Management's Discussion and Analysis of Financial Condition and Results of Operations

Subject to Legal Notice in Cover Letter

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

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

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

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

After discontinuing sales of life insurance products in 1997, the Company made the strategic decision to resume selling life insurance products in 2021, with a view to diversifying its business, acquiring younger clients and providing innovative financial solutions as clients move through life stages. We do so through Everly Life.

The Company has a non-controlling minority interest in SkyRidge Cayman Holdings, LLC ("SkyRidge Holdings"), which is the ultimate parent company of SkyRidge Re Limited ("SkyRidge Re"), representing approximately 23.8% of its capital and 9.9% of its voting power. SBLIC manages the funds withheld assets relating to the ceded liabilities under an agreement with SkyRidge Re. Security Benefit Business Services, LLC ("SBBS"), an affiliate and related party of the Company, provides certain services to SkyRidge Holdings and its subsidiaries. In 2022, the Company ceded $1.3 billion of premiums to SkyRidge Re and, during the twelve month period ended December 31, 2023, it ceded another $2.5 billion of premiums.

SkyRidge Holdings and its subsidiaries are not affiliates of SBLH or SBLIC for state insurance law purposes, and they are not consolidated with SBLH on its GAAP financial statements.

Market Conditions

The following is a general market overview for the twelve months ended December 31, 2023:

- *The 10-year Treasury rate was 3.87% and 3.88% as of December 31, 2023 and 2022, respectively.*
- *The three month USD SOFR Interest Rate increased 74 basis points ("bps") from 4.59% as of December 31, 2022 to 5.33% as of December 31, 2023.*
- *Barclays BBB Long Credit gross yields decreased 42bps from 5.94% as of December 31, 2022 to 5.52% as of December 31, 2023. The spread decreased 47 bps from 1.93% as of December 31, 2022 to 1.46% as of December 31, 2023 as reported by J.P. Morgan CLO Index.*
- *CLO credit gross yields for "A" tranches decreased 21bps from 8.29% as of December 31, 2022 to 8.08% as of December 31, 2023. The spread decreased 79 bps from 3.49% as of December 31, 2022 to 2.70% as of December 31, 2023 as reported by J.P. Morgan CLO Index.*
- *CLO credit gross yields for "BBB" tranches decreased 54bps from 10.03% as of December 31, 2022 to 9.49% as of December 31, 2023. The spread decreased 111 bps from 5.22% as of December 31, 2022 to 4.11% as of December 31, 2023 as reported by J.P. Morgan CLO Index.*

- *The S&P 500 index increased 24.23% during the twelve months ended December 31, 2023, compared to the decrease of 19.44% during the twelve months ended December 31, 2022.*

Revenues and Expenses

The Company derives its revenues from (1) net investment income from invested assets, (2) policy and contract fees on products, (3) surrender and other product charges deducted from the account balances of policyholders, (4) net realized gains (losses) on investments (5) changes in fair value of options, futures and swaps due to the performance of the underlying benchmark, and (6) fees for other services.

Our expenses consist primarily of (1) annuity product benefits (primarily interest and index credits to account balances), (2) changes in fair value of embedded derivatives on FIA products, (3) changes in benefit reserves for guaranteed benefits greater than account value, (4) amortization of deferred acquisition costs ("DAC"), deferred sales inducement costs ("DSI"), and value of business acquired ("VOBA"), (5) other operating costs and expenses, (6) interest expense on debt, and (7) income taxes.

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

Operating Income (a Non-GAAP Financial Measure)

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

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

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

The following table presents the adjustments made to net income to arrive at operating income for the twelve months ended December 31, 2023 and 2022:

	Twelve Months Ended December 31, 2023		Twelve Months Ended December 31, 2022		$ Change		% Change
	(unaudited)						
			(dollars in thousands)				
Non-GAAP Financial Measures							
Net income	$	695,382	$	941,392	$	(246,010)	(26.1)%
Income tax expense		174,474		227,632		(53,158)	(23.4)%
Income before income tax expense		869,856		1,169,024		(299,168)	(25.6)%
Investment related gains (losses) [(a)]		69,655		(241,948)		311,603	(128.8)%
Change in fair value of fixed index annuity call options and embedded derivatives [(b)]		150,955		290,755		(139,800)	(48.1)%
Change in fair value of variable annuity guaranteed living benefit rider embedded derivatives [(c)]		837		11,340		(10,503)	(92.6)%
Assumption/model refinements and unlocking [(d)]		28,755		(483,729)		512,484	(105.9)%
Operating income	$	1,120,058	$	745,442	$	374,616	50.3%

(a) Investment related (gains) losses (including the reinsurance embedded derivative) are net of the impacts of change in reserves and amortization of DAC, DSI and VOBA, excluding gains and losses on derivatives used primarily to hedge index credits on FIA products.

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

(c) Change in fair value of embedded derivatives of VA GLB riders includes GMWB and GMAB, net of impacts of changes in reserves and amortization of DAC, DSI and VOBA.

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

Operating income was $1,120.1 million for the twelve months ended December 31, 2023, as compared to $745.4 million for the same period in 2022, an increase of $374.6 million, or 50.3%. The change was driven by favorable net investment spread, partially offset by higher DAC, DSI and VOBA amortization and general expenses.

Consolidated Results of Operations

Twelve months ended December 31, 2023 compared to twelve months ended December 31, 2022

Net income

Net income was $695.4 million for the twelve months ended December 31, 2023 as compared to $941.4 million for the same period in 2022, a decrease of $246.0 million, or 26.1%. This decrease was primarily driven by an unfavorable change in the fair value of the FIA embedded derivatives due to better equity market performance in 2023 as compared to 2022 and a decrease in the discount rates used to determine the fair value of the FIA embedded derivatives. Additionally, the impacts of unlocking actuarial assumptions and model refinements were unfavorable in 2023 compared to favorable impacts in 2022. Management expects the above drivers to generate volatility in net income from period to period. These unfavorable impacts were partially offset by an increase in net investment income driven by the higher interest rate environment and higher average spread-based AUM driven by higher net policyholder cash flows, as well as favorable changes in the fair value of call options used to hedge the FIA embedded derivatives.

Revenues

The following table presents a summary of components of the Company's revenues on a comparative basis for the twelve months ended December 31, 2023 and 2022:

	Twelve Months Ended December 31, 2023	Twelve Months Ended December 31, 2022	$ Change	% Change
	(unaudited)			
		(dollars in thousands)		
Net investment income	$ 2,836,141	$ 2,037,235	$ 798,906	39.2%
Asset-based and administrative fees	129,157	129,470	(313)	(0.2)%
Other product charges	245,708	237,615	8,093	3.4%
Change in fair value of options, futures and swaps	184,326	(688,811)	873,137	(126.8)%
Investment related gains (losses)	(86,330)	245,759	(332,089)	(135.1)%
Other revenues	117,723	97,238	20,485	21.1%
Total revenues	$ 3,426,725	$ 2,058,506	$ 1,368,219	66.5%

Net investment income

Net investment income increased $798.9 million, or 39.2%, to $2,836.1 million for the twelve months ended December 31, 2023 compared to $2,037.2 million for the same period in 2022. The increase in net investment income is driven by higher investment yield due to a higher interest rate environment and higher average spread-based AUM of $38.2 billion for 2023 compared to $35.3 billion for 2022. Investment operating earned rate increased 153bps from 5.91% for the twelve months ended December 31, 2022 to 7.44% for the twelve months ended December 31, 2023, primarily due to an increase in investment earned book yield of 137bps from 5.63% for the twelve months ended December 31, 2022 to 7.00% for the twelve months ended December 31, 2023 along with an increase of 16bps, or $72.0 million, in additional returns on investments.

Change in fair value of options, futures and swaps

The change in fair value of options, futures and swaps increased $873.1 million to $184.3 million for the twelve months ended December 31, 2023 compared to $(688.8) million for the same period in 2022. The difference between the periods is primarily due to the performance of the derivatives used to hedge FIA index crediting obligations. The associated market indices (e.g., S&P 500 index) of the derivatives generally had poor performance for the twelve months ended December 31, 2022, whereas the associated market indices generally had positive performance for the same period in 2023.

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

Investment related gains (losses)

Investment related gains (losses) decreased $332.1 million to a loss of $(86.3) million, or (135.1)%, for the twelve months ended December 31, 2023 compared to $251.4 million for the same period in 2022, as further discussed below.

The net change in investment unrealized gains (losses), which is primarily related to equity investments, increased $419.2 million to $40.4 million for the twelve months ended December 31, 2023 compared to $(378.8) million for the same period in 2022. The change was primarily driven by favorable equity performance during the twelve months ended December 31, 2023 compared to the same period in 2022.

The net change in investment realized gains (losses), increased $161.2 million, to $172.6 million for the twelve months ended December 31, 2023 compared to $11.4 million for the same period in 2022. This change was primarily driven by sales of certain CLO equities, resulting in a $204.5 million gain.

