

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE
TRANSITION PERIOD FROM TO

Commission File Number 001-38945

VERICITY, INC.

(Exact name of Registrant as specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

8700 W. Bryn Mawr Avenue, Suite 900S, Chicago Illinois

(Address of principal executive offices)

46-2348863

(I.R.S. Employer
Identification No.)

60631

(Zip Code)

Registrant's telephone number, including area code: (312) 288-0073

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name on each exchange on which registered
Common Stock, Par Value \$0.001 per share	VERY	NASDAQ Capital Market

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares of Registrant's Common Stock outstanding as of November 13, 2020 was 14,875,000.

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Part 1. Financial Information
Item I. Financial Statements
Vericity, Inc.
Interim Condensed Consolidated Balance Sheets
(dollars in thousands)

	<u>September 30,</u>	<u>December 31,</u>
	<u>2020</u>	<u>2019</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>
Assets		
Investments:		
Fixed maturities – available-for-sale – at fair value (amortized cost; \$320,660 and \$294,402)	\$ 352,271	\$ 314,921
Equity securities – at fair value (cost; \$6,427 and \$6,350)	3,032	5,231
Short-term investments - at fair value (amortized cost; \$0 and \$29,742)	—	29,757
Mortgage loans (net of valuation allowances of \$33 and \$53)	51,357	51,835
Policyholder loans	6,250	6,040
Other invested assets	715	104
Total investments	<u>413,625</u>	<u>407,888</u>
Cash and cash equivalents	40,252	37,842
Accrued investment income	2,416	2,780
Reinsurance recoverables	150,322	132,870
Deferred policy acquisition costs	88,401	85,776
Commissions and agent balances (net of allowances of \$367 and \$545)	18,055	11,270
Intangible assets	1,635	1,635
Deferred income tax assets, net	10,723	9,440
Other assets	26,773	32,281
Total assets	<u>752,202</u>	<u>721,782</u>
Liabilities and Shareholders' Equity		
Liabilities		
Future policy benefits and claims	371,787	335,766
Policyholder account balances	84,396	87,517
Other policyholder liabilities	29,724	25,063
Policy dividend obligations	12,854	11,453
Reinsurance liabilities and payables	6,129	15,382
Long-term debt	22,473	16,601
Short-term debt	5,693	3,999
Other liabilities	19,979	13,584
Total liabilities	<u>553,035</u>	<u>509,365</u>
Commitments and Contingencies (Note 6)		
Shareholders' Equity		
Common stock, \$.001 par value, 30,000,000 shares authorized, 14,875,000 shares, issued and outstanding	15	15
Additional paid-in capital	39,840	39,840
Retained earnings	145,199	163,805
Accumulated other comprehensive income (loss)	14,113	8,757
Total shareholders' equity	<u>199,167</u>	<u>212,417</u>
Total liabilities and shareholders' equity	<u>\$ 752,202</u>	<u>\$ 721,782</u>

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Operations
(dollars in thousands, except earnings per share)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues				
Net insurance premiums	\$ 25,089	\$ 24,424	\$ 81,457	\$ 73,304
Net investment income	3,440	4,177	10,468	11,678
Net realized investment (losses) gains	(275)	(213)	(2,025)	736
Other-than-temporary-impairment (OTTI)	(13)	—	(67)	—
Earned commissions	7,101	4,540	15,629	13,435
Insurance lead sales	1,130	1,650	3,779	4,529
Other income	63	39	262	180
Total revenues	<u>36,535</u>	<u>34,617</u>	<u>109,503</u>	<u>103,862</u>
Benefits and expenses				
Life, annuity, and health claim benefits	16,183	16,243	57,860	48,573
Interest credited to policyholder account balances	769	900	2,333	2,538
Operating costs and expenses	18,466	23,574	60,651	60,879
Amortization of deferred policy acquisition costs	4,429	3,029	9,196	9,551
Total benefits and expenses	<u>39,847</u>	<u>43,746</u>	<u>130,040</u>	<u>121,541</u>
(Loss) income before income tax	(3,312)	(9,129)	(20,537)	(17,679)
Income tax (benefit) expense	(56)	(591)	(1,931)	(307)
Net (loss) income	<u>\$ (3,256)</u>	<u>\$ (8,538)</u>	<u>\$ (18,606)</u>	<u>\$ (17,372)</u>

Earnings per share for the periods

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(Unaudited)	(Unaudited) (Pro forma)	(Unaudited)	(Unaudited) (Pro forma)
Weighted average shares outstanding, basic and diluted	14,875,000	14,875,000	14,875,000	14,875,000
Basic earnings per share	\$ (0.22)	\$ (0.57)	\$ (1.25)	\$ (1.17)
Diluted earnings per share	\$ (0.22)	\$ (0.57)	\$ (1.25)	\$ (1.17)

The 2019 pro forma earnings per common share—basic and diluted—presented on the above Interim Condensed Consolidated Statements of Operations is intended to depict the impact of the Conversion because neither Vericity, Inc., nor the Predecessor, had, prior to the Conversion, any outstanding common shares. The above table presents the 2019 pro forma net loss and weighted average common shares outstanding used in the computation of earnings per common share and earnings per common share – assuming dilution.

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
(dollars in thousands)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
Net (loss) income	\$ (3,256)	\$ (8,538)	\$ (18,606)	\$ (17,372)
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on investments	2,378	3,153	5,356	12,459
Total other comprehensive income (loss)	2,378	3,153	5,356	12,459
Total comprehensive (loss) income	<u>\$ (878)</u>	<u>\$ (5,385)</u>	<u>\$ (13,250)</u>	<u>\$ (4,913)</u>

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
(dollars in thousands)

	<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
	(Unaudited)	
Common stock		
Balance – beginning of period	\$ 15	\$ —
Common stock issued	—	15
Balance – end of period	<u>\$ 15</u>	<u>\$ 15</u>
Additional paid-in capital		
Balance – beginning of period	\$ 39,840	\$ —
Proceeds net of offering costs	—	132,818
Balance – end of period	<u>\$ 39,840</u>	<u>\$ 132,818</u>
Retained earnings		
Balance – beginning of period	\$ 163,805	\$ 174,558
Cumulative effect adjustment from changes in accounting guidance, net of tax	—	8,571
Balance after adjustments – beginning of period	163,805	183,129
Net (loss) income	(18,606)	(17,372)
Balance – end of period	<u>\$ 145,199</u>	<u>\$ 165,757</u>
Accumulated other comprehensive income (loss)		
Balance – beginning of period	\$ 8,757	\$ (2,368)
Other comprehensive (loss) income	5,356	12,459
Balance – end of period	<u>\$ 14,113</u>	<u>\$ 10,091</u>
Total shareholders' equity	<u>\$ 199,167</u>	<u>\$ 308,681</u>

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Cash Flows
(dollars in thousands)

	Nine Months Ended September 30,	
	2020	2019
	(Unaudited)	
Cash flows from operating activities		
Net (loss) income	\$ (18,606)	\$ (17,372)
Adjustments to reconcile net (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization and other non-cash items	1,887	1,228
Interest credited to policyholder account balances	2,333	2,538
Deferred income tax	(2,711)	(233)
Net realized investment losses (gains)	2,025	(736)
Other-than-temporary-impairment	67	—
Interest expense	1,019	803
Change in:		
Equity securities	(390)	(268)
Accrued investment income	364	393
Reinsurance recoverables	(17,452)	2,528
Deferred policy acquisition costs	(2,625)	(1,114)
Commissions and agent balances	(6,785)	(263)
Other assets	8,375	(3,447)
Insurance liabilities	37,798	8,499
Other liabilities	(3,187)	707
Net cash provided (used) by operating activities	<u>2,112</u>	<u>(6,737)</u>
Cash flows from investing activities		
Sales, maturities and repayments of:		
Fixed maturity securities	49,266	74,202
Short-term investments	30,050	—
Mortgage loans	2,349	2,439
Other invested assets	—	152
Purchases of:		
Fixed maturity securities	(75,399)	(71,012)
Short-term investments	(250)	(71,001)
Mortgage loans	(1,751)	(4,508)
Other invested assets	(611)	(38)
Change in policyholder loans, net	(210)	(251)
Other, net	(4,369)	(3,406)
Net cash (used) by investing activities	<u>(925)</u>	<u>(73,423)</u>
Cash flows from financing activities		
Proceeds from issuance of common stock in initial public offering, net of underwriting commission and offering costs	—	140,572
Debt issued	12,634	9,934
Debt repaid	(6,087)	(5,226)
Deposits to policyholder account balances	394	346
Withdrawals from policyholder account balances	(5,718)	(6,861)
Net cash provided by financing activities	<u>1,223</u>	<u>138,765</u>
Net increase (decrease) in cash and cash equivalents	2,410	58,605
Cash, cash equivalents and restricted cash – beginning of period	37,842	20,984
Cash, cash equivalents and restricted cash – end of period	<u>\$ 40,252</u>	<u>\$ 79,589</u>
Supplemental cash flow information		
Non-cash transactions:		
Cumulative effect adjustment from changes in accounting guidance, net of tax	\$ —	\$ 8,571
Registration costs included in other assets at December 31, 2018	\$ —	\$ 7,739

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Notes to Interim Condensed Consolidated Financial Statements
(dollars in thousands)

Note 1 – Summary of Significant Accounting Policies

Description of Business

Vericity, Inc. (the Company) is a Delaware corporation organized to be the stock holding company for Members Holding Company (Members) and its subsidiaries. On August 7, 2019, the Company completed the initial public offering of 14,875,000 shares of its common stock at a price of \$10.00 per share (the IPO). The IPO was conducted in connection with the conversion of Members Mutual Holding Company from mutual to stock form and the acquisition by the Company of all of the capital stock of Members following its conversion to stock form after its plan of conversion and amended and restated articles of incorporation were approved at a special meeting of eligible members on August 6, 2019 (the Conversion). As a result of the Conversion, the Company became the holding company for converted Members Mutual Holding Company and its indirect subsidiaries, including Fidelity Life Association (Fidelity Life) and Efinancial, LLC (Efinancial).

The Company operates as a holding company and currently has no other business operations. Fidelity Life is an Illinois-domiciled life insurance company that was founded in 1896. Fidelity Life markets life insurance products through independent and affiliated distributors and is licensed in the District of Columbia and all states, except New York and Wyoming. Efinancial markets life and other products for non-affiliated insurance companies and sells life products for Fidelity Life.

The accompanying interim condensed consolidated financial statements present the accounts of the Company and subsidiaries for the nine months ended September 30, 2020 and September 30, 2019 and at September 30, 2020 and December 31, 2019. These interim condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report in the Form 10-K for the year ended December 31, 2019. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Basis of Presentation

These interim condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The unaudited interim condensed consolidated financial information furnished herein reflects all adjustments which are, in the opinion of management, necessary to fairly state the results for the interim periods presented. All such adjustments are of a normal recurring nature. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated results of operations for the interim periods presented are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted from this report, as is permitted by such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the financial statements as of and for the year ended December 31, 2019, and notes thereto, included in the Form 10-K.

Use of Estimates

The preparation of interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The more significant estimates employed in the preparation of the interim condensed consolidated financial statements include the determination of the valuation of investments in fixed maturities and equity securities, investment impairments, the valuation of deferred tax assets, future policy benefits and other policyholder liabilities.

Accounting Standards Adopted

On January 1, 2020, the Company adopted ASU No. 2018-13, Fair Value Measurement (Topic 820): *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, to improve the effectiveness of disclosures in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Recent Developments

The outbreak of the novel coronavirus (COVID-19) in many countries continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The measures governments worldwide have enacted to combat the pandemic have resulted in disruptions in global and local supply chains and have led to adverse impacts on economic and market

conditions as well as increases in unemployment. The severity of COVID-19 and duration of government containment actions has impacted both employees and customers of the Company and presented material uncertainty and risk with respect to the Company's performance, liquidity, results of operations, and financial condition.

The stress and disruption placed on the global economy and financial markets from the outbreak of COVID-19 may continue to have near and long-term negative effects on investment valuations, returns, and credit allowance exposure. The Company will continue to closely monitor the situation, including potential negative impacts on sales of new policies and mortality; however, due to the highly uncertain nature of these conditions, it is not possible to reliably estimate the length and severity of COVID-19 or its impact to the Company's operations, but the effect could be material.

Note 2 – Investments

The Company continuously monitors its investment strategies and individual holdings with consideration of current and projected market conditions, the composition of the Company's liabilities, projected liquidity and capital investment needs, and compliance with investment policies and state regulatory guidelines.

