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 June 30, 2022

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)**	**46-2348863** **(I.R.S. Employer Identification No.)**
8700 W. Bryn Mawr Avenue, Suite 900S, Chicago Illinois **(Address of principal executive offices)**	**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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

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 August 12, 2022 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)

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Assets		
Investments:		
Fixed maturities – available-for-sale – at fair value (amortized cost; $318,106 and $326,591)	$ 298,378	$ 352,383
Mortgage loans (net of valuation allowances of $97 and $69)	47,547	47,487
Policyholder loans	6,600	6,371
Other invested assets	4,198	2,140
Total investments	356,723	408,381
Cash, cash equivalents and restricted cash	21,700	22,399
Accrued investment income	3,024	2,590
Reinsurance recoverables (net of allowances of $149 and $149)	202,155	184,131
Deferred policy acquisition costs	92,393	95,715
Commissions and agent balances (net of allowances of $337 and $432)	30,306	28,689
Intangible assets	1,635	1,635
Deferred income tax assets, net	22,502	12,700
Other assets	33,776	31,767
Total assets	764,214	788,007
Liabilities and Shareholders' Equity		
Liabilities		
Future policy benefits and claims	433,321	416,039
Policyholder account balances	79,286	80,494
Other policyholder liabilities	44,152	49,202
Policy dividend obligations	9,472	12,669
Reinsurance liabilities and payables	6,902	6,927
Long-term debt	27,081	22,412
Short-term debt	5,916	3,966
Other liabilities	23,220	23,394
Total liabilities	629,350	615,103
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	114,109	122,120
Accumulated other comprehensive (loss) income	(19,100)	10,929
Total shareholders' equity	134,864	172,904
Total liabilities and shareholders' equity	$ 764,214	$ 788,007

See notes to interim condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues				
Net insurance premiums	$ 26,846	$ 25,433	$ 49,006	$ 50,730
Net investment income	3,798	3,610	7,264	6,864
Net gains (losses) on investments	111	1,297	1,762	2,813
Other-than-temporary-impairments (OTTI)	(1)	(1)	(103)	(3)
Earned commissions	10,488	11,808	21,525	22,430
Insurance lead sales	1,276	1,758	2,514	3,232
Other income	213	63	275	137
Total revenues	42,731	43,968	82,243	86,203
Benefits and expenses				
Life, annuity, and health claim benefits	15,319	17,430	30,117	39,382
Interest credited to policyholder account balances	726	751	1,454	1,473
Operating costs and expenses	24,573	22,748	49,726	46,076
Amortization of deferred policy acquisition costs	4,239	3,938	9,151	7,178
Total benefits and expenses	44,857	44,867	90,448	94,109
(Loss) income before income tax	(2,126)	(899)	(8,205)	(7,906)
Income tax (benefit) expense	223	264	(194)	(676)
Net (loss) income	$ (2,349)	$ (1,163)	$ (8,011)	$ (7,230)

Earnings per share for the periods

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Weighted average shares outstanding, basic and diluted	14,875,000	14,875,000	14,875,000	14,875,000
Basic earnings per share	$ (0.16)	$ (0.08)	$ (0.54)	$ (0.49)
Diluted earnings per share	$ (0.16)	$ (0.08)	$ (0.54)	$ (0.49)

See notes to interim condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Unaudited)		(Unaudited)	
Net (loss) income	$ (2,349)	$ (1,163)	$ (8,011)	$ (7,230)
Other comprehensive (loss) income, net of tax:				
Net unrealized (losses) gains on investments	(14,803)	5,171	(30,029)	(3,315)
Total other comprehensive (loss) income	(14,803)	5,171	(30,029)	(3,315)
Total comprehensive (loss) income	$ (17,152)	$ 4,008	$ (38,040)	$ (10,545)

See notes to interim condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Unaudited)		(Unaudited)	
Common stock				
Balance – beginning of period	$ 15	$ 15	$ 15	$ 15
Balance – end of period	$ 15	$ 15	$ 15	$ 15
Additional paid-in capital				
Balance – beginning of period	$ 39,840	$ 39,840	$ 39,840	$ 39,840
Balance – end of period	$ 39,840	$ 39,840	$ 39,840	$ 39,840
Retained earnings				
Balance – beginning of period	$ 116,458	$ 132,710	$ 122,120	$ 138,777
Net (loss) income	(2,349)	(1,163)	(8,011)	(7,230)
Balance – end of period	$ 114,109	$ 131,547	$ 114,109	$ 131,547
Accumulated other comprehensive (loss) income				
Balance – beginning of period	$ (4,297)	$ 8,115	$ 10,929	$ 16,601
Other comprehensive (loss) income	(14,803)	5,171	(30,029)	(3,315)
Balance – end of period	$ (19,100)	$ 13,286	$ (19,100)	$ 13,286
Total shareholders' equity	$ 134,864	$ 184,688	$ 134,864	$ 184,688

