 |
| Cash at end of year | \$ 1,269 | \$ 1,226 |
| SUPPLEMENTAL INFORMATION | | |
| Cash paid during the year for | | |
| Income taxes | \$ 73 | \$ 359 |
| Interest on other borrowings | 90 | 63 |
| Interest on notes payable | 88 | 77 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Estimated present value of contingent earn-out consideration at acquisition | \$ 26 | \$ — |

The accompanying notes are an integral part of these consolidated financial statements.

SAMMONS FINANCIAL GROUP, INC. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Sammons Financial Group, Inc. (“SFG” or the “Company”) is an indirect wholly owned subsidiary of Sammons Enterprises, Inc. (“SEI”). SFG is a holding company with 100% stock ownership of twelve principal subsidiaries which include Midland National Life Insurance Company and Subsidiaries (“Midland National”), North American Company for Life and Health Insurance (“North American”), Sammons Securities, Inc. (“Sammons Securities”), Sammons Institutional Group, Inc. (“SIG”), SFG Tenura, LLC (“Tenura”), Heyday Insurance Agency, LLC (“Heyday”), SFG Bermuda Ltd (“SFG Bermuda”), Property Disposition, Inc. (“PDI”), SFG Asset Management, LLC (“SFGAM”), SFG Fortuna (“Fortuna”) and Sammons Financial Group Wealth Management Holdings, LLC (“SFGWM”). Together, Midland National and North American offer individual life and annuity products in 49 states and the District of Columbia.

Midland National has three active subsidiaries. MNL Reinsurance Company (“MNL Re”), Solberg Reinsurance Company (“Solberg Re”) and Canal Reinsurance Company (“Canal Re”) are captive reinsurance companies domiciled in Iowa.

SFGWM wholly owns Beacon Capital Management, Inc. (“Beacon”) and holds a majority interest in NorthRock Partners Holdco, LLC (“NorthRock”).

SFGAM, Beacon and NorthRock are investment advisory firms registered with the Securities and Exchange Commission.

Sammons Financial Network, LLC (“SFN”), a wholly owned subsidiary of Sammons Securities, is a Delaware limited liability company that operates as a registered wholesale broker-dealer that distributes variable annuity and mutual fund products. SFN is a member of the Financial Industry Regulatory Authority, Inc.

SIG is a wholly owned subsidiary of SFG for the purpose of offering mutual fund IRAs and Midland National issued variable annuities for distribution through independent broker-dealers.

On December 6, 2023, SFGWM closed on the acquisition of approximately 55% of the outstanding equity of NorthRock Partners, LLC., an investment advisor registered with the United States Securities and Exchange Commission. The purpose of the acquisition was to continue to build the Company’s presence in the wealth management sector. SFG paid cash of \$155 million and incurred a liability of \$26 million for additional cash consideration to be paid in 2024 and 2025. The amount of the additional contingent consideration paid in 2025 will be determined based on the 2024 earnings before interest, taxes and depreciation of one portion of the business that was recently acquired.

The equity purchase agreement obligates SFGWM to purchase the remaining equity interest in two tranches, one in 2026, and the other in 2029. The price to be paid for those equity purchases will be dependent on the growth and performance of NorthRock between acquisition and the equity purchase dates. Because of SFGWM’s obligation to purchase the remaining equity of NorthRock, although not at a fixed price, the non-controlling interest was classified as temporary equity on the consolidated balance sheets. The value of the redeemable non-controlling interest equity was \$142 million as of the acquisition

SAMMONS FINANCIAL GROUP, INC. AND SUBSIDIARIES

(an indirect wholly owned subsidiary of Sammons Enterprises, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

date, which approximates the minority owners' share of the enterprise value on which the acquisition price was based.

The valuation of the acquired intangible assets and certain purchase consideration are ongoing and will be finalized during the measurement period. Assets acquired primarily include goodwill of \$102 million, and \$214 million in intangible assets including brand and trade names, non-compete agreements, and client relationships. The goodwill results primarily from intangible assets that do not qualify for separate recognition.

The Company included assets and liabilities associated with this acquisition in the consolidated balance sheets as follows:

| <i>(In millions)</i> | Financial statement line items in the consolidated balance sheets | December 6, 2023 |
|---------------------------------------|--|-------------------------|
| ASSETS | | |
| Cash | Cash | \$ 6 |
| Accounts receivable | Other assets | 1 |
| Prepaid and other assets | Other assets | 1 |
| Property, plant and equipment | Other assets | 8 |
| Right of use assets | Other assets | 10 |
| Intangible Assets | Other assets | 214 |
| Goodwill | Other assets | 102 |
| Total assets | | <u>\$ 342</u> |
| LIABILITIES | | |
| Accounts payable and accrued expenses | Other liabilities | \$ 7 |
| Unearned revenue | Other liabilities | 3 |
| Lease liability | Other liabilities | 9 |
| Total liabilities | | <u>\$ 19</u> |

Basis of presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and reflect the consolidation of the Company with its wholly owned subsidiaries and all entities for which it holds a controlling financial interest. Intercompany transactions have been eliminated in consolidation.

The Company has a financial interest in several entities where it is required to determine whether the entity should be consolidated in the Company's financial statements. For each financial interest, the Company performs an analysis to determine whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE"). The analysis requires the evaluation of several characteristics, including the determination of whether an entity has sufficient equity at risk to allow it to adequately finance its activities, the determination of whether the party with the power to direct the activities of the entity has equity investment at risk in the entity, and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

whether the equity investment at risk lacks the obligation to absorb expected losses or the right to receive expected residual returns.

If an entity is determined to be a VIE, the next step is the identification of the primary beneficiary of the VIE. An enterprise is deemed to be the primary beneficiary of a VIE if it has both (i) the power to direct the activities of the entity that most significantly impact the VIE's economic success and (ii) has the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. The Company determines whether it is the primary beneficiary of a VIE by performing an analysis that principally considers: (i) the VIE's purpose and design, (ii) the VIE's capital structure, (iii) the terms between the VIE and its variable interest holders and other parties involved with the VIE, (iv) which variable interest holders have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, (v) which variable interest holders have the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE and (vi) related party relationships. The party that is the primary beneficiary consolidates the financial results of the VIE. The Company will continue to assess its investments on an ongoing basis as circumstances may change whereby an entity could be determined to be a VIE, or determined to no longer be a VIE. The Company could become, or cease to be, a primary beneficiary of a VIE. All of these situations could potentially have a corresponding impact on the Company's consolidated financial statements.

Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance its activities independently and the equity holders have the obligation to absorb losses, the right to receive residual returns, and the right to make decisions about the entity's activities. The usual condition for a controlling financial interest in an entity is ownership of a majority voting interest. Accordingly, the Company consolidates voting interest entities in which it has a majority voting interest. When the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting interest of 20% to 50%) and has an investment in common stock or in-substance common stock, the Company primarily accounts for its investment using the equity method of accounting. For certain limited partnerships, the threshold for the equity method of accounting is 5%.

See Note 6 for further discussion related to the Company's involvement with VIEs.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

The most significant areas which require the use of management's estimates relate to the determination of the fair values of financial assets and liabilities, derivatives and derivative instruments, impairment of securities and allowances for expected credit losses, computation of income taxes, and actuarial valuation of deferred policy acquisition costs ("DAC"), deferred sales inducements ("DSI"), reinsurance receivables, policy benefit reserves for traditional life insurance policies and reserves for living benefit riders on annuity contracts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair value of financial assets, financial liabilities and financial instruments

The Company can elect an option to record certain financial assets and financial liabilities at fair value. The election is irrevocable and is made on a contract by contract basis. The Company has elected to utilize the fair value option for certain fixed maturity securities that contain characteristics of both debt and equity as well as certain mortgage loans that are part of the portfolio of assets in support of the Company's modified coinsurance agreement. In addition, the Company elects to utilize the fair value option on a limited partnership involved in the construction and operation of natural gas power plants.

Fair value estimates are significantly affected by the assumptions used, including discount rates and estimates and timing of future cash flows. Although fair value estimates are calculated using assumptions that management believes are appropriate, changes in assumptions could cause these estimates to vary materially. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in some cases, could not be realized in the immediate settlement of the instruments.

The Company uses the following methods and assumptions in estimating the fair value of its financial instruments:

Fixed maturity and equity securities

Fair value for fixed maturity and equity securities is obtained primarily from independent pricing sources, broker quotes and discounted cash flow models. Fair value is based on quoted market prices, where available. For securities not actively traded, fair value is estimated using values obtained from independent pricing services or broker quotes. When values are not available from pricing services or broker quotes, such as private placements including corporate securities, asset-backed securities, commercial mortgage-backed and residential mortgage-backed securities, fair value may be estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investments.

Mortgage loans

Fair value for mortgage loans, for which the fair value option has been elected, is estimated using a duration-adjusted pricing methodology that reflects changes in market interest rates and the specific interest-rate sensitivity of each mortgage. Price changes derived from the monthly duration-adjustments are applied to the mortgage portfolio. Each mortgage modeled is assigned a spread corresponding to its risk profile. These spreads are adjusted for current market conditions. The discount rates used include internally generated illiquidity and default factors.

Derivative instruments

Fair value for options is based on internal financial models or counterparty quoted prices. Variation margin accounts, consisting of cash balances applicable to open futures contracts, held by counterparties are reported at the cash balances, which is equal to fair value. Fair value for interest rate swaps, interest rate floors, foreign currency forwards and other derivatives is based on exchange prices, broker quoted

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

prices or fair values provided by the counterparties. The fair value of bifurcated embedded derivatives associated with available-for-sale securities is based on broker quotes.

Other invested assets

Investments in limited partnerships, for which the fair value option has been elected, are carried at fair value. The fair value is obtained from an independent pricing source and is derived from a discounted cash flow model of the underlying operations.

Reinsurance receivables – embedded derivatives from reinsurance ceded

Fair value for embedded derivatives related to coinsurance with funds withheld treaties for indexed annuities is determined based on fair values of the financial instruments in the funds withheld portfolios and on models the Company has developed to estimate the fair values of the liabilities ceded.

Fair value for the embedded derivative related to a modified coinsurance treaty for multi-year guaranteed annuities is based on the difference between the fair value and the cost basis of the financial instruments applicable to the Company's modified coinsurance agreement.

Separate account assets

Separate account assets are reported at fair value in the consolidated balance sheets based on quoted net asset values of the underlying mutual funds.

Policyholder account balances

The reported value of the Company's investment-type insurance contracts includes the fair value of indexed life and annuity embedded derivatives which are calculated as the present value of benefits attributable to the excess of the projected contract values over the projected minimum guarantee values using discounted cash flow valuation techniques based on current interest rates adjusted to reflect own credit risk and a risk margin.

Investments and investment income

Fixed maturity securities

The Company is required to classify its fixed maturity securities (bonds and redeemable preferred stocks) into three categories: securities that the Company has the positive intent and the ability to hold to maturity are classified as "held-to-maturity;" securities that are held for current resale are classified as "trading securities;" and securities not classified as held-to-maturity or as trading securities are classified as "available-for-sale." Investments classified as trading or available-for-sale are required to be reported at fair value in the consolidated balance sheets. The Company currently has no securities classified as held-to-maturity.

Trading fixed maturity securities are carried at fair value with changes in fair value included in net realized investment gains (losses) on the consolidated statements of income. The fixed maturity securities classified as trading are related to the Company's modified coinsurance treaty.

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Available-for-sale fixed maturity securities are carried at fair value with the unrealized holding gains (losses), net of allowances for expected credit losses, included as a component of other comprehensive income (“OCI”) in the consolidated statements of comprehensive income. OCI is reported net of related adjustments to intangibles (primarily DAC, DSI, unearned revenue liability and future policy benefits), deferred income taxes, and the accumulated unrealized holding gains (losses) on securities sold which are released into income as realized investment gains (losses).

For certain asset backed securities, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic lives of the securities. When actual prepayments differ from anticipated prepayments, the effective yield is recalculated prospectively to reflect actual payments to date and anticipated future payments. This adjustment is included in net investment income.

Equity securities

Equity securities include common stock and non-redeemable preferred stock. Equity securities are carried at fair value with subsequent changes in fair value recognized in net realized investment gains (losses) in the consolidated statements of income.

Mortgage loans

Mortgage loans consist of commercial mortgage loans and residential mortgage loans and are carried at the adjusted unpaid balances, net of an allowance for credit losses. The Company has elected the fair value option on a portion of its mortgage loans related to the Company’s modified coinsurance treaty. The Company’s residential mortgage loans are recorded on a one month lag.

See Note 3 for further discussion of the Company’s mortgage loans.

Policy loans

Policy loans are carried at unpaid principal balances which approximate fair value.

Short-term investments

Short-term investments primarily consist of money market funds, certain interest bearing deposits held by various commercial banks, and certificates of deposit, carried at principal plus accrued interest, and agency discount notes and fixed maturity securities acquired with less than one year to maturity, carried at fair value.

Derivative instruments

Derivative instruments consist of options, futures, interest rate floors, foreign currency forwards, interest rate swaps and bifurcated embedded derivatives from debt host contracts. Derivative instruments are reported at fair value.

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Other invested assets

Other invested assets are comprised of company owned life insurance (“COLI”), limited partnerships, Federal Home Loan Bank of Des Moines (“FHLB”) common stock, collateral loans and certain investments held by VIE’s in situations where the Company has been determined to be the primary beneficiary. COLI is reported at its cash surrender value. Limited partnerships are reported under the equity method of accounting or at fair value depending on the respective ownership percentage, ability to control or election to apply fair value accounting. In most cases, the carrying amounts represent the Company’s share of the entity’s underlying equity reported in its balance sheet. The majority of the Company’s limited partnerships are reported on a three month lag. FHLB common stock is carried at cost. Collateral loans are carried at amortized cost, net of an allowance for credit losses.

Credit losses - available-for-sale securities

The Company reviews its investments to determine whether the amortized cost basis of the securities is recoverable. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the amortized cost basis of the security is written down to fair value through net realized investment gains (losses). If the Company does not intend to sell the security and it is not more likely than not it will be required to sell the security before recovery of its amortized cost basis, management evaluates whether the decline in fair value has resulted from credit losses or other factors. This evaluation is based on the credit rating of the issuer, the extent to which fair value is below amortized cost considering rate changes since acquisition, and the price at which a security is trading relative to other similarly rated securities. If analysis of these qualitative factors results in the security needing to be impaired, a credit impairment is recognized as an allowance for credit losses against the carrying value of the investment with the change in the credit allowance recognized in net realized investment gains (losses) to the extent the amortized cost of the security exceeds the net present value of its projected future cash flows (the “net present value”). The net present value used to measure a credit impairment is calculated by discounting the Company’s best estimate of projected future cash flows at the effective interest rate implicit in the available-for-sale debt security at the date of acquisition or at the current yield in the case of beneficial interest. The allowance is limited by the amount that the fair value is less than the amortized cost. If the estimated fair value is greater than the present value of projected future cash flows expected to be collected, this portion of the decline in value related to other-than-credit factors is recorded in OCI as an unrealized loss.

Credit losses - assets held at amortized cost and off-balance sheet credit exposures

The Company evaluates its assets held at amortized cost and establishes an allowance for expected credit losses on its commercial and residential mortgage loans as well as collateral loans and reinsurance receivables.

The Company records an allowance for expected credit loss in earnings within net realized investment gains (losses) in an amount that represents the portion of the amortized cost basis of these assets that the Company does not expect to collect.

In establishing the allowance on loans, the Company applies significant judgment and takes into consideration loan to value ratios, underlying collateral, debt service coverage ratios as well as past events

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and current and forecasted future economic conditions. Loans that share similar risk characteristics are pooled together. If a loan does not share risk characteristics with any other loans it is evaluated individually. Probabilities of default and losses given default by pool are derived considering historical default and loss experience and current and forecasted market conditions are applied to the amortized costs of the loans in arriving at the expected credit loss. The Company uses several decades of historical default and loss severity experiences which capture multiple economic cycles. Adjustments are made to the current market conditions for what the Company believes will occur in the next three years based on macroeconomic scenarios. The period beyond the reasonable and supportable forecast period is gradually reverted to the historical mean.