Available-for-Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses, fair value, and OTTI loss included in accumulated other comprehensive income (AOCI) of fixed maturities available-for-sale are as follows:

	September 30, 2020				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI Losses
Fixed maturities					
U.S. government and agencies	\$ 11,403	\$ 3,110	\$ —	\$ 14,513	\$ —
U.S. agency mortgage-backed	23,335	1,662	(1)	24,996	—
State and political subdivisions	49,701	3,540	(39)	53,202	—
Corporate and miscellaneous	139,233	23,082	(510)	161,805	—
Foreign government	131	36	—	167	—
Residential mortgage-backed	6,790	308	(64)	7,034	(146)
Commercial mortgage-backed	18,631	1,369	(71)	19,929	—
Asset-backed	71,436	670	(1,481)	70,625	—
Total fixed maturities	<u>\$ 320,660</u>	<u>\$ 33,777</u>	<u>\$ (2,166)</u>	<u>\$ 352,271</u>	<u>\$ (146)</u>

	December 31, 2019				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI Losses
Fixed maturities					
U.S. government and agencies	\$ 14,195	\$ 1,907	\$ —	\$ 16,102	\$ —
U.S. agency mortgage-backed	38,542	1,044	(52)	39,534	—
State and political subdivisions	23,246	1,561	(64)	24,743	—
Corporate and miscellaneous	132,108	15,311	(280)	147,139	—
Foreign government	131	40	—	171	—
Residential mortgage-backed	8,820	421	(26)	9,215	(306)
Commercial mortgage-backed	18,685	681	(31)	19,335	—
Asset-backed	58,675	306	(299)	58,682	—
Total fixed maturities	<u>\$ 294,402</u>	<u>\$ 21,271</u>	<u>\$ (752)</u>	<u>\$ 314,921</u>	<u>\$ (306)</u>

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Maturities of mortgage-backed and asset-backed securities may be substantially shorter than their contractual maturity because they may require monthly principal installments and such loans may prepay principal. The amortized cost and fair value of fixed maturities available-for-sale by contractual maturity, are presented in the following table:

	September 30, 2020	
	Amortized Cost	Fair Value
Due in one year or less	\$ 9,269	\$ 9,428
Due after one year through five years	43,045	46,541
Due after five years through ten years	34,396	38,632
Due after ten years	113,758	135,086
Securities not due at a single maturity date — primarily mortgage and asset-backed	120,192	122,584
Total fixed maturities	<u>\$ 320,660</u>	<u>\$ 352,271</u>

Fixed maturities with a carrying value of \$3,960 and \$3,398 were on deposit with governmental authorities, as required by law at September 30, 2020 and December 31, 2019, respectively.

The Company's fixed maturities portfolio was primarily composed of investment grade securities, defined as a security having a rating of Aaa, Aa, A, or Baa from Moody's, AAA, AA, A, or BBB from Standard & Poor's, or National Association of Insurance Commissioners (NAIC) rating of NAIC 1 or NAIC 2. Investment grade securities comprised 98.0% and 98.2% of the Company's total fixed maturities portfolio at September 30, 2020 and December 31, 2019, respectively.

At September 30, 2020 and December 31, 2019, the Company had commitments to make investments in available-for-sale securities in the amount of \$3,209 and \$0, respectively.

Short-Term Investments

The Company owned \$0 and \$29,757 of short-term investments as of September 30, 2020 and December 31, 2019, respectively.

Mortgage Loans

The Company makes investments in commercial mortgage loans. The Company, along with other investors, owns a pro rata share of each loan. The Company participates in 32 such investment instruments with ownership shares ranging from 2.7% to 30.0% of the trust at September 30, 2020. The Company owns a share of 294 mortgage loans with an average loan balance of \$175 and a maximum exposure related to any single loan of \$555. Mortgage loan holdings are diversified by geography and property type as follows:

Property Type:	September 30, 2020		December 31, 2019	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Retail	\$ 16,405	31.9%	\$ 16,892	32.6%
Office	12,601	24.5%	12,160	23.4%
Industrial	8,524	16.6%	8,517	16.4%
Mixed use	6,073	11.8%	6,240	12.0%
Apartments	3,481	6.8%	3,713	7.2%
Medical office	3,138	6.1%	3,163	6.1%
Other	1,168	2.3%	1,203	2.3%
Gross carrying value of mortgage loans	<u>51,390</u>	<u>100.0%</u>	<u>51,888</u>	<u>100.0%</u>
Valuation allowance	(33)		(53)	
Net carrying value of mortgage loans	<u>\$ 51,357</u>		<u>\$ 51,835</u>	

	September 30, 2020		December 31, 2019	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
U.S. Region:				
West South Central	\$ 11,833	23.0%	\$ 12,498	24.1%
East North Central	12,162	23.7%	12,080	23.3%
South Atlantic	11,475	22.3%	11,637	22.4%
West North Central	4,020	7.8%	4,241	8.2%
Mountain	4,447	8.7%	4,153	8.0%
Middle Atlantic	2,842	5.5%	2,831	5.5%
East South Central	3,094	6.0%	3,133	6.0%
New England	95	0.2%	110	0.2%
Pacific	1,422	2.8%	1,205	2.3%
Gross carrying value of mortgage loans	51,390	100.0%	51,888	100.0%
Valuation allowance	(33)		(53)	
Net carrying value of mortgage loans	<u>\$ 51,357</u>		<u>\$ 51,835</u>	

During the nine months ended September 30, 2020 and September 30, 2019, \$1,751 and \$4,508 of new mortgage loans were purchased, respectively, which did not include second lien mortgage loans. There were no taxes, assessments, or any amounts advanced that were not included in the mortgage loan balances at September 30, 2020 and December 31, 2019. At September 30, 2020 and December 31, 2019, the Company had 3 and 5 mortgage loans with a total carrying value of \$332 and \$528 that were in a restructured status, respectively. There were no impairments for mortgage loans at September 30, 2020 and December 31, 2019.

The changes in the valuation allowance for commercial mortgage loans were as follows:

	Nine Months Ended September 30, 2020	Year Ended December 31, 2019
Beginning balance	\$ 53	\$ 236
Net decrease in valuation allowance	(20)	(183)
Ending balance	<u>\$ 33</u>	<u>\$ 53</u>

At September 30, 2020 and December 31, 2019, the Company had no mortgage loans that were on nonaccrual status.

At September 30, 2020 and December 31, 2019, the Company had commitments to make investments in mortgage loans in the amount of \$305 and \$359, respectively.

Net Investment Income

The sources of net investment income are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest from:				
Fixed maturities	\$ 2,944	\$ 3,171	\$ 8,908	\$ 9,613
Policyholder loans	82	80	253	292
Mortgage loans	624	715	1,888	1,999
Short-term investments	—	188	—	188
Cash and cash equivalents	36	284	286	390
Dividends on equity securities	95	107	289	314
Gross investment income	3,781	4,545	11,624	12,796
Investment expense	(341)	(368)	(1,156)	(1,118)
Net investment income	<u>\$ 3,440</u>	<u>\$ 4,177</u>	<u>\$ 10,468</u>	<u>\$ 11,678</u>

Investment expenses include investment management fees, some of which include incentives based on market performance, custodial fees and internal costs for investment-related activities.

Net Realized Investment (Losses) Gains

The sources of realized investment (losses) gains are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Investment (losses) gains from:				
Fixed maturities	\$ 214	\$ 198	\$ 466	\$ 351
Equity securities	(580)	(440)	(2,590)	207
Mortgage loans	100	40	120	213
Limited partnership interests	—	1	—	(4)
Cash and cash equivalents	(3)	—	(3)	—
Investment expenses	(6)	(12)	(18)	(31)
Total net realized investment (losses) gains	<u>\$ (275)</u>	<u>\$ (213)</u>	<u>\$ (2,025)</u>	<u>\$ 736</u>

Other-Than-Temporary Impairments

The Company regularly reviews its investments portfolio for factors that may indicate that a decline in the fair value of an investment is other-than-temporary. A fixed maturity security is OTTI if the fair value of the security is less than its amortized cost basis and the Company either intends to sell the fixed maturity security or it is more likely than not the Company will be required to sell the fixed maturity security before recovery of its amortized cost basis. For all other securities in an unrealized loss position in which the Company does not expect to recover the entire amortized cost basis, the security is deemed to be OTTI for credit reasons.

Significant judgment is required in the determination of whether an OTTI loss has occurred for a security. The Company has developed a consistent methodology and has identified significant inputs for determining whether an OTTI loss has occurred. Some of the factors considered in evaluating whether a decline in fair value is OTTI are the financial condition and prospects of the issuer, payment status, the probability of collecting scheduled principal and interest payments when due, credit ratings of the securities, and the duration and severity of the decline.

The credit loss component of a fixed maturity security impairment is calculated as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate of cash flows discounted at the effective rate implicit to the security at the date of purchase or prior impairment. The methodology and assumptions for estimating the cash flows vary depending on the type of security. For mortgage-backed and asset-backed securities, cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral characteristics, expectations of delinquency and default rates, and structural support, including subordination and guarantees. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss exists and the security is considered to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is determined to be OTTI impaired for credit reasons and is recognized as an OTTI loss in earnings. The non-credit component, determined as the difference between the adjusted amortized cost basis and fair value, is recognized as OTTI in other comprehensive (loss) income.

A rollforward of the cumulative credit losses on fixed maturity securities is as follows:

	September 30, 2020	December 31, 2019
Beginning balance of credit losses on fixed maturity securities	\$ 869	\$ 828
Additional credit losses for which an OTTI was not previously recognized	67	41
Ending balance of credit losses on fixed maturity securities	<u>\$ 936</u>	<u>\$ 869</u>

Unrealized Losses for Fixed Maturities

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

	12 months or less		Longer than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
September 30, 2020						
Fixed maturities						
U.S. agency mortgage-backed	\$ 55	\$ (1)	\$ 12	\$ —	\$ 67	\$ (1)
State and political subdivisions	5,143	(39)	—	—	5,143	(39)
Corporate and miscellaneous	6,320	(500)	346	(10)	6,666	(510)
Residential mortgage-backed	1,290	(44)	146	(20)	1,436	(64)
Commercial mortgage-backed	1,762	(65)	78	(6)	1,840	(71)
Asset-backed	36,218	(1,137)	10,467	(344)	46,685	(1,481)
Total fixed maturities	<u>\$ 50,788</u>	<u>\$ (1,786)</u>	<u>\$ 11,049</u>	<u>\$ (380)</u>	<u>\$ 61,837</u>	<u>\$ (2,166)</u>

	12 months or less		Longer than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
December 31, 2019						
Fixed maturities						
U.S. agency mortgage-backed	\$ 2,719	\$ (28)	\$ 2,157	\$ (24)	\$ 4,876	\$ (52)
State and political subdivisions	3,061	(64)	—	—	3,061	(64)
Corporate and miscellaneous	6,799	(151)	1,613	(129)	8,412	(280)
Residential mortgage-backed	2,811	(16)	161	(10)	2,972	(26)
Commercial mortgage-backed	3,125	(31)	—	—	3,125	(31)
Asset-backed	27,893	(196)	1,997	(104)	29,890	(300)
Total fixed maturities	<u>\$ 46,408</u>	<u>\$ (486)</u>	<u>\$ 5,928</u>	<u>\$ (267)</u>	<u>\$ 52,336</u>	<u>\$ (753)</u>

The indicated gross unrealized losses in all fixed maturity categories increased to \$2,166 from \$753 at September 30, 2020 and December 31, 2019, respectively. Based on the Company's current evaluation of its fixed maturities in an unrealized loss position, in accordance with our impairment policy and the Company's current intentions regarding these securities, the Company concluded that these securities were not OTTI.

Information and concentrations related to fixed maturities in an unrealized loss position are included below. The tables below include the number of fixed maturities in an unrealized loss position for greater than and less than 12 months and the percentage that were investment grade at September 30, 2020.

	Unrealized Losses 12 months or less				
	Total	Impairment is Less than 10% of Amortized Cost	Number of Securities Impairment is Between 10% and 20% of Amortized Cost	Impairment is Greater than 20% of Amortized Cost	Percent Investment Grade
Fixed maturities					
U.S. agency mortgage-backed	2	2	—	—	100%
State and political subdivisions	12	12	—	—	100%
Corporate and miscellaneous	44	41	1	2	82%
Residential mortgage-backed	8	7	1	—	63%
Commercial mortgage-backed	6	6	—	—	83%
Asset-backed	68	64	3	1	81%
Total fixed maturities	<u>140</u>	<u>132</u>	<u>5</u>	<u>3</u>	

	Unrealized Losses greater than 12 months				Percent Investment Grade
	Total	Impairment is Less than 10% of Amortized Cost	Number of Securities Impairment is Between 10% and 20% of Amortized Cost	Impairment is Greater than 20% of Amortized Cost	
Fixed maturities					
U.S. agency mortgage-backed	1	1	—	—	100%
Corporate and miscellaneous	3	3	—	—	0%
Residential mortgage-backed	2	1	1	—	0%
Commercial mortgage-backed	1	1	—	—	100%
Asset-backed	17	17	—	—	94%
Total fixed maturities	24	23	1	—	

Note 3 – Policy Liabilities

Future Policy Benefits

Future policy benefits represent the reserve for direct and assumed traditional life insurance policies and annuities in payout status.