The change in the Company's embedded derivatives on funds withheld coinsurance agreements decreased $840.5 million to a loss of $(275.9) million for the twelve months ended December 31, 2023 compared to $564.6 million for the same period in 2022. These embedded derivatives have characteristics similar to a total return swap, as the Company cedes the total return on the funds withheld portfolio to the reinsurers. The value of these embedded derivatives is equal to the inverse of the value of the unrealized gain or loss on the underlying funds withheld assets. The increase in the fair value of the underlying funds withheld assets was primarily driven by decreases in interest rates and credit spreads. The change in fair value of the embedded derivatives is the inverse of the change in value of the unrealized gain or loss on the underlying funds withheld assets.

The change resulting from the impact of changes in foreign exchange rates decreased $67.8 million to $(14.1) million for the twelve months ended December 31, 2023 compared to $53.7 million for the same period in 2022. This decrease was primarily driven by a weakened U.S. dollar during the twelve months ended December 31, 2023 compared to the same period in 2022.

Benefits and expenses

The following table presents a summary of and the change in benefits and expenses for the twelve months ended December 31, 2023 and 2022:

	Twelve Months Ended December 31, 2023	2022	$ Change	% Change
	(unaudited)			
	(dollars in thousands)			
Benefits and expenses:				
Index credits and interest credited to account balances	$ 603,212	$ 413,004	$ 190,208	46.1%
Change in fixed index annuity embedded derivative and related benefits	377,405	(354,962)	732,367	(206.3)%
Other benefits	458,214	129,062	329,152	255.0%
Total benefits	1,438,831	187,104	1,251,727	669.0%
Commissions and other operating expenses	467,024	463,311	3,713	0.8%
Amortization of deferred policy acquisition costs, deferred sales inducement costs, and value of business acquired	393,092	89,576	303,516	338.8%
Interest expense	257,922	149,491	108,431	72.5%
Total benefits and expenses	$ 2,556,869	$ 889,482	$ 1,667,387	187.5%

Index credits and interest credited to account balances

Index credits and interest credited to account balances increased $190.2 million, or 46.1%, to $603.2 million for the twelve months ended December 31, 2023 compared to $413.0 million for the same period in 2022. The increase was primarily driven by increased index credits due to favorable performance in the underlying market indices along with fixed interest credited to FIA products due to the higher rate environment of $158.2 million and higher volume of inforce business on products of $28.0 million.

Change in fixed index annuity embedded derivative and related benefits

The change in FIA embedded derivative and related benefits increased $732.4 million, or 206.3%, to $377.4 million for the twelve months ended December 31, 2023 compared to $(355.0) million for the same period in 2022. The increase was primarily driven by (i) $324.2 million attributable to unrealized option gains in 2023 compared to losses in 2022, (ii) $288.2 million attributable to a decrease of 50 bps in the discount rates used to determine the fair value of the FIA embedded derivative in 2023, compared to an increase in 2022 of 292 bps, and (iii) $45.5 million due to renewal rate increases, higher volume of inforce business, as well as an increase in index credits.

Other benefits

Other benefits increased $329.2 million, or 255.0%, to $458.2 million for the twelve months ended December 31, 2023 compared to $129.1 million for the same period in 2022. The increase was primarily attributable to significant favorable impacts from unlocking and model refinements in 2022.

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

Amortization of DAC, DSI and VOBA increased $303.5 million, or 338.8%, to $393.1 million for the twelve months ended December 31, 2023 compared to $89.6 million for the same period in 2022. The increase was primarily driven by (i) $220.9 million of unfavorable assumption unlocking and model refinements due to less favorable impacts of $26.6 million in 2023 compared to favorable assumption unlocking and model refinements of $247.5 million in 2022, (ii) $81.0 million primarily related to the impact of option gains and (iii) $115.1 million due to higher investment income in 2023 resulting from higher interest rates and higher inforce business. However, there was also a partially offsetting impact of $(105.6) million related to FIA embedded derivatives due to discount rate changes.

Interest expense

Interest expense increased $108.4 million, or 72.5%, to $257.9 million for the twelve months ended December 31, 2023 compared to $149.5 million for the same period in 2022. The increase was primarily driven by increases in interest incurred on consolidated variable interest entity debt of $61.0 million, the Company's revolving credit facility of $31.1 million, and miscellaneous interest expense of $16.0 million. The consolidated variable interest entity debt is nonrecourse to the Company.

Assets

The following table sets forth the Company's assets for the dates presented:

	As of			
	December 31, 2023	**December 31, 2022**	**$ Change**	**% Change**
	(unaudited)	*(audited)*		
		(dollars in thousands)		
Assets				
Investments:				
Fixed maturities, available for sale	$ 40,285,008	$ 33,638,138	$ 6,646,870	19.8%
Fixed maturities, trading	412,450	305,122	107,328	35.2%
Equity securities at fair value	705,296	613,041	92,255	15.0%
Notes receivable from related parties	995,715	1,697,307	(701,592)	(41.3)%
Mortgage loans	787,674	785,987	1,687	0.2%
Policy loans	71,647	73,965	(2,318)	(3.1)%
Cash and cash equivalents	1,647,403	1,368,243	279,160	20.4%
Short-term investments	160,893	692,835	(531,942)	(76.8)%
Call options	759,014	330,501	428,513	129.7%
Other invested assets	1,878,736	2,410,095	(531,359)	(22.0)%
Total investments	47,703,836	41,915,234	5,788,602	13.8%
Accrued investment income	815,687	699,387	116,300	16.6%
Reinsurance recoverable	9,604,904	7,744,871	1,860,033	24.0%
Deferred income tax asset	95,616	139,334	(43,718)	(31.4)%
Deferred policy acquisition costs, deferred sales costs and value of business acquired	2,854,536	2,902,453	(47,917)	(1.7)%
Other assets	801,056	861,106	(60,050)	(7.0)%
Separate account assets	5,785,040	5,274,870	510,170	9.7%
Total assets	$ 67,660,675	$ 59,537,255	$ 8,123,420	13.6%

Total assets

Total assets increased $8,123.4 million, or 13.6%, to $67,660.7 million as of December 31, 2023 from $59,537.3 million as of December 31, 2022. The increase is primarily due to net policyholder cash inflows of $2,040.4 million, $2,836.1 million of net investment income and the favorable net change in value of investments of $1,284.0 million. The increase was also impacted by an increase in the reinsurance recoverable of $1,860.0 million primarily related to SkyRidge Re, as well as an additional $310.0 million in borrowings, net of repayments, from the Company's revolving credit facility.

Fixed maturities, available for sale

Fixed maturities classified as available for sale increased $6,646.9 million, or 19.8%, to $40,285.0 million as of December 31, 2023 from $33,638.1 million as of December 31, 2022, driven by $4,681.9 million of net acquisitions and by a combination, totaling $1,256.7 million, of a favorable net change in value, and to a lesser extent, foreign exchange impact.

Fixed maturities, trading

Fixed maturities classified as trading increased $107.3 million, or 35.2%, to $412.5 million as of December 31, 2023 from $305.1 million as of December 31, 2022, driven by $103.7 million of net acquisitions.

Equity securities at fair value

Equity securities at fair value increased $92.3 million, or 15.0%, to $705.3 million as of December 31, 2023 from $613.0 million as of December 31, 2022, driven by $53.1 million of net acquisitions and a $41.7 million favorable net change in value.

Notes receivable from related parties

Notes receivable from related parties decreased $701.6 million, or 41.3%, to $995.7 million as of December 31, 2023 from $1,697.3 million as of December 31, 2022, driven by net repayments of $707.8 million.

Cash and cash equivalents

Cash and cash equivalents increased $279.2 million, or 20.4%, to $1,647.4 million as of December 31, 2023 from $1,368.2 million as of December 31, 2022. The increase was primarily driven by a $104.0 million investment to take advantage of the rise in short-term treasury yields through opportunities arising in commercial paper. Additionally, there was an increase in cash due to the increase in repurchase agreement borrowings at year-end that resulted in cash that had not yet been fully deployed prior to year-end 2023.

Short-term investments

Short-term investments decreased $531.9 million, or (76.8)%, to $160.9 million as of December 31, 2023 from $692.8 million as of December 31, 2022. The decrease in short-term investments was primarily driven by net repayments of $547.3 million.

Call options

Call options increased $428.5 million, or 129.7%, to $759.0 million as of December 31, 2023 from $330.5 million as of December 31, 2022. The increase in call options was primarily driven by new purchases and a favorable change in fair value of the options used to hedge the associated indices offered in the Company's FIAs.