The Company ceases to accrue interest when the collection of interest is not considered probable, which is based on a current evaluation of the status of the borrower and the number of days past due. When a loan is placed on non-accrual status, uncollected past due accrued interest income that is considered uncollectible is written-off against net investment income. Generally, the accrual of interest income resumes after all delinquent amounts are paid and management believes all future principal and interest payments will be collected. The Company records cash receipts on non-accruing loans in accordance with the loan agreement. The Company records write-offs of mortgage loan balances not considered collectible upon the realization of a credit loss, for commercial mortgage loans typically through foreclosure or after a decision is made to sell a loan, and for residential mortgage loans, typically after considering the individual consumer's financial status. The write-off is recorded in net investment gains (losses), net of any credit allowance on that loan. Interest income on non-performing loans is generally recognized on a cash basis. Cash recoveries on principal amounts previously charged-off are generally reported in net investment gains (losses).

For reinsurance receivables, the allowance is determined considering the probability of default of the reinsurer and loss in the event of default. Reinsurance receivables are pooled by the financial strength rating of the reinsurer and industry default and loss probabilities are applied to the receivable we hold from the reinsurers for both incurred and future claims. If funds are withheld in support of the treaties, an allowance is held only on the excess of the amortized cost of the assets above their fair values. .

Investment income

Investment income is recorded when earned and includes interest and dividends received and accrued, amortization of purchased premium and discounts on securities, certain proceeds from derivatives and equity earnings from limited partnerships. Dividends are recorded on the ex-dividend date. Investment expenses are reported as a reduction in investment income.

Net realized investment gains (losses)

Net realized investment gains (losses) are determined on the basis of specific identification of the investments.

See Note 3 for further discussion of the Company's investments and investment income.

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Cash

Cash consists of deposits held by various commercial and custodial banks and represent short term, highly liquid investments, which are readily convertible to cash. The Company treats certain accounts held by various commercial banks and money market funds as short-term investments. The Company has deposits with certain financial institutions which exceed federally insured limits. The Company has reviewed the creditworthiness of these financial institutions and believes there is minimal risk of material loss.

Derivatives and derivative instruments

The Company primarily uses derivative instruments to manage its fixed indexed and policy obligation interest guarantees and interest rate and credit risks applicable to its investments. To mitigate these risks, the Company enters into interest rate swaps, interest rate floors, futures contracts and equity indexed call and put options. To qualify for hedge accounting, the Company is required to formally document the hedging relationship at the inception of each derivative transaction. This documentation includes the specific derivative instrument, risk management objective, hedging strategy, identification of the hedged item, specific risk being hedged and how effectiveness will be assessed. To be considered an effective hedge, the derivative must be highly effective in offsetting the variability of the cash flows or the changes in fair value of the hedged item. Effectiveness is evaluated on a retrospective and prospective basis. The Company has no derivatives that qualify for hedge accounting. The Company also uses foreign currency forwards to protect itself against currency fluctuations between trade and settlement dates on financial instruments denominated in foreign currencies.

In addition to the use of derivative instruments to manage risks, the Company also has a program that utilizes purchased call options to enhance yields and obtain diversified exposure to asset classes outside of its core portfolio.

Derivative instruments are carried at fair value, with changes in fair value reflected as net gains (losses) on derivatives and derivative instruments in the consolidated statements of income.

The Company has certain reinsurance arrangements and fixed maturity securities containing embedded derivatives due to the incorporation of credit risk exposures that are not clearly and closely related to the creditworthiness of the obligor.

The agreements between the Company and its derivative counterparties require the posting of collateral when the market value of the derivative instruments exceeds the cost of the instruments. Under guidelines implemented under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Company or its counterparties are required to post initial and variation margin collateral. Collateral posted by counterparties is reported in the consolidated balance sheets in cash and fixed maturity securities with a corresponding liability reported in repurchase agreements, other borrowings and collateral on derivative instruments.

See Note 4 for further discussion of the Company's derivatives and derivative instruments.

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Accrued investment income

Accrued investment income consists of amounts due on invested assets. The Company does not hold an allowance for credit losses on accrued investment income. Instead, accrued investment income is written off when deemed uncollectible, which is when it is 90 days past due. Accrued investment income is written off through net investment income in the Consolidated Statements of Income.

Deferred policy acquisition costs

Policy acquisition costs that vary with, and are related to, the successful acquisition of new and renewal insurance contracts are deferred to the extent that such costs are deemed recoverable from future profits. The costs result directly from and are essential to the contract acquisition and would not have been incurred by the Company had the contract acquisition not occurred. Such costs include commissions, policy issuance, underwriting and medical inspection fees. For traditional insurance policies, such costs are amortized over the estimated premium paying period of the related policies in proportion to the ratio of the annual premium revenues to the total anticipated premium revenues. For interest sensitive policies, these costs are amortized over the lives of the policies in relation to the present value of actual and estimated gross profits. Recoverability of DAC is evaluated on an annual basis by comparing the current estimate of future profits to the unamortized asset balance. The Company presents capitalized acquisition costs net of related amortization separately in the consolidated balance sheets and the amortization of the capitalized acquisition costs as a separate component of expenses in the consolidated statements of income in accordance with authoritative guidance.

See Note 8 for further discussion of the Company's DAC.

Deferred sales inducements

The Company defers certain sales inducement costs. Sales inducements consist of premium bonuses and bonus interest on the Company's life and annuity products. The Company presents capitalized sales inducements net of related amortization separately in the consolidated balance sheets and the amortization of the capitalized sales inducements as a separate component of benefits in the consolidated statements of income in accordance with authoritative guidance.

See Note 8 for further discussion of the Company's DSI.

Adjustments of DAC and DSI are made periodically upon changes to current estimate of future gross profits on interest sensitive and investment-type products to be realized from a group of policies.

To the extent that unrealized investment gains or losses on available-for-sale fixed maturity securities would result in an adjustment to the amortization pattern of DAC and DSI had those gains or losses actually been realized, the adjustments are recorded directly to stockholder's equity through OCI as an offset to the unrealized investment gains or losses on available-for-sale fixed maturity securities.

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Other assets

Other assets includes goodwill and intangible assets among other balances. At the end of each reporting period, the Company evaluates if there are any indicators of a goodwill impairment triggering event at the reporting unit level. If a triggering event is identified and the Company determines the carrying value of the reporting unit exceeds its fair value, an impairment charge to goodwill is recognized for the difference between carrying value and fair value. The Company does not amortize goodwill.

The Company reassesses the appropriateness of the carrying value other intangible annually or when events or circumstances indicate that the carrying amounts may not be fully recoverable. The Company periodically reviews identifiable intangibles for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amounts of the assets exceed their respective fair values, additional impairment tests are performed to measure the

amount of the impairment loss, if any. Finite lived intangible assets are amortized over their estimated useful lives.

Reinsurance receivables

Liabilities ceded to reinsurance companies and receivables related to obligations due from those reinsurers to the Company are reported as reinsurance receivables. Funds withheld liabilities and embedded derivatives associated with certain annuity coinsurance with funds withheld agreements are also reported as reinsurance receivables in the consolidated balance sheets. The Company uses reinsurance for risk mitigation on life and annuity products and, in certain cases, capital relief. For new fully underwritten business, the Company generally reinsures the excess of each individual risk over \$2.5 million dollars on ordinary life policies in order to spread its risk of loss. For new business underwritten on an accelerated basis, the Company generally reinsures 50% of each individual risk in order to share the risk of loss. The Company remains contingently liable for the liabilities ceded in the event the reinsurers are unable to meet their obligations under the reinsurance agreements. In instances when reinsurers are not expected to meet such obligations, reinsurance receivable balances are reported net of allowances for credit losses. To limit the possibility of such losses, the Company evaluates the financial condition of its reinsurers and monitors its concentration of credit risk. The Company generally reinsures with companies rated "A" or better by A.M. Best. The Company monitors these ratings on an on-going basis as it is at risk that a reinsurer may be downgraded after an agreement has been entered.

Separate account assets and liabilities

The separate accounts held by the Company are funds on which investment income and gains or losses accrue directly to certain policyholders. The assets of these accounts are legally separated and are not subject to the claims that may arise out of any other business of the Company. The Company reports its separate account assets at fair value. The underlying investment risks are assumed by the policyholders. The Company records the related liabilities at amounts equal to the fair value of the underlying assets. The Company reflects these assets and liabilities in separate account assets and liabilities in the consolidated balance sheets. The Company reports the fees earned for administrative and policyholder services performed for the separate accounts as a component of other income in the consolidated statements of income.

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Policyholder liabilities

Policyholder account balances

Policyholder account balances reported in the consolidated balance sheets are determined using the retrospective deposit method. Policyholder account balances consist of the net policyholder deposits and credited interest and fixed index credits less charges for mortality and policy administrative expenses. Interest crediting rates ranged primarily from 0.25% to 6.00% in 2023 and 2022. For certain contracts, these crediting rates extend for periods in excess of one year. For annuity and life contracts with returns linked to the performance of an underlying market index, policyholder reserves equal the combined guaranteed component of the contract and the fair value of the embedded derivative.

Policy benefit reserves

Policy benefit reserves for traditional life insurance policies reported in the consolidated balance sheets, generally are computed by the net level premium method based on estimated future investment yield, mortality, morbidity and withdrawals that were appropriate at the time the policies were issued or acquired. Interest rate assumptions ranged from 4.07% to 9.00% in 2023 and 2022.

Included in the Company's policyholder account balances are additional reserves for annuities with certain guaranteed minimum withdrawal or guaranteed minimum death benefits. Included in policy benefit reserves are additional reserves held for certain long duration contracts where benefit features result in gains in early years followed by losses in later years.

Policy claims and benefits

The liability for policy claims and benefits payable includes provisions for reported claims and estimates for claims incurred but not reported, based on the terms of the related policies and contracts and on prior experience. Claim liabilities are based on estimates and are subject to future changes in claim severity and frequency. Estimates are periodically reviewed and adjustments are reflected in benefits incurred in the consolidated statements of income.

Recognition of traditional life insurance revenue and policy benefits

Traditional life insurance products include those products with fixed and guaranteed premiums and benefits. Life insurance premiums are recognized as premium revenue when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for policy benefit reserves and the amortization of DAC.

Recognition of revenue and policy benefits for interest sensitive life insurance products and investment contracts ("interest sensitive policies")

Interest sensitive policies are issued on a periodic and single premium basis. Amounts collected are credited to policyholder account balances. Revenues from interest sensitive policies consist of charges assessed against policyholder account balances for the cost of insurance, policy administration, and

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surrender charges. Revenues also include investment income related to the investments that support the policyholder account balances. Policy benefits and claims that are charged to expense include benefits incurred in the period in excess of related policyholder account balances. Benefits also include interest and fixed index amounts credited to the account balances.

Repurchase agreements

As part of its investment strategy, the Company enters into repurchase agreements to increase the Company's investment return. The Company accounts for these transactions as secured borrowings, where the amount borrowed is tied to the fair value of the underlying collateral securities. As of December 31, 2023 and 2022, there were \$7,254 million and \$7,275 million, respectively, of such agreements outstanding. The collateral for these agreements is reported in fixed maturity securities in the consolidated balance sheets.

Income taxes

SEI has elected to be treated as an S corporation and to treat certain of its eligible subsidiaries as qualified subchapter S subsidiaries. As a result of these elections, the Company, Sammons Securities, SIG, Tenura, Heyday, PDI, SFGAM, Fortuna and SFGWM, which wholly owns Beacon and holds a majority interest in Northrock, are treated as disregarded entities and included in SEI's Federal S Corporation income tax return. The insurance subsidiaries are C Corporations. Midland National files a consolidated Federal income tax return with its wholly owned subsidiaries, MNL Re, Solberg Re and Canal Re. North American and SFG Bermuda, which made an election to be treated as a domestic corporation, each file their own separate returns.

The Company recognizes deferred income tax assets and liabilities for its C Corporation insurance subsidiaries for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities. Deferred tax assets and liabilities are measured based on enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

If applicable, the Company's liability for income taxes would include a liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the IRS or other taxing jurisdictions. The Company recognizes tax benefits only on tax positions where it is more likely than not to prevail if reviewed by the IRS or another taxing authority.

Comprehensive income

Comprehensive income for the Company includes net income and OCI, which includes changes in post-retirement liability, net unrealized investment gains (losses) on available-for-sale investments and non-credit portion of OTTI losses. Components of OCI are presented net of intangibles and taxes.

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Revision to 2022 consolidated financial statements

During 2023, the Company identified certain immaterial misstatements that originated in prior periods. The Company has revised certain prior year amounts to reflect these immaterial misstatements.

- A misstatement of accrued investment income resulting in an overstatement of net investment income.
- A misstatement of the fair value of certain fixed maturity, available-for-sale securities resulting in an overstatement of the fair value of certain fixed maturity, available-for-sale securities for which the fair value option had been elected.
- An application of investment income to an incorrect period resulting in an understatement of net investment income.

The following represents the effects of the revision on the consolidated balance sheet.

| | December 31, 2022 | | |
|---|---------------------------------------|--------------------|-------------------|
| | As Previously Reported | Adjustments | As Revised |
| ASSETS | | | |
| Investments | | | |
| Fixed maturities available-for-sale, at fair value | \$ 80,837 | \$ (46) | \$ 80,791 |
| Total investments | 97,936 | (46) | 97,890 |
| Accrued investment income | 954 | (61) | 893 |
| Deferred policy acquisition costs | 6,991 | 6 | 6,997 |
| Deferred sales inducements | 1,134 | 1 | 1,135 |
| Other assets | 673 | 9 | 682 |
| Reinsurance receivables | 3,014 | (1) | 3,013 |
| Deferred income tax asset | 2,099 | 19 | 2,118 |
| Total assets | <u>\$ 116,712</u> | <u>\$ (73)</u> | <u>\$ 116,639</u> |
| LIABILITIES | | | |
| Policyholder account balances | \$ 87,817 | \$ (2) | \$ 87,815 |
| Policy benefit reserves | 6,132 | (2) | 6,130 |
| Other liabilities | 2,676 | 1 | 2,677 |
| Total liabilities | <u>114,504</u> | <u>(3)</u> | <u>114,501</u> |
| STOCKHOLDER'S EQUITY | | | |
| Retained earnings | 8,694 | (70) | 8,624 |
| Total Sammons Financial Group Inc. stockholder's equity | <u>2,198</u> | <u>(70)</u> | <u>2,128</u> |
| Total stockholder's equity | <u>2,208</u> | <u>(70)</u> | <u>2,138</u> |
| Total liabilities and stockholder's equity | <u>\$ 116,712</u> | <u>\$ (73)</u> | <u>\$ 116,639</u> |

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The following represents the effects of the revision on the consolidated statement of income.

| | Year Ended December 31, 2022 | | |
|---|---------------------------------------|--------------------|-------------------|
| | As Previously Reported | Adjustments | As Revised |
| REVENUES | | | |
| Charges on interest sensitive and investment-type products | \$ 1,065 | \$ (1) | \$ 1,064 |
| Net investment income | 3,695 | (30) | 3,665 |
| Net gains on derivatives and derivative instruments | 1,514 | (46) | 1,468 |
| Total revenue | <u>6,410</u> | <u>(77)</u> | <u>6,333</u> |
| BENEFITS AND EXPENSES | | | |
| Benefits incurred | 1,364 | (2) | 1,362 |
| Amortization of deferred sales inducements | 176 | (1) | 175 |
| Total benefits | <u>2,999</u> | <u>(3)</u> | <u>2,996</u> |
| Amortization of deferred policy acquisition costs and present value of future profits of acquired businesses | 605 | (4) | 601 |
| Total benefits and expenses | <u>4,449</u> | <u>(7)</u> | <u>4,442</u> |
| Income before income taxes | 1,961 | (70) | 1,891 |
| Income tax provision | 320 | (15) | 305 |
| Net income attributable to Sammons Financial Group Inc. | <u>\$ 1,641</u> | <u>\$ (55)</u> | <u>\$ 1,586</u> |

The following represents the effects of the revision on the consolidated statement of comprehensive income (loss).

| | Year Ended December 31, 2022 | | |
|--------------------------------|---------------------------------------|--------------------|--------------------|
| | As Previously Reported | Adjustments | As Revised |
| Net income | \$ 1,641 | \$ (55) | \$ 1,586 |
| Total other comprehensive loss | <u>(12,435)</u> | <u>—</u> | <u>(12,435)</u> |
| Comprehensive income (loss) | <u>\$ (10,794)</u> | <u>\$ (55)</u> | <u>\$ (10,849)</u> |

The Company revised the consolidated statement of stockholder's equity for the year ended December 31, 2022 for the changes to net income as presented above. The balance of retained earnings was revised from \$7,385 to \$7,370 as of December 31, 2021.