See notes to interim condensed consolidated financial statements

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

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
	(Unaudited)	
Cash flows from operating activities		
Net (loss) income	$ (8,011)	$ (7,230)
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:		
Depreciation and amortization and other non-cash items	2,250	1,603
Interest credited to policyholder account balances	1,454	1,473
Deferred income tax	(1,820)	(677)
Net gains (losses) on investments	(1,762)	(2,813)
Other-than-temporary-impairments	103	3
Interest expense	730	784
Change in:		
Equity securities	—	(245)
Accrued investment income	(434)	47
Reinsurance recoverables	(18,024)	(10,452)
Deferred policy acquisition costs	3,322	(2,786)
Commissions and agent balances	(1,617)	(9,841)
Other assets	(1,580)	(472)
Insurance liabilities	16,525	18,324
Other liabilities	(235)	4,523
Net cash (used) provided by operating activities	(9,099)	(7,759)
Cash flows from investing activities		
Sales, maturities and repayments of:		
Fixed maturities	26,062	35,659
Mortgage loans	2,794	3,181
Other invested assets	—	94
Purchases of:		
Fixed maturities	(17,378)	(37,296)
Mortgage loans	(2,828)	(465)
Other invested assets	(190)	(90)
Change in policyholder loans, net	(229)	111
Other, net	(3,149)	(3,145)
Net cash provided (used) by investing activities	5,082	(1,951)
Cash flows from financing activities		
Debt issued	9,517	1,234
Debt repaid	(3,628)	(4,849)
Deposits to policyholder account balances	207	257
Withdrawals from policyholder account balances	(2,778)	(3,312)
Net cash provided (used) by financing activities	3,318	(6,670)
Net (decrease) increase in cash, cash equivalents and restricted cash	(699)	(16,380)
Cash, cash equivalents and restricted cash – beginning of period	22,399	36,242
Cash, cash equivalents and restricted cash – end of period	$ 21,700	$ 19,862

See notes to interim condensed consolidated financial statements

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 six months ended June 30, 2022 and June 30, 2021 and at June 30, 2022 and December 31, 2021. 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, 2021. 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, 2021, 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 maturity, investment impairments, the valuation of deferred tax assets, future policy benefits and other policyholder liabilities.

Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842): Accounting for Leases. The guidance is effective for interim and annual periods beginning on or after January 1, 2022. The new guidance requires a lessee to recognize "right-of-use" (ROU) assets and liabilities for leases with lease terms of more than 12 months including those historically accounted for as operating leases. We adopted ASU No. 2016-02, Leases (Topic 842) effective January 1, 2022. The effect of the new guidance at date of adoption was the recognition of an ROU asset and operating lease liabilities of $2,329 reported in other assets and liabilities, respectively.

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.

Fixed Maturities

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:

	June 30, 2022				
Fixed maturities	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**OTTI Losses**
U.S. government and agencies	$ 9,292	$ 757	$ (226)	$ 9,823	$ —
U.S. agency mortgage-backed	8,322	124	(375)	8,071	—
State and political subdivisions	57,360	233	(7,888)	49,705	—
Corporate and miscellaneous	169,939	3,112	(11,716)	161,335	—
Foreign government	130	6	-	136	—
Residential mortgage-backed	5,584	132	(197)	5,519	(431)
Commercial mortgage-backed	20,206	—	(1,032)	19,174	—
Asset-backed	47,273	13	(2,671)	44,615	—
Total fixed maturities	$ 318,106	$ 4,377	$ (24,105)	$ 298,378	$ (431)

	December 31, 2021				
Fixed maturities	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**OTTI Losses**
U.S. government and agencies	$ 9,825	$ 2,076	$ —	$ 11,901	$ —
U.S. agency mortgage-backed	12,889	795	(5)	13,679	—
State and political subdivisions	58,170	2,696	(396)	60,470	—
Corporate and miscellaneous	164,823	20,023	(348)	184,498	—
Foreign government	378	36	—	414	—
Residential mortgage-backed	5,880	222	(33)	6,069	(412)
Commercial mortgage-backed	20,003	848	(36)	20,815	—
Asset-backed	54,623	330	(416)	54,537	—
Total fixed maturities	$ 326,591	$ 27,026	$ (1,234)	$ 352,383	$ (412)

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:

	June 30, 2022	
	Amortized Cost	**Fair Value**
Due in one year or less	$ 6,317	$ 6,340
Due after one year through five years	29,203	28,652
Due after five years through ten years	72,210	69,547
Due after ten years	128,990	116,461
Securities not due at a single maturity date — primarily mortgage and asset-backed	81,386	77,378
Total fixed maturities	$ 318,106	$ 298,378

Fixed maturities with a carrying value of $2,954 and $3,604 were on deposit with governmental authorities, as required by law at June 30, 2022 and December 31, 2021, 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 94.4% and 94.8% of the Company's total fixed maturities portfolio at June 30, 2022 and December 31, 2021, respectively.

At June 30, 2022 and December 31, 2021, the Company had commitments to make investments in available-for-sale securities in the amount of $529 and $657, 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 36 such investment instruments with ownership shares ranging from 0.6% to 30.0% of the trust at June 30, 2022. The Company owns a share of 322 mortgage loans with an average loan balance of $148 and a maximum exposure related to any single loan of $555. Mortgage loan holdings are diversified by geography and property type as follows:

	June 30, 2022		December 31, 2021	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Property Type:				
Retail	$ 14,855	31.1 %	$ 15,257	32.1 %
Office	11,525	24.2 %	11,627	24.4 %
Industrial	8,848	18.6 %	8,234	17.3 %
Mixed use	5,367	11.3 %	5,327	11.2 %
Apartments	2,999	6.3 %	2,880	6.1 %
Medical office	3,120	6.5 %	3,078	6.5 %
Other	930	2.0 %	1,153	2.4 %
Gross carrying value of mortgage loans	47,644	100.0 %	47,556	100.0 %
Valuation allowance	(97)		(69)	
Net carrying value of mortgage loans	$ 47,547		$ 47,487	

	June 30, 2022		December 31, 2021	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
U.S. Region:				
West South Central	$ 11,797	24.9 %	$ 12,017	25.3 %
East North Central	12,931	27.1 %	12,439	26.3 %
South Atlantic	9,590	20.1 %	9,337	19.6 %
West North Central	3,334	7.0 %	3,065	6.4 %
Mountain	3,044	6.4 %	3,393	7.1 %
Middle Atlantic	2,352	4.9 %	2,392	5.0 %
East South Central	3,594	7.5 %	3,445	7.2 %
New England	77	0.2 %	82	0.2 %
Pacific	925	1.9 %	1,386	2.9 %
Gross carrying value of mortgage loans	47,644	100.0 %	47,556	100.0 %
Valuation allowance	(97)		(69)	
Net carrying value of mortgage loans	$ 47,547		$ 47,487	

During the six months ended June 30, 2022 and June 30, 2021, $2,828 and $465 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 June 30, 2022 and December 31, 2021. At June 30, 2022 and December 31, 2021, the Company had 3 and 2 mortgage loans with a total carrying value of $812 and $685 that were in a restructured status, respectively. There were no impairments for mortgage loans at June 30, 2022 and December 31, 2021.