The annuities in payout status are certain structured settlement contracts. The policy liability for structured settlement contracts of \$21,119 and \$18,474 at September 30, 2020 and December 31, 2019, respectively, is computed as the present value of contractually specified future benefits. The amount included in the policy liability for structured settlements that are life contingent at September 30, 2020 and December 31, 2019, is \$16,625 and \$13,637, respectively.

To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve is recorded. A liability of \$7,568 and \$4,482 is included as part of the liability for structured settlements with respect to this deficiency at September 30, 2020 and December 31, 2019, respectively. The offset to this liability is recorded as a reduction of the unrealized capital gains included in AOCI.

Participating life insurance in force was 12.1% and 15.9% of the face value of total life insurance at September 30, 2020 and December 31, 2019, respectively.

Note 4 – Reinsurance

The Company uses reinsurance to mitigate exposure to potential losses, provide additional capacity for growth, and provide greater diversity of business. For ceded reinsurance, the Company remains liable to the extent that reinsuring companies may not be able to meet their obligations under the reinsurance agreements. To manage the risk from failure of a reinsurer to meet its obligations, the Company periodically evaluates the financial condition of all of its reinsurers. No amounts have been recorded in the nine months ended September 30, 2020 and 2019 for amounts anticipated to be uncollectible or for the anticipated failure of a reinsurer to meet its obligations under the contracts.

Reinsurance recoverable are as follows:

	September 30, 2020	December 31, 2019
Ceded future policy benefits	\$ 125,181	\$ 113,591
Claims and other amounts recoverables	25,141	19,279
Ending balance	\$ 150,322	\$ 132,870

The reconciliation of direct premiums to net premiums is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Direct premiums	\$ 39,097	\$ 37,462	\$ 105,620	\$ 111,190
Assumed premiums	9,205	6,776	27,277	18,686
Ceded premiums	(23,213)	(19,814)	(51,440)	(56,572)
Net insurance premiums	\$ 25,089	\$ 24,424	\$ 81,457	\$ 73,304

Net policy charges on universal life products were \$43, \$42, \$130 and \$126 for the three and nine months ended September 30, 2020 and 2019, respectively, and are included in other income.

At September 30, 2020 and December 31, 2019, reserves related to fixed-rate annuity deposits assumed from a former affiliate company amounted to approximately \$75,376 and \$78,296, respectively, and are included with policyholder account balances in the Interim Condensed Consolidated Balance Sheets.

Note 5 – Closed Block

The Closed Block was formed at October 1, 2006 and contains all participating policies issued or assumed by Fidelity Life. The assets and future net cash flows of the Closed Block are available only for purposes of paying benefits, expenses and dividends of the Closed Block and are not available to the Company, except for an amount of additional funding that was established at the inception of the Closed Block. The additional funding was designed to protect the block against future experience, and if the funding is not required for that purpose, is subject to reversion to the Company in the future. Any reversion of Closed Block assets to the Company must be approved by the Illinois Department of Insurance (IDOI).

In October 2011, the IDOI approved a reversion of a portion of the initial funding that the Company had determined was not required to fund the Closed Block. The carrying value of the assets transferred from the Closed Block on October 31, 2011, the date of transfer, was \$4,397.

The assets and liabilities within the Closed Block are included in the Company's consolidated financial statements on the same basis as other accounts of the Company. The maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities represent the estimated future Closed Block profits that will accrue to the Company and is calculated as the excess of Closed Block assets over Closed Block liabilities. Included in Closed Block assets at September 30, 2020 and December 31, 2019 is \$10,082 and \$9,851 of additional Closed Block funding, plus accrued interest, that is eligible for reversion to the Company if not needed to fund Closed Block experience, respectively.

The Closed Block was funded based on a model developed to forecast the future cash flows of the Closed Block, which is referred to as the actuarial calculation. The actuarial calculation projected the anticipated future cash flows of the Closed Block as established at the initial funding. We compare the actual results of the Closed Block to expected results from the actuarial calculation as part of the annual assessment of the current level of policyholder dividends. The assessment of policyholder dividends includes projections of future experience of the Closed Block. The review of Closed Block experience also includes consideration of whether a policy dividend obligation should be recorded to reflect favorable Closed Block experience that has not yet been reflected in the dividend scales. At September 30, 2020 and December 31, 2019, the Company recognized a policyholder dividend obligation of \$12,854 and \$11,453, respectively, resulting from the excess of actual cumulative earnings over the expected cumulative earnings and from accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block.

The impacts on the Company's comprehensive (loss) income from recognizing policyholder dividend obligations are as follows:

	September 30, 2020	December 31, 2019
Actual cumulative (loss) income earnings over expected cumulative earnings	\$ (9,242)	\$ (9,049)
Income tax (benefit) expense	(1,941)	(1,900)
Net (loss) income impact	(7,301)	(7,149)
Accumulated net unrealized investment (losses) gains	(3,612)	(2,404)
Income tax (benefit) expense	(759)	(504)
Other comprehensive (loss) income impact	(2,853)	(1,900)
Comprehensive (loss) income impact	<u>\$ (10,154)</u>	<u>\$ (9,049)</u>

Information regarding the Closed Block liabilities (assets) designated to the Closed Block is as follows:

	September 30, 2020	December 31, 2019
Closed Block Liabilities		
Future policy benefits and claims	\$ 39,868	\$ 39,704
Policyholder account balances	7,344	7,608
Other policyholder liabilities	4,009	4,630
Policyholder dividend obligations	12,854	11,453
Other (assets) liabilities	(539)	8,778
Total Closed Block liabilities	<u>63,536</u>	<u>72,173</u>
Assets Designated to the Closed Block		
Investments:		
Fixed maturities - available-for-sale (amortized cost \$38,100 and \$33,455, respectively)	43,991	37,483
Policyholder loans	1,262	1,249
Total investments	<u>45,253</u>	<u>38,732</u>
Cash and cash equivalents	3,834	7,025
Premiums due and uncollected	177	9,625
Accrued investment income	379	432
Reinsurance recoverables	20,115	23,447
Deferred income tax assets, net	3,286	3,557
Total assets designated to the Closed Block	<u>73,044</u>	<u>82,818</u>
Excess of Closed Block assets over liabilities	9,508	10,645
Amounts included in accumulated other comprehensive income:		
Unrealized investment gains (losses), net of income tax	4,653	3,182
Allocated to policyholder dividend obligations, net of income tax	(2,853)	(1,900)
Total amounts included in accumulated other comprehensive income	<u>1,800</u>	<u>1,282</u>
Maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities (includes excess assets of \$10,082 and \$9,851, respectively)	<u>\$ (7,708)</u>	<u>\$ (9,363)</u>

	September 30, 2020	December 31, 2019
Policyholder Dividend Obligations		
Beginning balance	\$ 11,453	\$ 9,383
Impact from earnings allocable to policyholder dividend obligations	193	381
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligations	1,208	1,689
Ending balance	<u>\$ 12,854</u>	<u>\$ 11,453</u>

Information regarding the Closed Block revenues and expenses is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues				
Net insurance premiums	\$ 719	\$ 1,158	\$ 7,173	\$ 3,941
Net investment income	369	381	1,131	1,167
Realized gains	1	88	32	88
Total revenues	<u>1,089</u>	<u>1,627</u>	<u>8,336</u>	<u>5,196</u>
Benefits and expenses				
Life and annuity benefits - including policyholder dividends of \$265, \$145, \$965 and \$814, respectively	1,045	1,338	6,923	3,828
Interest credited to policyholder account balances	46	48	138	146
Operating costs and expenses	(138)	(250)	3,371	(99)
Total expenses	<u>953</u>	<u>1,136</u>	<u>10,432</u>	<u>3,875</u>
Revenues, net of expenses before provision for income tax expense	136	491	(2,096)	1,321
Income tax expense (benefit)	29	103	(440)	277
Revenues, net of expenses and provision for income tax expense (benefit)	<u>\$ 107</u>	<u>\$ 388</u>	<u>\$ (1,656)</u>	<u>\$ 1,044</u>

The Company charges the Closed Block with federal income taxes and state and local premium taxes, policy maintenance costs and investment management expenses relating to the Closed Block as provided in the Closed Block Memorandum.

The following table presents the amortized cost and fair value of the Closed Block fixed maturity securities portfolio by contractual maturity at September 30, 2020. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Amortized Cost	Fair Value
Due in one year or less	\$ 1,651	\$ 1,671
Due after one year through five years	10,051	10,895
Due after five years through ten years	1,027	1,266
Due after ten years	22,395	27,211
Securities not due at a single maturity date — primarily mortgage and asset-backed	2,976	2,948
Total fixed maturities	<u>\$ 38,100</u>	<u>\$ 43,991</u>

Note 6 – Commitments and Contingencies

Litigation

The Company is subject to legal and regulatory actions in the ordinary course of its business. Management does not believe such litigation will have a material impact on the Company's interim condensed consolidated financial statements. The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible but not probable or, is probable but not reasonably able to be estimated, no accrual is established, but the matter, if material, is disclosed. The Company is not aware of any material legal or regulatory matters threatened or pending against the Company.

Federal Home Loan Bank of Chicago

The Company is a member of the Federal Home Loan Bank of Chicago (FHLBC). As a member, the Company is able to borrow on a collateralized basis from the FHLBC which can be used as an alternative source of liquidity. The FHLBC membership requires the Company to own member stock. At September 30, 2020 and December 31, 2019, the Company held \$115 of FHLBC common stock which allows the Company to borrow up to \$2,558. Interest on borrowed funds is charged at variable rates established from time to time by the FHLBC and depending on the borrowing option selected at the time of the borrowing. No amounts have been borrowed from the FHLBC as of September 30, 2020 and December 31, 2019.

Note 7 – Assets and Liabilities Measured at Fair Value

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company attempts to establish fair value as an exit price consistent with transactions taking place under normal market conventions. The Company utilizes market observable information to the extent possible and seeks to obtain quoted market prices for all securities. If quoted market prices in active markets are not available, the Company uses a number of methodologies to establish fair value estimates including discounted cash flow models, prices from recently executed transactions of similar securities, or broker/dealer quotes.

Fair values for the Company's fixed maturities and equity securities are determined by management, utilizing prices obtained from third-party pricing services. Management reviews on an ongoing basis the reasonableness of the methodologies used by the pricing services to ensure prices received represent a reasonable estimate of fair value and to confirm representations regarding whether inputs are observable or unobservable. The main procedure the Company employs in fulfillment of this objective includes back-testing transactions, where past fair value estimates are compared to actual transactions executed in the market on similar dates.

The Company's assets and liabilities have been classified into a three-level hierarchy based on the priority of the inputs to the respective valuation technique. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Level 1 and Level 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices for identical assets in active markets the Company can access. Level 1 assets include securities that are traded in an active exchange market.

Level 2 – This level includes fixed maturities priced principally by independent pricing services using observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments on inactive markets; and model-derived valuations for which all significant inputs are observable market data. Level 2 instruments include most corporate debt securities and U.S. government and agency mortgage-backed securities that are valued by models using inputs that are derived principally from or corroborated by observable market data.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are unobservable. Level 3 instruments include less liquid assets for which significant inputs are unobservable in the market, such as structured securities with complex features that require significant management assumptions or estimation in the fair value measurement.

This hierarchy requires the use of observable market data when available.

Certain assets and liabilities are not carried at fair value on a recurring basis, including investments such as mortgage loans, intangible assets, future policy benefits excluding term life reserves and policyholder account balances. Accordingly, such items are only included in the fair value hierarchy disclosure when the items are subject to re-measurement at fair value after initial recognition (for example, when there is evidence of impairment) and the resulting re-measurement is reflected in the consolidated financial statements at the reporting date.

Recurring and Non-Recurring Fair Value Measurements

The Company's assets that are carried at fair value on a recurring and non-recurring basis, by fair value hierarchy level, are as follows:

September 30, 2020	Level 1	Level 2	Level 3	Total Fair Value
Recurring fair value measurements				
Financial instruments recorded as assets:				
Fixed maturities				
U.S. government and agencies	\$ —	\$ 14,513	\$ —	\$ 14,513
U.S. agency mortgage-backed	—	24,996	—	24,996
State and political subdivisions	—	53,202	—	53,202
Corporate and miscellaneous	2,235	158,384	1,186	161,805
Foreign government	—	167	—	167
Residential mortgage-backed	—	7,034	—	7,034
Commercial mortgage-backed	—	19,929	—	19,929
Asset-backed	—	69,330	1,295	70,625
Total fixed maturities	2,235	347,555	2,481	352,271
Equity securities	3,032	—	—	3,032
Total recurring assets	\$ 5,267	\$ 347,555	\$ 2,481	\$ 355,303

December 31, 2019	Level 1	Level 2	Level 3	Total Fair Value
Recurring fair value measurements				
Financial instruments recorded as assets:				
Fixed maturities				
U.S. government and agencies	\$ —	\$ 16,102	\$ —	\$ 16,102
U.S. agency mortgage-backed	—	39,535	—	39,535
State and political subdivisions	—	24,743	—	24,743
Corporate and miscellaneous	1,870	145,268	—	147,138
Foreign government	—	171	—	171
Residential mortgage-backed	—	9,215	—	9,215
Commercial mortgage-backed	—	19,335	—	19,335
Asset-backed	—	57,467	1,215	58,682
Total fixed maturities	1,870	311,836	1,215	314,921
Short-term investments	29,757	—	—	29,757
Equity securities	5,231	—	—	5,231
Total recurring assets	<u>\$ 36,858</u>	<u>\$ 311,836</u>	<u>\$ 1,215</u>	<u>\$ 349,909</u>

Summary of Significant Valuation Techniques for Assets on a Recurring Basis

Level 1 securities include principally exchange-traded funds that are valued based on quoted market prices for identical assets.