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The following represents the effects of the revision on the consolidated statement of cash flow.

| | Year Ended December 31, 2022 | | |
|--|---------------------------------------|--------------------|-------------------|
| | As Previously Reported | Adjustments | As Revised |
| OPERATING ACTIVITIES | | | |
| Net income | \$ 1,641 | \$ (55) | \$ 1,586 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Amortization of deferred policy acquisition costs, deferred sales inducements and present value of future profits of acquired businesses | 781 | (5) | 776 |
| Net derivative activity | (409) | 46 | (363) |
| Provision (benefit) for deferred income taxes | 157 | (15) | 142 |
| Net index credits, interest credited and product charges on interest sensitive and investment-type products | 331 | 1 | 332 |
| Changes in other assets and liabilities | | | |
| Accrued investment income | (166) | 30 | (136) |
| Policy benefits and reserves | 695 | (2) | 693 |
| Net cash provided by operating activities | <u>412</u> | <u>—</u> | <u>412</u> |
| Net change in cash | (1,011) | — | (1,011) |
| Cash at beginning of year | 2,237 | — | 2,237 |
| Cash at end of year | <u>\$ 1,226</u> | <u>\$ —</u> | <u>\$ 1,226</u> |

Reclassifications

Certain items in the 2022 financial statements have been reclassified to conform to the 2023 presentation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. EFFECTS OF NEW AUTHORITATIVE GUIDANCE

Recently adopted authoritative guidance

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued guidance that changes the impairment model for certain financial assets measured at amortized cost from an incurred loss model to an expected loss model. The update also modifies the OTTI model used for available-for-sale fixed maturity securities such that credit loss impairments will be recorded in an allowance account and may be reversed for subsequent recoveries in value. The new guidance, including all subsequent updates to the guidance made via issuance of separate Accounting Standards Updates, was effective January 1, 2023. The guidance was applied to most instruments in scope using a modified retrospective approach which resulted in a cumulative-effect adjustment to retained earnings of \$20 million, as of the beginning of the period of adoption. For available-for-sale fixed maturity securities that have been previously impaired, the update is applied prospectively.

New and proposed tax laws

On August 16, 2022, the U.S. enacted the Inflation Reduction Act of 2022 (the “Act”). The Act contained various tax-related provisions, including the establishment of a new 15 percent corporate alternative minimum tax (“CAMT”) on adjusted financial statement income for certain large corporations, effective for the years beginning on or after January 1, 2023. Applicable Corporations are required to compute federal income tax liability under two systems, the U.S. regular corporate tax and the CAMT. Although the CAMT may apply in any given year when tentative minimum tax then exceeds the regular tax liability, as a prepayment the CAMT generates a corresponding alternative minimum tax credit (“AMTC”). The AMTC is accounted for as a deferred tax asset with an indefinite carryover life, recoverable in years when the regular tax liability exceeds tentative minimum tax. Uncertainty remains regarding the continued implementation of and potential adjustments to the Act. The Company expects to be an Applicable Corporation subject to the new CAMT for 2023. However, we do not expect the CAMT will have a material impact on either our effective tax rate or cash tax liabilities.

The tax accounting consequences of a change in tax law are required to be recognized in the period legislation is enacted. Generally, a company is also required to consider the impact of new tax law on realizability of its deferred tax assets, including determination of whether a change to their valuation allowance amount is necessary. The Company made an accounting policy election to disregard CAMT status when evaluating deferred tax assets under the regular corporate tax system associated with the Act.

The Organization for Economic Cooperation and Development (“OECD”) issued new guidelines, known as “Pillar Two,” to implement a 15% global corporate minimum tax to address gaps in current tax laws and ensure that large multinational enterprises pay a minimum level of tax in the countries in which they operate. Pillar Two has been agreed upon in principle by over 140 countries. Although the model rules provide a framework for applying the minimum tax, countries may enact Pillar Two slightly differently than the model rules and on different timelines and may adjust domestic tax incentives in response to Pillar Two. While we still are evaluating the potential consequences of Pillar Two, we do not expect it will have a material impact on either our effective tax rate or cash tax liabilities, as the Company operates primarily in the U.S., which has not adopted Pillar Two.

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On December 27, 2023, Bermuda enacted legislation implementing a Corporate Income Tax (“CIT”) system with a statutory rate of 15%. The CIT applies to certain Bermuda tax resident entities and Bermuda permanent establishments that are constituent entities of a multinational group with consolidated annual revenue of at least €750 million in at least two of the four preceding fiscal years, subject to certain exemptions. The CIT will apply to SFG Bermuda and is generally effective for fiscal years beginning on or after January 1, 2025. The new CIT rules provide significant flexibility and allow taxpayers to make various elections, including choosing among various acceptable accounting standards and establishing an opening loss carryforward. The rules also provide relief from double taxation, including a foreign tax credit (“FTC”) based on accrued current and deferred taxes in a foreign jurisdiction. For a Bermuda entity for which a U.S. federal section 953(d) election is in place, a FTC is available for U.S. federal tax. SFG Bermuda expects to generate excess future FTCs in Bermuda for U.S. taxes incurred and, therefore, does not expect the CIT will have a material impact, if any.

Facilitation of the Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued a new standard which provides optional relief for certain contracts impacted by reference rate reform. The standard allows an entity to elect to not apply certain modification accounting requirements to contracts affected by reference rate reform and instead account for the modified contract as a continuation of the existing contract. In addition, an entity may apply optional expedients to continue hedge accounting for hedging relationships in which the critical terms change due to reference rate reform. The guidance is intended to ease the operational and financial reporting impacts of reference rate reform. It was effective, prospectively, upon issuance on March 12, 2020 and is effective until December 31, 2024 as a result of a deferral of the sunset date granted by the FASB in December 2022. The Company elected the modification accounting expedients permitted by the new guidance for all applicable contracts as they converted from the current reference rate to a new reference rate. The Company does not have any hedges to which this guidance applies. The guidance did not have a significant impact on the Company’s consolidated financial statements.

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Recently issued authoritative guidance

Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued guidance which made targeted changes to the accounting for long duration insurance contracts. These changes include a requirement to review, and if necessary, update cash flow assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts at least annually, with changes recognized in earnings. In addition, an entity will be required to update the discount rate assumption at each reporting date using a yield that is reflective of an upper-medium grade fixed-income instrument, with changes recognized in OCI. The update also requires that an entity measure all market risk benefits associated with deposit contracts at fair value, with changes recognized in earnings except for the portion attributable to a change in the instrument-specific credit risk, which is to be recognized in OCI. This update also simplifies the amortization of deferred acquisition costs and balances amortized in a similar manner by requiring amortization on a constant level basis over the expected term of the related contracts. Finally, significant additional disclosures will also be required, which include disaggregated rollforwards of certain liability balances and the disclosure of qualitative and quantitative information about expected cash flows, estimates, and assumptions. The guidance will be effective January 1, 2025, as a result of a one year deferral of the effective date by the FASB in 2020. The application of this guidance will vary based upon the specific requirements of the update but will generally result in either a modified retrospective or full retrospective approach with changes applied as of the beginning of the earliest period presented. The Company is currently assessing the impact of the new guidance on its consolidated financial statements.

On December 14, 2023, the FASB issued an accounting standard update to address improvements to income tax disclosures. The standard requires disaggregated information about a company's effective tax rate reconciliation, as well as information on income taxes paid. The standard is effective for non-public companies for annual periods beginning after December 15, 2025, with early adoption permitted. The standard will be applied on a prospective basis with the option to apply the standard retrospectively. The Company is assessing the impact of this new guidance on its consolidated financial statements.

In October 2023, the FASB issued an accounting standards update that adds disclosure requirements to the codification that currently exist only in SEC guidance. The guidance added to the codification will become effective for non-public business entities two years after it is removed from the SEC guidance. The Company is assessing the impact of the new guidance on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENTS AND NET INVESTMENT INCOME

Fixed maturity securities

The amortized cost, allowance for credit losses, gross unrealized gains, gross unrealized losses and estimated fair value of fixed maturity securities classified as available-for-sale are as follows:

| | Year ended December 31, 2023 | | | | |
|--|------------------------------|-----------------------------|------------------------|--|------------------|
| | Amortized Cost | Allowance for Credit Losses | Gross Unrealized Gains | Gross Unrealized Losses ⁽¹⁾ | Fair Value |
| <i>(In millions)</i> | | | | | |
| U.S. government and agencies | \$ 10,330 | \$ — | \$ 17 | \$ 1,237 | \$ 9,110 |
| Municipal securities | 9,142 | — | 149 | 1,138 | 8,153 |
| Corporate securities | 48,401 | 73 | 512 | 5,480 | 43,360 |
| Residential mortgage-backed securities | 6,243 | 8 | 52 | 602 | 5,685 |
| Commercial mortgage-backed securities | 1,957 | 1 | 9 | 283 | 1,682 |
| Asset-backed securities | 15,308 | 8 | 116 | 992 | 14,424 |
| Other debt obligations | 662 | — | — | 57 | 605 |
| Total available-for-sale | <u>\$ 92,043</u> | <u>\$ 90</u> | <u>\$ 855</u> | <u>\$ 9,789</u> | <u>\$ 83,019</u> |

⁽¹⁾ Gross unrealized losses are net of allowance for credit losses.

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair value of fixed maturity securities classified as available-for-sale are as follows:

| | Year ended December 31, 2022 | | | |
|--|------------------------------|------------------------|-------------------------|------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| <i>(In millions)</i> | | | | |
| U.S. government and agencies | \$ 10,654 | \$ 7 | \$ 1,464 | \$ 9,197 |
| Municipal securities | 10,288 | 133 | 1,473 | 8,948 |
| Corporate securities | 49,040 | 213 | 7,290 | 41,963 |
| Residential mortgage-backed securities | 5,302 | 47 | 601 | 4,748 |
| Commercial mortgage-backed securities | 2,055 | 6 | 308 | 1,753 |
| Asset-backed securities | 15,056 | 53 | 1,550 | 13,559 |
| Other debt obligations | 692 | — | 69 | 623 |
| Total available-for-sale | <u>\$ 93,087</u> | <u>\$ 459</u> | <u>\$ 12,755</u> | <u>\$ 80,791</u> |

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The following table summarizes the amortized cost and fair value of available-for-sale fixed maturity securities, by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

| <i>(In millions)</i> | December 31, 2023 | |
|---|---------------------------|-------------------|
| | Amortized Cost | Fair Value |
| Due in one year or less | \$ 1,017 | \$ 1,018 |
| Due after one year through five years | 8,163 | 8,095 |
| Due after five years through ten years | 12,321 | 11,637 |
| Due after ten years | 47,033 | 40,477 |
| Securities not due at a single maturity date (primarily structured securities) | 23,509 | 21,792 |
| Total fixed maturity securities | <u>\$ 92,043</u> | <u>\$ 83,019</u> |

Gross unrealized losses

The Company's gross unrealized losses and fair value on its available-for-sale fixed maturity securities, for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

| <i>(In millions)</i> | December 31, 2023 | | | | | |
|---|----------------------------|--|--------------------------|--|-----------------------|--|
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| U.S. government and agencies | \$ 403 | \$ 8 | \$ 8,289 | \$ 1,228 | \$ 8,692 | \$ 1,236 |
| Municipal securities | 344 | 6 | 4,783 | 1,073 | 5,127 | 1,079 |
| Corporate securities | 2,738 | 137 | 26,243 | 4,510 | 28,981 | 4,647 |
| Residential mortgage- backed securities | 664 | 11 | 3,046 | 554 | 3,710 | 565 |
| Commercial mortgage- backed securities | 35 | 1 | 1,233 | 282 | 1,268 | 283 |
| Asset-backed securities | 1,342 | 103 | 9,002 | 837 | 10,344 | 940 |
| Other debt obligations | 33 | 1 | 556 | 56 | 589 | 57 |
| Total available-for-sale | <u>\$ 5,559</u> | <u>\$ 267</u> | <u>\$ 53,152</u> | <u>\$ 8,540</u> | <u>\$ 58,711</u> | <u>\$ 8,807</u> |

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The Company's gross unrealized losses and fair value on its available-for-sale fixed maturity securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

| <i>(In millions)</i> | December 31, 2022 | | | | | |
|--|---------------------|-------------------------|-------------------|-------------------------|------------------|-------------------------|
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| U.S. government and agencies | \$ 7,733 | \$ 964 | \$ 1,014 | \$ 500 | \$ 8,747 | \$ 1,464 |
| Municipal securities | 5,631 | 1,136 | 754 | 337 | 6,385 | 1,473 |
| Corporate securities | 31,613 | 5,269 | 5,925 | 2,021 | 37,538 | 7,290 |
| Residential mortgage-backed securities | 3,640 | 511 | 153 | 90 | 3,793 | 601 |
| Commercial mortgage-backed securities | 1,172 | 164 | 333 | 144 | 1,505 | 308 |
| Asset-backed securities | 7,802 | 861 | 4,109 | 689 | 11,911 | 1,550 |
| Other debt obligations | 501 | 41 | 98 | 28 | 599 | 69 |
| Total available-for-sale | <u>\$ 58,092</u> | <u>\$ 8,946</u> | <u>\$ 12,386</u> | <u>\$ 3,809</u> | <u>\$ 70,478</u> | <u>\$ 12,755</u> |

The following table provides a rollforward of the allowance for credit loss:

| <i>(In millions)</i> | December 31, 2023 | | | | |
|---|----------------------|--|---------------------------------------|-------------------------|--------------------------|
| | Corporate securities | Residential mortgage-backed securities | Commercial mortgage-backed securities | Asset-backed securities | Total available-for-sale |
| Beginning balance | \$ — | \$ — | \$ — | \$ — | \$ — |
| Additions for credit losses not previously recorded | 73 | 8 | 1 | 8 | 90 |
| Ending balance | <u>\$ 73</u> | <u>\$ 8</u> | <u>\$ 1</u> | <u>\$ 8</u> | <u>\$ 90</u> |

The above table includes 1,168 positions of 132 issuers as of December 31, 2023.

At December 31, 2023, the Company held 29,922 positions in fixed maturity securities. The Company held 21,199 positions of 1,623 issuers as of December 31, 2023 that had unrealized losses. At December 31, 2023, 96% of the unrealized losses on fixed maturity securities were securities rated investment grade. Investment grade securities are defined as those securities rated with a National Association of Insurance Commissioners ("NAIC") designation category of 1 or 2 (inclusive of all designation modifiers). At December 31, 2023, 4% of the unrealized losses on fixed maturity securities were on securities rated below investment grade. At December 31, 2023, fixed maturity securities in an unrealized loss position had fair value equal to approximately 87% of amortized cost.

The following summarizes the unrealized losses and credit allowance by investment category as of December 31, 2023.