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

	Six Months Ended June 30, 2022	Year Ended December 31, 2021
Beginning balance	$ 69	$ 141
Net (decrease) increase in valuation allowance	28	(72)
Ending balance	$ 97	$ 69

At June 30, 2022 and December 31, 2021, the Company had no mortgage loans that were on nonaccrual status.

At June 30, 2022 and December 31, 2021, the Company had commitments to make investments in mortgage loans in the amount of $2,980 and $4,485, respectively.

Net Investment Income

The sources of net investment income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Income from:				
Fixed maturities	$ 3,481	$ 3,066	$ 6,623	$ 5,980
Policyholder loans	94	35	182	127
Mortgage loans	568	796	1,236	1,422
Cash, cash equivalents and restricted cash	2	1	2	5
Dividends on equity securities	—	89	—	179
Gross investment income	4,145	3,987	8,043	7,713
Investment expenses	(347)	(377)	(779)	(849)
Net investment income	$ 3,798	$ 3,610	$ 7,264	$ 6,864

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 Investment Gains (Losses)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Investment gains (losses) from sales:				
Fixed maturities	$ (185)	$ 228	$ (131)	$ 488
Mortgage loans	(16)	48	26	53
Investment expenses	—	(7)	—	(19)
Gains (losses) from sales	(201)	269	(105)	522
Valuation change of Other invested assets - appreciation (decline):	312	281	1,867	889
Valuation change of Equity securities - appreciation (decline):	—	747	—	1,402
Total net gains (losses) on investments	$ 111	$ 1,297	$ 1,762	$ 2,813

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 has 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 or it is more likely than not the Company will be required to sell the fixed maturity 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 fixed maturity 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 roll-forward of the cumulative credit losses on fixed maturities are as follows:

	June 30, 2022	December 31, 2021
Beginning balance of credit losses on fixed maturities	$ 837	$ 833
Additional credit losses for OTTI	103	4
Reduction of credit losses related to securities sold during period	(16)	—
Ending balance of credit losses on fixed maturities	$ 924	$ 837

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	
June 30, 2022	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
Fixed maturities						
U.S. government and agencies	$ 2,998	$ (226)	$ —	$ —	$ 2,998	$ (226)
U.S. agency mortgage-backed	5,697	(362)	89	(13)	5,786	(375)
State and political subdivisions	40,539	(7,690)	842	(198)	41,381	(7,888)
Corporate and miscellaneous	95,370	(11,257)	1,386	(459)	96,756	(11,716)
Residential mortgage-backed	3,548	(138)	630	(59)	4,178	(197)
Commercial mortgage-backed	19,075	(1,030)	98	(2)	19,173	(1,032)
Asset-backed	35,779	(2,203)	6,665	(468)	42,444	(2,671)
Total fixed maturities	$ 203,006	$ (22,906)	$ 9,710	$ (1,199)	$ 212,716	$ (24,105)

	12 months or less		Longer than 12 months		Total	
December 31, 2021	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
Fixed maturities						
U.S. agency mortgage-backed	$ 294	$ (5)	$ 11	$ —	$ 305	$ (5)
State and political subdivisions	20,439	(377)	231	(19)	20,670	(396)
Corporate and miscellaneous	11,913	(312)	727	(36)	12,640	(348)
Foreign Government	247	—	—	—	247	—
Residential mortgage-backed	1,983	(13)	427	(20)	2,410	(33)
Commercial mortgage-backed	3,870	(36)	—	—	3,870	(36)
Asset-backed	29,487	(315)	8,798	(101)	38,285	(416)
Total fixed maturities	$ 68,233	$ (1,058)	$ 10,194	$ (176)	$ 78,427	$ (1,234)

The indicated gross unrealized losses in all fixed maturity categories increased to $24,105 from $1,234 at June 30, 2022 and December 31, 2021, 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 fixed maturities and number of securities in an unrealized loss position for greater than and less than 12 months and the percentage that were investment grade at June 30, 2022.

	Fair Value with Securities with Unrealized Losses 12 months or less				
	Total	Impairment is Less than 10% of Amortized Cost	Impairment is Between 10% and 20% of Amortized Cost	Impairment is Greater than 20% of Amortized Cost	Percent Investment Grade
Fixed maturities					
U.S. government and agencies	$ 2,998	$ 2,998	$ —	$ —	100 %
U.S. agency mortgage-backed	5,697	5,223	474	—	100 %
State and political subdivisions	40,539	8,811	20,140	11,588	99 %
Corporate and miscellaneous	95,370	48,090	38,575	8,705	62 %
Residential mortgage-backed	3,548	3,260	288	—	89 %
Commercial mortgage-backed	19,075	18,543	532	—	96 %
Asset-backed	35,779	29,123	6,577	79	86 %
Total fixed maturities	$ 203,006	$ 116,048	$ 66,586	$ 20,372	
Total number of fixed maturities	707	345	260	102	

	Fair Value with Securities with Unrealized Losses greater than 12 months				
	Total	Impairment is Less than 10% of Amortized Cost	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	$ 89	$ 10	$ 79	$ —	100 %
State and political subdivisions	842	—	455	387	100 %
Corporate and miscellaneous	1,386	—	418	968	80 %
Residential mortgage-backed	630	505	26	99	78 %
Commercial mortgage-backed	6,763	5,216	1,414	133	75 %
Total fixed maturities	$ 9,710	$ 5,731	$ 2,392	$ 1,587	
Total number of fixed maturities	44	18	9	17	

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 $14,715 and $19,398 at June 30, 2022 and December 31, 2021, 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 June 30, 2022 and December 31, 2021, is $11,393 and $15,557, respectively.