All the fair values of the Company's fixed maturities within Level 2 are based on prices obtained from independent pricing services. All of the Company's prices for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type and region of the world, based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type and region. For fixed maturities that do not trade on a daily basis, the pricing services prepare estimates of fair value measurements using their pricing applications which incorporate a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, and U.S. Treasury curves. Specifically, for asset-backed securities, key inputs include prepayment and default projections based on past performance of the underlying collateral and current market data. Securities with validated quotes from pricing services are reflected within Level 2 of the fair value hierarchy, as they generally are based on observable pricing for similar assets or other market significant observable inputs.

Level 3 fair value classification consists of investments in structured securities where the fair value of the security is determined by a pricing service using internal pricing models where one or more of the significant inputs is unobservable in the marketplace, or there is a single broker/dealer quote. The fair value of a broker-quoted asset is based solely on the receipt of an updated quote from a single market maker or a broker-dealer recognized as a market participant. The Company does not adjust broker quotes when used as the fair value measurement for an asset. At September 30, 2020, the Company held 3 securities priced using internal models and 2 securities priced using a broker/dealer quote that were within Level 3.

If the Company believes the pricing information received from third-party pricing services is not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service. Historically, the Company has not challenged or updated the prices provided by third-party pricing services. However, any such updates by a pricing service to be more consistent with the presented market observations, or any adjustments made by the Company to prices provided by third-party pricing services would be reflected in the balance sheet for the current period.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) and unobservable (Level 3). Net transfers into and/or out of Level 3 are reported as having occurred at the beginning of the period and are based on observable inputs received from pricing sources; therefore, all net realized and unrealized gains and losses on these securities for the period are reflected in the table that follows. A summary of changes in fair value of Level 3 assets held at fair value on a recurring basis is as follows:

	Balance at January 1, 2020	Total gains (losses) included in:					Net Transfers	Balance at September 30, 2020
		Net Income (loss)	OCI	Purchases	Sales	Settlements		
Financial Assets								
Fixed maturities								
Corporate and miscellaneous	\$ —	\$ —	\$ (6)	\$ 1,192	\$ —	\$ —	\$ —	\$ 1,186
Asset-backed	1,215	—	(61)	292	—	(151)	—	1,295
Total assets	<u>\$ 1,215</u>	<u>\$ —</u>	<u>\$ (67)</u>	<u>\$ 1,484</u>	<u>\$ —</u>	<u>\$ (151)</u>	<u>\$ —</u>	<u>\$ 2,481</u>

	Balance at January 1, 2019	Total gains (losses) included in:					Net Transfers	Balance at December 31, 2019
		Net Income (loss)	OCI	Purchases	Sales	Settlements		
Financial Assets								
Fixed maturities								
Corporate and miscellaneous	\$ 12,773	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (12,773)	\$ —
Asset-backed	922	—	3	1,875	—	(1,585)	—	1,215
Total assets	<u>\$ 13,695</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 1,875</u>	<u>\$ —</u>	<u>\$ (1,585)</u>	<u>\$ (12,773)</u>	<u>\$ 1,215</u>

There were no transfers between levels in 2020. In 2019, there were 29 transfers from Level 3 to Level 2.

Financial Instruments not Measured at Fair Value

The following tables provide fair value information for financial instruments that are carried on the balance sheet at amounts other than fair value. These tables exclude cash and cash equivalents and accrued investment income, that are not securities and therefore are not included in the three-level hierarchy table disclosed in the “Recurring and Non-Recurring Fair Value Measurements” section. The carrying amount and estimated fair values of the Company’s financial instruments that are not measured at fair value on the Interim Condensed Consolidated Balance Sheets are as follows:

September 30, 2020	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
Financial instruments recorded as assets:					
Mortgage loans	\$ 51,357	\$ —	\$ —	\$ 47,242	\$ 47,242
Policyholder loans	6,250	—	—	8,122	8,122
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	24,043	—	—	19,877	19,877
Long/short-term debt	28,166	—	—	33,988	33,988
Policyholder account balances	84,396	—	—	91,127	91,127

December 31, 2019	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
Financial instruments recorded as assets:					
Mortgage loans	\$ 51,835	\$ —	\$ —	\$ 47,567	\$ 47,567
Policyholder loans	6,040	—	—	7,926	7,926
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	21,290	—	—	19,070	19,070
Long/short-term debt	20,600	—	—	23,060	23,060
Policyholder account balances	87,517	—	—	89,896	89,896

The following methods and assumptions were used to estimate the fair value of these financial assets and liabilities.

Mortgage Loans — Fair value was based on the discounted value of future cash flows for all first mortgage loans adjusted for specific loan risk. The discount rate was based on the rate that would be offered for similar loans at the reporting date. Fair value excludes \$3,039 and \$3,193 of second and mezzanine mortgages carried at cost for which fair value is not measurable at September 30, 2020 and December 31, 2019, respectively.

Policyholder Loans — Fair value of policyholder loans was estimated using discounted cash flows using risk-free interest rates with no adjustment for borrower credit risk as these loans are fully collateralized by the cash value of the underlying insurance policy.

Future Policy Benefits and Policyholder Account Balances — For deposit liabilities with interest rate guarantees greater than one year or with defined maturities, the fair value was estimated by calculating an average present value of expected cash flows over a broad range of interest rate scenarios using the current market risk-free interest rates adjusted for spreads required for publicly traded bonds issued by comparably rated insurers. For deposit liabilities with interest rate guarantees of less than one year, the fair value was based on the amount payable on demand at the reporting date.

Long and Short-Term Debt — Fair value was calculated using the discounted value of future cash flows method. The discount rate was based on the rate that is commensurable to the level of risk. The carrying amounts reported on the Interim Condensed Consolidated Balance Sheets have been divided in to short and long-term based upon expected maturity dates.

Note 8 – Long and Short-Term Debt

The Company originally entered into a financing arrangement with an external party in January 2018, from which the Company receives an advanced commission-based payment for certain Insurance Segment term policies sold through the Agency Segment, in exchange for a level commission that is paid by the Company over the period the policy remains in-force. The Company's arrangement with the external party allows the Company to finance up to \$27,500 of commission. At September 30, 2020 and December 31, 2019, the Company had a net advance of \$25,636 and \$19,089, respectively, under this arrangement. At September 30, 2020, the Company expects to pay back the aggregate amounts as presented in the following table.

Due in one year or less	\$ 5,693
Due after one year through two years	3,559
Due after two years through three years	3,259
Due after three years through four years	3,047
Due after four years through five years	2,884
Due after five years	22,560
Less discount	(12,836)
Total long/short-term debt	<u>\$ 28,166</u>

Note 9 – Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss), net of taxes are as follows:

	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized Gains (Losses) on Other Investments	Total
Balance at January 1, 2020	\$ 362	\$ 8,395	\$ 8,757
Other comprehensive income (loss)	—	6,783	6,783
Income tax (expense) benefit	—	(1,427)	(1,427)
Other comprehensive income (loss), net of tax	—	5,356	5,356
Balance at September 30, 2020	<u>\$ 362</u>	<u>\$ 13,751</u>	<u>\$ 14,113</u>
	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized Gains (Losses) on Other Investments	Total
Balance at January 1, 2019	\$ 362	\$ (2,730)	\$ (2,368)
Other comprehensive income (loss)	—	15,772	15,772
Income tax (expense) benefit	—	(3,313)	(3,313)
Other comprehensive income (loss), net of tax	—	12,459	12,459
Balance at September 30, 2019	<u>\$ 362</u>	<u>\$ 9,729</u>	<u>\$ 10,091</u>

Note 10 – Business Segments

The Company's current operations are organized into three reportable segments: Insurance, Agency, and Corporate.

The Insurance Segment is composed of three broad lines consisting of Direct Life, Closed Block, and Assumed Life and Annuities. Direct Life and the Closed Block are distinct operations; the assumed business and the small amount of structured settlements are all blocks in runoff from a prior management arrangement.

The Agency Segment includes the insurance distribution operations of the Company and includes commission revenue from the sale of Fidelity Life products.

The Corporate Segment includes expenses that will benefit the overall organization, which are not allocated to a segment. This segment also recognizes net investment income on cash and invested assets held mainly as a result of the IPO.

All intercompany accounts and transactions have been eliminated in consolidation, including any profit or loss from the sale of Insurance Segment products through the Agency Segment.

The segment results are as follows:

	Three Months Ended September 30, 2020					Three Months Ended September 30, 2019				
	Insurance	Agency	Corporate	Eliminations	Total Consolidated	Insurance	Agency	Corporate	Eliminations	Total Consolidated
Net insurance premiums	\$ 25,089	\$ —	\$ —	\$ —	\$ 25,089	\$ 24,424	\$ —	\$ —	\$ —	\$ 24,424
Net investment income	3,436	—	48	(44)	3,440	3,792	—	476	(91)	4,177
Net realized investment (losses) gains	(272)	—	(3)	—	(275)	(213)	—	—	—	(213)
Other-than-temporary-impairment	(13)	—	—	—	(13)	—	—	—	—	—
Earned commissions from external customers	—	7,101	—	—	7,101	—	4,540	—	—	4,540
Intersegment earned commissions	—	4,412	—	(4,412)	—	—	5,035	—	(5,035)	—
Other income	63	1,130	—	—	1,193	39	1,650	—	—	1,689
Total revenues	<u>28,303</u>	<u>12,643</u>	<u>45</u>	<u>(4,456)</u>	<u>36,535</u>	<u>28,042</u>	<u>11,225</u>	<u>476</u>	<u>(5,126)</u>	<u>34,617</u>
Life, annuity, and health claim benefits	16,952	—	—	—	16,952	17,143	—	—	—	17,143
Operating costs and expenses	6,066	12,433	2,621	(2,654)	18,466	8,851	13,597	4,216	(3,090)	23,574
Amortization of deferred policy acquisition costs	4,594	—	—	(165)	4,429	4,256	—	—	(1,227)	3,029
Total benefits and expenses	<u>27,612</u>	<u>12,433</u>	<u>2,621</u>	<u>(2,819)</u>	<u>39,847</u>	<u>30,250</u>	<u>13,597</u>	<u>4,216</u>	<u>(4,317)</u>	<u>43,746</u>
(Loss) income before income tax	<u>\$ 691</u>	<u>\$ 210</u>	<u>\$ (2,576)</u>	<u>\$ (1,637)</u>	<u>\$ (3,312)</u>	<u>\$ (2,208)</u>	<u>\$ (2,372)</u>	<u>\$ (3,740)</u>	<u>\$ (809)</u>	<u>\$ (9,129)</u>

	Nine Months Ended September 30, 2020					Nine Months Ended September 30, 2019				
	Insurance	Agency	Corporate	Eliminations	Total Consolidated	Insurance	Agency	Corporate	Eliminations	Total Consolidated
Net insurance premiums	\$ 81,457	\$ —	\$ —	\$ —	\$ 81,457	\$ 73,304	\$ —	\$ —	\$ —	\$ 73,304
Net investment income	10,369	—	270	(171)	10,468	11,328	—	651	(301)	11,678
Net realized investment (losses) gains	(2,022)	—	(3)	—	(2,025)	736	—	—	—	736
Other-than-temporary-impairment	(67)	—	—	—	(67)	—	—	—	—	—
Earned commissions from external customers	—	15,629	—	—	15,629	—	13,435	—	—	13,435
Intersegment earned commissions	—	17,311	—	(17,311)	—	—	16,874	—	(16,874)	—
Other income	262	3,779	—	—	4,041	180	4,529	—	—	4,709
Total revenues	89,999	36,719	267	(17,482)	109,503	85,548	34,838	651	(17,175)	103,862
Life, annuity, and health claim benefits	60,193	—	—	—	60,193	51,111	—	—	—	51,111
Operating costs and expenses	24,923	37,822	7,793	(9,887)	60,651	24,330	39,135	7,350	(9,936)	60,879
Amortization of deferred policy acquisition costs	11,131	—	—	(1,935)	9,196	12,930	—	—	(3,379)	9,551
Total benefits and expenses	96,247	37,822	7,793	(11,822)	130,040	88,371	39,135	7,350	(13,315)	121,541
(Loss) income before income tax	\$ (6,248)	\$ (1,103)	\$ (7,526)	\$ (5,660)	\$ (20,537)	\$ (2,823)	\$ (4,297)	\$ (6,699)	\$ (3,860)	\$ (17,679)

	September 30, 2020				December 31, 2019			
	Insurance	Agency	Corporate	Total Consolidated	Insurance	Agency	Corporate	Total Consolidated
Investments and cash	\$ 426,669	\$ 3,549	\$ 23,659	\$ 453,877	\$ 412,329	\$ 1,170	\$ 32,231	\$ 445,730
Commissions and agent balances	(12,730)	30,785	—	18,055	(13,775)	25,045	—	11,270
Deferred policy acquisition costs	88,401	—	—	88,401	85,776	—	—	85,776
Intangible assets	—	1,635	—	1,635	—	1,635	—	1,635
Reinsurance recoverables	150,322	—	—	150,322	132,870	—	—	132,870
Deferred income tax (liabilities) assets, net	(7,573)	—	18,296	10,723	(8,235)	—	17,675	9,440
Other	23,212	4,902	1,075	29,189	31,029	3,393	639	35,061
Total assets	\$ 668,301	\$ 40,871	\$ 43,030	\$ 752,202	\$ 639,994	\$ 31,243	\$ 50,545	\$ 721,782

The Company's investment in equity method investees and the related equity income is attributable to the Corporate Segment.