Other invested assets

Other invested assets decreased $531.4 million, or 22.0%, to $1,878.7 million as of December 31, 2023 from $2,410.1 million as of December 31, 2022. The decrease in other invested assets was primarily driven by net sales of $508.5 million, primarily related to investments accounted for under the equity method. In addition, favorable equity method adjustments of $138.1 million were partially offset by a $122.8 million unfavorable net change in value of derivatives.

Accrued investment income

Accrued investment income increased $116.3 million, or 16.6%, to $815.7 million as of December 31, 2023 from $699.4 million as of December 31, 2022. The increase was primarily driven by an increase in AUM for the period ended December 31, 2023 compared to December 31, 2022, as well as an overall increase in investment coupon rates on our floating rate assets as a result of the increasing interest rate environment over the same time period.

Reinsurance recoverable

Reinsurance recoverable increased $1,860.0 million, or 24.0%, to $9,604.9 million as of December 31, 2023 from $7,744.9 million as of December 31, 2022. The increase was primarily due to additional ceded business associated with the SkyRidge Re reinsurance treaty.

Deferred income tax asset

The net deferred tax asset position decreased $43.7 million, or 31.4%, to $95.6 million as of December 31, 2023 from $139.3 million as of December 31, 2022. The decrease was primarily related to a decrease in unrealized capital losses of $(269.9) million, unrealized gain on derivatives of $(112.9) million, and other of $(3.0) million, partially offset by future policy benefits of $306.8 million, intercompany sales of investment assets, unearned hedge fees, and other investment adjustments of $19.5 million, and DAC, DSI and VOBA of $15.5 million..

Liabilities and Stockholders' Equity

The following table sets forth the Company's liabilities and stockholders' equity for the dates presented:

	As of December 31, 2023	As of December 31, 2022	$ Change	% Change
	(unaudited)	*(audited)*		
		(dollars in thousands)		
Liabilities and stockholders' equity				
Liabilities:				
Policy reserves and annuity account values	$ 42,468,945	$ 38,954,562	$ 3,514,383	9.0%
Funds withheld and held liabilities	8,082,827	6,008,025	2,074,802	34.5%
Senior notes	941,240	984,389	(43,149)	(4.4)%
Revolving credit facility	633,358	321,530	311,828	97.0%
Delayed draw term loan	50,489	—	50,489	100.0%
Surplus notes	114,299	115,367	(1,068)	(0.9)%
Debt from consolidated variable interest entities	96,830	148,779	(51,949)	(34.9)%
Derivative collateral	647,922	512,640	135,282	26.4%
Repurchase agreements	1,012,497	900,379	112,118	12.5%
Other liabilities	852,649	661,153	191,496	29.0%
Separate account liabilities	5,785,040	5,274,870	510,170	9.7%
Total liabilities	60,686,096	53,881,694	6,804,402	12.6%
Stockholders' equity				
Common stock [(1)]	—	—	—	—%
Preferred stock	770,491	770,491	—	—%
Contributed capital	2,339,595	2,339,595	—	—%
Accumulated other comprehensive income (loss)	(238,209)	(920,673)	682,464	(74.1)%
Retained earnings	4,096,922	3,464,775	632,147	18.2%
Total SBL Holdings, Inc. stockholders' equity	6,968,799	5,654,188	1,314,611	23.3%
Noncontrolling interest	5,780	1,373	4,407	321.0%
Total stockholders' equity	6,974,579	5,655,561	1,319,018	23.3%
Total liabilities and stockholders' equity	$ 67,660,675	$ 59,537,255	$ 8,119,013	13.6%

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

Liabilities

Total liabilities increased $6,804.4 million, or 12.6%, to $60,686.1 million as of December 31, 2023 from $53,881.7 million as of December 31, 2022. The increase in total liabilities was primarily driven by the increases in policy reserves, funds withheld and held liabilities, separate account liabilities and increases in the revolving credit facility as further described below.

Policy reserves and annuity account values

Policy reserves and annuity account values increased $3,514.4 million, or 9.0%, to $42,468.9 million as of December 31, 2023 from $38,954.6 million as of December 31, 2022. The reserve increase was primarily driven by an increase in FIA and fixed annuity sales. FIA and fixed annuity reserves increased $3,752.9 million with gross deposits outpacing withdrawals.

Funds withheld and held liabilities

Funds withheld and held liabilities increased $2,074.8 million, or 34.5%, to $8,082.8 million as of December 31, 2023 from $6,008.0 million as of December 31, 2022. The increase was driven by a $1,743.7 million increase in additional net ceded business associated with the SkyRidge Re reinsurance treaty.

Revolving credit facility

The outstanding balance on our revolving credit facility, which is net of deferred issuance costs, increased $311.8 million to $633.4 million as of December 31, 2023 from $321.5 million as of December 31, 2022. The increase was due to an additional draw on the revolving credit facility of $435.0 million in February 2023, the proceeds of which were used to contribute additional capital to SBLIC for year-end 2022 statutory reporting. The draw was partially offset by net principal payments to the revolving credit facility of $125.0 million.

Delayed draw term loan

The outstanding balance on our delayed draw term loan facility, which is net of deferred issuance costs, increased $50.5 million, or 100.0%, to $50.5 million as of December 31, 2023. The increase was due to the Company's entry into the delayed draw term loan facility as further described under "Long-Term Debt and Future Principal Payments (Excluding FABNs)."

Debt from consolidated variable interest entities

Debt from consolidated variable interest entities decreased $51.9 million, or 34.9%, to $96.8 million as of December 31, 2023 from $148.8 million as of December 31, 2022. The decrease was driven by full and partial principal repayments of debt issued by certain consolidated variable interest entities.

Derivative collateral

Derivative collateral increased $135.3 million, or 26.4%, to $647.9 million as of December 31, 2023 from $512.6 million as of December 31, 2022. The increase was driven by net acquisitions and an increase in the fair value of call options.

Repurchase agreements

Repurchase agreements increased $112.1 million, or 12.5%, to $1,012.5 million as of December 31, 2023 from $900.4 million as of December 31, 2022. The $900.4 million outstanding as of December 31, 2022 all matured in the first half of 2023, but $1,012.5 million of new issuances led to a net increase to outstanding borrowing year-over-year.

Other liabilities

Other liabilities increased $191.5 million, or 29.0%, to $852.6 million as of December 31, 2023 from $661.2 million as of December 31, 2022. The increase was primarily due to unearned hedge fee revenues of $186.3 million, partially offset by a liability position of $51.9 million on foreign forward contracts.

Stockholders' Equity

Stockholders' equity increased $1,319.0 million, or 23.3%, to $6,974.6 million as of December 31, 2023 from $5,655.6 million as of December 31, 2022. The increase was primarily driven by net income of $695.4 million and the change in AOCI due to a favorable change in net unrealized gains and losses on available for sale securities of $1,283.3 million, partially offset by a decrease in AOCI attributable to the related impact to DAC, DSI, VOBA and policy reserves of $419.4 million and preferred stock dividends of $53.9 million.

Financial Condition

The Company had total investments of approximately $47.7 billion as of December 31, 2023. In addition, the Company had assets in separate accounts of approximately $5.8 billion as of December 31, 2023. Except in certain limited situations permitted by applicable laws, separate account assets are not available to pay liabilities of the Company's general account products and would not be available to any general account creditors in the liquidation or rehabilitation of the Company. These separate account assets also are not available to the Company for use in making payments on its general account liabilities.

Investments

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

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

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

As reflected in the table below, the Company's investments principally consist of corporate debt, CLOs and other asset backed securities. Since December 31, 2022, on a percentage basis and based upon amortized cost, the Company has increased its allocation to corporate debt, obligations of government-sponsored enterprises, collateralized loan obligations, fixed maturity trading securities, cash and cash equivalents, and equity securities at fair value, while decreasing its relative allocation to commercial mortgage-backed securities, other invested assets, other asset backed securities, notes receivable from related parties, and short-term investments.

On a GAAP basis, collateral loan investments are reflected in "corporate debt" in the table below, and such investments are reflected in "other invested assets" on the statutory balance sheet and "ABS" as viewed by management. From December 31, 2022 to December 31, 2023, on a statutory basis, SBLIC's collateral loan investments increased approximately $1.5 billion, net of investments supporting our funds withheld coinsurance agreements. On a GAAP basis, equity investments are reflected in "other invested assets" and "equity securities at fair value" in the table below, and such investments are primarily reflected in "other invested assets" on the statutory balance sheet and "alternative investments" as viewed by management. From December 31, 2022 to December 31, 2023, SBLIC's equity investments decreased approximately $(0.4) billion on a statutory basis. On a statutory basis and thus for capital purposes, such investments generally carry higher required capital charges than investment grade bonds. Other factors could also increase or decrease those charges.