To the extent that unrealized gains on fixed maturities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve is recorded. A liability of $1,883 and $6,403 is included as part of the liability for structured settlements with respect to this deficiency at June 30, 2022 and December 31, 2021, 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 5.7% and 7.5% of the face value of total life insurance at June 30, 2022 and December 31, 2021, 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.

In the first quarter 2022, Fidelity Life entered into a reinsurance contract with Swiss Re Life & Health America Inc. (Swiss Re). This new treaty is in addition to existing coinsurance agreements, largely with Swiss Re on certain policies issued through and including December 31, 2020. The impact of this transaction to our segment results included an initial ceded premium of $6.5 million based on the statutory reserves at January 1, 2022. The impact to pre-tax income is nominal, however various income statement lines are impacted.

Reinsurance recoverables are as follows:

	June 30, 2022	December 31, 2021
Ceded future policy benefits	$ 162,801	$ 146,087
Claims and other amounts recoverables	39,354	38,044
Ending balance	$ 202,155	$ 184,131

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Direct	$ 43,889	$ 42,320	$ 87,052	$ 83,849
Assumed	11,432	9,338	24,675	18,115
Ceded	(28,475)	(26,225)	(62,721)	(51,234)
Net insurance premiums	$ 26,846	$ 25,433	$ 49,006	$ 50,730

The reconciliation of direct life, annuity, and health claim benefits to life, annuity, and health claim benefits as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Direct	$ 27,454	$ 26,830	$ 68,710	$ 68,712
Assumed	4,292	4,441	10,255	9,237
Ceded	(16,427)	(13,841)	(48,848)	(38,567)
Life, annuity, and health claim benefits	$ 15,319	$ 17,430	$ 30,117	$ 39,382

Net policy charges on universal life products were $46 and $45 for the three months ended June 30, 2022 and 2021, respectively and $92 and $90 for the six months ended June 30, 2022 and 2021, respectively, and are included in other income.

At June 30, 2022 and December 31, 2021, reserves related to fixed-rate annuity deposits assumed from a former affiliate company amounted to approximately $70,762 and $71,832, 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 June 30, 2022 and

December 31, 2021 is $10,617 and $10,463 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 June 30, 2022 and December 31, 2021, the Company recognized a policyholder dividend obligation of $9,472 and $12,669, respectively, resulting from the excess of actual cumulative earnings over the expected cumulative earnings and from accumulated net unrealized investment gains (losses) that have arisen subsequent to the establishment of the Closed Block.

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

Closed Block Liabilities	**June 30, 2022**	**December 31, 2021**
Future policy benefits and claims	$ 30,103	$ 32,005
Policyholder account balances	6,850	6,957
Other policyholder liabilities	2,848	5,017
Policyholder dividend obligations	9,472	12,669
Other liabilities (assets)	439	(634)
Total Closed Block liabilities	49,712	56,014
Assets Designated to the Closed Block		
Investments:		
Fixed maturities - available-for-sale (amortized cost $39,743 and $38,314, respectively)	37,813	43,162
Policyholder loans	1,203	1,210
Total investments	39,016	44,372
Cash, cash equivalents and restricted cash	—	1,630
Premiums due and uncollected	2,064	2,089
Accrued investment income	441	420
Reinsurance recoverables	12,805	15,567
Deferred income tax assets, net	3,862	3,139
Total assets designated to the Closed Block	58,188	67,217
Excess of Closed Block assets over liabilities	8,476	11,203
Amounts included in accumulated other comprehensive income:		
Unrealized investment gains (losses), net of income tax	(1,525)	3,830
Allocated to policyholder dividend obligations, net of income tax	-	(2,361)
Total amounts included in accumulated other comprehensive income	(1,525)	1,469
Maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities (includes excess assets of $10,617 and $10,463, respectively)	$ (10,001)	$ (9,734)

Policyholder Dividend Obligations	**June 30, 2022**	**December 31, 2021**
Beginning balance	$ 12,669	$ 13,282
Impact from earnings allocable to policyholder dividend obligations	(208)	396
Change in net unrealized investment (losses) gains allocated to policyholder dividend obligations	(2,989)	(1,009)
Ending balance	$ 9,472	$ 12,669

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

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Revenues				
Net insurance premiums	$ 1,105	$ 795	$ 2,028	$ 1,695
Net investment income	394	364	782	715
Realized gains	-	36	-	36
Total revenues	1,499	1,195	2,810	2,446
Benefits and expenses				
Life and annuity benefits - including policyholder dividends of $209, $223, $604 and $623, respectively	1,113	771	2,516	2,695
Interest credited to policyholder account balances	42	44	84	86
Operating costs and expenses	(75)	(198)	(126)	(439)
Total expenses	1,080	617	2,474	2,342
Revenues, net of expenses before provision for income tax expense (benefit)	419	578	336	104
Income tax expense (benefit)	89	121	71	22
Revenues, net of expenses and provision for income tax expense (benefit)	$ 330	$ 457	$ 265	$ 82

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 maturities portfolio by contractual maturity at June 30, 2022. 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	$ 2,250	$ 2,238
Due after one year through five years	6,934	6,906
Due after five years through ten years	5,134	5,356
Due after ten years	23,373	21,293
Securities not due at a single maturity date — primarily mortgage and asset-backed	2,052	2,020
Total fixed maturities	$ 39,743	$ 37,813

Note 6 – Commitments and Contingencies

Litigation

The Company is subject to legal and regulatory actions in the course of our 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 June 30, 2022 and December 31, 2021, the Company held $115 of FHLBC common stock. The Company's ability to borrow under this facility is subject to the FHLBC's discretion and requires the availability of qualifying assets. As of June 30, 2022 and December 31, 2021, the Company had not pledged any assets and there were no outstanding borrowings.