All the Company's significant revenues and long-lived assets are located in the United States, which is the Company's country of domicile.

Note 11 – Subsequent Events

Management has evaluated subsequent events up to and including November 16, 2020, the date these Interim Condensed Consolidated Financial Statements were issued and determined there were no reportable subsequent events.

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

Forward-Looking Statements

This Form 10-Q contains "forward-looking" statements that are intended to enhance the reader's ability to assess our future financial and business performance. Forward-looking statements include, but are not limited to, statements that represent our beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. In addition, statements that refer to our future financial performance, anticipated growth and trends in our business and in our industry and other characterizations of future events or circumstances are forward-looking statements. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different.

Consequently, such forward-looking statements should be regarded solely as our current plans, estimates and beliefs with respect to, among other things, future events and financial performance. Except as required under the federal securities laws, we do not intend, and do not undertake, any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

The forward-looking statements include, among other things, those items listed below:

- future economic conditions in the markets in which we compete that could be less favorable than expected and could have impacts on demand for our products and services;
- our ability to grow and develop our Agency business through expansion of retail call centers, online sales, wholesale operations and other areas of opportunity;
- our ability to grow and develop our insurance business and successfully develop and market new products;
- our ability to enter new markets successfully and capitalize on growth opportunities either through acquisitions or organically;
- financial market conditions, including, but not limited to, changes in interest rates and the level and trends of stock market prices causing a reduction of net investment income or realized losses and reduction in the value of our investment portfolios;
- increased competition in our businesses, including the potential impacts of aggressive price competition by other insurance companies, payment of higher commissions to agents that could affect demand for our insurance products and impact the ability to grow and retain agents in our Agency Segment and the entry of new competitors and the development of new products by new or existing competitors, resulting in a reduction in the demand for our products and services;
- the effect of legislative, judicial, economic, demographic and regulatory events in the jurisdictions where we do business;
- the effect of challenges to our patents and other intellectual property;
- costs, availability and collectability of reinsurance;
- the potential impact on our reported net income that could result from the adoption of future accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies;
- the inability to maintain or grow our strategic partnerships or our inability to realize the expected benefits from our relationship with the Standby Purchaser;
- the inability to manage future growth and integration of our operations; and
- changes in industry trends and financial strength ratings assigned by nationally recognized statistical rating organizations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes included in Item 1 of this Form 10-Q. Some of the information contained in this discussion and analysis and set forth elsewhere in this Form 10-Q constitutes forward looking information that involves risks and uncertainties. You should review "Forward Looking Statements" for a discussion of important factors that could cause actual results to differ materially from the results described, or implied by, the forward-looking statements contained herein.

Overview

We provide life insurance protection targeted to the middle American market. We believe there is a substantial unmet need for life insurance, particularly among domestic households with annual incomes of between \$50,000 and \$125,000, a market we refer to as our target Middle Market. We differentiate our product and service offerings through innovative product design and sales processes, with an emphasis on rapidly issued products that are not medically underwritten at the time of sale.

We conduct our business through our two operating subsidiaries, Fidelity Life, an Illinois-domiciled life insurance company, and Efinancial, a call center-based insurance agency. Efinancial sells Fidelity Life products through its own call center distribution platform, independent agents and other marketing organizations. Efinancial, in addition to offering Fidelity Life products, sells insurance products of unaffiliated carriers. We report our operating results in three segments: Agency, Insurance and Corporate.

COVID-19

The outbreak of the novel coronavirus (“COVID-19”) in many countries continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The measures governments worldwide have enacted to combat the pandemic have resulted in disruptions in global and local supply chains and have led to adverse impacts on economic and market conditions as well as increases in unemployment. The severity of COVID-19 and duration of government containment actions have impacted both employees and customers of the Company and presented material uncertainty and risk with respect to the Company’s performance, liquidity, results of operations, and financial condition.

The stress and disruption placed on the global economy and financial markets from the outbreak of COVID-19 may continue to have near and long-term negative effects on investment valuations, returns, and credit allowance exposure. The Company will continue to closely monitor the situation, including potential negative impacts on sales of new policies and mortality; however, due to the highly uncertain nature of these conditions, it is not possible to reliably estimate the length and severity of COVID-19 or its impact to the Company’s operations, but the effect could be material.

In the third quarter 2020 and year to date September 30, 2020, the Company had an estimated \$0.9 million and \$1.8 million, respectively, in net incurred policyholder claims that included COVID-19 as a contributing cause of death.

The Company continues to monitor the effects of the changing economic environment on our fixed maturity securities portfolio and currently have a number of securities on our watch list, which are mainly concentrated in the oil and gas and airline sectors. Our assessment through September 30, 2020 has resulted in no additional material other-than-temporary impairment (OTTI) due to COVID-19 and the recent market events.

In response to the economic impact related to COVID-19, concessions were granted to certain of the Company’s mortgage loan borrowers, including payment deferrals and other loan modifications. At June 30, 2020, the Company held 25 mortgage loans where requests for temporary modifications were granted (23 were modified to interest only and 2 to forbearance). The total loan balance for these 25 loans amounted to \$4.4 million or about 9% of the mortgage loan portfolio. At June 30, 2020, 17 of the 25 temporary loan modifications had returned to full payment (both principal and interest) under the modified loan terms, including the 2 loans given forbearance. Of the remaining 8 loans that were granted loan modifications, 7 of these loans returned to full payment status as of September 30, 2020. During the third quarter of 2020, the Company granted a loan modification through December 31, 2020 on a loan that was outside of the original 25 loan modifications previously granted. The combined loan balance of the 2 loans under temporary modification status at September 30, 2020 amounted to \$0.4 million, or less than 1% of the mortgage loan portfolio.

National Service Group of Amerilife, LLC

In the second quarter 2020, Fidelity Life entered into a General Agent’s agreement with an unaffiliated third party, National Service Group of Amerilife, LLC (“AmeriLife”). This agreement provides Fidelity Life access to AmeriLife distribution channels, its commission systems and assists in streamlining administrative processes related to commissions. This agreement also allows Efinancial to operate as a sub agent to AmeriLife. On May 15, 2020, the Company began selling products using this new distribution arrangement.

Agency Segment

This segment primarily consists of the operations of Efinancial. Efinancial is a call center-based insurance agency that markets life insurance for Fidelity Life and unaffiliated insurance companies. Efinancial's primary operations are conducted through employee agents from three call center locations, which we refer to as our retail channel. In addition, Efinancial operates as a wholesale agency, assisting independent agents that seek to produce business for the carriers that Efinancial represents, which we refer to as our wholesale channel. The Agency Segment's main source of revenue is commissions earned on the sale of insurance policies sold through our retail and wholesale channels. Efinancial also generates data and click-through revenue (reported as part of Insurance Lead Sales on the related Interim Condensed Consolidated Statements of Operations) through its eCoverage web presence.

Agency Segment expenses consist of marketing costs to acquire potential customers, salary and bonuses paid to our employee agents, salary and other costs of employees involved in managing the underwriting process for our insurance applications, sales management, agent licensing, training and compliance costs. Other Agency Segment expenses include costs associated with financial and administrative employees, facilities rent, and information technology. After payroll, the most significant Agency Segment expense is the cost of acquiring leads. We partially offset our sales leads expense through advertising revenues from individuals who click on specific advertisements while viewing one of our web pages, and through the resale of leads that are not well suited for our call center.

Insurance Segment

This segment consists of the operations of Fidelity Life. Fidelity Life underwrites primarily term life insurance through Efinancial and a diverse group of independent insurance distributors. Fidelity Life specializes in life insurance products that can be issued immediately or within a short period following a sales call, using non-medical underwriting at the time of policy issuance.

Fidelity Life engages in the following business lines:

Core Life - Our Core Life insurance business is the primary business of the Insurance Segment. Core Life represents a significant portion of the insurance business written by Fidelity Life since it resumed independent operations in 2005. Our Core Life business consists of inforce policies that are considered to be of high strategic importance to Fidelity Life.

NonCore Life - Our NonCore Life business consists of: products that are currently being marketed but are not deemed to be of high strategic importance to the Company; inforce policies from product lines introduced since Fidelity Life resumed independent operations in 2005, but were subsequently discontinued; and an older annuity block of business that was not included in the Closed Block.

Closed Block - Our Closed Block represents all inforce participating insurance policies of Fidelity Life. The Closed Block was established in connection with our 2007 reorganization into a mutual holding company structure.

Annuities and Assumed Life - We have assumed reinsurance commitments with respect to annuity contract holder deposits and a block of life insurance contracts that were ceded by former affiliates of Fidelity Life. Under an agreement with Protective Life Insurance Company (Protective Life), the successor to a former affiliate of Fidelity Life, Fidelity Life had assumed a portion of risk on a group of life insurance contracts primarily written in the 1980s and early 1990s. On March 29, 2019, Protective Life and Fidelity Life agreed that Protective Life would recapture the majority of this assumed life block of business, thereby relieving Fidelity Life from further liability under the recaptured business (except for obligations incurred prior to the recapture effective date). Under the recapture agreement, Fidelity Life paid Protective Life an amount equal to the assumed carried reserves, and in turn, Fidelity Life received payment from its reinsurers of this business for their portion of the related ceded reserves. We recognized a \$2.2 million gain from this transaction in 2019.

Insurance Segment revenues consist of net insurance premiums, net investment income, and net realized gains (losses) on investments. We recognize premium revenue from our policyholders. We purchase reinsurance coverage to help manage the risk on our insurance policies by paying, or ceding, a portion of the policyholder premiums to the reinsurance company. Our net insurance premiums reflect amounts collected from policyholders, plus premiums assumed under reinsurance agreements less premiums ceded to reinsurance companies. Net investment income represents primarily interest income earned on fixed maturity security investments. We also realize gains and losses on sales of investment securities.

Insurance Segment expenses consist of benefits paid to policyholders or their beneficiaries under life insurance policies. Benefit expenses also include additions to the reserve for future policyholder benefits to recognize our estimated future obligations under the policies. Benefit expenses are shown net of amounts ceded under our reinsurance contracts. Our Insurance Segment also incurs policy acquisition costs that consist of commissions paid to agents, policy underwriting, issue costs and variable sales costs. A portion of these policy acquisition costs are deferred and expensed over the life of the insurance policies acquired during the period. In addition to policy acquisition costs, we incur expenses that vary based on the number of contracts that we have in-force, or variable policy administrative costs. These variable costs consist of expenses paid to third-party administrators based on rates for each policy administered. Our insurance operations also incur overhead costs for functional and administrative staff to support insurance operations, financial reporting and information technology.

Corporate Segment

The results of this segment consist of net investment income and net realized investment gains (losses) earned on invested assets. We also include certain corporate expenses that are not allocated to our other segments, including expenses of the Company, board expenses, allocation of executive management time spent on corporate matters, and financial reporting and auditing costs related to our consolidation and internal controls. Our Corporate Segment recognizes income (loss) to the extent that net investment income and net realized investment gains (losses) exceed (are less than) corporate expenses.

Critical Accounting Policies

Our critical accounting policies are described in “Note 1—Basis of Presentation and Summary of Significant Accounting Policies” to our Consolidated Financial Statements as of and for the year ended December 31, 2019 included in the Form 10-K. The preparation of the Interim Condensed Consolidated Financial Statements in conformity with GAAP requires management to use judgment in making estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and related disclosures. We regularly evaluate our estimates and judgments based on historical experience, market indicators and other relevant factors and circumstances. Actual results may differ from these estimates under different assumptions or conditions and may affect our financial position and results of operations. Accordingly, these Interim Condensed Consolidated Financial Statements should be read in conjunction with the financial statements as of and for the year ended December 31, 2019, and notes thereto, included in the Form 10-K.