The following table summarizes the composition of the Company's investment portfolio on a GAAP basis:

	December 31, 2023		December 31, 2022	
	Carrying Amount	Percent	Carrying Amount	Percent
	(unaudited)		*(audited)*	
	(dollars in thousands)			
Securities available for sale				
Fixed maturity investments:				
U.S. Treasury securities and other U.S. government corporations and agencies	$ 37,791	0.1%	$ 46,290	0.1%
Obligations of government-sponsored enterprises	569,421	1.2%	117,887	0.3%
Corporate	22,719,932	47.6%	18,820,701	44.9%
Municipal obligations	28,970	0.1%	27,542	0.1%
Commercial mortgage-backed	52,974	0.1%	67,157	0.2%
Residential mortgage-backed	18,614	n/m	17,010	n/m
Collateralized debt obligations	7,861	n/m	7,805	n/m
Collateralized loan obligations	14,436,990	30.3%	12,492,398	29.8%
Redeemable preferred stock	23,313	n/m	20,650	n/m
Other asset backed	2,389,142	5.0%	2,020,698	4.8%
Total fixed maturity investments	40,285,008	84.4%	33,638,138	80.3%
Fixed maturities, trading	412,450	0.9%	305,122	0.7%
Equity securities at fair value	705,296	1.5%	613,041	1.5%
Notes receivable from related parties	995,715	2.1%	1,697,307	4.0%
Mortgage loans	787,674	1.7%	785,987	1.9%
Policy loans	71,647	0.2%	73,965	0.2%
Cash and cash equivalents	1,647,403	3.5%	1,368,243	3.3%
Short-term investments	160,893	0.3%	692,835	1.7%
Call options	759,014	1.6%	330,501	0.8%
Other invested assets	1,878,736	3.9%	2,410,095	5.7%
Total investments	$ 47,703,836	100.0%	$ 41,915,234	100.0%

n/m - not meaningful

The following table presents, as viewed by management, a summary of the NRSRO ratings distribution (based on statutory assets and carrying value) of our rated investments[(A)] as of December 31, 2023 and 2022.

	Fixed Maturity Investments[(A)(B)]			
	December 31, 2023		December 31, 2022	
	Carrying Amount	Percent	Carrying Amount	Percent
	(unaudited) *(dollars in thousands)*			
AAA	$ 3,978,428	18%	$ 3,380,541	18%
AA	802,585	4%	577,429	3%
A	5,745,981	27%	5,093,035	26%
BBB	8,012,738	37%	7,626,849	39%
Subtotal investment grade	18,539,732	86%	16,677,854	86%
BB	2,355,251	11%	2,053,155	11%
B	659,228	3%	609,654	3%
CCC+ and lower	30,356	n/m	19,629	n/m
Subtotal below investment grade	3,044,835	14%	2,682,438	14%
Total	$ 21,584,567	100%	$ 19,360,292	100%
n/m - not meaningful				
Fixed maturity investments not rated	$ 15,655,993		$ 16,042,629	

(A) NRSRO rating is based on the lowest S&P equivalent when two ratings are present and on the second lowest rating when three or more ratings are present. This is consistent with the National Association of Insurance Commissioners ("NAIC") Purposes and Procedures Manual. Only assets with NRSRO ratings are presented, which represented $21.6 billion (or 58%) of the Company's total investments, excluding cash, contract loans, derivatives, receivables for investments, and aggregate write-ins, on a statutory basis as of December 31, 2023.

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

The following table presents, as viewed by management, a summary of the NRSRO rating distribution (based on statutory assets and carrying value) of our rated CLOs and rated other asset backed securities as of December 31, 2023 and December 31, 2022.

	Collateralized Loan Obligations[(A)(B)]		Other Asset Backed Securities[(A)]	
	December 31, 2023		December 31, 2023	
	Carrying Amount	Percent	Carrying Amount	Percent
	(unaudited) *(dollars in thousands)*			
AAA	$ 3,444,928	29%	$ 23,993	1%
AA	696,586	6%	77,035	3%
A	2,387,711	20%	637,617	29%
BBB	3,542,384	30%	997,347	44%
Subtotal investment grade	10,071,609	85%	1,735,992	77%
BB	1,503,600	13%	337,753	15%
B	264,178	2%	169,289	8%
CCC+ and lower	17,901	n/m	3,370	n/m
Subtotal below investment grade	1,785,679	15%	510,412	23%
Total	$ 11,857,288	100%	$ 2,246,404	100%
n/m - not meaningful				
Not rated	11,966		11,610,264	

	Collateralized Loan Obligations[(A)(B)]		Other Asset Backed Securities[(A)]	
	December 31, 2022		December 31, 2022	
	Carrying Amount	Percent	Carrying Amount	Percent
	(unaudited) (dollars in thousands)			
AAA	$ 3,260,435	28%	$ 12,242	1%
AA	492,946	5%	55,489	3%
A	2,182,377	21%	581,544	36%
BBB	3,424,409	31%	1,095,078	49%
Subtotal investment grade	9,360,167	85%	1,744,353	89%
BB	1,446,226	13%	142,979	7%
B	302,072	2%	112,959	4%
CCC+ and lower	8,890	n/m	3,321	n/m
Subtotal below investment grade	1,757,188	15%	259,259	11%
Total	$ 11,117,355	100%	$ 2,003,612	100%
n/m - not meaningful				
Not rated	279,646		10,021,899	

(A) NRSRO rating is based on the lowest S&P equivalent when two ratings are present and on the second lowest rating when three or more ratings are present. This is consistent with the NAIC Purposes and Procedures Manual. Only assets with NRSRO ratings are displayed. Only CLO assets with NRSRO ratings are presented, which represented $11.9 billion (or 32%) of the Company's total investments, excluding cash, contract loans, derivatives, receivables for investments, and aggregate write-ins, on a statutory basis as of December 31, 2023.

(B) Certain statutory investments are characterized as CLOs due to their underlying exposure to both rated and unrated CLO tranches. Such investments have exposure to approximately $0.5 billion in unrated CLO tranches.

Fixed Maturity Available for Sale Securities

The following table presents the amortized cost and fair value of the Company's fixed maturity available for sale securities at December 31, 2023 and 2022, by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Fair Value
	(dollars in thousands)	
December 31, 2023 ***(unaudited)***		
Due in one year or less	$ 2,149,541	$ 2,124,999
Due after one year through five years	15,804,242	15,611,224
Due after five years through ten years	3,772,848	3,731,134
Due after ten years	1,365,721	1,319,336
Securities with variable principal schedules [(a)]	17,853,771	17,498,315
Total	$ 40,946,123	$ 40,285,008
December 31, 2022 ***(audited)***		
Due in one year or less	$ 3,297,676	$ 3,239,820
Due after one year through five years	13,097,377	12,629,770
Due after five years through ten years	2,069,990	1,892,271
Due after ten years	1,261,870	1,132,673
Securities with variable principal schedules [(a)]	15,941,897	14,743,604
Total	$ 35,668,810	$ 33,638,138

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

Assets and Liabilities Measured and Reported at Fair Value

The following table presents categories measured at fair value on a recurring basis:

	December 31, 2023			
		Fair Value Hierarchy Level		
	Fair Value	Level 1	Level 2	Level 3
		(unaudited) (dollars in thousands)		
Assets:				
Cash equivalents	$ 145,810	$ 145,810		$ —
Fixed maturity investments:				
U.S. Treasury securities and other U.S. government corporations and agencies	42,826	—	42,826	—
Obligations of government-sponsored enterprises	610,720	—	610,720	—
Corporate	22,925,749	—	4,145,664	18,780,085
Obligations of foreign governments	428	—	428	—
Municipal obligations	45,856	—	26,292	19,564
Commercial mortgage-backed	68,157	—	64,318	3,839
Residential mortgage-backed	51,801	—	51,801	—
Collateralized debt obligations	7,861	—	7,861	—
Collateralized loan obligations	14,477,952	—	9,059,455	5,418,497
Redeemable preferred stock	23,312	—	—	23,312
Other asset backed	2,442,796	—	731,062	1,711,734
Total fixed maturity investments	40,697,458	—	14,740,427	25,957,031
Equity securities:				
Consumer	257,539	32,384	193,141	32,014
Mutual funds	4,733	4,733	—	—
Preferred stocks	443,024	—	104,804	338,220
Total equity securities	705,296	37,117	297,945	370,234
Short-term investments	160,893	—	100,363	60,530
Call options	759,014	—	759,014	—
Currency forwards and swaps	175,632	—	175,632	—
Interest rate swaps and total return swaps	76,634	62,617	14,017	—
Futures	5,253	5,253	—	—
Other derivatives	781	316	—	465
Embedded derivatives - funds withheld receivable	(12,306)	—	—	(12,306)
Embedded derivatives - commission assignment	1,255	—	—	1,255
Embedded derivatives - reinsurance contracts	814,694	—	—	814,694
Separate account assets	5,785,040	3,398,140	—	2,386,900
Total assets	$ 49,315,454	$ 3,649,253	$ 16,087,398	$ 29,578,803
Liabilities:				
Call options	$ 16,913	$ —	$ 16,913	$ —
Currency forwards and swaps	139,965	—	139,965	—
Interest rate swaps and total return swaps	22,442	15,931	6,511	—
Hedge accounting liability for MYGA product	(22,122)	—	—	(22,122)
Futures	304	304	—	—
Interest rate caps	5,747	—	5,747	—
Derivatives and embedded derivatives:				
GMWB and GMAB reserves	3,705	—	—	3,705
Funds withheld liability	(154,635)	—	—	(154,635)
Reinsurance derivative liability	211,297	—	—	211,297
Fixed index annuity contracts	2,810,892	—	—	2,810,892
Total liabilities	$ 3,034,508	$ 16,235	$ 169,136	$ 2,849,137