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 maturity 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:

June 30, 2022	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	$ —	$ 9,823	$ —	$ 9,823
U.S. agency mortgage-backed	—	8,071	—	8,071
State and political subdivisions	—	49,248	457	49,705
Corporate and miscellaneous	2,637	130,772	27,926	161,335
Foreign government	—	136	—	136
Residential mortgage-backed	—	5,519	—	5,519
Commercial mortgage-backed	—	19,174	—	19,174
Asset-backed	—	41,737	2,878	44,615
Total fixed maturities	2,637	264,480	31,261	298,378
Total recurring assets	$ 2,637	$ 264,480	$ 31,261	$ 298,378

December 31, 2021	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	$ —	$ 11,901	$ —	$ 11,901
U.S. agency mortgage-backed	—	13,679	—	13,679
State and political subdivisions	—	59,972	498	60,470
Corporate and miscellaneous	2,821	156,937	24,740	184,498
Foreign government	—	414	—	414
Residential mortgage-backed	—	6,069	—	6,069
Commercial mortgage-backed	—	20,815	—	20,815
Asset-backed	—	51,699	2,838	54,537
Total fixed maturities	2,821	321,486	28,076	352,383
Total recurring assets	$ 2,821	$ 321,486	$ 28,076	$ 352,383

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.

Level 2 securities 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 fair value of Level 3 liabilities is estimated on the discounted cash flows of contractual payments.

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, 2022	Total gains (losses) included in: Net Income (loss)	Total gains (losses) included in: OCI	Purchases	Sales	Settlements	Net Transfers	Balance at June 30, 2022
Financial Assets								
Fixed maturities								
State and political subdivision	$ 498	$ —	$ (41)	$ —	$ —	$ —	$ —	$ 457
Corporate and miscellaneous	24,740	554	(306)	1,086	(27)	(1,005)	2,884	27,926
Asset-backed	2,838	10	(170)	129	(655)	(228)	954	2,878
Total assets	$ 28,076	$ 564	$ (517)	$ 1,215	$ (682)	$ (1,233)	$ 3,838	$ 31,261

	Balance at January 1, 2021	Total gains (losses) included in: Net Income	OCI	Purchases	Sales	Settlements	Net Transfers	Balance at December 31, 2021
Financial Assets								
Fixed maturities								
State and political subdivisions	$ 521	$ —	$ (23)	$ —	$ —	$ —	$ —	$ 498
Corporate and miscellaneous	8,433	(39)	—	18,873	—	(14)	(2,513)	24,740
Asset-backed	1,301	—	(2)	1,290	—	(251)	500	2,838
Total assets	$ 10,255	$ (39)	$ (25)	$ 20,163	$ —	$ (265)	$ (2,013)	$ 28,076

In 2022, there were 19 transfers from Level 2 to Level 3 and 3 transfers from level 3 to level 2. In 2021, there were 3 transfers from Level 3 to Level 2 and 1 transfer from level 2 to level 3. The transfers between levels is primarily due to number of broker quotes and trading activity.

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:

June 30, 2022	Carrying Value	Estimated Fair Value: Level 1	Level 2	Level 3	Total
Financial instruments recorded as assets:					
Mortgage loans	$ 47,547	$ —	$ —	$ 43,987	$ 43,987
Policyholder loans	6,600	—	—	8,579	8,579
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	$ 18,117	$ —	$ —	$ 16,286	$ 16,286
Long/short-term debt	32,997	—	—	34,093	34,093
Policyholder account balances	79,286	—	—	74,396	74,396

December 31, 2021	Carrying Value	Estimated Fair Value: Level 1	Level 2	Level 3	Total
Financial instruments recorded as assets:					
Mortgage loans	$ 47,487	$ —	$ —	$ 43,047	$ 43,047
Policyholder loans	6,371	—	—	8,280	8,280
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	$ 22,680	$ —	$ —	$ 19,733	$ 19,733
Long/short-term debt	26,378	—	—	31,940	31,940
Policyholder account balances	80,494	—	—	86,198	86,198

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 $1,952 and $2,398 of second and mezzanine mortgages carried at cost for which fair value is not measurable at June 30, 2022 and December 31, 2021, 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

Beginning in the fourth quarter of 2017, Fidelity Life changed the commission structure related to Efinancial's sale of the RAPIDecision® Life to pay annual level commissions over the life of the product instead of up-front, or first-year-only commissions. This change reduced Fidelity Life's surplus strain associated with issuing RAPIDecision® Life business by spreading its statutory commission expenses over the life of the policy instead of incurring it all in the policy year of issue. In order to help provide liquidity for Efinancial through the receipt of larger first-year-only commissions, Fidelity Life and Efinancial entered into a financing arrangement with Hannover Life under which, on a monthly basis, Hannover Life advances to Efinancial amounts approximately equal to the first-year-only commissions on Fidelity Life RAPIDecision® Life business sold through Efinancial. In exchange, Efinancial assigns to Hannover Life its right to all future levelized commission payments on the business due from Fidelity Life, and Fidelity Life pays to Hannover Life the level commissions over the life of the contract. The 2017 arrangement was amended in 2021 and Fidelity Life was removed from any obligation under this prior arrangement. On March 31, 2022, Efinancial entered into a new commission financing arrangement and is taking new advances on this financing arrangement. Efinancial's ability to receive advances under this arrangement will terminate when the aggregate amount advanced under the arrangement equals or exceeds $36.0 million. At June 30, 2022 and December 31, 2021, the Company had a net advance of $27,827 and $21,937, respectively, under this arrangement. At June 30, 2022, the Company expects to pay back the aggregate amounts as presented in the following table.