Results of Operations

The major components of operating revenues, benefits and expenses and net (loss) income were as follows:

Vericity, Inc. Consolidated Results of Operations (dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues				
Net insurance premiums	\$ 25,089	\$ 24,424	\$ 81,457	\$ 73,304
Net investment income	3,440	4,177	10,468	11,678
Net realized investment (losses) gains	(275)	(213)	(2,025)	736
Other-than-temporary-impairment	(13)	—	(67)	—
Earned commissions	7,101	4,540	15,629	13,435
Insurance lead sales	1,130	1,650	3,779	4,529
Other income	63	39	262	180
Total revenues	36,535	34,617	109,503	103,862
Benefits and expenses				
Life, annuity, and health claim benefits	16,183	16,243	57,860	48,573
Interest credited to policyholder account balances	769	900	2,333	2,538
Operating costs and expenses	18,466	23,574	60,651	60,879
Amortization of deferred policy acquisition costs	4,429	3,029	9,196	9,551
Total benefits and expenses	39,847	43,746	130,040	121,541
(Loss) income before income taxes	(3,312)	(9,129)	(20,537)	(17,679)
Income tax (benefit) expense	(56)	(591)	(1,931)	(307)
Net (loss) income	\$ (3,256)	\$ (8,538)	\$ (18,606)	\$ (17,372)

Three Months Ended September 30, 2020 Compared to the Three Months Ended September 30, 2019

Total Revenues

For the three months ended September 30, 2020, total revenues were \$36.5 million compared to \$34.6 million for the three months ended September 30, 2019. This increase of \$1.9 million resulted from an increase in earned commissions, higher net insurance premiums, partially offset by lower insurance lead sales and net investment income.

Benefits and Expenses

For the three months ended September 30, 2020, total benefits and expenses were \$39.8 million compared to \$43.7 million for the three months ended September 30, 2019. This decrease of \$3.9 million was primarily due to lower operating costs and expenses, partially offset by higher amortization of deferred policy acquisition costs.

(Loss) Income Before Income Taxes

For the three months ended September 30, 2020, net loss before taxes was \$3.3 million compared to net loss before taxes of \$9.1 million for the three months ended September 30, 2019. The lower net loss of \$5.8 million was primarily due to reductions in operating costs and expenses and an increase in earned commissions, partially offset by increased amortization of deferred policy acquisition costs.

Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

Total Revenues

For the nine months ended September 30, 2020, total revenues were \$109.5 million compared to \$103.9 million for the nine months ended September 30, 2019. This increase of \$5.6 million resulted from higher net insurance premiums and earned commissions, partially offset by lower net realized investment gains (losses) and lower insurance lead sales.

Benefits and Expenses

For the nine months ended September 30, 2020, total benefits and expenses were \$130.0 million compared to \$121.5 million for the nine months ended September 30, 2019. This increase of \$8.5 million was primarily due to higher life, annuity, and health claim benefits.

(Loss) Income Before Income Taxes

For the nine months ended September 30, 2020, we had a net loss before taxes of \$20.5 million compared to a net loss before taxes of \$17.7 million for the nine months ended September 30, 2019. The higher net loss of \$2.8 million was primarily due to increased life, annuity, and health claim benefits and lower net realized investment gains (losses), partially offset by increased net insurance premiums and earned commissions.

Analysis of Segment Results

Reconciliation of Segment Results to Consolidated Results

The following analysis reconciles the reported segment results to the Company's total consolidated results.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>(dollars in thousands)</u>		<u>(dollars in thousands)</u>	
(Loss) income before income tax by segment				
Agency	\$ 210	\$ (2,372)	\$ (1,103)	\$ (4,297)
Insurance	691	(2,208)	(6,248)	(2,823)
Corporate	(2,576)	(3,740)	(7,526)	(6,699)
Eliminations	(1,637)	(809)	(5,660)	(3,860)
(Loss) income before income taxes	(3,312)	(9,129)	(20,537)	(17,679)
Income tax (benefit) expense	(56)	(591)	(1,931)	(307)
Net (loss) income	<u>\$ (3,256)</u>	<u>\$ (8,538)</u>	<u>\$ (18,606)</u>	<u>\$ (17,372)</u>

Agency Segment

The results of our Agency Segment were as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>(dollars in thousands)</u>		<u>(dollars in thousands)</u>	
Revenues				
Earned commissions	\$ 11,513	\$ 9,575	\$ 32,940	\$ 30,309
Insurance lead sales	1,130	1,650	3,779	4,529
Total revenues	<u>12,643</u>	<u>11,225</u>	<u>36,719</u>	<u>34,838</u>
Expenses				
Operating costs and expenses	12,433	13,597	37,822	39,135
Total expenses	<u>12,433</u>	<u>13,597</u>	<u>37,822</u>	<u>39,135</u>
(Loss) income before income taxes	<u>\$ 210</u>	<u>\$ (2,372)</u>	<u>\$ (1,103)</u>	<u>\$ (4,297)</u>

Three Months Ended September 30, 2020 Compared to the Three Months Ended September 30, 2019

Earned Commissions

For the three months ended September 30, 2020, earned commissions were \$11.5 million compared to \$9.6 million for the three months ended September 30, 2019. This increase of \$1.9 million resulted from increased sales in the retail channel, which was primarily driven by increased agent headcount, partially offset by lower sales in the wholesale channel.

Insurance Lead Sales

For the three months ended September 30, 2020, insurance lead sales were \$1.1 million compared to \$1.7 million for the three months ended September 30, 2019. This decrease of \$0.6 million was primarily due to lower external transfer revenue.

Operating Costs and Expenses

For the three months ended September 30, 2020, operating costs and expenses were \$12.4 million compared to \$13.6 million for the three months ended September 30, 2019. This decrease of \$1.2 million was primarily due to 2019 expense of \$0.9 million related to accelerated vesting of incentive compensation related to the completion of the IPO and lower marketing costs.

(Loss) Income Before Income Taxes

For the three months ended September 30, 2020, the Agency Segment net income was \$0.2 million compared to net loss of \$2.4 million for the three months ended. This increase in net income of \$2.6 million was the result of increased earned commissions and a reduction of operating costs and expenses, partially offset by lower insurance lead sales revenue.

Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

Earned Commissions

For the nine months ended September 30, 2020, earned commissions were \$32.9 million compared to \$30.3 million for the nine months ended September 30, 2019. This increase of \$2.6 million resulted from higher sales in the retail channel, which was primarily driven by increased agent headcount, partially offset by decreased sales in the wholesale channel.

Insurance Lead Sales

For the nine months ended September 30, 2020, insurance lead sales were \$3.8 million compared to \$4.5 million for the nine months ended September 30, 2019. This decrease of \$0.7 million was primarily due to lower click-through and transfer revenue.

Operating Costs and Expenses

For the nine months ended September 30, 2020, operating costs and expenses were \$37.8 million compared to \$39.1 million for nine months ended September 30, 2019. This decrease of \$1.3 million was primarily due to 2019 expense of \$0.9 million related to accelerated vesting of incentive compensation related to the completion of the IPO and lower marketing costs.

(Loss) Income Before Income Taxes

For the nine months ended September 30, 2020, the Agency Segment incurred a net loss of \$1.1 million compared to net loss of \$4.3 million for the nine months ended September 30, 2019. This decrease in net loss of \$3.2 million was primarily the result of higher earned commissions and a reduction of operating costs and expenses, partially offset by lower insurance lead sales revenue.

Insurance Segment

The results of our Insurance Segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Net insurance premiums	\$ 25,089	\$ 24,424	\$ 81,457	\$ 73,304
Net investment income	3,436	3,792	10,369	11,328
Net realized investment (losses) gains	(272)	(213)	(2,022)	736
Other-than-temporary-impairment	(13)	—	(67)	—
Other income	63	39	262	180
Total revenues	28,303	28,042	89,999	85,548
Benefits and expenses				
Life, annuity, and health claim benefits	16,183	16,243	57,860	48,573
Interest credited to policyholder account balances	769	900	2,333	2,538
Operating costs and expenses	6,066	8,851	24,923	24,330
Amortization of deferred policy acquisition costs	4,594	4,256	11,131	12,930
Total benefits and expenses	27,612	30,250	96,247	88,371
(Loss) income before income taxes	\$ 691	\$ (2,208)	\$ (6,248)	\$ (2,823)

Three Months Ended September 30, 2020 Compared to the Three Months Ended September 30, 2019

Net Insurance Premiums

For the three months ended September 30, 2020, net insurance premiums were \$25.1 million compared to \$24.4 million for the three months ended September 30, 2019. This \$0.7 million increase in net insurance premiums was primarily due to growth in the Core Life and Non-Core lines of \$1.1 million, mainly driven by an increase in LifeTime Benefit Term (LBT), partially offset by a decrease in **RAPID**Decision® Life, primarily driven by changes in reinsurance. This increase was partially offset by a decrease in the Closed Block of \$0.4 million.

Net Investment Income

For the three months ended September 30, 2020, net investment income decreased to \$3.5 million compared to \$3.8 million for the three months ended September 30, 2019. The \$0.3 million decrease was mainly due to lower book yields in the fixed maturity portfolio, resulting from a lower interest rate environment. For more information on net investment income, see “Note 2 – Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Life, Annuity and Health Claim Benefits

For the three months ended September 30, 2020, life, annuity and health claim benefits were \$16.2 million compared with \$16.2 million for the three months ended September 30, 2019. There were \$0.9 million in net claims that included COVID-19 as a contributing cause of death.

Operating Costs and Expenses

For the three months ended September 30, 2020, operating costs and expenses decreased to \$6.1 million compared to \$8.9 million for the three months ended September 30, 2019. The \$2.8 million decrease was primarily attributable to \$1.8 million of costs related to accelerated vesting of incentive compensation related to the completion of the IPO in 2019 and an increase in ceding allowances in the Core Life lines.

Amortization of Deferred Policy Acquisition Costs

For the three months ended September 30, 2020, amortization of deferred policy acquisition costs was \$4.6 million compared to \$4.3 million for the three months ended September 30, 2019. The increase of \$0.3 million relates to the Closed Block. See “Closed Block” section in this Form 10-Q for further discussion regarding Closed Block and “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

(Loss) Income Before Income Taxes

For the three months ended September 30, 2020, net income was \$0.7 million compared to net loss of \$2.2 million for the three months ended September 30, 2019. The \$2.9 million increase resulted primarily from a \$2.8 million decrease in operating costs and expenses.

Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

Net Insurance Premiums

For the nine months ended September 30, 2020, net insurance premiums were \$81.5 million compared to \$73.3 million for the nine months ended September 30, 2019. This increase of \$8.2 million in net insurance premiums was primarily due to growth in the Core Life lines of \$4.3 million, mainly driven by increases in LifeTime Benefit Term (LBT) partially offset by a decline in **RAPID**Decision® Life, primarily driven by changes in reinsurance. In addition, there was an increase of \$3.2 million related to the Closed Block and \$0.7 million primarily related to the 2019 recapture of annuities and assumed life. See “Closed Block” section in this Form 10-Q for further discussion regarding Closed Block and “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

Net Investment Income

For the nine months ended September 30, 2020, net investment income was \$10.4 million compared to \$11.3 million for the nine months ended September 30, 2019. The decrease was mainly due to lower book yields in the fixed maturity portfolio resulting from the lower interest rate environment. For more information on net investment income, see “Note 2 – Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Net Realized Investment Gains (Losses)

For the nine months ended September 30, 2020, net realized investment losses were \$2.0 million compared to \$0.7 million net realized investment gains for the nine months ended September 30, 2019. The \$2.7 million decrease was mainly due to the equity portfolio which incurred losses of \$2.6 million and gains of \$0.2 million in the first nine months of 2020 and 2019, respectively. The equity portfolio is invested in the energy sector, which incurred losses, partially attributable to COVID-19. For more information on net realized investment gains (losses), see “Note 2 – Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Life, Annuity and Health Claim Benefits

For the nine months ended September 30, 2020, life, annuity and health claim benefits were \$57.9 million compared with \$48.6 million for the nine months ended September 30, 2019. This increase of \$9.3 million was mainly attributable to an increase in claim benefits of \$4.5 million in Core Life and Non-Core Life lines, \$1.7 million as a result of the 2019 recapture of assumed life business and annuities, and \$3.1 million in the Closed Block. Net claims related to COVID-19 were \$1.8 million in the nine months ended September 30, 2020. See “Closed Block” section in this Form 10-Q for further discussion regarding Closed Block and “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

Operating Costs and Expenses

For the nine months ended September 30, 2020, operating costs and expenses were \$24.9 million compared to \$24.3 million for the nine months ended September 30, 2019. This increase of \$0.6 million was primarily due to a reduction in reinsurance allowances of \$1.4 million, which includes \$3.7 million related to the Closed Block, partially offset by increased allowances of \$2.5 million in the Core Life and Non-Core Life lines. In addition, there was \$1.0 million increase in staff and depreciation costs. This was partially offset by \$1.8 million costs related to accelerated vesting of incentive compensation related to the completion of the IPO in 2019. See “Closed Block” section in this Form 10-Q for further discussion regarding Closed Block and “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

Amortization of Deferred Policy Acquisition Costs

For the nine months ended September 30, 2020, amortization of deferred policy acquisition costs was \$11.1 million compared to \$12.9 million for the nine months ended September 30, 2019. The decrease of \$1.8 million includes a \$2.7 million decrease in the Closed Block and \$0.2 million decrease in Non-Core Life, partially offset by an increase in our Core Life lines of \$1.1 million. See “Closed Block” section in this Form 10-Q for further discussion regarding Closed Block and “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

(Loss) Income Before Income Taxes

For the nine months ended September 30, 2020, net loss was \$6.3 million compared to a net loss of \$2.8 million for the nine months ended September 30, 2019. This increase in net loss of \$3.5 million resulted primarily from \$9.3 million increase in life, annuity and health claim benefits, \$0.6 million increase in operating costs and expenses, reduction of \$2.8 million in net realized investment gains (losses), and \$1.0 million reduction in net investment income, partially offset by an increase in net insurance premiums of \$8.2 million and a reduction in amortization of deferred acquisition costs of \$1.8 million.