	December 31, 2022			
		Fair Value Hierarchy Level		
	Fair Value	Level 1	Level 2	Level 3
	(audited)			
	(dollars in thousands)			
Assets:				
Cash equivalents	$ 26,784	$ 26,784	$ —	$ —
Fixed maturity investments:				
U.S. Treasury securities and other U.S. government corporations and agencies	46,290	—	46,290	—
Obligations of government-sponsored enterprises	133,185	—	133,185	—
Corporate	19,010,953	—	2,289,495	16,721,458
Obligations of foreign governments	422	—	422	—
Municipal obligations	41,427	—	22,785	18,642
Commercial mortgage-backed	87,240	—	83,635	3,605
Residential mortgage-backed	26,798	—	26,798	—
Collateralized debt obligations	7,805	—	7,805	—
Collateralized loan obligations	12,518,654	—	8,787,760	3,730,894
Redeemable preferred stock	20,650	—	—	20,650
Other asset backed	2,049,836	—	652,366	1,397,470
Total fixed maturity investments	33,943,260	—	12,050,541	21,892,719
Equity securities:				
Consumer	322,998	285,128	2,366	35,504
Mutual funds	4,218	4,218	—	—
Preferred stocks	285,825	—	17,771	268,054
Total equity securities	613,041	289,346	20,137	303,558
Short-term investments	692,835	—	692,835	—
Call options	330,501	7,275	323,226	—
Currency forwards and swaps	434,054	—	434,054	—
Interest rate swaps and total return swaps	23,573	11,854	11,719	—
Futures	757	757	—	—
Other derivatives	22,700	236	—	22,464
Embedded derivatives - funds withheld receivable	(22,163)	—	—	(22,163)
Embedded derivatives - commission assignment	3,461	—	—	3,461
Embedded derivatives - reinsurance contracts	388,398	—	—	388,398
Separate account assets	5,274,870	3,169,570	—	2,105,300
Total assets	$ 41,732,071	$ 3,505,822	$ 13,532,512	$ 24,693,737
Liabilities:				
Call options	$ 9,606	$ 2,691	$ 6,915	$ —
Currency forwards and swaps	191,867	—	191,867	—
Interest rate swaps and total return swaps	30,964	14,942	16,022	—
Futures	674	674	—	—
Interest rate cap	8,503	—	8,503	—
Derivatives and embedded derivatives:				
GMWB and GMAB reserves	4,140	—	—	4,140
Funds withheld liability	(440,361)	—	—	(440,361)
Reinsurance derivative liability	55,598	—	—	55,598
Fixed index annuity contracts	1,873,472	—	—	1,873,472
Total liabilities	$ 1,734,463	$ 18,307	$ 223,307	$ 1,492,849

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

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

Unrealized Losses

The following table presents the amortized cost and fair value of fixed maturity available for sale investments that were in an unrealized loss position:

	Number of Securities	Amortized Cost	Gross Unrealized Losses	Fair Value
		(unaudited) (dollars in thousands)		
December 31, 2023				
Fixed maturity securities, available for sale:				
Corporate	460	$ 14,380,364	$ 508,204	$ 13,872,160
Commercial mortgage-backed	76	59,546	10,921	48,626
Collateralized loan obligations	433	8,332,105	453,206	7,878,899
Redeemable preferred stock	1	24,029	716	23,312
Other asset backed	192	1,210,614	82,397	1,128,217
Other	305	282,623	15,639	266,984
Total fixed maturity securities, available for sale	1,467	$ 24,289,281	$ 1,071,083	$ 23,218,198
December 31, 2022				
Fixed maturity securities, available for sale:				
Corporate	623	$ 16,503,982	$ 868,374	$ 15,635,608
Commercial mortgage-backed	87	67,567	8,308	59,259
Collateralized loan obligations	542	12,112,656	1,230,335	10,882,321
Redeemable preferred stock	1	24,120	3,470	20,650
Other asset backed	210	1,963,105	141,979	1,821,126
Other	323	222,060	21,382	200,678
Total fixed maturity securities, available for sale	1,786	$ 30,893,490	$ 2,273,848	$ 28,619,642

As of December 31, 2023, the Company held $23.2 billion in available for sale fixed maturity securities on a fair value basis, with gross unrealized losses of $1.1 billion. For those securities that have been in a loss position for less than 12 months, the Company had 180 securities with a carrying value of $5.5 billion and unrealized losses of $0.2 billion. For those securities that were in a continuous loss position greater than or equal to 12 months, the Company had 1,315 securities with a carrying value of $17.7 billion and unrealized losses of $0.8 billion. The Company does not believe any of the unrealized losses represent credit losses at December 31, 2023 because the unrealized losses are primarily driven by the rising rate environment observed during 2022 and 2023.

As of December 31, 2022, the Company held $28.6 billion in available for sale fixed maturity securities on a fair value basis, with unrealized losses of $2.3 billion. For those securities that were then in a loss position for less than 12 months, the Company had 1,264 securities with a carrying value of $22.9 billion and unrealized losses of $1.4 billion. For those securities that were in a continuous loss position greater than or equal to 12 months, the Company had 578 securities with a carrying value of $5.7 billion and unrealized losses of $919.5 million

The following table presents the amortized cost and fair value of fixed maturity securities in an unrealized loss position by investment grade and the numbers of months in a continuous unrealized loss position:

	Number of Securities	Amortized Cost	Gross Unrealized Losses	Fair Value
		(unaudited) *(dollars in thousands)*		
December 31, 2023				
Fixed maturity securities, available for sale				
Investment grade				
Less than six months	77	$ 2,024,295	$ 63,921	$ 1,960,374
Six months or more and less than twelve months	83	1,231,216	31,303	1,199,913
Twelve months or greater	1,209	11,830,824	681,879	11,148,945
Total investment grade	1,369	15,086,335	777,103	14,309,232
Below investment grade				
Less than six months	4	5,371	1,471	3,900
Six months or more and less than twelve months	1	85	4	81
Twelve months or greater	14	24,165	4,771	19,394
Total below investment grade	19	29,621	6,246	23,375
Not rated				
Less than six months	24	1,491,686	84,091	1,407,595
Six months or more and less than twelve months	12	1,019,201	56,019	963,182
Twelve months or greater	91	6,662,438	147,624	6,514,814
Total not rated	127	9,173,325	287,734	8,885,591
Total fixed maturity securities, available for sale	1,515	$ 24,289,281	$ 1,071,083	$ 23,218,198
December 31, 2022				
Fixed maturity securities, available for sale				
Investment grade				
Less than six months	295	$ 5,362,334	$ 126,990	$ 5,235,344
Six months or more and less than twelve months	752	7,179,168	517,521	6,661,647
Twelve months or greater	463	4,555,219	502,603	4,052,616
Total investment grade	1,510	17,096,721	1,147,114	15,949,607
Below investment grade				
Less than six months	50	770,998	32,033	738,965
Six months or more and less than twelve months	76	572,267	112,188	460,079
Twelve months or greater	98	1,621,071	345,863	1,275,208
Total below investment grade	224	2,964,336	490,084	2,474,252
Not rated				
Less than six months	65	2,798,410	130,303	2,668,107
Six months or more and less than twelve months	84	7,545,538	435,310	7,110,228
Twelve months or greater	17	488,485	71,037	417,448
Total not rated	166	10,832,433	636,650	10,195,783
Total fixed maturity securities, available for sale	1,900	$ 30,893,490	$ 2,273,848	$ 28,619,642

Alternative Investments

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

	December 31, 2023		December 31, 2022	
	Statutory Asset Carry Value [(a)]	Percent	Statutory Asset Carry Value [(a)]	Percent
		(unaudited) *(dollars in thousands)*		
Private equity	$ 1,458,430	72.9 %	$ 1,645,234	71.7 %
Credit	319,750	16.0 %	158,271	6.9 %
Public equity	31,219	1.6 %	224,011	9.8 %
Real estate	48,199	2.4 %	89,434	3.9 %
Aircraft	54,305	2.7 %	52,864	2.3 %
Other	88,942	4.4 %	124,236	5.4 %
Total	$ 2,000,845	100.0 %	$ 2,294,050	100.0 %

(a) Represents alternative assets as defined by Management.