	June 30, 2022
Due in one year or less	$ 5,916
Due after one year through two years	4,263
Due after two years through three years	3,972
Due after three years through four years	3,754
Due after four years through five years	3,531
Due after five years	25,476
Less discount	(13,915)
Total long/short-term debt	$ 32,997

Note 9 – Accumulated Other Comprehensive (Loss) Income

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

	2022			2021		
	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized Gains (Losses) on Other Investments	Total	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized Gains (Losses) on Other Investments	Total
Balance at beginning of year	$ 362	$ 10,567	$ 10,929	$ 362	$ 16,239	$ 16,601
Second Quarter						
Other comprehensive (loss) income						
Unrealized holding gains from changes in the market value of securities	—	(20,876)	(20,876)	—	8,232	8,232
Impact on Policy benefit liabilities of changes in market value of securities	—	1,796	1,796	—	(828)	(828)
Change in net unrealized investment (losses) gains allocated to policyholder dividend obligations	—	343	343	—	(859)	(859)
Deferred income tax benefit (expense)	—	3,934	3,934	—	(1,374)	(1,374)
Second Quarter, net	—	(14,803)	(14,803)	—	5,171	5,171
Year to Date						
Other comprehensive (loss) income						
Unrealized holding gains from changes in the market value of securities	—	(45,520)	(45,520)	—	(5,832)	(5,832)
Impact on Policy benefit liabilities of changes in market value of securities	—	4,520	4,520	—	1,040	1,040
Change in net unrealized investment (losses) gains allocated to policyholder dividend obligations	—	2,989	2,989	—	595	595
Deferred income tax benefit (expense)	—	7,982	7,982	—	882	882
Year to Date, net	—	(30,029)	(30,029)	—	(3,315)	(3,315)
Balance at end of period	$ 362	$ (19,462)	$ (19,100)	$ 362	$ 12,924	$ 13,286

Note 10 – Business Segments

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

The Insurance Segment is composed of three broad lines consisting of Traditional Life, Closed Block, and Assumed Life and Annuities. Traditional Life and the Closed Block are distinct operations; the Assumed life and annuities 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 & Other Segment includes expenses that will benefit the overall organization, which are not allocated to a segment. This segment recognizes net investment income on cash and invested assets held mainly as a result of the IPO and interest expense related to our commission financing agreement.

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 June 30, 2022				Three Months Ended June 30, 2021			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Net insurance premiums	$ 26,846	$ —	$ —	$ 26,846	$ 25,433	$ —	$ —	$ 25,433
Net investment income	3,720	—	78	3,798	3,551	—	59	3,610
Net gains (losses) on investments	(54)	—	165	111	1,102	—	195	1,297
Other-than-temporary-impairments	(1)	—	—	(1)	(1)	—	—	(1)
Earned commissions	—	10,587	(99)	10,488	—	12,414	(606)	11,808
Other income	213	1,276	—	1,489	63	1,758	—	1,821
Total revenues	30,724	11,863	144	42,731	30,148	14,172	(352)	43,968
Life, annuity, and health claim benefits	16,046	—	—	16,046	18,181	—	—	18,181
Operating costs and expenses	9,270	13,720	1,582	24,572	5,875	14,276	2,597	22,748
Amortization of deferred policy acquisition costs	4,239	—	—	4,239	3,938	—	—	3,938
Total benefits and expenses	29,555	13,720	1,582	44,857	27,994	14,276	2,597	44,867
(Loss) income before income tax	$ 1,169	$ (1,857)	$ (1,438)	$ (2,126)	$ 2,154	$ (104)	$ (2,949)	$ (899)

	Six Months Ended June 30, 2022				Six Months Ended June 30, 2021			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Net insurance premiums	$ 49,006	$ —	$ —	$ 49,006	$ 50,730	$ —	$ —	$ 50,730
Net investment income	7,055	—	209	7,264	6,759	—	105	6,864
Net gains (losses) on investments	936	—	826	1,762	2,223	—	590	2,813
Other-than-temporary-impairment	(103)	—	—	(103)	(3)	—	—	(3)
Earned commissions	—	21,725	(200)	21,525	—	24,288	(1,858)	22,430
Other income	275	2,514	—	2,789	137	3,232	—	3,369
Total revenues	57,169	24,239	835	82,243	59,846	27,520	(1,163)	86,203
Life, annuity, and health claim benefits	31,571	—	—	31,571	40,855	—	—	40,855
Operating costs and expenses	17,187	28,463	4,076	49,726	12,166	28,308	5,602	46,076
Amortization of deferred policy acquisition costs	9,151	—	—	9,151	7,178	—	—	7,178
Total benefits and expenses	57,909	28,463	4,076	90,448	60,199	28,308	5,602	94,109
(Loss) income before income tax	$ (740)	$ (4,224)	$ (3,241)	$ (8,205)	$ (353)	$ (788)	$ (6,765)	$ (7,906)

	June 30, 2022				December 31, 2021			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Investments and cash	$ 368,902	$ 593	$ 8,928	$ 378,423	$ 419,953	$ 425	$ 10,402	$ 430,780
Commissions and agent balances	8,298	22,008	—	30,306	11,919	16,770	—	28,689
Deferred policy acquisition costs	92,393	—	—	92,393	95,715	—	—	95,715
Intangible assets	—	1,635	—	1,635	—	1,635	—	1,635
Reinsurance recoverables	202,155	—	—	202,155	184,131	—	—	184,131
Deferred income tax assets (liabilities), net	6,624	—	15,878	22,502	(4,136)	—	16,836	12,700
Other	26,435	6,900	3,465	36,800	26,074	4,023	4,260	34,357
Total assets	$ 704,807	$ 31,136	$ 28,271	$ 764,214	$ 733,656	$ 22,853	$ 31,498	$ 788,007

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 August 15, 2022, the date these Interim Condensed Consolidated Financial Statements were issued and determined there were no reportable subsequent events.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and six months ended June 30, 2022 and 2021

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 & Other.