Closed Block

The Closed Block was formed as of October 1, 2006 and contains all participating policies issued or assumed by Fidelity Life. The assets and future net cash flows of the Closed Block are available only for purposes of paying benefits, expenses and dividends of the Closed Block and are not available to the Company, except for an amount of additional funding that was established at inception. The additional funding was designed to protect the block against future adverse experience, and if the funding is not required for that purpose, it is subject to reversion to the Company in the future. Any reversion of Closed Block assets to the Company must be approved by the Illinois Department of Insurance.

The maximum future earnings to be recognized from Closed Block assets and liabilities represent the estimated future Closed Block profits that will accrue to the Company and is calculated as the excess of Closed Block assets over Closed Block liabilities. Included in Closed Block assets at September 30, 2020 and December 31, 2019, are \$10.1 million and \$9.9 million, respectively, of additional Closed Block funding, plus accrued interest, that is eligible for reversion to the Company if not needed to fund Closed Block experience.

The Closed Block was funded based on a model developed to forecast the future cash flows of the Closed Block which is referred to as the “glide path.” The glide path model projected the anticipated future cash flows of the Closed Block as established at the initial funding. We compare the actual results of the Closed Block to expected results from the glide path as part of the annual assessment of the current level of policyholder dividends. The assessment of policyholder dividends includes projections of future experience of the Closed Block policies and the investment experience of the Closed Block assets. The review of Closed Block experience also includes consideration of whether a policy dividend obligation should be recorded to reflect favorable Closed Block experience that has not yet been reflected in the dividend scales. See “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

The block where there are no dividends expected had a significant number of policies issued in December 1999 which had level premiums for the first 20 durations, followed by premiums which increased significantly in duration 21 as the premiums from that point forward go to an annually increasing scale. The approximate increase in premiums going from the 20th to the 21st duration is 1300%. Direct policies are a mixture of annual, semi-annual, quarterly, and monthly premium payment modes, whereas ceded policies are all annual premium mode. Therefore, both direct and ceded premiums increased significantly in the fourth quarter of 2019 on the Closed Block compared to the prior year as this group of policies ended their level term with larger impacts affecting ceded premiums more than direct premiums as a result of these modal differences.

Most of these policies lapsed in the first quarter of 2020 causing increases in net insurance premiums due to modal differences in direct and ceded premiums and a reduction in ceding allowances included in operating costs and expenses and life, annuity and health claim benefits and offset by a decrease in amortization of deferred policy acquisition costs.

Corporate Segment

The results of the Corporate Segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Net investment income	\$ 48	\$ 476	\$ 270	\$ 651
Net realized investment (losses) gains	(3)	—	(3)	—
Total revenues	45	476	267	651
Expenses				
Operating costs and expenses	2,621	4,216	7,793	7,350
Total expenses	2,621	4,216	7,793	7,350
(Loss) income before income taxes	\$ (2,576)	\$ (3,740)	\$ (7,526)	\$ (6,699)

Three Months Ended September 30, 2020 Compared to the Three Months Ended September 30, 2019

(Loss) Income Before Income Taxes

For the three months ended September 30, 2020, net loss decreased to \$2.6 million from a net loss of \$3.7 million for the three months ended September 30, 2019. The \$1.1 million decrease in net loss is primarily attributable to \$3.2 million of costs related to accelerated vesting of incentive compensation related to the completion of the IPO in 2019, partially offset by higher operating costs and expenses due to targeted growth initiatives and costs associated with being a public company.

Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

(Loss) Income Before Income Taxes

For the nine months ended September 30, 2020, net loss increased to \$7.5 million from a net loss of \$6.7 million for the nine months ended September 30, 2019. The \$0.8 million increase in net loss is primarily attributable to \$3.2 million of costs related to accelerated vesting of incentive compensation related to the completion of the IPO in 2019, partially offset by higher operating costs and expenses due to targeted growth initiatives and costs associated with being a public company.

Intercompany Eliminations

The impact of the eliminations for intercompany transactions primarily consists of the sales by the Agency Segment of the life products of the Insurance Segment. The eliminations represent the amounts required to eliminate the intercompany transactions as recorded in the segment results, and in particular, to eliminate any intersegment profits resulting from such transactions. Our segment results follow the accounting principles and methods applicable to each segment as if the intercompany transactions were with unaffiliated organizations:

Revenue—the Agency Segment recognizes all commission revenue to be paid for the first year that the policy is in force at the date that the insurance policy goes in force at the carrier.

Expense—the Insurance Segment recognizes the first-year commission as a policy acquisition cost, in proportion to the premiums earned from providing insurance coverage throughout the first year that the policy is in force. In addition, the Insurance Segment defers the amount by which the first-year commission acquisition costs exceed the ultimate renewal commission and records this amount as deferred acquisition cost that is amortized over the expected life of the policy.

Viewed at the segment level, because of the timing difference between the Agency Segment's immediate recognition of commission revenue and the Insurance Segment's deferral and amortization of the commission expense over the expected life of the policy, all else being equal, the sale of a policy through the Agency Segment results in an intersegment profit in an amount equal to the difference between the commission paid and the related amortization expense. However, in consolidation, two impacts occur. First, the intercompany revenue recognized by the Agency Segment and the related deferred acquisition expense recorded by the Insurance Segment are eliminated. Second, deferred policy acquisition costs are recorded equal to that portion of commission deferred acquisition cost (DAC) that can be tied directly to Efinancial's expenses incurred in the successful placement of a policy. Therefore, in consolidation, the commission DAC recorded in the Insurance Segment is effectively reduced to reflect the elimination of that portion of commission DAC that results from Efinancial expenses that cannot be directly tied to the successful placement of a policy. The

amount of eliminated commission DAC, which represents a majority of the commission DAC, is charged to current expense, and acquisition cost DAC is recorded at a reduced amount, which represents the amount of commission DAC that is eligible for deferral under GAAP.

The results of these elimination entries were as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>(dollars in thousands)</u>		<u>(dollars in thousands)</u>	
Revenues				
Net investment (loss) income	\$ (44)	\$ (91)	\$ (171)	\$ (301)
Earned commissions	(4,412)	(5,035)	(17,311)	(16,874)
Total revenues	(4,456)	(5,126)	(17,482)	(17,175)
Expenses				
Operating costs and expenses	(2,654)	(3,090)	(9,887)	(9,936)
Amortization of deferred policy acquisition costs	(165)	(1,227)	(1,935)	(3,379)
Total expenses	(2,819)	(4,317)	(11,822)	(13,315)
(Loss) income before income taxes	\$ (1,637)	\$ (809)	\$ (5,660)	\$ (3,860)

Three Months Ended September 30, 2020 Compared to the Three Months Ended September 30, 2019

For the three months ended September 30, 2020, the impact of intercompany eliminations on pre-tax income was a reduction of \$1.6 million compared to a \$0.8 million reduction for the three months ended September 30, 2019. This increase in pre-tax loss is primarily related to eliminating lower amortization of deferred policy acquisition costs mainly as a result of selling business through the AmeriLife distribution channel.

Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

For the nine months ended September 30, 2020, the impact of intercompany eliminations on pre-tax income was a reduction of \$5.7 million compared to a \$3.9 million reduction for the nine months ended September 30, 2019. This increase in pre-tax loss is primarily related to eliminating lower amortization of deferred policy acquisition costs mainly as a result of selling business through the AmeriLife distribution channel.

Investments

Investment Returns

We invest available cash and funds that support our regulatory capital, surplus requirements and policy reserves in investment securities that are included in the Insurance and Corporate Segments. We earn income on these investments in the form of interest on fixed maturity securities (bonds and mortgage loans) and dividends (equity holdings). Net investment income is recorded as revenue, net of investment related expenses. The amount of net investment income that we recognize will vary depending on the amount of invested assets that we own, the types of investments, the interest rates earned and amount of dividends received on our investments.

Gains and losses on sales of investments are classified as “realized investment gains (losses)” and are recorded as revenue. Capital appreciation and depreciation caused by changes in the market value of investments classified as “available-for-sale” is recorded in accumulated other comprehensive income. The amount of investment gains and losses that we recognize depends on the amount of and the types of invested assets we own, and the market conditions related to those investments. Our cash needs can vary from time to time and could require that we sell invested assets to fund cash needs.

Investment Guidelines

Our investment strategy and guidelines are developed by management and approved by the Investment Committee of Fidelity Life’s board of directors. Our investment strategy related to the Insurance Segment is designed to maintain a well-diversified, high quality fixed income portfolio that will provide adequate levels of net investment income and liquidity to meet our policyholder obligations under our life insurance policies and our assumed annuity deposits. To help maintain liquidity, we establish the duration of invested assets within a tolerance to the policy liability duration. The investments of the Insurance Segment are managed with an emphasis on current income within quality and diversification constraints. The focus is on book yield of the fixed income portfolio as

the anticipated portfolio yield is a key element used in pricing our insurance products and establishing policyholder crediting rates on our annuity contracts.

We apply our overall investment strategy and guidelines on a consolidated basis for purposes of monitoring compliance with our overall guidelines. All of our investments are owned by Fidelity Life and are maintained in compliance with insurance regulations. Critical guidelines of our investment plan include:

- Asset concentration guidelines that limit the amount that we hold in any one issuer of securities,
- Asset quality guidelines applied on a portfolio basis and for individual issues that establish a minimum asset quality standard for portfolios and establish minimum asset quality standards for investment purchases and investment holdings,
- Liquidity guidelines that limit the amount of illiquid assets that can be held at any time, and
- Diversification guidelines that limit the exposure at any time to the total portfolio by investment sectors.

Our investment portfolios are all managed by third-party investment managers that specialize in insurance company asset management. These managers are selected based upon their expertise in the particular asset classes that we own. We contract with an investment management firm to provide overall assistance with oversight of our portfolio managers, evaluation of investment performance and assistance with development and implementation of our investment strategy. This investment management firm reports to our Chief Financial Officer and to the Investment Committee of Fidelity Life's board of directors. On a quarterly basis, or more frequently if circumstances require, we review the performance of all portfolios and portfolio managers with the Investment Committee.

The following table shows the distribution of the fixed maturity securities classified as available-for-sale by quality rating using the rating assigned by Standard & Poor's (S&P), a nationally recognized statistical rating organization. For securities where the S&P rating is not available (not rated), the National Association of Insurance Commissioners (NAIC) rating is used. Over the periods presented, we have maintained a consistent weighted average bond quality rating of "A." The percentage allocation of total investment grade securities was 98.0% and 98.2% at September 30, 2020 and December 31, 2019, respectively.

S&P Rating	Estimated Fair Value			
	September 30, 2020		December 31, 2019	
	(dollars in thousands)			
AAA	\$ 92,456	26.2%	\$ 93,137	29.7%
AA	70,366	20.0%	47,217	15.0%
A	92,542	26.3%	94,776	30.1%
BBB	70,255	19.9%	60,277	19.1%
Not rated	19,780	5.6%	13,443	4.3%
Total investment grade	345,399	98.0%	308,850	98.2%
BB	4,451	1.3%	3,455	1.1%
B	1,858	0.5%	1,707	0.5%
CCC	558	0.2%	727	0.2%
D	5	0.0%	7	0.0%
Not Rated	—	0.0%	175	0.0%
Total below investment grade	6,872	2.0%	6,071	1.8%
Total	\$ 352,271	100.0%	\$ 314,921	100.0%

The following table sets forth the maturity profile of our fixed maturity securities at September 30, 2020 from December 31, 2019. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without penalty.