Alternative investments are reflected in the Company's GAAP consolidated balance sheets primarily within equity securities at fair value and other invested assets. The dollar decrease in private equity is primarily due to sales of private equity funds. The dollar increase in credit alternative investments was due to the acquisition of new investments. The dollar decrease in public equity is primarily due to the disposition of certain investments.

International Exposure

The Company holds fixed maturity available for sale securities issued by non-U.S. issuers. As of December 31, 2023, 10.7% of the carrying value of the Company's fixed maturity securities was comprised of securities in issuers based outside the United States and securities in foreign governments. The Company's investment professionals analyze each holding for credit risk by economic and other factors of each country and industry. The following table presents the Company's international exposure in its fixed maturity portfolio by country or region:

	Amortized Cost	Fair Value	Percent of Total Fixed Maturity Carrying Amount
		(unaudited) *(dollars in thousands)*	
December 31, 2023			
Non-U.S. North America	$ 2,297,249	$ 223,890	5.5%
Europe	2,226,980	335,116	5.0%
Australia & New Zealand	3,048	3,010	n/m
Asia/Pacific	1,971	1,605	n/m
Other	88,087	75,001	0.2%
Total	$ 4,617,335	$ 638,622	10.7%
December 31, 2022			
Non-U.S. North America	$ 2,556,855	$ 2,309,141	6.9%
Europe	1,698,398	1,502,939	4.5%
Australia & New Zealand	2,955	2,773	n/m
Asia/Pacific	3,704	3,070	n/m
Other	91,337	80,367	0.2%
Total	$ 4,353,249	3,898,290	11.6%

n/m - not meaningful

The Company utilizes a currency hedging strategy to manage and hedge the currency risk in foreign currency denominated investments. All known non-USD cash flows are fully hedged; thus net foreign currency exposure is minimized.

The strategy is executed through various derivatives (foreign currency forwards and cross currency swaps) that hedge the foreign currency risk embedded in certain asset positions (EUR- or GBP-denominated loans) or asset classes in the Company's portfolio.

Watch List

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

At December 31, 2023 and December 31, 2022, the amortized cost and fair value of the Company’s fixed maturity investments on the Company’s watch list are as follows:

	Number of Positions	Amortized Cost	Unrealized Losses	Fair Value
		(unaudited)		
December 31, 2023		*(dollars in thousands)*		
Investment grade				
Commercial mortgage backed	9	19,807	(459)	13,789
Corporate	16	21,429	(4,780)	16,649
Obligations of GSE	8	3,325	(1,033)	2,293
Other asset backed	4	10,994	(2,821)	8,173
Residential mortgage backed	3	1,976	(436)	1,540
Below investment grade				
Collateralized loan obligations	17	274,931	(84,974)	189,956
Corporate	2	4,350	(1,328)	3,022
Commercial mortgage backed	1	2,717	(1,026)	1,691
Other asset backed	1	64,505	(16,023)	48,483
Not rated				
Collateralized loan obligations	4	50,314	(15,160)	35,153
Corporate	7	54,471	(14,013)	39,396
Commercial mortgage loans	1	46,075	(10,101)	35,974
Total	73	$ 554,894	$ (152,154)	$ 396,119
December 31, 2022				
Investment grade				
Collateralized loan obligations	7	457,091	(100,240)	356,851
Commercial mortgage backed	6	11,086	(2,590)	8,496
Corporate	51	74,556	(17,619)	56,937
Municipal obligations	4	2,509	(603)	1,906
Obligations of GSE	13	7,437	(2,430)	5,007
Other asset backed	19	66,822	(14,648)	52,174
Redeemable preferred stock	1	1,500	(1,484)	16
Residential mortgage backed	4	2,287	(556)	1,731
Below investment grade				
Collateralized loan obligations	40	747,900	(213,967)	533,933
Corporate	9	94,207	(22,950)	71,257
Commercial mortgage backed	1	2,682	(707)	1,975
Other asset backed	2	66,580	(30,521)	36,059
Not rated				
Collateralized loan obligations	10	152,965	(60,445)	92,520
Corporate	6	58,014	(20,531)	37,483
Municipal obligations	1	250	(63)	187
Total	173	$ 1,745,636	$ (489,291)	$ 1,256,345

Certain market conditions resulted in decreased yields throughout 2023. As a result, the Company saw an increase in valuations which reduced both our overall unrealized loss position and the Company's watch list.

Credit Losses

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

Mortgage Loans on Real Estate

The Company's mortgage loans consist of commercial mortgage loans ("CML") and residential mortgage loans ("RML"). The Company's CML portfolio began in 2012 and consists of mortgage loans collateralized by the underlying properties and diversified as to property type, location and loan size. In evaluating potential mortgage loan investments, the Company evaluates the risks inherent in the CML based on the property's operational results supporting the loan.

The weighted average loan to value ratio of the Company's CML portfolio was 61% and 59% as of December 31, 2023 and December 31, 2022, respectively, based on adjusted loan to value calculations utilizing current net operating income, cap rates, and construction costs, where appropriate and available. The Company believes this loan to value ratio is indicative of its conservative underwriting policies and practices for CMLs. The Company's current practice is to obtain market value appraisals of the underlying collateral at the inception of the loan unless the Company identifies indicators of impairment in its ongoing analysis of the portfolio, in which case the Company either calculates a value of the collateral using a capitalization method or obtains a current appraisal of the underlying collateral.

Derivative Instruments

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

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

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

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

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

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

Liabilities

The Company's liability for policy reserves and annuity account values increased to $42.5 billion at December 31, 2023 from $39.0 billion at December 31, 2022, primarily due to 2023 annuity sales. Most of the Company's annuity products have a surrender charge and market value adjustment features designed to reduce the risk of early withdrawal or surrender of the policies. Notwithstanding these policy features, the withdrawal rates of policyholder funds may be affected by changes in interest rates and other factors. The Company believes that annuity policies with GLWB riders are less likely to be surrendered, and 75% of the out of surrender charge category have a GLWB rider. As of December 31, 2023, the Company's fixed annuity and FIA liabilities exiting surrender charge protection is as follows:

5 or more years	34 %
3-4 years	16 %
Less than 3 years	29 %
Out of surrender charge	21 %
Total	100 %

The Company's funds withheld and held liabilities were $8,082.8 million and $6,008.0 million at December 31, 2023 and December 31, 2022, respectively. These liabilities are maintained in accordance with the Company's funds withheld reinsurance agreements to contractually secure the ceded statutory reserves. A corresponding investment portfolio is separately maintained and recorded as part of the Company's investment portfolio. A separate reinsurance recoverable asset is reflected on the consolidated balance sheets for the ceded GAAP reserves, not all of which are collateralized by funds withheld.

Liquidity and Capital Resources

Liquidity for Insurance Operations

The Company's primary sources of cash are annuity deposits, investment income, and proceeds from the sale, maturity, pay down and redemption of investments. The primary uses of cash are investment purchases, payments to policyholders in connection with surrenders and withdrawals, policy acquisition costs, interest expense, preferred stock dividends and other operating expenses.

Liquidity requirements are met primarily by funds provided from cash flow from annuity deposits and investment income. Annuity liabilities are generally long-term in nature. However, a primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. The Company includes provisions within its annuity policies, such as surrender charges and market value adjustments, that help limit and provide an economic disincentive to early withdrawals. At December 31, 2023, approximately 74% of FIA, fixed annuity, and variable annuity fixed account value, net of reinsurance, was subject to a charge upon surrender, with a weighted average remaining surrender charge period of 3 years and a weighted average surrender charge percentage of 5.1%. The weighted average life of the Company's annuity policies in force as of December 31, 2023 was 8.98 years. The weighted average life of the Company's fixed and fixed index annuities as of December 31, 2023 was 9.07 years. The weighted average life of new annuity policies written during the twelve months ended December 31, 2023 was 8.42 years. The surrender charge level excludes market value adjustments and premium bonus recapture.

Liquidity

As of December 31, 2023, the Company had $32.0 million in unrestricted cash available to pay long-term obligations. The Company contributed to its subsidiary, SBLIC, $435.0 million in the twelve months ended December 31, 2023 and $300.0 million to SBLIC in the twelve months ended December 31, 2022. The $435.0 million capital contribution in 2023 was funded with a $435.0 million draw under our revolving credit facility. Neither SBLH nor any of its affiliates has any obligation to make any future capital contributions to SBLIC.

In May 2023, SBLIC declared and paid a dividend of $275.0 million to SBLH, of which a net payment of $125.0 million was used to pay down the revolving credit facility. In September 2023, SBLIC declared a dividend of $75.0 million to SBLH, which was paid on November 10, 2023.