COVID-19

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.

Russia and Ukraine War

The Company believes the war in Ukraine does not have a material impact on the interim condensed consolidated financial statements of the Company at June 30, 2022.

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"). The President of this entity, Scott Perry also sits on the Company's Board of Directors. 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. Due to the large amount of the Company's insurance policies now being sold through AmeriLife, dissolution of this agency arrangement could have a material impact on the Company's financial statements. The Company has additional arrangements with AmeriLife wherein Efinancial's sub agents may sell third party products through AmeriLife. To date it is not believed that any of these arrangements will exceed the related party thresholds described in 17 CFR § 229.404. Should these or other arrangements change or exceed the aforementioned threshold, after review by the CFO and General Counsel, the Company's Chairman will be advised and written sign-off will be required from the Chairman.

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.

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 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.

In the first quarter 2022, Fidelity Life entered into a reinsurance contract with Swiss Re Life & Health America Inc. (Swiss Re). This new treaty is in addition to existing coinsurance agreements, largely with Swiss Re on certain policies issued through and including December 31, 2020. The impact of this transaction to our segment results included an initial ceded premium of $6.5 million based on the statutory reserves at January 1, 2022. The impact to pre-tax income is nominal, however various income statement lines are impacted. The impact is discussed in the segment results of this Management Discussion and Analysis of Financial Condition and results of Operations.

Corporate & Other Segment

The results of this segment consist of net investment income and net gains (losses) on investments earned on invested assets. We also include certain corporate expenses, including severance costs that are not allocated to our other segments, including expenses of Vericity, Inc., board of director's 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 & Other Segment recognizes income (loss) to the extent that net investment income and net gains (losses) on investments exceed (are less than) corporate expenses.

Included in the Corporate & Other Segment is the elimination of intercompany transactions which primarily consists of the sales by our Agency Segment of life products of our Insurance Segment. The eliminations represent the amounts required to eliminate the intercompany transactions as recorded in our 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: See "Corporate & Other" segment results included in this Management Discussion & Analysis for further discussion.

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, 2021 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, 2021, 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 June 30,		Six Months Ended June 30,	
Revenues	2022	2021	2022	2021
Net insurance premiums	$ 26,846	$ 25,433	$ 49,006	$ 50,730
Net investment income	3,798	3,610	7,264	6,864
Net losses (gains) on investments	111	1,297	1,762	2,813
Other-than-temporary-impairments	(1)	(1)	(103)	(3)
Earned commissions	10,488	11,808	21,525	22,430
Insurance lead sales	1,276	1,758	2,514	3,232
Other income	213	63	275	137
Total revenues	42,731	43,968	82,243	86,203
Benefits and expenses				
Life, annuity, and health claim benefits	15,319	17,430	30,117	39,382
Interest credited to policyholder account balances	726	751	1,454	1,473
Operating costs and expenses	24,573	22,748	49,726	46,076
Amortization of deferred policy acquisition costs	4,239	3,938	9,151	7,178
Total benefits and expenses	44,857	44,867	90,448	94,109
(Loss) income before income taxes	(2,126)	(899)	(8,205)	(7,906)
Income tax expense (benefit)	223	264	(194)	(676)
Net (loss) income	$ (2,349)	$ (1,163)	$ (8,011)	$ (7,230)

Three Months Ended June 30, 2022 Compared to the Three Months Ended June 30, 2021

Total Revenues

For the three months ended June 30, 2022, total revenues were $42.7 million compared to $44.0 million for the three months ended June 30, 2021. This decrease of $1.3 million resulted from lower net gains on investments, earned commissions and insurance lead sales, partially offset by an increase in net insurance premiums and net investment income.

Benefits and Expenses

For the three months ended June 30, 2022, total benefits and expenses were $44.9 million compared to $44.9 million for the three months ended June 30, 2021. Lower claim benefits were offset by higher operating costs and deferred policy acquisition costs.

(Loss) Income Before Income Taxes

For the three months ended June 30, 2022, net loss before taxes was $2.1 million compared to net loss before taxes of $0.9 million for the three months ended June 30, 2021. The increased net loss of $1.2 million was primarily due to lower net gains on investments, earned commissions, insurance lead sales and higher operating costs and expenses, partially offset by lower claim benefits.

Six Months Ended June 30, 2022 Compared to the Six Months Ended June 30, 2021

Total Revenues

For the six months ended June 30, 2022, total revenues were $82.2 million compared to $86.2 million for the six months ended June 30, 2021. This decrease of $4.0 million resulted from lower net insurance premiums, earned commissions, net gains on investments, and insurance lead sales, partially offset by an increase in net investment income.

Benefits and Expenses

For the six months ended June 30, 2022, total benefits and expenses were $90.4 million compared to $94.1 million for the six months ended June 30, 2021. This decrease of $3.7 million was primarily due to lower claim benefits, partially offset by higher operating costs and deferred policy acquisition costs.