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U.S. government and agencies

The unrealized losses on the U.S. government and agencies represent 14% of the unrealized losses at December 31, 2023. The total unrealized losses in this category have decreased at December 31, 2023 compared to December 31, 2022. The unrealized losses are applicable to securities with book yields lower than the market yields available on similar securities at December 31, 2023. Interest rates decreased during 2023 due to tightening credit spreads causing increases in the fair value of U.S. government and agencies bonds held compared to 2022. The Company recognized treasury security impairment losses of \$8 million for the year ended December 31, 2022 but had no impairment losses in 2023. The impairment in 2022 were driven by the Company's intent to sell a specific subset of treasury and agency securities prior to recovery. The Company does not intend or believe it will be required to sell any remaining securities before recovery of each security's amortized cost, nor does it believe unrealized losses are credit related.

Municipal securities

The unrealized losses on the municipal securities, which represent 12% of the unrealized losses at December 31, 2023, include bonds issued by state and local governments and school district tax credit bonds. The total unrealized losses in this category have decreased at December 31, 2023 compared to December 31, 2022 due to declines in interest rates as a result of tightening credit spreads. The unrealized losses are applicable to securities with book yields lower than the market yields available on similar securities at December 31, 2023. The Company recognized municipal security impairment losses of \$28 million and \$6 million for the years ended December 31, 2023 and 2022, respectively. The impairments were driven by the Company's intent to sell a specific subset of municipal securities prior to recovery. The Company has reviewed the unrealized losses in the municipal securities sector and believes the remaining losses the Company does not intend to sell or believe it will be required to sell these securities before recovery of each security's amortized cost, nor does it believe unrealized losses are credit related.

Corporate securities

The unrealized losses on corporate securities represent 53% of unrealized losses at December 31, 2023. The total unrealized losses in this category have decreased at December 31, 2023 compared to December 31, 2022. The unrealized losses are applicable to securities with book yields lower than the market yields available on similar securities at December 31, 2023. Interest rates declined during 2023 as the result of tightening credit spreads causing increases in the fair value of corporate securities. The Company recognized corporate securities impairment losses of \$65 million and \$44 million for the years ended December 31, 2023 and 2022, respectively. The impairment losses recognized in 2023 were driven by the Company's intent to sell a specific subset of corporate securities prior to recovery. The Company recognized an allowance of \$73 million on corporate securities for which the amortized cost of the security exceeded the net present value of its projected future cash flows. The impairment losses recognized in 2022 were a result of not only idiosyncratic emerging market, high yield and privately placed direct lending credit exposure deterioration (both initial impairments and re-impairments), but also an intent to sell a specific subset of corporate securities prior to recovery. The Company has reviewed the unrealized losses in the corporate securities sector and does not intend to sell or believe it will be required

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to sell these securities before recovery of each security's amortized cost, nor does it believe unrealized losses are credit related, beyond what has been included in the allowance for credit losses.

Residential mortgage-backed securities ("RMBS")

The unrealized losses on RMBS, which represents 6% of unrealized losses at December 31, 2023, are concentrated in the non-agency sector. The total unrealized losses in this category have been largely unchanged at December 31, 2023 compared to December 31, 2022. The unrealized losses are applicable to securities with book yields lower than the market yields available on similar securities at December 31, 2023. The Company recognized impairment losses on RMBS of \$1 million during the year ended December 31, 2023. The impairment losses were taken due to a lack of intent or ability to hold the securities to recovery. The Company recognized an allowance of \$8 million on residential mortgage-backed securities for which the amortized cost of the security exceeded the net present value of its projected future cash flows. The Company has reviewed the remaining unrealized losses on RMBS and does not intend to sell or believe it will be required to sell these securities before recovery of each security's amortized cost, nor does it believe unrealized losses are credit related, beyond what has been included in the allowance for credit losses.

Commercial mortgage-backed securities ("CMBS")

The unrealized losses on CMBS represent 3% of unrealized losses at December 31, 2023. The total unrealized losses in this category have decreased at December 31, 2023 compared to December 31, 2022 due to a decline in interest rates as a result of credit spread tightening. The unrealized losses are applicable to securities with book yields lower than the market yield available on similar securities at December 31, 2023. The Company recognized \$5 million of impairment losses on CMBS during the year ended December 31, 2023. The impairment losses were taken due to a lack of intent or ability to hold the securities to recovery. The Company recognized an allowance of \$1 million on commercial mortgage-backed securities for which the amortized cost of the security exceeded the net present value of its projected future cash flows. The Company has reviewed the remaining unrealized losses on CMBS and does not intend to sell or believe it will be required to sell these securities before recovery of each security's amortized cost, nor does it believe unrealized losses are credit related, beyond what has been included in the allowance for credit losses.

Asset-backed securities ("ABS")

The unrealized losses on ABS represent 11% of unrealized losses at December 31, 2023. The total unrealized losses in this category have declined at December 31, 2023 compared to December 31, 2022 due to a decrease in interest rates as a result of credit spread tightening. The unrealized losses are applicable to securities with book yields lower than the market yields available on similar securities at December 31, 2023. The Company recognized ABS impairment losses of \$10 million, and \$52 million for the years ended December 31, 2023 and 2022, respectively. The impairment losses taken in 2023 were due to a lack of intent or ability to hold the securities to recovery. The Company recognized an allowance of \$8 million on asset-backed securities for which the amortized cost of the security exceeded the net present value of its projected future cash flows. The impairment losses recognized in 2022 were primarily from the aircraft sector that have incurred residual impacts from the post-pandemic era. The Company has reviewed the remaining unrealized losses on ABS and does not intend to sell or

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believe it will be required to sell these securities before recovery of each security's amortized cost, nor does it believe unrealized losses are credit related, beyond what has been included in the allowance for credit losses.

Net investment income and investment gains (losses)

The major categories of investment income reflected in the consolidated statements of income are summarized as follows:

| <i>(In millions)</i> | Year ended December 31, | |
|---------------------------------|-------------------------|-----------------|
| | 2023 | 2022 |
| Gross investment income | | |
| Fixed maturity securities | \$ 3,672 | \$ 3,571 |
| Equity securities | 119 | 142 |
| Mortgage loans | 273 | 270 |
| Policy loans | 31 | 36 |
| Cash and short-term investments | 125 | 8 |
| Derivative instruments | (513) | (555) |
| Other invested assets | 247 | 289 |
| Total gross investment income | 3,954 | 3,761 |
| Less: Investment expenses | 104 | 96 |
| Net investment income | <u>\$ 3,850</u> | <u>\$ 3,665</u> |

Investment expenses primarily consist of investment advisor fees and other expenses related to the administration of investments. Interest incurred on repurchase agreements and other borrowings are netted in fixed maturity securities.

The major categories of realized investment gains and (losses) reflected in the consolidated statements of income are summarized as follows:

| <i>(In millions)</i> | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2023 | 2022 |
| Fixed maturity securities, available-for-sale | \$ (235) | \$ (224) |
| Fixed maturity securities, trading | 19 | (69) |
| Equity securities | (132) | (642) |
| Mortgage loans | (22) | (5) |
| Provision for credit losses | (78) | — |
| Net realized investment losses | <u>\$ (448)</u> | <u>\$ (940)</u> |

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The following table summarizes the change in unrealized gains on trading and equity securities the Company held as of the respective year end:

| <i>(In millions)</i> | Year ended December 31, | |
|------------------------------------|--------------------------------|-------------|
| | 2023 | 2022 |
| Fixed maturity securities, trading | \$ 19 | \$ (69) |
| Equity securities | 290 | (642) |

Proceeds from the sale of securities and the gross realized gains and (losses) on these sales (prior to gains (losses) ceded to reinsurer and excluding allowance for credit losses, maturities, calls, exchanges and prepayments) were as follows:

| <i>(In millions)</i> | Year ended December 31, | | | |
|-----------------------|----------------------------------|--------------------------|----------------------------------|--------------------------|
| | 2023 | | 2022 | |
| | Fixed Maturity Securities | Equity Securities | Fixed Maturity Securities | Equity Securities |
| Proceeds from sales | \$ 6,379 | \$ 1,006 | \$ 11,562 | \$ 416 |
| Gross realized gains | 98 | 1 | 194 | 12 |
| Gross realized losses | (221) | (188) | (324) | (12) |

Mortgage loans

The carrying value of mortgage loans reported is the gross carrying value less allowances and is as follows:

| <i>(In millions)</i> | December 31, | |
|--|---------------------|-----------------|
| | 2023 | 2022 |
| Commercial mortgage loans: | | |
| Gross carrying value of commercial mortgage loans | \$ 5,718 | \$ 5,905 |
| Allowance for credit losses | (24) | — |
| General loan loss allowance | — | (7) |
| Commercial mortgage loans, carrying value | <u>5,694</u> | <u>5,898</u> |
| Residential mortgage loans: | | |
| Gross carrying value of residential mortgage loans | 719 | 11 |
| Residential mortgage loans, carrying value | <u>719</u> | <u>11</u> |
| Mortgage loans, carrying value | <u>\$ 6,413</u> | <u>\$ 5,909</u> |

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The gross carrying value of the Company's commercial mortgage loans by property type is as follows:

| | December 31, | | | |
|--|----------------------------|--------------|----------------------------|--------------|
| | 2023 | | 2022 | |
| | Gross Carrying Value | Percent | Gross Carrying Value | Percent |
| <i>(In millions, except percentages)</i> | | | | |
| Office | \$ 2,324 | 41 % | \$ 2,552 | 43 % |
| Retail | 1,185 | 21 % | 1,200 | 20 % |
| Hotel | 1,099 | 19 % | 1,014 | 17 % |
| Industrial | 517 | 9 % | 413 | 7 % |
| Multi-family | 395 | 7 % | 506 | 9 % |
| Other | 183 | 3 % | 183 | 3 % |
| Medical | 15 | — % | 37 | 1 % |
| Total commercial mortgage loans | <u>\$ 5,718</u> | <u>100 %</u> | <u>\$ 5,905</u> | <u>100 %</u> |

Commercial mortgage loans by United States geographic locations are as follows:

| | December 31, | | | |
|--|----------------------------|--------------|----------------------------|--------------|
| | 2023 | | 2022 | |
| | Gross Carrying Value | Percent | Gross Carrying Value | Percent |
| <i>(In millions, except percentages)</i> | | | | |
| Pacific | \$ 1,737 | 31 % | \$ 1,696 | 29 % |
| Middle Atlantic | 1,268 | 22 % | 1,399 | 24 % |
| South Atlantic | 1,224 | 21 % | 1,290 | 22 % |
| Mountain | 640 | 11 % | 488 | 8 % |
| New England | 244 | 4 % | 250 | 4 % |
| East North Central | 217 | 4 % | 305 | 5 % |
| West South Central | 157 | 3 % | 141 | 2 % |
| West North Central | 130 | 2 % | 158 | 3 % |
| East South Central | 101 | 2 % | 178 | 3 % |
| Total commercial mortgage loans | <u>\$ 5,718</u> | <u>100 %</u> | <u>\$ 5,905</u> | <u>100 %</u> |

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The Company's commercial mortgage loans by origination year are as follows as of December 31:

| <i>(In millions, except percentages)</i> | Gross Carrying Value | Percent |
|--|-------------------------------------|----------------|
| 2023 | \$ 334 | 6 % |
| 2022 | 1,299 | 23 % |
| 2021 | 331 | 6 % |
| 2020 | 226 | 4 % |
| 2019 and prior | 3,528 | 61 % |
| Total commercial mortgage loans | <u>\$ 5,718</u> | <u>100 %</u> |

The Company has outstanding commitments on mortgage loans (specific to reverse mortgage loans) of \$7 million at December 31, 2023.

At December 31, 2023 and 2022, there were three and zero non-performing commercial mortgage loans, respectively.

Information regarding the Company's credit quality indicators for its recorded investment in mortgage loans, gross of allowances is as follows:

| | December 31, | | | |
|--|-------------------------------------|-------------------|-------------------------------------|-------------------|
| | 2023 | | 2022 | |
| <i>(In millions, except percentages)</i> | Gross Carrying Value | % of Total | Gross Carrying Value | % of Total |
| Commercial mortgage Loans: | | | | |
| NAIC CM Rating Category: | | | | |
| CM1 | \$ 2,565 | 45 % | \$ 2,880 | 49 % |
| CM2 | 2,584 | 45 % | 2,677 | 45 % |
| CM3 | 476 | 8 % | 348 | 6 % |
| CM4 | 36 | 1 % | — | — % |
| In or near default | 57 | 1 % | — | — % |
| Total commercial mortgage loan | <u>\$ 5,718</u> | <u>100 %</u> | <u>\$ 5,905</u> | <u>100 %</u> |
| Residential mortgage loans | | | | |
| Performing | \$ 719 | 100 % | \$ 11 | 100 % |
| Non-performing | — | — % | — | — % |
| Total residential mortgage loans | <u>\$ 719</u> | <u>100 %</u> | <u>\$ 11</u> | <u>100 %</u> |
| General loan loss allowance | — | | (7) | |
| Allowance for credit losses | (24) | | — | |
| Total mortgage loans | <u>\$ 6,413</u> | | <u>\$ 5,909</u> | |

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Information regarding the Company's loan to value ratio for its recorded investment in commercial mortgage loans is as follows:

| | December 31, | | | |
|--|----------------------------|--------------|----------------------------|--------------|
| | 2023 | | 2022 | |
| | Gross Carrying Value | % of Total | Gross Carrying Value | % of Total |
| <i>(In millions, except percentages)</i> | | | | |
| Less than 50% | \$ 3,350 | 59 % | \$ 3,822 | 65 % |
| 50% to 60% | 1,297 | 23 % | 1,604 | 27 % |
| 61% to 70% | 1,052 | 18 % | 456 | 8 % |
| 71% to 80% | 19 | — % | — | — % |
| 81% to 90% | — | — % | — | — % |
| 91% to 100% | — | — % | — | — % |
| Greater than 100% | — | — % | 23 | — % |
| Total mortgage loans | <u>\$ 5,718</u> | <u>100 %</u> | <u>\$ 5,905</u> | <u>100 %</u> |

The loan-to-value ratio is determined using the most recent appraised value. Appraisals are updated when there is an indication of a possible significant collateral decline or there are loan modifications or refinance requests. A loan-to-value ratio in excess of 100% indicates the unpaid loan amount exceeds the fair value of the underlying collateral.

The rollforward of the allowance for credit losses on the Company's mortgage portfolio is as follows:

| | December 31, | | | | | |
|---|---------------------------------|----------------------------------|---------------------|---------------------------------|----------------------------------|---------------------|
| | 2023 | | | 2022 | | |
| | Commercial Mortgage Loans | Residential Mortgage Loans | Collateral Loans | Commercial Mortgage Loans | Residential Mortgage Loans | Collateral Loans |
| <i>(In millions)</i> | | | | | | |
| Balance at beginning of period ⁽¹⁾ | \$ 25 | \$ — | \$ 10 | \$ 24 | \$ — | \$ — |
| Write off | (21) | — | — | — | — | — |
| Change in provision for credit losses | 20 | — | (8) | 4 | — | — |
| Balance at end of period | <u>\$ 24</u> | <u>\$ —</u> | <u>\$ 2</u> | <u>\$ 28</u> | <u>\$ —</u> | <u>\$ —</u> |

⁽¹⁾ 2023 beginning balances reflect the transition adjustments.

The ending allowance for commercial mortgage loans and residential mortgage loans in the table above are within mortgage loans line on the consolidated balance sheets. The ending allowance for collateral loans is with other invested assets on the consolidated balance sheets.

During 2023, the Company modified the terms of a commercial mortgage loan on an office building to a borrower experiencing financial difficulty. The modifications include a three year extension of the maturity date, from December 1, 2023 to December 1, 2026, and an increase in the interest rate from

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5.75% to 6.00%. The amortized cost of the modified loan was \$35 million at December 31, 2023 which is less than 1% of the carrying value of commercial mortgage loans.