As of December 31, 2023 undrawn commitments under our $1.0 billion revolving credit facility were $360.0 million. As of December 31, 2023, undrawn commitments under our $150.0 million delayed draw term loan were $97.5 million. The Company can incur an additional $655.0 million of debt while maintaining debt leverage at 25%, and $905.0 million while maintaining financial leverage (debt and preferred stock) at 35%.

SBLIC also maintains securities available to be pledged as collateral to the Federal Home Loan Bank of Topeka (“FHLB”) to fund advances for operating cash. As of December 31, 2023, the capacity available under the FHLB facility is $451.2 million. Overnight borrowings in connection with the line of credit bear interest at 0.22% over the Federal Funds rate (5.55% at December 31, 2023). SBLIC had no borrowings under this line of credit at December 31, 2023 or 2022. SBLIC also enters into repurchase agreements with third parties that provide access to liquidity through short-term collateralized borrowing. As of December 31, 2023, SBLIC had unused capacity of $1.3 billion on committed repurchase agreements.

The amount of dividends that SBLIC can pay to SBLH is restricted under applicable insurance laws and regulations. For 2024, the maximum amount of ordinary dividends that SBLIC could pay under applicable laws and regulations is the greater of (i) 10% of surplus as regards policyholders as of December 31, 2023 and (ii) its net gain from operations, not including realized capital gains for the 12-month period ended December 31, 2023; provided however, that ordinary dividends can only be paid from earned surplus (sometimes referred to as “unassigned surplus”). The greater of (i) and (ii) above is $1,202.5 million for 2024, an increase from $513.9 million for 2023. Ordinary dividend capacity is also reduced by dividends paid in the prior twelve months. SBLIC paid dividends to SBLH of $75.0 million on November 10, 2023 and $275.0 million on May 11, 2023. Accordingly, because of the prior dividends that have been paid, SBLIC's remaining ordinary dividend capacity was $852.5 at January 1, 2024. SBLIC can seek approval to pay dividends in excess of these permitted amounts, but there can be no assurance that it would receive regulatory approval if sought. Subsequent to year-end, a dividend of $325.0 million was approved to be paid, a portion in cash and a portion in kind. The cash portion of the SBLIC dividend was $225.0 million and was paid on March 5, 2024. Of the cash amount, the Company used $200.0 million to pay down the revolving credit facility and the other $25.0 million will be used for general corporate purposes. The balance of $100.0 million will be distributed in kind by the Company to SBC.

In May 2021, SBLIC established a $2.0 billion program for a trust, Security Benefit Global Funding, to periodically issue funding agreement-backed notes (“FABNs”). Security Benefit Global Funding is not an affiliate or related party of the Company. These notes are backed by funding agreements issued by SBLIC to the trust. In May 2021, the trust issued its first series of 1.250% Fixed Rate Notes in the principal amount of $500.0 million. These fixed rate notes mature on May 17, 2024, as does the funding agreement issued by SBLIC to the trust.

Certain Ratings-Related Developments

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

On February 28, 2024, S&P announced that it had affirmed its ratings on SBLIC (issuer credit rating and financial strength rating of “A-”), SBLH (senior unsecured rating of “BBB-” and preferred stock rating of “BB”) and Security Benefit Global Funding (which issues notes backed by funding agreements of SBLIC) (senior secured rating of “A-”). In addition, S&P revised its outlook on SBLIC from negative to stable and removed SBLIC from under criteria observation (“UCO”).

S&P’s announcement stated that: “We revised our outlook to stable from negative based on the company’s demonstration of increased capital buffers at the 99.95% confidence level. This is a result of a combination of management actions such as the de-risking of certain assets; a sizeable capital infusion from its parent; execution of reinsurance transactions with SkyRidge Re Ltd., an unaffiliated reinsurer; and strong organic earnings generation. The affirmation of our ratings is based on our view of the company's very strong capital and earnings with an expectation of capital adequacy above the 99.95% confidence level per our new capital model criteria.” S&P added: “We could lower our ratings in the next 12-24 months if capital adequacy falls below the 99.95% confidence level in our risk-based capital (RBC) model, fixed charge coverage falls below 4x, or the group is unable to maintain its current level of business diversification.” In contrast, S&P said: “It’s unlikely that we will raise our ratings in the next 12-24 months given [the Company’s] relatively narrower business risk profile relative to higher rated peers.”

As background, on November 15, 2023, S&P published revised criteria setting forth its methodology and assumptions for analyzing the risk-based capital adequacy of insurers. The new criteria, which apply to SBLIC’s issuer credit rating and financial strength rating, took effect immediately. The new criteria, which followed a lengthy proposal and comment period, make numerous changes from the criteria previously in effect. On the same date, S&P placed 63 insurers UCO, including SBLIC, and it designated as UCO the senior secured debt and preferred stock of SBLH and the senior secured debt of Security Benefit Global Funding. The UCO identifier, which S&P referred to as required by EU regulation of S&P, indicated a rating that could be affected by a change in criteria, but does not indicate the likelihood of a credit rating change, the timeline for any potential change, or the direction of a potential rating change.

On January 23, 2024, A.M. Best affirmed its "A-" financial strength rating on SBLIC, along with a stable outlook.

On September 11, 2023, DBRS Morningstar affirmed its "A" financial strength rating on SBLIC. In addition, it affirmed its "BBB (high)" and "BBB (low)" ratings to SBLH's senior unsecured notes and non-cumulative preferred stock, respectively, and its "A" rating to Security Benefit Global Funding. The DBRS trend remains stable.

On September 1, 2023, Fitch affirmed its "A-" financial strength rating on SBLIC, SBLH (senior unsecured rating of "BBB-" and preferred stock rating of "BB") and Security Benefit Global Funding (senior secured rating of "A-"). The Fitch outlook remains stable.

Long-Term Debt and Future Principal Payments (Excluding FABNs)

The Company has outstanding senior notes with a carrying value of $941.2 million and $984.4 million at December 31, 2023 and December 31, 2022, respectively. The senior notes consist of $374.5 million with a fixed interest rate of 5.125% and a maturity date of November 2026 and $579.4 million with a fixed interest rate of 5.000% and a maturity date of February 2031.

The Company has outstanding surplus notes with a carrying value of $114.3 million and $115.4 million at December 31, 2023 and December 31, 2022, respectively. The surplus notes consist of $100 million of 7.45% notes issued by SBLIC in October 2003 and maturing on October 1, 2033. The surplus notes are subject to repayment conditions and restrictions, whereby each payment of interest or principal on the surplus notes may be made only with the prior approval of the Kansas Insurance Commissioner and only out of surplus that the Kansas Insurance Commissioner determines to be available for such payment under the Kansas Insurance Code.

The Company has a credit agreement with a syndication of lenders that provides a revolving credit facility with a total capacity of $1,000.0 million as of December 31, 2023. Each draw under the revolving credit facility has a maturity date of August 2027 and has an interest rate of SOFR plus 1.975%. The Company had a balance of $640.0 million at December 31, 2023. Debt issuance costs are capitalized and reported as a reduction of the debt balances on the consolidated balance sheets and amortized over the term of the debt. The credit agreement has various affirmative and negative covenants.

On August 30, 2023, SBLH entered into a credit agreement with a syndication of lenders to provide for delayed draw term loans ("DDTL") with a total capacity of $150.0 million. Each draw under the DDTL facility has a maturity date of August 30, 2025 and has an interest rate of SOFR plus 310bps. The Company had an outstanding balance of $52.5 million under the DDTL facility as of December 31, 2023. Debt issuance costs were capitalized and reported as a reduction of the debt balances on the consolidated balance sheets and amortized over the term of the debt. The credit agreement has various affirmative and negative covenants similar to those in our revolving credit facility, which remains in effect.

The proceeds from the draw on the DDTL facility were used during 2023 primarily to repurchase in the open market $25.5 million par amount of the Company's senior notes due 2026 and $20.6 million par amount of the Company's senior notes due 2031. These repurchases resulted in a gain on extinguishment of such senior notes of $6.0 million.

At December 31, 2023, future principal payments for the years ended December 31 are as follows:

	Senior Notes	Revolving Credit Facility	Delayed Draw Term Loan	Surplus Notes
		(unaudited) *(dollars in thousands)*		
2024	$ —	$ —	$ —	$ —
2025	—	—	52,500	—
2026	374,457	—	—	—
2027	—	640,000	—	—
2028	—	—	—	—
Thereafter	579,426	—	—	100,000
Total amount of future principal payments	$ 953,883	$ 640,000	$ 52,500	$ 100,000

Contractual Obligations

In connection with our investments in certain limited partnerships, we were committed to invest additional capital of $269.6 million, of which $26.8 million was with related parties, at December 31, 2023, as required by the general partner. We had committed up to $4,505.1 million in unfunded bridge loans, unfunded revolvers, and other private investments, as of December 31, 2023, of which $1,488.9 million is with related parties or securitizations in which related parties act as collateral managers. The portion of the total unfunded commitments that are considered to be on-demand funding obligations not controlled by the Company or its affiliated parties was $1,853.4 million as of December 31, 2023. As per the Company's Liquidity Guidelines, we maintain sufficient liquidity capacity to fund the segment of the total unfunded commitments that are considered to be on-demand funding obligations not controlled by the Company or its affiliated parties.