(dollars in thousands)	September 30, 2020				December 31, 2019			
	Amortized Cost	%	Estimated Fair Value	%	Amortized Cost	%	Estimated Fair Value	%
Due in one year or less	\$ 9,269	2.9%	\$ 9,428	2.7%	\$ 10,746	3.7%	\$ 10,839	3.4%
Due after one year through five years	43,045	13.4%	46,541	13.2%	37,668	12.8%	39,506	12.5%
Due after five years through ten years	34,396	10.7%	38,632	11.0%	23,760	8.1%	25,695	8.2%
Due after ten years	113,758	35.5%	135,086	38.3%	97,506	33.1%	112,115	35.6%
Securities not due at a single maturity date—primarily mortgage and asset-backed securities	120,192	37.5%	122,584	34.7%	124,722	42.3%	126,766	40.3%
Total fixed maturities	<u>\$ 320,660</u>	<u>100.0%</u>	<u>\$ 352,271</u>	<u>100.0%</u>	<u>\$ 294,402</u>	<u>100.0%</u>	<u>\$ 314,921</u>	<u>100.0%</u>

Every quarter, we review all investments where the market value is less than the carrying value to ascertain if the impairment of the security's value is OTTI. The quarterly review is targeted to focus on securities with larger impairments and that have been in an impaired status for longer periods of time. See "Note 9 – Accumulated Other Comprehensive Income (Loss)" in the accompanying Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Net Investment Income

One key measure of our net investment income is the book yield on our holdings of fixed maturity securities classified as available-for-sale. Fair value of these securities totaled \$352.3 million and \$314.9 million as of September 30, 2020 and December 31, 2019, respectively. Book yield is the effective interest rate, before investment expenses, that we earn on these investments. Book yield is calculated as the percent of net investment income to the average amortized cost of the underlying investments for the period. For the nine months ended September 30, 2020 and 2019, our book yield on fixed maturity securities available-for-sale was 3.9% and 4.3%, respectively. See "Note 2 – Investments" in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Interest Credited to Policyholder Account Balances

Included with the future policy benefits is the liability for contract holder deposits on deferred annuity contracts assumed through two reinsurance agreements effective in 1991 and 1992 and certain other policy funds left on deposit with the Company. The aggregate liability for deposits is as follows:

	September 30, 2020	December 31, 2019	September 30, 2020	September 30, 2019
	Ending Balance	Ending Balance	Year to Date Interest Credited	Year to Date Interest Credited
	(dollars in thousands)			
Annuity contract holder deposits—assumed	\$ 75,376	\$ 78,296	\$ 2,164	\$ 2,362
Dividends left on deposit	7,344	7,609	138	146
Other	1,676	1,612	31	30
Total	<u>\$ 84,396</u>	<u>\$ 87,517</u>	<u>\$ 2,333</u>	<u>\$ 2,538</u>

The liability for deferred annuity deposits represents the contract holder account balances. Due to the declines in market interest rates and the book yield on our investment portfolio, we credit interest on all contract holder deposit liabilities at contractual rates that are currently at the minimum rate allowed by the contract or by state regulations.

Our Insurance Segment realizes operating profit from the excess of our book yield realized on fixed maturity securities that support our contract holder deposits over the amount of interest that we credit to the contract holder. We refer to this operating profit as the "spread" we earn on contract holder deposits. If book yields decline further, the amount of spread between the interest earned and credited will be reduced.

Net Realized Investment Gains (Losses)

Net realized investment gains (losses) are subject to general economic trends and generally correlate with movements in major market indexes. The amounts classified as net realized gains (losses) in our Interim Condensed Consolidated Statements of Operations

include amounts realized from sales of investments, mark-to-market adjustments and OTTI of individual securities related to credit impairment. See “Note 2 – Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Unrealized Holding Gains (Losses)

The Company records capital appreciation/depreciation on the available-for-sale fixed maturity securities. At September 30, 2020 and 2019, accumulated other comprehensive income, from mark-to-market adjustments of our available-for-sale fixed income securities, net of federal income taxes and reserves was \$5.4 million and \$12.5 million, respectively. See “Note 9 – Accumulated other comprehensive income (loss)” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Financial Position

At September 30, 2020, we had total assets of \$752.2 million compared to total assets at December 31, 2019 of \$721.8 million, an increase of \$30.4 million. The invested asset base increased \$5.7 million, mainly due to net purchases of investments of \$24.4 million and \$11.1 million in net unrealized gains, partially offset by the maturity of short-term investments of \$29.8 million. Reinsurance recoverables increased \$17.5 million as a result of a \$13.4 million increase in ceded policy and claim reserves and an increase of \$4.1 million related to timing of settlements of reinsured claims. Commission and agent balances increased \$6.8 million due to the timing of collections. Deferred policy acquisition costs increased \$2.6 million primarily due to deferrals on new business in excess of amortization. Cash increased \$2.4 million primarily related to cash from operating and financing activities, partially offset by cash used to purchase new investments. Deferred income taxes increased \$1.3 million, primarily due to a deferred tax credit as a result of net loss, partially offset by tax on unrealized investment market gains. The above increases were partially offset primarily by the following drivers: Other assets decreased \$5.5 million, primarily due to decreases in due premium mostly on the Closed Block, partially offset by increases in internally developed software.

At September 30, 2020, we had total liabilities of \$553.0 million compared to total liabilities of \$509.4 million at December 31, 2019, an increase of \$43.6 million. Future policy benefits and claims increased \$36.0 million, primarily due to a \$33.7 million increase in Core Life and Non-Core Life lines resulting from growth and maturity of the underlying blocks of business and \$2.2 million increase in annuities and assumed life. Debt increased \$7.6 million related to additional net borrowings under our commission financing agreement with Hannover Life. Other liabilities increased \$6.4 million, primarily related to timing of investment trades and higher operating expense accruals. Other policyholder liabilities increased \$4.7 million due to changes in claim reserves. Policyholder dividend obligations related to the Closed Block increased \$1.4 million, primarily due to changes in the market value of invested assets. The increases were partially offset by a decrease in Reinsurance liabilities and payables of \$9.3 million, primarily related to timing of ceded due premium largely from the Closed Block, and \$3.1 million decrease in Policyholder account balances, largely due to annuity payments.

At September 30, 2020, total equity decreased to \$199.2 million from \$212.4 million at December 31, 2019. This decrease in equity of \$13.2 million was attributable to a decrease in Retained earnings of \$18.6 million due to net loss, partially offset by unrealized net gains on investments.

Liquidity and Capital Resources

Our principal sources of funds are from premium revenues, commission revenues, net investment income and proceeds from the sale or maturity of investments and net borrowings. The Company’s primary uses of funds are for payment of life, annuity and health claim benefits, contract holder withdrawals on assumed annuity contracts, new business acquisition costs for our insurance operations (i.e., commissions, underwriting and issue costs), cost of sales for Agency operations (i.e., agent compensation, purchased lead and lead generation costs), operating costs and expenses and purchases of investments. Our investment portfolio is structured to provide funds periodically over time, through net investment income and maturities, for the payment of policy benefits and contract holder withdrawals.

Under our commission financing arrangement with Hannover Life, Fidelity Life is able to pay level annual commissions instead of first year only commissions to Efinancial for sales of *RAPID*Decision® Life policies and Hannover Life advances to Efinancial amounts approximately equal to first year only commissions for sales of those policies. This arrangement reduces Fidelity Life’s surplus strain associated with issuing *RAPID*Decision® Life business while helping to provide liquidity for Efinancial through the receipt of larger first year only commissions. We are able to obtain advances up to \$27.5 million under our arrangement with Hannover Life. As of September 30, 2020 and December 31, 2019, we had net advances of \$25.8 million and \$19.1 million, respectively, under this arrangement.

We are a member of the Federal Home Loan Bank of Chicago (the “FHLBC”). As a member, we are able to borrow on a collateralized basis from the FHLBC. We own FHLBC common stock with a book value of \$0.1 million, which allows us to borrow up to \$2.6 million. Interest on borrowed funds is charged at variable rates established from time to time by the FHLBC based on the interest rate option selected at the time of the borrowing. There have been no borrowings from the FHLBC during 2020 and 2019.

During the first nine months of 2020 and 2019, the Board of Directors of Fidelity Life approved payments of \$0.0 million and \$5.0 million, respectively, in dividends to Vericity Holdings, Inc. (Vericity Holdings), an intermediate holding company and immediate parent of Fidelity Life. The dividends provided operating funds to Vericity Holdings to support corporate operations and initiatives. Following the Conversion, Fidelity Life has agreed not to pay any dividends without the approval of a majority of the Company designees. In connection with the approval of the Conversion by the Illinois Director of Insurance, we agreed, for a period of twenty-four months following the completion of the Conversion, to (i) seek the prior approval of the Illinois Department of Insurance for any declaration of an ordinary dividend by Fidelity Life, and (ii) either maintain \$20 million of the proceeds of the offering at the Company or use all or a portion of that \$20 million to fund our operations.

Cash Flows

Cash flows from investing activities includes our fixed maturity securities and equity holdings that are classified as available-for-sale securities. Period to period, the cash flows associated with the changes in these portfolios will vary between cash sources and cash uses depending on portfolio trading due to investment market conditions.

Cash flows from financing activities primarily consists of the assumed annuity contract holder deposits. The annuity liabilities are reducing each period due to cash withdrawals by contract holders on this block of annuities that were primarily written in the late 1980s. Cash deposits from these annuity contracts are minimal compared to cash withdrawal activity. Also included in financing cash flows are net proceeds from our commission financing arrangement.

The following table summarizes our cash flows for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,	
	2020	2019
(dollars in thousands)		
Consolidated Summary of Cash Flows		
Net cash (used) provided by operating activities	\$ 2,112	\$ (6,737)
Net cash (used) provided by investing activities	(925)	(73,423)
Net cash (used) provided by financing activities	1,223	138,765
Net increase (decrease) in cash and cash equivalents	<u>\$ 2,410</u>	<u>\$ 58,605</u>

For the nine months ended September 30, 2020, the Company had a net increase in cash of \$2.4 million compared to a net increase of \$58.6 million for the nine months ended September 30, 2019. The increase in cash flows from operating activities is primarily due to increases in net insurance premiums, partially offset by increased claim benefits. In 2019, proceeds from the IPO were included in financing activities and partially offset in investing activities.

Recent Accounting Pronouncements

All applicable adopted accounting pronouncements have been reflected in our Interim Condensed Consolidated Financial Statements as of and for the nine months ended September 30, 2020. See “Note 1 – Summary of Significant Accounting Policies” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with GAAP.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business. While it is not possible to forecast the outcome of such legal proceedings, in light of existing insurance, reinsurance, and established reserves, we believe that there is no individual case pending that is likely to have a material adverse effect on our financial condition or results of operations.

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Use of IPO Proceeds

The Company completed its IPO on August 7, 2019, pursuant to a Form S-1 declared effective by the SEC on June 20, 2019 (File No. 333-231952). Below are further details of the use of the IPO proceeds: Vericity, Inc. registered the sale of a maximum of 20,125,000 shares, of which 14,875,000 were sold in the IPO. Raymond James served as managing underwriter in the IPO.

- The amount registered and the aggregate price of the offering amount was 20,125,000 and \$201,250,000, respectively, and the amount sold and the aggregate price of the offering amount was 14,875,000 and \$148,750,000, respectively.
- The common stock was registered pursuant to the Form S-1 described above.
- The total offering expenses incurred in connection with the IPO were \$15.9 million, including \$4.0 million paid to the underwriters. Offering expenses of \$11.9 million were comprised of \$5.9 million in legal fees and expenses, \$2.6 million of actuarial fees and expenses, \$1.8 million of printing and mailing, and \$1.6 million of accounting fees and expenses.
- The net offering proceeds to Vericity, Inc. after deducting total offering expenses and the special one-time distribution were \$39.8 million.
- Vericity, Inc. expects that any unallocated net proceeds from the offering will be used for general corporate purposes, including paying holding company expenses and the special one-time distribution to stockholders referenced in "Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities" in the Form 10-K for the year ended December 31, 2019.
- Additionally, pursuant to an agreement with the Illinois Department of Insurance, at least \$20 million of the proceeds of the offering will be used to fund the operations of Vericity, Inc.'s various subsidiaries.

Item 3. Default upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

- 31.1 [Certification of Chief Executive Officer, pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended](#)
- 31.2 [Certification of Chief Financial Officer, pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended](#)
- 32.1 [Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2 [Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAR XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Vericity, Inc.

Date: November 16, 2020

By: /s/ Chris S. Kim

Chris S. Kim

Executive Vice President, Chief Financial Officer and Treasurer

I, James Hohmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vericity Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 16, 2020

/s/ James E. Hohmann

James E. Hohmann

Chief Executive Officer and President, Vericity, Inc.

I, Chris Kim, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vericity Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 16, 2020

/s/ Chris S. Kim

Chris S. Kim

Executive Vice President, Chief Financial Officer and Treasurer, Vericity, Inc.

Vericity, Inc.

Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned officer of Vericity, Inc. (“Vericity”) certifies, to his knowledge and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Vericity for the period ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: November 16, 2020

By: /s/ James E. Hohmann
James E. Hohmann
Chief Executive Officer and President, Vericity, Inc.

Vericity, Inc.

Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned officer of Vericity, Inc. (“Vericity”) certifies, to his knowledge and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Vericity for the period ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: November 16, 2020

By: /s/ Chris S. Kim

Chris S. Kim

Executive Vice President, Chief Financial Officer and
Treasurer, Vericity, Inc.