Other

Federal Home Loan Bank of Des Moines

Midland National and North American are each members of FHLB Des Moines. In order to maintain its memberships and borrow funds, each company was required to purchase FHLB common stock that collectively total \$227 million and \$204 million as of December 31, 2023 and 2022, respectively. These securities are included in other invested assets and are carried at cost. Resale of these securities is restricted only to FHLB. As members of FHLB, each company can borrow money provided that FHLB's collateral and stock ownership requirements are met. The maximum amount a member can borrow is based on a certain percentage of the member's statutory assets. The interest rate and repayment terms differ depending on the type of advance and the term selected. At December 31, 2023 and 2022, the Company had outstanding advances of \$4,599 million from FHLB (see Note 7).

Deposits with regulatory authorities

At December 31, 2023 and 2022, securities with reported values of \$4 million were on deposit with regulatory authorities as required by law. These consist of fixed maturity securities reported in the consolidated balance sheets at fair value with an amortized cost of \$5 million at December 31, 2023 and 2022.

Credit risk concentration

The Company generally strives to maintain a diversified invested assets portfolio. Credit risk concentrations to any single issuer or groups of issuers with similar credit profiles are closely monitored. Other than investments in U.S. government or U.S. government agencies, the Company has no significant concentration of credit risk.

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4. DERIVATIVES AND DERIVATIVE INSTRUMENTS

The following table presents the notional amount and fair value of derivatives and derivative instruments:

| | December 31, | | | |
|--|--------------------|-----------------|--------------------|-----------------|
| | 2023 | | 2022 | |
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| <i>(In millions)</i> | | | | |
| Assets: | | | | |
| Derivative Instruments | | | | |
| Interest rate swaps | \$ 160 | \$ 6 | \$ 1,350 | \$ 27 |
| Interest rate floors | — | — | 150 | — |
| Foreign exchange derivatives | — | — | 84 | 3 |
| Futures | 58 | 12 | 10 | 7 |
| Embedded derivative | 147 | 21 | 147 | 12 |
| Options | 48,217 | 3,033 | 42,086 | 928 |
| | | <u>\$ 3,072</u> | | <u>\$ 977</u> |
| Reinsurance receivables - embedded derivatives from reinsurance ceded: | | | | |
| Index annuity products ceded | N/A | \$ 454 | N/A | \$ 509 |
| Annuity funds withheld and modco | N/A | 227 | N/A | 254 |
| | | <u>\$ 681</u> | | <u>\$ 763</u> |
| Fixed maturity securities - asset-backed securities that contain embedded derivatives: | | | | |
| Hybrid instruments | | <u>\$ 840</u> | | <u>\$ 815</u> |
| Liabilities: | | | | |
| Investment-type insurance contracts embedded derivatives: | | | | |
| Index life and annuity products | | <u>\$ 8,108</u> | | <u>\$ 7,326</u> |
| Derivative instruments: | | | | |
| Interest rate swaps | \$ 506 | 11 | \$ 1,306 | 35 |
| Foreign exchange derivatives | 116 | 3 | 78 | 3 |
| Written options | 14,980 | 1,379 | 12,469 | 374 |
| | | <u>\$ 1,393</u> | | <u>\$ 412</u> |

None of the derivatives above are designated as hedging instruments.

Indexed options and futures

The Company has indexed annuity and indexed universal life products that provide for a guaranteed base return and a higher potential return tied to several major equity market indices. In order to fund these benefits, the Company purchases over-the-counter index options that compensate the Company for any appreciation over the strike price and offsets the corresponding increase in the policyholder obligation. The Company classifies these options and futures as derivative instruments.

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The Company amortizes the cost of options against investment income over the term of the option. When the options are exercised at maturity, the value received by the Company is reflected as net investment income in the consolidated statements of income. The Company marks the indexed options it holds to market with changes in market value reflected in net gains (losses) on derivatives and derivative instruments.

The futures contracts have no initial cost and are marked to market daily. That daily mark-to-market is settled through the Company's variation margin accounts maintained with the counterparty. The Company reports the change in the futures variation margin accounts as gains (losses) on derivatives and derivative instruments in the consolidated statements of income.

Embedded derivatives related to indexed life and annuity products

The Company's indexed life and annuity products contain embedded derivatives. The fair value of the embedded options related to these direct and ceded policyholder obligations are based upon current and expected index levels and returns as well as assumptions regarding general policyholder behavior, primarily lapses and withdrawals. These projected benefit values are discounted to the current date using an assumed interest rate consistent with the duration of the liability adjusted to reflect the Company's credit risk and a risk margin. The Company reports the change in fair value of the embedded derivative as net gains (losses) on derivatives and derivative instruments in the consolidated statements of income.

The Company has two coinsurance with funds withheld reinsurance agreements as well as a modified coinsurance agreement with unaffiliated reinsurers. Under applicable guidance, the Company's reinsurance agreements contain embedded derivatives that require bifurcation due to credit risks the reinsurer is assuming that are not clearly and closely related to the creditworthiness of the Company. The embedded derivatives contained in these agreements have characteristics similar to a total return swap since the Company cedes the total return on a designated investment portfolio to the outside reinsurer. The Company has developed models based on the expected cash flows of the ceded annuity business to estimate the fair value of the policy liabilities for the two funds withheld agreements. The value of the derivative embedded in the funds withheld coinsurance agreements is equal to the difference between the fair value of the assets in the funds withheld portfolio and the fair value of the policy liabilities estimated from cash flow models. The value of the derivative embedded in the modified coinsurance agreement is equal to the difference between the fair value and cost basis of the underlying financial instruments in the modified coinsurance ("modco") portfolio. The value of the embedded derivative is reported in the consolidated balance sheets in reinsurance receivables. The net change in the reported value of the embedded derivatives is reported in net gains (losses) on derivatives and derivative instruments in the consolidated statements of income.

See Note 10 for further discussion related to the Company's coinsurance with funds withheld reinsurance and modified coinsurance agreements.

Embedded derivatives related to hybrid financial instruments

The Company holds fixed maturity securities with embedded derivatives, that are considered to be hybrid financial instruments, and has elected fair value measurement. These securities are reported in the

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consolidated balance sheets in fixed maturity securities, available-for-sale, at fair value. Any change in the fair value of the security is reported as net gains (losses) on derivatives and derivative instruments in the consolidated statements of income. The amortized cost and fair value of the Company's hybrid financial instruments at December 31, 2023 was \$922 million and \$840 million, respectively. At December 31, 2022, the amortized cost and fair value of the Company's hybrid financial instruments was \$922 million and \$815 million, respectively. The decision to elect fair value measurement is made on an instrument-by-instrument basis under the guidance. The Company will consider making an election of fair value measurement at the time of any future acquisitions of hybrid financial instruments.

The Company also holds fixed maturity securities with embedded derivatives, that are considered to be hybrid financial instruments, for which it has not elected the fair value option and therefore the Company is required to bifurcate the embedded derivative from the debt host. The embedded derivative is reported at fair value in derivative instruments in the consolidated balance sheets while the debt host is reported at fair value in fixed maturities, available-for-sale in the consolidated balance sheets.

Other derivative instruments

The Company has also entered into interest rate floor and interest rate swap agreements to help manage its overall exposure to interest rate changes. These other derivative instruments do not hedge specific assets or liabilities and as such are not accounted for under hedge accounting. The Company holds interest rate floor agreements to protect itself against interest rate fluctuations in relation to crediting rates on its policyholder accounts. These swaps and floors are reported at fair value in the consolidated balance sheets and changes in the fair value are reported as a component of net gains (losses) on derivatives and derivative instruments in the consolidated statements of income. Periodic interest rate swap settlements and current period changes in the swap accruals for these non-hedge swaps are reported as a component of net investment income in the consolidated statements of income with the payable or receivable included in accrued investment income in the consolidated balance sheets. The stated fair value of the applicable interest rate swaps excludes the current period accruals.

The Company has entered into foreign currency forwards to protect itself against currency fluctuations on financial instruments denominated in foreign currencies. These forwards are reported at fair value in the consolidated balance sheets and changes in fair value are reported as a component of net gains (losses) on derivatives and derivative instruments in the consolidated statements of income.

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The following table presents the impact of derivatives and derivative instruments not designated as hedging instruments in the consolidated statements of income:

| <i>(In millions)</i> | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2023 | 2022 |
| Gains (losses) recognized in net gains on derivatives and derivative instruments: | | |
| Interest rate swaps | \$ (8) | \$ (14) |
| Interest rate floors | — | (5) |
| Foreign exchange derivatives | (5) | 22 |
| Embedded derivatives in: | | |
| Indexed life and annuity products | (1,142) | 2,861 |
| Indexed annuity products ceded | 36 | (92) |
| Annuity funds withheld and modco | (27) | 30 |
| Fixed maturities, available-for-sale | 9 | (20) |
| Hybrid instruments | 25 | (310) |
| Futures | 7 | (98) |
| Options | 912 | (906) |
| | <u>\$ (193)</u> | <u>\$ 1,468</u> |
| Losses recognized in net investment income: | | |
| Interest rate swaps | \$ 2 | \$ 6 |
| Interest rate floors | — | 2 |
| Options | (515) | (563) |
| | <u>\$ (513)</u> | <u>\$ (555)</u> |

5. OFFSETTING OF ASSETS AND LIABILITIES

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Company and a counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements are also in place requiring the Company or the counterparty to pledge collateral in the event minimum thresholds have been reached, typically related to the fair value of the outstanding derivatives. Additionally, certain of the Company's repurchase agreements provide for net settlement on termination of the agreement.

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The Company reports derivative instruments and repurchase agreements on a gross basis within the consolidated balance sheets. The tables below present the Company's gross and net derivative instruments and gross and net repurchase agreements by asset and liabilities for the Company:

| | December 31, 2023 | | |
|---|---------------------------------|------------------------------------|-------------------|
| <i>(In millions)</i> | Gross amounts recognized | Collateral-received/pledged | Net Amount |
| Offsetting of financial assets: | | | |
| Derivative instruments | \$ 3,072 | \$ 731 | \$ 2,341 |
| Total financial assets | <u>\$ 3,072</u> | <u>\$ 731</u> | <u>\$ 2,341</u> |
| Offsetting of financial liabilities: | | | |
| Derivative instruments | \$ 1,393 | \$ — | \$ 1,393 |
| Repurchase agreements | 7,254 | 7,254 | — |
| Total financial liabilities | <u>\$ 8,647</u> | <u>\$ 7,254</u> | <u>\$ 1,393</u> |
| | December 31, 2022 | | |
| <i>(In millions)</i> | Gross amounts recognized | Collateral-received/pledged | Net Amount |
| Offsetting of financial assets: | | | |
| Derivative instruments | \$ 977 | \$ 282 | \$ 695 |
| Total financial assets | <u>\$ 977</u> | <u>\$ 282</u> | <u>\$ 695</u> |
| Offsetting of financial liabilities: | | | |
| Derivative instruments | \$ 412 | \$ — | \$ 412 |
| Repurchase agreements | 7,275 | 7,275 | — |
| Total financial liabilities | <u>\$ 7,687</u> | <u>\$ 7,275</u> | <u>\$ 412</u> |

6. VARIABLE INTEREST ENTITIES

Consolidated VIEs

The Company has concluded that as of December 31, 2023 it is the primary beneficiary of a number of variable interest entities, Merlin Series 2015 A-C LLC ("Merlin"), G-Prairie LLC, Dextra Strategic Partners B-2 LP and trusts established to invest in residential mortgage loans and has therefore consolidated those entities in the Company's financial statements.

Merlin was created as a restructuring of an index-linked security that the Company had held directly in order to defease the coupon payment of the security. Merlin issued a note payable to the Company in exchange for the index-linked security. The note payable is the sole capitalization of Merlin and the Company is the sole holder of the note. The Company does not have any voting rights and therefore does not meet the power criteria. However, because of the Company's ownership of the entire note issuance

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the determination has been made that substantially all of the activities of Merlin are carried out on its behalf and is therefore the primary beneficiary.

G-Prairie LLC (“G-Prairie”) is a limited liability company that holds an equity interest in another limited liability company. As the Company owns 95% of the economics of G-Prairie, and the entity is controlled by an affiliate of the Company, the Company is the primary beneficiary of the VIE and consolidates G-Prairie. The VIE is consolidated on a one quarter lag due to timing of reporting of the limited liability company. G-Prairie had a net loss of \$43 million in 2023.

Dextra Strategic Partners B-2 LP (“Dextra”) is a limited partnership that holds equity interests in private equity funds. As the Company is the only equity investor in the partnership, substantially all of the activities of the entity are carried out on its behalf. Therefore, the Company is the primary beneficiary and consolidates Dextra. The VIE is consolidated on a one quarter lag due to timing of reporting of the limited partnership. Dextra had net income of \$10 million in 2023.

Four trusts were established in 2023 for the purpose of investment in residential mortgage loans. As the Company owns 100% of the economics of the trusts, and controls the trusts, the Company is the primary beneficiary and consolidates the trusts. The trusts are consolidated on a one month lag due to timing of reporting by the trusts. The trusts had net income of \$10 million in 2023.

The Company’s consolidated financial statements include the assets and operating results of the above mentioned VIEs for which the Company is the primary beneficiary. The Company’s consolidated VIEs have \$1 million in liabilities. The following table summarizes the carrying amounts of these entities’ assets included in the Company’s consolidated balance sheets:

| | December 31, | |
|--|---------------------|---------------|
| | 2023 | 2022 |
| <i>(In millions)</i> | | |
| ASSETS | | |
| Investments | | |
| Fixed maturity securities, available-for-sale, at fair value | \$ 273 | \$ 371 |
| Mortgage loans | 709 | — |
| Short-term investments | 42 | — |
| Other invested assets | 265 | 207 |
| Total investments | <u>1,289</u> | <u>578</u> |
| Cash | 353 | 2 |
| Accrued investment income | 7 | 3 |
| Other assets | 5 | — |
| Total assets | <u>\$ 1,654</u> | <u>\$ 583</u> |

Unconsolidated VIEs

The Company holds variable interests in a number of VIEs where the Company is not the primary beneficiary. Investments in these VIEs are reported in fixed maturity securities and other invested assets.

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Investments in VIEs held as fixed maturity securities include CMBS, RMBS, CLOs and other ABS. These entities are VIEs due to their thin capitalization. The Company has made the determination that it is not the primary beneficiary. This determination is made due to the Company's lack of power to direct the activities of these entities as well as less than majority ownership of the total issuances.

Investments in VIEs held as other invested assets are primarily limited partnership equity holdings where the Company is a limited partner. The partnerships are deemed VIEs because the equity ownership lacks power to direct the activities of the partnership. The Company has determined that it is not the primary beneficiary of these entities due to the Company's lack of power to direct activities as well as less than majority ownership of the total equity investment. The Company has provided loans to a small number of limited partnerships deemed to be VIEs, which are included in the table below.

The Company's carrying amount of its asset compared to its maximum exposure to loss related to unconsolidated VIEs is as follows:

| <i>(In millions)</i> | December 31, | |
|---|--------------|-----------|
| | 2023 | 2022 |
| Fixed maturity securities, available-for-sale | | |
| Carrying amount of assets | \$ 15,211 | \$ 14,361 |
| Maximum exposure to loss | 15,463 | 14,988 |
| Other invested assets | | |
| Carrying amount of assets | \$ 5,315 | \$ 4,446 |
| Maximum exposure to loss | 7,365 | 7,194 |

The Company's maximum exposure to loss includes its direct investment in the unconsolidated VIEs and the total additional financial support it could be required to provide. In general, this additional support is in the form of additional funding commitments.