In connection with our investments in certain limited partnerships, we were committed to invest additional capital of $705.1 million, of which $31.5 million was with related parties, at December 31, 2022, as required by the general partner. We had committed up to $3,798.4 million in unfunded bridge loans, unfunded revolvers, and other private investments, as of December 31, 2022, of which $967.8 million was with related parties or securitizations in which related parties act as collateral managers.

Other Legal and Regulatory Matters

SBLIC is a defendant in a putative class action, Ella Clinton, et al., v. Security Benefit Life Insurance Company, initially filed in the United States District Court, Southern District of Florida, on November 20, 2019. A First Amended Class Action Complaint ("FAC") that includes additional named plaintiffs and causes of action was filed on January 21, 2020. The action was transferred to the United States District Court, District of Kansas. The allegations of the FAC arise out of the marketing and sale of SBLIC's leading FIA products at the time. In their FAC, Plaintiffs assert claims for violation of the federal Racketeer Influenced and Corrupt Organizations Act, violations of California's, Illinois', Arizona's and Nevada's respective unfair competition, consumer fraud, and/or deceptive business practices acts, and common law fraud under the laws of Florida, California, Illinois, Arizona and Nevada. SBLIC's motion to dismiss was granted by the District Court on February 12, 2021, but the dismissal was reversed by the United States Court of Appeals for the Tenth Circuit on March 28, 2023 in a split decision. The Tenth Circuit's decision to reverse and remand the case was not based on the merits of any issue, but rather assumed that the allegations were correct and held that the allegations were adequate to require that an evidentiary record be developed with respect to them before the District Court and upon which a decision should be based. On January 25, 2024, the District Court issued a scheduling order setting a April 15, 2024 deadline for substantial completion of rolling production of documents in response to plaintiffs' first request for production, an October 15, 2024 deadline for plaintiffs' motion for class certification, a December 17, 2024 deadline for defendant's opposition to motion for class certification and a February 18, 2025 deadline for plaintiffs' reply in support of motion for class certification. Although potential liability is reasonably possible for SBLIC from this lawsuit, no reasonable estimate can be made at this time regarding the amount or range of any possible loss that may result. SBLIC believes that it has substantial defenses to the claims alleged and intends to continue to defend itself vigorously in the action.

The Company is periodically party to legal and arbitral proceedings and subject to complaints, and the like, and is periodically examined by its regulators and may discuss certain matters with its regulators that come up during such examinations or otherwise. With the possible exception of the Clinton lawsuit, management currently does not believe that any litigation, arbitration, complaint or other such matter to which the Company is party, or that any actions by its regulators with respect to any such examinations or matters under discussion with them, will, alone or collectively, materially adversely affect the Company's results of operations or financial condition. In addition, the Company is subject to extensive regulation by, among others, governmental authorities and the NAIC, and it is subject to the effects of periodic changes in laws, regulations and other standards that apply to it.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

Valuation of Investments

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

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

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

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

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

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

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

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

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

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

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

Policy Liabilities for Fixed Index Annuities

The Company offers or maintains FIAs with crediting strategies linked to the following indices: S&P 500, S&P 500 Low Volatility Daily Risk Control 5% Index, S&P MARC 5% Excess Return Index, Annuity Linked TVI, Guggenheim RBP® Blended Index, UBS Market Pioneers, BNP Paribas High Dividend Plus Index, Morgan Stanley Dynamic Allocation Index, Morningstar Wide Moat Focus Barclays VC 7% Index, S&P 500 Factor Rotator Daily RC2 7% Index, Avantis Barclays Volatility Control Index, UBS Inflation Aware Index, and Morgan Stanley Global Equity Allocator Index. The Company purchases derivatives, primarily call options, on the applicable indices as an investment to provide the income needed to fund the index credits on the index products. See "Financial Condition — Derivative Instruments." Certain derivative instruments embedded in the FIA contracts are recognized in the consolidated balance sheets at their fair values and changes in fair value are recognized immediately in the Company's consolidated statements of operations in accordance with accounting standards for derivative instruments, since the embedded derivative is not clearly or closely related to the economic characteristics of the host contract.

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

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

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

In general, the change in the fair value of the embedded derivatives will correspond but not exactly match, the change in fair value of the purchased call options because the purchased call options are either one year, two year, or five year options depending upon the crediting strategy in the product while the options valued in the embedded derivatives represent the rights of the contract holder to receive index credits over the entire period the FIAs are expected to be in force, which typically exceeds 10 years. See "Consolidated Results of Operations - Investment related gains/losses" for additional information.

Policy Liabilities for Fixed and Variable Annuities

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

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

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

Policy Liabilities for Funding Agreements

General account funding agreement liabilities, which have a balance of $1,003.2 million at December 31, 2023, consist of fixed and floating interest rate contracts and are held at contract value. $500.8 million of such balance relates to funding agreement liabilities under the Company's FABN program. The funding agreements representing the remaining balance have call provisions that allow the holder the right to put the agreement back to the Company if certain adverse conditions occur. See "Liquidity and Capital Resources - Liquidity" for additional information regarding the maturity of the Company's FABN notes.

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

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

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

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

Deferred Income Taxes

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

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

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

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

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

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

Market Risk

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

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

Interest Rate Risk

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

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

Assuming a 100bps parallel increase in interest rates that persists for a 12-month period, from levels as of December 31, 2023, the estimated impact to operating income would be an increase of approximately $80.0 million. A decrease of 100bps is estimated to decrease operating income by $80.0 million. These changes are driven by an increase/(decrease) in investment income from floating rate assets, offset by DAC, DSI and VOBA amortization and rider reserve change, all calculated without regard to future changes to assumptions.

Assuming an immediate 100bps parallel increase in interest rates from levels as of December 31, 2023, the estimated impact to AOCI would be a decrease of approximately $447.9 million. A decrease of 100bps is estimated to increase AOCI by $447.9 million. The estimated point in time impact is driven by a net (decrease)/increase in the value of the Company's available-for-sale fixed maturity investments which are carried at fair value with unrealized gains and losses, net of certain offsets, reported in AOCI. The estimated changes include the impact of related amortization of deferred revenue and expenses and related rider reserve change.

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

The Company purchases call options on the applicable indices or replicates the option payoff through the use of other derivative instruments, to fund the index credits on its FIAs. These options generally match the term of the index credits (generally ranging from one to five years) of the underlying policies. Proceeds associated with those investments are substantially offset by an increase or decrease in the amounts added to policyholder account balances for FIA products. For the twelve months ended December 31, 2023 and 2022, the index credits to policyholders at the end of their index crediting period were $208.1 million and $166.9 million, respectively. Proceeds received at expiration or termination of these options used to hedge such index credits were $248.5 million and $170.3 million for the twelve months ended December 31, 2023 and 2022, respectively. Option proceeds will not exactly match index credits primarily due to the use of futures and total return swaps to hedge a portion of the index credit obligations, selling of certain options prior to expiration in order to purchase better priced options, the use of futures and total return swaps to reduce hedged positions for partial and full withdrawals, and policyholder surrenders.

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

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

Equity Market Shock/Assumption Change	Change in Fair Value of FIA Derivatives	Reserve Change [(a)]	DAC/DSI/VOBA Amortization Change	Statement of Operations Impact as of December 31, 2023
	(unaudited) (dollars in thousands)			
Decrease in equity index by 5% (2.5% for low volatility indices)	$ (204,666)	$ (75,029)	$ (16,762)	(112,875)
Increase in equity index by 5% (2.5% for low volatility indices)	196,505	80,964	12,708	102,833
Decrease in discount rate by 100bps		125,730	(75,303)	(50,427)
Increase in discount rate by 100bps		(111,906)	68,815	43,091
Decrease in long-term portfolio yields by 50bps		127,774	(24,142)	(103,632)
Increase in long-term portfolio yields by 50bps		(120,089)	22,875	97,214

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

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

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

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

Credit Risk

In addition to interest rate risk, the Company's investment portfolio may also be impacted by credit risk associated with obligors. The Company attempts to mitigate this risk by adhering to investment policies that provide for portfolio diversification by security types, creditors and industry sectors, and complying with investment codes applicable to the

Company pursuant to state law and regulation. The Company actively manages and monitors exposures and records credit loss allowances in periods that such determinations are made. The Company also considers all relevant objective information available in estimating the cash flows related to its portfolios. The Company monitors and manages exposures to determine whether investments are impaired or loans are deemed uncollectible. The aggregate credit risk taken in the Company's investment portfolio is influenced by the risk/return preferences, the economic and credit environment and other considerations.

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

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