7. REPURCHASE AGREEMENTS, OTHER BORROWINGS, AND COLLATERAL ON DERIVATIVE INSTRUMENTS

Repurchase agreements

Securities sold under repurchase agreements are effectively collateralized borrowings. In these transactions, the Company receives cash in exchange for transferring securities as collateral and recognizes an obligation to reacquire the securities for cash at the transaction's maturity. These types of transactions create risks, including (1) the counterparty may fail to fulfill its obligations under outstanding agreements, (2) the fair value of the securities transferred may decline below the amount of the obligation to reacquire the securities, and therefore create an obligation to pledge additional amounts, and (3) the counterparty may accelerate the maturity on demand requiring the Company to reacquire the security prior to contractual maturity. The Company attempts to mitigate these risks through the use of highly liquid securities, selecting counterparties with long-standing performance records and monitoring the fair value of collateral pledged relative to contractually required repurchase amounts. The repurchase collateral posted by counterparties at December 31, 2023 and 2022 was \$0.

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The following table provides the underlying collateral types of the Company's gross obligations as well as the remaining contractual maturity under repurchase and securities lending agreements:

| | | December 31, 2023 | | | | |
|--|--------------------------------|--|---------------|-------------------------|-----------------|--|
| | | Remaining Contractual Maturity of the Agreements | | | | |
| <i>(In millions)</i> | Overnight and Continuous | Up to 30 days | 30-90 days | Greater Than 90 days | Total | |
| Repurchase agreements | | | | | | |
| U.S. government and agencies | \$ — | \$ — | \$ 488 | \$ 2,871 | \$ 3,359 | |
| Corporate securities | — | 1 | 240 | 2,065 | 2,306 | |
| Residential mortgage-backed securities | — | — | 5 | 1,208 | 1,213 | |
| Commercial mortgage-backed securities | — | — | 20 | 356 | 376 | |
| Total borrowing | \$ — | \$ 1 | \$ 753 | \$ 6,500 | \$ 7,254 | |

| | | December 31, 2022 | | | | |
|--|--------------------------------|--|---------------|-------------------------|-----------------|--|
| | | Remaining Contractual Maturity of the Agreements | | | | |
| <i>(In millions)</i> | Overnight and Continuous | Up to 30 days | 30-90 days | Greater Than 90 days | Total | |
| Repurchase agreements | | | | | | |
| U.S. government and agencies | \$ — | \$ 212 | \$ — | \$ 3,627 | \$ 3,839 | |
| Corporate securities | — | 365 | 200 | 1,091 | 1,656 | |
| Residential mortgage-backed securities | — | — | — | 1,428 | 1,428 | |
| Commercial mortgage-backed securities | — | 13 | — | 339 | 352 | |
| Total borrowing | \$ — | \$ 590 | \$ 200 | \$ 6,485 | \$ 7,275 | |

Other borrowings

At December 31, 2023 and 2022, the Company had outstanding borrowings of \$4,599 million from the FHLB in accordance with the terms of its membership agreement. The purpose of the borrowings is to complement the Company's repurchase agreement program. The borrowings are reported as a component of repurchase agreements, other borrowings and collateral on derivative instruments in the consolidated balance sheets.

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The following table provides the maturity dates and interest rates for the outstanding borrowings:

| Maturity date year | December 31, 2023 | |
|----------------------|-----------------------------|---------------------|
| | FHLB Borrowings Outstanding | |
| | Outstanding principal | Interest rate range |
| 2024 | \$ 647 | 0.57% - 5.51% |
| 2025 | 2,210 | 0.86% - 4.67% |
| 2026 | 1,742 | 0.88% - 4.49% |
| Total FHLB borrowing | <u>\$ 4,599</u> | |

Interest expense incurred during 2023 and 2022 was \$90 million and \$63 million, respectively, and is reported as a component of net investment income in the consolidated statements of income.

In accordance with the FHLB membership agreement, the Company was required to purchase FHLB common stock. At December 31, 2023 and 2022, the Company held \$227 million and \$204 million, respectively of FHLB common stock. In addition, the Company has posted mortgage loans and agency MBS/CMO fixed maturity securities with fair values in excess of the amount of the borrowing as collateral. The fair value of collateral posted for FHLB is \$6,786 million and \$6,484 million at December 31, 2023 and 2022, respectively.

On December 21, 2018, Solberg Re, an indirect wholly owned limited purpose subsidiary domiciled in the State of Iowa, secured a contingent note guarantee with an unrelated third party. The contingent note guarantee functions in a manner similar to a letter of credit and supports redundant statutory required reserves on certain term life insurance policies assumed from Midland National and North American. The contingent note guarantee has a remaining term of 13 years and has an aggregate maximum issuance amount of \$588 million and \$632 million at December 31, 2023 and 2022, respectively. \$526 million and \$560 million was utilized at December 31, 2023 and 2022, respectively. The contingent note guarantee can be drawn upon when actual policy benefits applicable to the specific life insurance term policies exceed specified thresholds. Solberg Re pays a fee to the guarantee provider equal to 0.25% per annum, payable quarterly, applied to the amount of the guarantee utilized. Fees incurred related to the contingent note guarantee were \$1 million and \$1 million at December 31, 2023 and 2022, respectively.

On September 30, 2019, Canal Re, another indirect wholly owned limited purpose subsidiary domiciled in the State of Iowa, secured a contingent note guarantee of specific risks on certain term life insurance policies assumed from Midland National and North American from an unrelated third party. This contingent note guarantee functions in a manner similar to a letter of credit. The contingent note guarantee has a remaining term of 11 years where \$458 million and \$434 million was utilized at December 31, 2023 and 2022, respectively. Canal Re pays a fee to the guarantee provider equal to 0.25% per annum, payable quarterly, applied to the amount of the guarantee utilized. Fees incurred related to this contingent note guarantee were \$1 million for each of the years ended December 31, 2023 and 2022.

On December 31, 2012, MNL Re, another indirect wholly owned limited purpose subsidiary domiciled in the State of Iowa, secured a contingent note guarantee of specific risks on certain permanent life

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insurance policies assumed from Midland National and North American from an unrelated third party. The contingent note guarantee has subsequently been amended to increase the aggregate maximum guarantee amount, extend the term, decrease the fee rate and increase the permanent life insurance policies covered under the agreement. This contingent note guarantee functions in a manner similar to a letter of credit. The contingent note guarantee has a remaining term of 13 years and had an aggregate maximum guarantee amount of \$1,467 million and \$1,486 million at December 31, 2023 and 2022, respectively. \$737 million and \$1,198 million was utilized at December 31, 2023 and 2022, respectively. MNL Re pays a fee to the guarantee provider equal to 0.35% per annum, payable quarterly, applied to the amount of the guarantee utilized. The contingent note guarantee can be drawn upon when actual policy benefits applicable to the specific permanent life insurance policies exceed certain thresholds. Fees incurred related to the contingent note guarantee were \$4 million and \$5 million for the years ended December 31, 2023 and 2022, respectively.

Collateral on derivative instruments

Collateral posted by counterparties at December 31, 2023 and 2022 applicable to derivative instruments was \$731 million and \$282 million, respectively, and is reflected in the consolidated balance sheets in cash and fixed maturity securities. The obligation to repay the collateral is reflected in the consolidated balance sheets in repurchase agreements, other borrowings and collateral on derivative instruments.

8. DAC AND DSI

The components of DAC are as follows:

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2023 | 2022 |
| <i>(In millions)</i> | | |
| Balance at beginning of year | \$ 6,997 | \$ 4,783 |
| Commissions deferred | 969 | 874 |
| Underwriting and acquisition expenses deferred | 28 | 25 |
| Change in offset to unrealized (gains) losses | (282) | 1,916 |
| Amortization | (370) | (601) |
| Balance at end of year | <u>\$ 7,342</u> | <u>\$ 6,997</u> |

The components of DSI are as follows:

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2023 | 2022 |
| <i>(In millions)</i> | | |
| Balance at beginning of year | \$ 1,135 | \$ 884 |
| Sales inducement costs deferred | 280 | 100 |
| Change in offset to unrealized (gains) losses | (34) | 326 |
| Amortization | (124) | (175) |
| Balance at end of year | <u>\$ 1,257</u> | <u>\$ 1,135</u> |

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9. PROPERTY, PLANT AND EQUIPMENT

The major classifications of property, plant and equipment recorded in the consolidated balance sheets as a component of other assets are as follows:

| <i>(In millions, except for years)</i> | Range of Useful Lives | December 31, | |
|--|------------------------------|---------------------|---------------|
| | | 2023 | 2022 |
| Land | n/a | \$ 13 | \$ 11 |
| Buildings and improvements | 15 - 39 years | 102 | 100 |
| Leasehold improvements | 4 - 10 years | 8 | 2 |
| Furniture and fixtures | 7 - 10 years | 8 | 6 |
| Computer equipment and software | 3 - 5 years | 293 | 264 |
| | | <u>424</u> | <u>383</u> |
| Accumulated depreciation | | <u>(249)</u> | <u>(240)</u> |
| | | <u>\$ 175</u> | <u>\$ 143</u> |

Depreciation expense was \$27 million and \$20 million for the years ended December 31, 2023 and 2022, respectively.

10. REINSURANCE

The Company is primarily involved in the cession and, to a lesser degree, assumption of life and annuity reinsurance with other companies. The effect of reinsurance on premiums, charges on interest sensitive and investment-type products and benefits incurred is as follows:

| <i>(In millions)</i> | December 31, | |
|---|---------------------|-----------------|
| | 2023 | 2022 |
| Premiums | | |
| Direct | \$ 1,038 | \$ 1,061 |
| Ceded | (96) | (116) |
| Total premiums | <u>\$ 942</u> | <u>\$ 945</u> |
| Charges on interest sensitive and investment-type products | | |
| Direct | \$ 1,533 | \$ 1,397 |
| Assumed | 6 | 6 |
| Ceded | (380) | (339) |
| Total charges on interest sensitive and investment-type products | <u>\$ 1,159</u> | <u>\$ 1,064</u> |
| Benefits incurred | | |
| Direct | \$ 2,310 | \$ 1,918 |
| Assumed | 3 | 3 |
| Ceded | (489) | (559) |
| Total benefits incurred | <u>\$ 1,824</u> | <u>\$ 1,362</u> |

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The Company is party to two funds withheld coinsurance agreements with a third-party reinsurer. These are indemnity agreements that cover 50% of substantially all policies of specific annuity plans issued from January 1, 2002 through March 31, 2005, 60% of substantially all policies of specific annuity plans issued from April 1, 2005 through February 29, 2008, and 50% of substantially all policies of specific annuity plans issued from March 1, 2008 through November 30, 2012. In these agreements, the Company agrees to withhold, on behalf of the reinsurer, assets equal to the statutory liabilities associated with these policies. The Company has netted the funds withheld liability of \$2,157 million and \$2,542 million against the reserves ceded of \$2,354 million and \$2,766 million in reinsurance receivables in the December 31, 2023 and 2022 consolidated balance sheets, respectively. The reinsurance receivables contain embedded derivatives as discussed in Note 4.

The Company is a party to a modified coinsurance agreement with a third-party reinsurer. This indemnity agreement covers 80% of all policies issued on or after January 1, 2014 of specific annuity plans. In this agreement, the Company retains, on behalf of the reinsurer, assets equal to the statutory liabilities associated with the reinsured policies. As of December 31, 2023 and 2022, the Company's reserves related to this agreement were \$623 million and \$880 million, respectively, and are included in policyholder account balances.

The Company is a party to three coinsurance agreements with a third-party reinsurer. Two of these agreements are indemnity agreements that cover 100% of all policies issued from January 1, 2008 through September 30, 2009 of specific annuity plans. Reserves ceded of \$158 million and \$215 million associated with these agreements are reported as a component of reinsurance receivables in the December 31, 2023 and 2022 consolidated balance sheets, respectively. The third coinsurance agreement is an indemnity agreement which covers 90% of all policies issued after July 1, 2010 of specific annuity plans. Reserves ceded of \$438 million and \$488 million associated with this agreement are reported as a component of reinsurance receivables in the December 31, 2023 and 2022 consolidated balance sheets, respectively.

Premiums, interest sensitive life and investment product charges, and benefits incurred are stated net of the amounts of premiums and claims assumed and ceded. Policyholder account balances, policy benefit reserves, and policy claims and benefits payable are reported gross of the related reinsurance receivables. These receivables are recognized in a manner consistent with the liabilities related to the underlying reinsured contracts. The credit allowance on reinsurance receivables was \$10 million for the year ended December 31, 2023. Prior to adoption of new accounting guidance on January 1, 2023 the Company did not have an allowance for its reinsurance receivables.

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11. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the changes in the carrying amount of goodwill included as a component of other assets in the consolidated balance sheets:

| <i>(In millions)</i> | December 31, | |
|--|---------------|--------------|
| | 2023 | 2022 |
| Balance at beginning of year | \$ 42 | \$ 42 |
| Additions due to business acquisitions | 102 | — |
| Balance at end of year | <u>\$ 144</u> | <u>\$ 42</u> |

The following table presents major classifications of the finite-lived intangible assets, net included as a component of other assets in the consolidated balance sheets:

| <i>(In millions)</i> | Weighted Average Amortization Period | December 31, | | |
|---|---|---------------|-----------------------------|---------------|
| | | Gross | Accumulated Amortization | Net |
| Finite-lived intangible assets | | | | |
| Client relationships | 15 - 29 years | \$ 219 | \$ (7) | \$ 212 |
| Brands and trade names | 15 years | 11 | — | 11 |
| Non-compete agreements | 9 years | 8 | — | 8 |
| Total finite-lived intangible assets, net | | <u>\$ 238</u> | <u>\$ (7)</u> | <u>\$ 231</u> |

| <i>(In millions)</i> | Weighted Average Amortization Period | December 31, | | |
|---|---|--------------|-----------------------------|--------------|
| | | Gross | Accumulated Amortization | Net |
| Finite-lived intangible assets | | | | |
| Client relationships | 16 years | \$ 24 | \$ (5) | \$ 19 |
| Total finite-lived intangible assets, net | | <u>\$ 24</u> | <u>\$ (5)</u> | <u>\$ 19</u> |

For finite-lived intangible assets, amortization expense was \$2 million for December 31, 2023 and 2022. There were no impairment charges related to purchased intangible assets during the years ended December 31, 2023 and 2022. The Company does not have any infinite-lived intangible assets.

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The estimated aggregate amortization expense for each of the next five succeeding fiscal years is as follows:

| <u>Years ending December 31,</u> | <u>Total</u> |
|----------------------------------|---------------|
| 2024 | \$ 11 |
| 2025 | 11 |
| 2026 | 10 |
| 2027 | 10 |
| 2028 | 9 |
| Thereafter | 180 |
| Total | <u>\$ 231</u> |

12. NOTES PAYABLE

The Company had the following notes payable outstanding:

| <i>(In millions, except for percentages)</i> | <u>Interest Rate at December 31, 2023</u> | <u>Principal Amount At December 31</u> | | <u>Interest expense</u> | |
|--|---|--|-----------------|-------------------------|--------------|
| | | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
| Senior Notes | | | | | |
| 4.45 % Senior notes due 2027 | 4.45% | \$ 500 | \$ 500 | \$ 22 | 22 |
| 3.35 % Senior notes due 2031 | 3.35% | 850 | 850 | 28 | 28 |
| 4.75 % Senior notes due 2032 | 4.75% | 500 | 500 | 24 | 18 |
| 7.00 % Senior notes due 2043 | 7.00% | 200 | 200 | 14 | 14 |
| Debt issue costs | | (12) | (14) | 2 | 2 |
| Discount on notes | | (2) | (2) | — | — |
| | | <u>\$ 2,036</u> | <u>\$ 2,034</u> | <u>\$ 90</u> | <u>\$ 84</u> |

On October 25, 2013, SFG issued Senior Notes (the “2013 Notes”) in a private placement at a principal and par value amount of \$200 million. The 2013 Notes are senior unsecured obligations of the Company and may be redeemed at any time and from time to time at a make-whole redemption price. The Company contributed the net proceeds from the 2013 Notes to its insurance company subsidiaries to support growth.

On May 12, 2017, SFG issued Senior Notes (the “2017 Notes”) in a private placement at a principal and par value amount of \$500 million. The 2017 Notes are senior unsecured obligations of the Company and may be redeemed at any time and from time to time at a make-whole redemption price. The Company contributed the net proceeds from the 2017 Notes to its insurance company subsidiaries to support growth.

On April 16, 2021, SFG issued Senior Notes (the “2021 Notes”) in a private placement at a principal and par value amount of \$850 million. The 2021 Notes are senior unsecured obligations of the Company and

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may be redeemed at any time and from time to time at a make-whole redemption price. The Company contributed the net proceeds from the 2021 Notes to its subsidiaries to support growth.

On April 8, 2022, SFG issued Senior Notes (the “2022 Notes”) in a private placement at a principal and par value amount of \$500 million. The 2022 Notes are senior unsecured obligations of the Company and may be redeemed at any time and from time to time at a make-whole redemption price. The Company contributed the net proceeds from the 2022 Notes to its subsidiaries to support growth.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated OCI are as follows:

| <i>(In millions)</i> | Net Unrealized Gain (Loss) on Available-For- Sale Securities | Other | Intangible Offset | Noncredit component of OTTI losses | Deferred Income Taxes | Total |
|---|--|-------------|----------------------|---|-----------------------------|-------------------|
| Balance at December 31, 2021 | \$ 6,101 | \$ (3) | \$ (859) | \$ — | \$ (1,101) | \$ 4,138 |
| Other comprehensive income (loss) before reclassifications | (18,530) | (20) | 2,600 | 11 | 3,347 | (12,592) |
| Reclassification adjustments | 231 | — | (32) | — | (42) | 157 |
| Balance at December 31, 2022 | (12,198) | (23) | 1,709 | 11 | 2,204 | (8,297) |
| Other comprehensive income (loss) before reclassifications | 2,994 | 29 | (322) | — | (567) | 2,134 |
| Cumulative effect adjustment | 11 | — | — | (11) | — | — |
| Reclassification adjustments | 294 | — | (68) | — | (48) | 178 |
| Balance at December 31, 2023 | <u>\$ (8,899)</u> | <u>\$ 6</u> | <u>\$ 1,319</u> | <u>\$ —</u> | <u>\$ 1,589</u> | <u>\$ (5,985)</u> |

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The following table sets forth the reclassification adjustments in accumulated OCI by component as reflected in the consolidated statements of income:

| Gains/(losses) in net income: <i>(In millions)</i> | Affected Line Item in the Consolidated Statements of Income | For The Year Ended December 31, | |
|--|--|------------------------------------|----------------|
| | | 2023 | 2022 |
| Net Unrealized (Gain) Loss on Available-For-Sale Securities | Net realized investment (gains) losses | \$ 294 | \$ 231 |
| | Income tax expense (benefit) | (62) | (49) |
| | | <u>\$ 232</u> | <u>\$ 182</u> |
| Intangible Offset | Amortization of deferred policy acquisition costs | \$ (51) | \$ (27) |
| | Charges on interest sensitive and investment- type products | 8 | 8 |
| | Benefits incurred | (15) | (7) |
| | Amortization of deferred sales inducements | (10) | (6) |
| | Income tax expense (benefit) | 14 | 7 |
| | | <u>\$ (54)</u> | <u>\$ (25)</u> |

The unrealized gain (loss) on available-for-sale securities is adjusted by intangibles (primarily DAC, DSI, additional benefit reserves and unearned revenue liability) and deferred income taxes and is included in the statements of comprehensive income.

14. INCOME TAXES

The significant components of income tax expense are as follows:

| <i>(In millions)</i> | Year Ended December | |
|------------------------------------|---------------------|---------------|
| | 2023 | 2022 |
| Current | \$ (101) | \$ 163 |
| Deferred | 84 | 142 |
| Total income tax expense (benefit) | <u>\$ (17)</u> | <u>\$ 305</u> |

Total income tax expense attributable to income before taxes differs from the amounts that would result from applying the U.S. federal statutory rate of 21% in 2023 and 2022. The significant differences in 2023 were tax credits, non-taxable income, and the deferred tax asset established for the opening net operating loss carryforward under the newly enacted Bermuda CIT, offset by a valuation allowance, as discussed in more detail below. The significant differences in 2022 were tax credits and non-taxable income.

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The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and deferred income tax liabilities are as follows:

| <i>(In millions)</i> | December 31, | |
|--|---------------------|-------------|
| | 2023 | 2022 |
| Deferred income tax assets | | |
| Policy liabilities and reserves | \$ 823 | \$ 319 |
| Investments | 1,551 | 2,765 |
| US Operating Loss Carryforward | 142 | 46 |
| Bermuda Operating Loss Carryforward | 182 | — |
| Other, net | 229 | 206 |
| Total gross deferred income tax assets | 2,927 | 3,336 |
| Less valuation allowance | (186) | (8) |
| Total deferred income tax assets | \$ 2,741 | \$ 3,328 |
| Deferred income tax liabilities | | |
| Deferred policy acquisition costs and deferred sales inducements | (1,317) | (1,210) |
| Total deferred income tax liabilities | (1,317) | (1,210) |
| Net deferred income tax asset | \$ 1,424 | \$ 2,118 |

If the Company determines that any of its deferred tax assets (“DTAs”) will not result in future tax benefits, a valuation allowance must be established for the portion of these assets that more-likely-than-not will not be realized. With the enactment of the Bermuda CIT in 2023, SFG Bermuda is now a dual resident taxpayer and will establish separate deferred tax balances for Bermuda and the US jurisdictions and consider the need for a valuation allowance in each jurisdiction based upon applicable tax laws.

As of December 31, 2023 and 2022, the Company has established valuation allowances of \$186 million and \$8 million, respectively. The valuation allowance at December 31, 2023 includes \$182 million for the DTA related to the \$1.216 million net operating loss (“NOL”) carryforward for Bermuda tax purposes. While this NOL does not expire, the company expects to generate future foreign tax credits which would displace the DTA related to the NOL and thus no net benefit will be realized. The remaining valuation allowances in both years were established against certain capital DTAs at the Company’s subsidiaries that file separate tax returns, including a \$4 million valuation allowance against the DTA attributable to SFG Bermuda’s US capital loss carryforward of \$17 million at December 31, 2023, which will expire on December 31, 2027 and 2028 if not utilized. Adjustments to the valuation allowance will be made if there is a change in management’s assessment of the amount of the DTAs that are more-likely-than-not to be realized. Based upon a review of the Company’s anticipated future taxable income and after considering all other available evidence, both positive and negative, the Company’s management believes no additional valuation allowance is necessary.

SFG Bermuda has a DTA of \$142 million related to its \$677 million NOL carryforward for US tax purposes. The NOL may be carried forward indefinitely. North American has a DTA of \$4 million related to its \$17 million capital loss carryforward at December 31, 2023, which will expire December 31, 2028 if not utilized.

The Company has not established a liability for unrecognized tax benefits and does not expect this to change during the next twelve months. The Company recognizes interest and/or penalties as a component

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of tax expense. The Company did not have any accrued interest and penalties at December 31, 2023 and 2022.

The Company is under IRS examination for the years 2014 – 2022. Years prior to 2014 are closed. At this time, there have been no proposed adjustments and the Company does not anticipate any adjustments that will have a material effect on the financial statements.

15. EMPLOYEE BENEFIT PLANS

Retiree Medical Plan

The Company provides certain post-retirement health care benefits through a health and welfare benefit plan (“Retiree Medical Plan”) and life insurance benefits for eligible active and retired employees. The Retiree Medical Plan was amended in 2023 for the plan to terminate for both current and future participants on January 1, 2025. The accumulated benefit obligation included in other liabilities was \$1 million and \$26 million for 2023 and 2022, respectively. The weighted-average discount rates used to determine the benefit obligations as of December 31, 2023 and 2022 were 5.56% and 5.00%, respectively.

Employee stock ownership plan

The Company participates in an Employee Stock Ownership Plan (“ESOP”) sponsored by SEI covering eligible employees of SFG. SFG pays and recognizes as an expense the current year allocation to its employees pursuant to the terms of a service agreement with SEI. SEI is responsible for funding employee distributions from the SEI Employee Stock Ownership Trust to participants as they occur. Compensation expense of \$43 million and \$27 million for 2023 and 2022, respectively, was recorded related to the ESOP.

16. FAIR VALUE

Fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value guidance also establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

The Company determines the fair value of its investments, in the absence of observable market prices, using the valuation methodologies described below applied on a consistent basis. For some investments, market activity may be minimal or nonexistent and management’s determination of fair value is then based on the best information available in the circumstances and may incorporate management’s own assumptions, which involves a significant degree of judgment.

Investments for which market prices are not observable are generally private investments, securities valued using non-binding broker quotes or securities with very little trading activity. Fair values of private

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investments are determined by reference to public market or private transactions or valuations for comparable companies or assets in the relevant asset class when such amounts are available. If these are not available, a discounted cash flow analysis using interest spreads adjusted for the maturity/average life differences may be used. Spread adjustments are intended to reflect an illiquidity premium and take into account a variety of factors including but not limited to senior unsecured versus secured, par amount outstanding, number of holders, maturity, average life, composition of lending group, fixed maturity rating, credit default spreads, default rates and credit spreads applicable to the security sector. These valuation methodologies involve a significant degree of judgment.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories.

Level 1 – Quoted prices are available in active markets that the Company has the ability to access for identical financial instruments as of the reporting date. The types of financial instruments included in Level 1 are listed equities, mutual funds, money market funds, non-interest bearing cash, exchange traded futures and options, and separate account assets. As required by the fair value measurements guidance, the Company does not adjust the quoted price for these financial instruments, even in situations where it holds a large position and a sale could reasonably impact the quoted price.

Level 2 – Fair values are based on quoted prices for identical assets or liabilities in active and inactive markets. Inactive markets involve few transactions for identical assets or liabilities and the prices are not current or price quotations vary substantially over time or among market makers, which would include some broker quotes. Level 2 inputs also include corroborated market data such as interest rate spreads, yield curves, volatilities, prepayment speeds, credit risks and default rates. Financial instruments that are generally included in this category include corporate bonds, asset-backed securities, CMOs, less liquid and restricted equity securities and over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the financial instrument and include situations where there is little, if any, market activity for the financial instrument. These inputs may reflect the Company's estimates of the assumptions that market participants would use in valuing the financial instruments. Financial instruments that are included in this category generally include private corporate securities, collateralized fixed maturity obligations and indexed life and annuity embedded derivatives.

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 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. From time to time there may be movements between levels as inputs become more or less observable, which may depend on several factors including the activity of the market for the specific security, the activity of the market for similar securities, the level of risk spreads and the source of the information from which the Company obtains the information.

The Company relies on third party pricing services and independent broker quotes to value fixed maturity and equity securities. The third party pricing services use discounted cash flow models or the market

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approach to value the securities when the securities are not traded on an exchange. The following characteristics are considered in the valuation process: benchmark yields, reported trades, issuer spreads, bids, offers, benchmark and comparable securities, estimated cash flows and prepayment speeds.

The Company performs both quantitative and qualitative analysis of the prices. The review includes initial and ongoing review of the third party pricing methodologies, back testing of recent trades, and review of pricing trends and statistics.

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The following tables summarize the valuation of the Company's financial instruments carried at fair value in the consolidated balance sheets by the fair value hierarchy levels defined in the fair value measurements guidance. Methods and assumptions used to determine the fair values are described in Note 1:

| <i>(In millions)</i> | December 31, 2023 | | | |
|--|-------------------|----------|---------|----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | |
| Available-for-sale securities | | | | |
| Fixed maturity securities: | | | | |
| U.S. government and agencies | \$ — | \$ 9,110 | \$ — | \$ 9,110 |
| Municipal securities | — | 8,137 | 16 | 8,153 |
| Corporate securities | — | 39,125 | 4,235 | 43,360 |
| Residential mortgage-backed securities | — | 5,685 | — | 5,685 |
| Commercial mortgage-backed securities | — | 1,682 | — | 1,682 |
| Asset-backed securities | — | 10,250 | 4,174 | 14,424 |
| Other debt obligations | — | 299 | 306 | 605 |
| Total available-for-sale securities | — | 74,288 | 8,731 | 83,019 |
| Trading securities | | | | |
| Fixed maturity securities: | | | | |
| Municipal securities | — | 5 | — | 5 |
| Corporate securities | — | 234 | 3 | 237 |
| Residential mortgage-backed securities | — | 14 | — | 14 |
| Commercial mortgage-backed securities | — | 19 | — | 19 |
| Asset-backed securities | — | 67 | 8 | 75 |
| Total trading securities | — | 339 | 11 | 350 |
| Equity securities: | | | | |
| Financial services | 5 | 1,096 | 93 | 1,194 |
| Other | — | 32 | 6 | 38 |
| Total equity securities | 5 | 1,128 | 99 | 1,232 |
| Mortgage Loans | — | — | 9 | 9 |

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Short-term investments:

| | | | | |
|------------------------------|----|-------|---|-------|
| U.S. government and agencies | — | 2,272 | — | 2,272 |
| Corporate securities | — | 4 | — | 4 |
| Other | 42 | — | — | 42 |
| Total short-term investments | 42 | 2,276 | — | 2,318 |

Derivative instruments:

| | | | | |
|------------------------------|----|-------|---|-------|
| Options | — | 3,033 | — | 3,033 |
| Interest rate swaps | — | 6 | — | 6 |
| Embedded derivatives | — | 21 | — | 21 |
| Futures | 12 | — | — | 12 |
| Total derivative instruments | 12 | 3,060 | — | 3,072 |

| | | | | |
|-----------------------|---|---|-----|-----|
| Other invested assets | — | — | 126 | 126 |
|-----------------------|---|---|-----|-----|

Reinsurance receivables - embedded derivatives from reinsurance ceded:

| | | | | |
|----------------------------------|---|---|-----|-----|
| Indexed annuity products ceded | — | — | 454 | 454 |
| Annuity funds withheld and modco | — | — | 227 | 227 |
| Total reinsurance receivables | — | — | 681 | 681 |

| | | | | |
|-------------------------|----------|-----------|----------|-----------|
| Separate account assets | 2,941 | — | — | 2,941 |
| Total financial assets | \$ 3,000 | \$ 81,091 | \$ 9,657 | \$ 93,748 |

Financial liabilities:

| | | | | |
|---|------|------|----------|----------|
| Policyholder account balances - indexed life and annuity embedded derivatives | \$ — | \$ — | \$ 8,108 | \$ 8,108 |
|---|------|------|----------|----------|

Other liabilities - derivative instruments:

| | | | | |
|------------------------------|---|-------|---|-------|
| Interest rate swaps | — | 11 | — | 11 |
| Written options | — | 1,379 | — | 1,379 |
| Foreign exchange derivatives | — | 3 | — | 3 |
| Total derivative instruments | — | 1,393 | — | 1,393 |

| | | | | |
|--|------|----------|----------|----------|
| Other liabilities - contingent earn-out: | — | — | 55 | 55 |
| Total financial liabilities | \$ — | \$ 1,393 | \$ 8,163 | \$ 9,556 |

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| <i>(In millions)</i> | December 31, 2022 | | | |
|--|-------------------|----------|---------|----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | |
| Available-for-sale securities | | | | |
| Fixed maturity securities: | | | | |
| U.S. government and agencies | \$ — | \$ 9,197 | \$ — | \$ 9,197 |
| Municipal securities | — | 8,948 | — | 8,948 |
| Corporate securities | — | 37,732 | 4,231 | 41,963 |
| Residential mortgage-backed securities | — | 4,743 | 5 | 4,748 |
| Commercial mortgage-backed securities | — | 1,735 | 18 | 1,753 |
| Asset-backed securities | — | 10,002 | 3,557 | 13,559 |
| Other debt obligations | — | 305 | 318 | 623 |
| Total available-for-sale securities | — | 72,662 | 8,129 | 80,791 |
| Trading securities | | | | |
| Fixed maturity securities: | | | | |
| Municipal securities | — | 2 | — | 2 |
| Corporate securities | — | 242 | 17 | 259 |
| Residential mortgage-backed securities | — | 13 | — | 13 |
| Commercial mortgage-backed securities | — | 36 | — | 36 |
| Asset-backed securities | — | 107 | 56 | 163 |
| Total trading securities | — | 400 | 73 | 473 |
| Equity securities: | | | | |
| Financial services | 149 | 2,145 | 78 | 2,372 |
| Other | 1 | 31 | 6 | 38 |
| Total equity securities | 150 | 2,176 | 84 | 2,410 |
| Mortgage Loans | — | — | 9 | 9 |
| Short-term investments: | | | | |
| Corporate securities | — | 250 | — | 250 |
| Asset-backed securities | — | 46 | — | 46 |
| Total short-term investments | — | 296 | — | 296 |
| Derivative instruments: | | | | |
| Options | — | 928 | — | 928 |
| Interest rate swaps | — | 27 | — | 27 |
| Foreign exchange derivatives | — | 3 | — | 3 |
| Embedded derivatives | — | 12 | — | 12 |
| Futures | 7 | — | — | 7 |
| Total derivative instruments | 7 | 970 | — | 977 |
| Other invested assets | — | — | 135 | 135 |

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| | | | | |
|---|-----------------|------------------|-----------------|------------------|
| Reinsurance receivables - embedded derivatives from reinsurance ceded: | | | | |
| Indexed annuity products ceded | — | — | 509 | 509 |
| Annuity funds withheld and modco | — | — | 254 | 254 |
| Total reinsurance receivables | — | — | 763 | 763 |
| Separate account assets | 2,685 | — | — | 2,685 |
| Total financial assets | <u>\$ 2,842</u> | <u>\$ 76,504</u> | <u>\$ 9,193</u> | <u>\$ 88,539</u> |

Financial liabilities:

| | | | | | | | | |
|--|-----------|----------|-----------|------------|-----------|--------------|-----------|--------------|
| Policyholder account balances - indexed life and annuity embedded derivatives | \$ | — | \$ | — | \$ | 7,326 | 7,326 | |
| Other liabilities - derivative instruments: | | | | | | | | |
| Interest rate swaps | — | 35 | — | 35 | — | — | 35 | |
| Written options | — | 374 | — | 374 | — | — | 374 | |
| Foreign exchange derivatives | — | 3 | — | 3 | — | — | 3 | |
| Total derivative instruments | — | 412 | — | 412 | — | — | 412 | |
| Other liabilities - contingent earn-out | — | — | 42 | 42 | — | — | 42 | |
| Total financial liabilities | <u>\$</u> | <u>—</u> | <u>\$</u> | <u>412</u> | <u>\$</u> | <u>7,368</u> | <u>\$</u> | <u>7,780</u> |

Included in the December 31, 2023 Level 3 fixed maturity securities are private asset-backed securities, categorized as asset-backed securities, with unique fair value considerations. The private asset-backed securities consist of 10 securities with a par value of \$967 million and fair value of \$855 million. These securities were structured by the Company's investment advisor GPIM, between 2006 and 2009. The market for these securities is very limited and, as a result, there is a lack of observable market inputs. These securities are supported by invested assets held in trusts. The invested assets typically consist of a zero coupon U.S. Government or Government Agency security that has a par value and maturity equal to the par value and maturity of the applicable asset-backed security. The interest obligation applicable to these securities, which is market rate, is supported by the remaining assets held in the trust. The assets held in the trust provide no additional potential returns other than the contractual interest obligation. As a note holder in these trusts, the Company does not have access to detailed information about the underlying collateral in the trusts.

The Company has developed internal pricing models to determine the fair values of the private asset-backed securities. The internal models use cash flow projections with input assumptions consistent with market estimates for AA+/Aaa structured finance securities. The models assume limited liquidity and include assumptions regarding the collateral underlying the interest obligations due to the Company's limited access to information on the collateral.

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(an indirect wholly owned subsidiary of Sammons Enterprises, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables summarize the changes in financial instruments measured at fair value, excluding accrued interest income, for which Level 3 inputs were used to determine fair value:

| <i>(In millions)</i> | Year ended December 31, 2023 | | |
|--|-------------------------------------|------------------|--|
| | Purchases | Issuances | Transfers in and/or out of Level 3 ^(A) |
| Financial assets: | | | |
| Available-for-sale securities | | | |
| Fixed maturity securities: | | | |
| Municipal securities | \$ — | \$ — | \$ 15 |
| Corporate securities | 280 | — | (34) |
| Asset-backed securities | 723 | — | 79 |
| Other debt obligations | 5 | — | — |
| Total fixed maturity securities | <u>1,008</u> | <u>—</u> | <u>60</u> |
| Equity securities: | | | |
| Financial services | 12 | — | 14 |
| Total equity securities | <u>12</u> | <u>—</u> | <u>14</u> |
| Trading securities | | | |
| Corporate securities | 2 | — | — |
| Asset-backed securities | 5 | — | — |
| Total trading securities | <u>7</u> | <u>—</u> | <u>—</u> |
| Reinsurance receivables - embedded derivatives from reinsurance ceded | | | |
| Indexed annuity products ceded | — | (91) | — |
| Total reinsurance receivables | <u>—</u> | <u>(91)</u> | <u>—</u> |
| Total financial assets | <u>\$ 1,027</u> | <u>\$ (91)</u> | <u>\$ 74</u> |
| Financial liabilities: | | | |
| Policyholder account balances - indexed life and annuity embedded derivatives | \$ — | \$ 360 | \$ — |
| Other liabilities - contingent earn-out | — | \$ 26 | — |
| Total financial liabilities | <u>\$ —</u> | <u>\$ 386</u> | <u>\$ —</u> |

^(A) Included in the transfers in and/or out column above is \$154 million of securities transferred into Level 3 that did not have enough observable data to include in Level 2 at December 31, 2023 and \$94 million of securities priced using unobservable data at December 31, 2022 that were valued by a pricing service using observable market data at December 31, 2023.

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| <i>(In millions)</i> | Year Ended December 31, 2022 | | |
|---|------------------------------|-----------------|---|
| | Purchases | Issuances | Transfers in and/or out of Level 3 ^(A) |
| Financial assets: | | | |
| Available-for-sale securities | | | |
| Fixed maturity securities: | | | |
| Corporate securities | \$ 1,271 | \$ — | \$ (214) |
| Residential mortgage-backed securities | — | — | 5 |
| Commercial mortgage-backed securities | — | — | 18 |
| Asset-backed securities | 938 | — | 52 |
| Other debt obligations | — | — | (297) |
| Total fixed maturity securities | <u>2,209</u> | <u>—</u> | <u>(436)</u> |
| Trading securities | | | |
| Corporate securities | — | — | 17 |
| Asset-backed securities | 7 | — | 50 |
| Total trading securities | <u>7</u> | <u>—</u> | <u>67</u> |
| Reinsurance receivables - embedded derivatives from reinsurance ceded | | | |
| Indexed annuity products ceded | — | (100) | — |
| Total reinsurance receivables | <u>—</u> | <u>(100)</u> | <u>—</u> |
| Total financial assets | <u>\$ 2,216</u> | <u>\$ (100)</u> | <u>\$ (369)</u> |
| Financial liabilities: | | | |
| Policyholder account balances - indexed life and annuity embedded derivatives | \$ — | \$ (31) | \$ — |
| Total financial liabilities | <u>\$ —</u> | <u>\$ (31)</u> | <u>\$ —</u> |

^(A) Included in the transfers in and/or out column above is \$479 million of securities transferred into Level 3 that did not have enough observable data to include in Level 2 at December 31, 2022 and \$915 million of securities priced using unobservable data at December 31, 2021 that were valued by a pricing service using observable market data at December 31, 2022.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table represents the carrying value of financial instruments, and gains (losses) recorded for instruments for which the Company elected the fair value option:

| | December 31, 2023 | | |
|---|--------------------------------------|---|---|
| | Net Investment Income | Net Gains (Losses) on Derivatives and Derivative Instruments | Net Realized Investment Gains (Losses) |
| <i>(In millions)</i> | | | |
| Fixed maturities securities, available-for-sale | \$ — | \$ 25 | \$ — |
| Other invested assets | (9) | — | — |
| | <u>\$ (9)</u> | <u>\$ 25</u> | <u>\$ —</u> |
| | | | |
| | December 31, 2022 | | |
| | Net Investment Income | Net Gains (Losses) on Derivatives and Derivative Instruments | Net Realized Investment Gains (Losses) |
| <i>(In millions)</i> | | | |
| Fixed maturities securities, available-for-sale | \$ — | \$ (310) | \$ — |
| Mortgage loans | — | — | (1) |
| Other invested assets | (2) | — | — |
| | <u>\$ (2)</u> | <u>\$ (310)</u> | <u>\$ (1)</u> |

17. STATUTORY FINANCIAL DATA AND DIVIDEND RESTRICTIONS

Midland National and North American are domiciled in Iowa and their statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by the insurance department of the domiciliary state. “Prescribed” statutory accounting practices include state laws, regulations, and general administrative rules, as well as a variety of publications of the NAIC. “Permitted” statutory accounting practices encompass all accounting practices that are not prescribed. Such practices differ from state to state and company to company.

The prescribed and permitted practices used by Midland National in 2023 include the following:

- In 2006, Iowa issued a prescribed practice that instructs insurance companies to use other than market value for assets held in separate accounts where general account guarantees are present on such separate accounts. As a result, with the exception of derivatives which are carried at fair value, Midland National carries the assets of the separate accounts at book value where such guarantees are present related to its bank owned life insurance products, pension risk transfer products and registered indexed linked annuity products.

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The prescribed and permitted practices used by both Midland National and North American in 2023 include the following:

- In 2008, Iowa issued a prescribed practice that allows insurance companies to account for call option derivative assets that hedge the growth in interest credited to the hedged policy as a direct result of changes in the related indices at amortized cost. Other derivative instruments such as indexed futures, swaps and swaptions that may be used to hedge the growth in interest credited to the policy as a direct result of changes in the related indices would still be accounted for at fair value since an amortized cost for these instruments does not exist. As a result, Midland National and North American elected to establish a voluntary reserve to offset increases in the values of these other derivative instruments. The prescribed practice also provides guidance to determine indexed annuity reserve calculations based on Actuarial Guideline 35 Reserve assuming the market value of the call option(s) associated with the current index term is zero, regardless of the observable market for such option(s). At the conclusion of the index term, credited interest is reflected in the reserve as realized, based on actual index performance. Midland National and North American adopted this prescribed practice in 2008.
- In 2015, Iowa issued a prescribed practice that allows insurance companies domiciled in Iowa to use the Annuity 2000 mortality table for determining the minimum standard of valuation for annuities issued on or after January 1, 2015. NAIC accounting requires the 2012 IAR Mortality Table for determining the minimum standard of valuation for annuities issued during 2015.

The combined effect of applying these prescribed practices in 2023 decreased Midland National's and North American's statutory-based surplus by \$3 million and \$100 million, respectively. The risk-based capital excluding the effect of these prescribed practices would not have resulted in a regulatory trigger event.

The State of Iowa statute allows limited purpose captive insurance companies to assume certain redundant insurance reserves. Solberg Re, MNL Re and Canal Re assume redundant reserves from Midland National and North American that are secured by a contingent note guarantee, see Note 7, that provided combined statutory-based surplus relief of \$1,721 million and \$2,191 million at December 31, 2023 and December 31, 2022, respectively.

Generally, the net assets of an Iowa domiciled insurance company available for distribution to its stockholders are limited to the amounts by which the net assets, as determined in accordance with statutory accounting practices, exceed minimum regulatory statutory capital requirements. All payments of dividends or other distributions to stockholders are subject to notification of regulatory authorities. The maximum amount of dividends that can be paid by Midland National and North American during any 12-month period, without prior approval of the Iowa insurance commissioner, is limited according to statutory regulations and is a function of statutory equity and statutory income (generally, the greater of prior year statutory-basis net gain from operations or 10% of prior year-end statutory-basis surplus). Midland National paid dividends of \$320 million and \$574 million in 2023 and 2022, respectively. Dividends payable in 2024 up to approximately \$602 million will not require prior approval of regulatory authorities. North American paid dividends of \$140 million and \$0 in 2023 and 2022, respectively. Dividends payable in 2024 up to approximately \$204 million will not require prior approval of regulatory authorities.

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The statutory net gain from operations of Midland National for the years ended December 31, 2023 and 2022 was \$602 million and \$547 million, respectively, and reported surplus at December 31, 2023, and 2022 was \$4,899 million and \$5,065 million, respectively, in accordance with statutory accounting principles. The statutory net gain from operations of North American for the years ended December 31, 2023 and 2022 was \$191 million and \$271 million, respectively, and reported surplus at December 31, 2023 and 2022 was \$2,041 million and \$2,113 million, respectively, in accordance with statutory accounting principles.

18. OTHER RELATED PARTY TRANSACTIONS

The Company pays fees to SEI under management contracts that cover certain investment, accounting, employee benefits and management services. The Company was charged \$72 million and \$54 million in 2023 and 2022, respectively, related to these contracts.

The Company holds guaranteed investment contracts (“GICs”) to SEI. The contracts have an account value of \$86 million and \$101 million at December 31, 2023 and December 31, 2022 respectively. The account value is included in policyholder account balances in the accompanying consolidated balance sheets. Interest incurred on these contracts was \$4 million in 2023 and \$2 million in 2022.

SEI has a noncontrolling interest in Guggenheim Capital, LLC (“Guggenheim”), an investment and advisory firm operating through several business units including primarily Guggenheim Investments, an investment management firm and Guggenheim Securities, an investment banking and capital markets business.

GPIM, an indirect subsidiary of Guggenheim within the Guggenheim Investments business unit, provides investment management services for the Company. During 2023 and 2022, the Company incurred expense of \$63 million and \$65 million, respectively, for these investment management services. GPIM manages 87% of the Company’s investment portfolio as of December 31, 2023.

Guggenheim Commercial Real Estate Finance, LLC, an indirect subsidiary of Guggenheim, provides commercial mortgage loan origination and servicing services for the Company. The Company incurred expense of \$11 million and \$12 million in 2023 and 2022, respectively, for these commercial mortgage services. The fee is calculated monthly based on the outstanding principal balance of the commercial mortgage loans and real estate owned multiplied by a contractual rate.

The Company holds various investments in fixed maturity securities that Guggenheim and its affiliates consolidate. The fixed maturity securities are reported in fixed maturity securities, available-for-sale in the accompanying consolidated balance sheets. The reported value of these securities was \$88 million at December 31, 2023 and 2022.

In 2020, the Company originated a mortgage loan to Pathfinder Ranches, LLC, an indirect subsidiary of SEI, in the amount of \$25 million. The loan had an interest rate of 4.35% and was to mature in 2027. In 2022, Pathfinder Ranches, LLC prepaid the entire remaining principal of the loan. A prepayment fee of \$4.7 million was collected at the time of the payoff. Interest earned on this loan was \$1 million in 2022.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. COMMITMENTS AND CONTINGENCIES

The Company has, in the normal course of business, claims and lawsuits filed against it. In some cases the damages sought are substantially in excess of contractual policy benefits. The Company believes these claims and lawsuits, either individually or in aggregate, will not materially affect the Company's financial position or results of operations.

The Company had outstanding capital commitments to limited partnerships of \$1,891 million and \$2,415 million at December 31, 2023 and 2022, respectively.

Under insurance guaranty fund laws, in most states insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. The Company does not believe such assessments will be materially different from amounts already provided for in the consolidated financial statements. Most of these laws do provide, however, that an assessment may be excused or deferred if it would threaten an insurer's own financial strength.

20. SUBSEQUENT EVENTS

The Company evaluated subsequent events through March 18, 2024 which is the date the consolidated financial statements were available to be issued. There were no subsequent event transactions that required disclosure in the consolidated financial statements.