(Loss) Income Before Income Taxes

For the six months ended June 30, 2022, net loss before taxes was $8.2 million compared to net loss before taxes of $7.9 million for the six months ended June 30, 2021. The increased net loss of $0.3 million was primarily due to lower net insurance premiums, net gains on investments, increased operating costs and deferred policy acquisition costs, partially offset by claim benefits.

Consolidated Results

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

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
	(dollars in thousands)		(dollars in thousands)	
(Loss) income before income tax by segment				
Agency	$ (1,857)	$ (104)	$ (4,224)	$ (788)
Insurance	1,169	2,154	(740)	(353)
Corporate & Other	(1,438)	(2,949)	(3,241)	(6,765)
(Loss) income before income taxes	(2,126)	(899)	(8,205)	(7,906)
Income tax (benefit) expense	223	264	(194)	(676)
Net (loss) income	$ (2,349)	$ (1,163)	$ (8,011)	$ (7,230)

Agency Segment

The results of our Agency Segment were as follows:

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Earned commissions	$ 10,587	$ 12,414	$ 21,725	$ 24,288
Insurance lead sales	1,276	1,758	2,514	3,232
Total revenues	11,863	14,172	24,239	27,520
Expenses				
Operating costs and expenses	13,720	14,276	28,463	28,308
Total expenses	13,720	14,276	28,463	28,308
(Loss) income before income taxes	$ (1,857)	$ (104)	$ (4,224)	$ (788)

Three Months Ended June 30, 2022 Compared to the Three Months Ended June 30, 2021

Earned Commissions

For the three months ended June 30, 2022, earned commissions were $10.6 million compared to $12.4 million for the three months ended June 30, 2021. This decrease of $1.8 million resulted from lower sales in the retail channel, which was primarily driven by a reduction in policy placement rates.

Insurance Lead Sales

For the three months ended June 30, 2022 insurance lead sales were $1.3 million compared to $1.8 million for the three months ended June 30, 2021. This decrease of $0.5 million was primarily due to lower click-through revenue.

Operating Costs and Expenses

For the three months ended June 30, 2022, operating costs and expenses were $13.7 million compared to $14.3 million for the three months ended June 30, 2021. This decrease of $0.6 million was primarily due to a decrease in variable costs.

(Loss) Income Before Income Taxes

For the three months ended June 30, 2022, the Agency Segment net loss was $1.9 million compared to net loss of $0.1 million for the three months ended June 30, 2021. This increase in net loss of $1.8 million was the result of decreased earned commissions and insurance lead sales, partially offset by lower operating costs and expenses,

Six Months Ended June 30, 2022 Compared to the Six Months Ended June 30, 2021

Earned Commissions

For the six months ended June 30, 2022, earned commissions were $21.7 million compared to $24.3 million for the six months ended June 30, 2021. This decrease of $2.6 million resulted from lower sales in the retail channel, which was primarily driven by a reduction in policy placement rates.

Insurance Lead Sales

For the six months ended June 30, 2022, insurance lead sales were $2.5 million compared to $3.2 million for the six months ended June 30, 2021. This decrease of $0.7 million was primarily due to lower click-through revenue.

Operating Costs and Expenses

For the six months ended June 30, 2022, operating costs and expenses were $28.5 million compared to $28.3 million for the six months ended June 30, 2021. This increase of $0.2 million was primarily due to ongoing investment in technology and marketing capabilities partially offset by a decrease in variable costs.

(Loss) Income Before Income Taxes

For the six months ended June 30, 2022, the Agency Segment net loss was $4.2 million compared to net loss of $0.8 million for the six months ended June 30, 2021. This increase in net loss of $3.5 million was the result of lower earned commissions and insurance lead sales.

Insurance Segment

The results of our Insurance Segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Net insurance premiums	$ 26,846	$ 25,433	$ 49,006	50,730
Net investment income	3,720	3,551	7,055	6,759
Net losses (gains) on investments	(54)	1,102	936	2,223
Other-than-temporary-impairments	(1)	(1)	(103)	(3)
Other income	213	63	275	137
Total revenues	30,724	30,148	57,169	59,846
Benefits and expenses				
Life, annuity, and health claim benefits	15,320	17,430	30,117	39,382
Interest credited to policyholder account balances	726	751	1,454	1,473
Operating costs and expenses	9,270	5,875	17,187	12,166
Amortization of deferred policy acquisition costs	4,239	3,938	9,151	7,178
Total benefits and expenses	29,555	27,994	57,909	60,199
Income (loss) before income taxes	$ 1,169	$ 2,154	$ (740)	$ (353)

Three Months Ended June 30, 2022 Compared to the Three Months Ended June 30, 2021

Net Insurance Premiums

For the three months ended June 30, 2022, net insurance premiums were $26.8 million compared to $25.4 million for the three months ended June 30, 2021. The increase of $1.4 million in net insurance premiums was primarily due to an increase in our Core lines and non-core lines of $2.9 million, partially offset by the impact of the new reinsurance agreement with Swiss Re in the amount of $1.6 million (see discussion earlier in this Management Discussion and Analysis of Financial Condition and results of Operations).

Net Investment Income

For the three months ended June 30, 2022, net investment income increased to $3.7 million compared to $3.6 million for the three months ended June 30, 2021. The $0.1 million increase was mainly due to higher reinvestment yields in the fixed maturities portfolio, partially offset by a decrease from the mortgage loan portfolio and equity securities. The equity securities portfolio was sold in 2021. 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 (Losses) Gains on Investments

For the three months ended June 30, 2022, net gains (losses) on investments decreased to $(0.1) million compared to $1.1 million for the three months ended June 30, 2021. The $1.2 million decrease was mainly due to a reduction in sales of fixed maturities and valuation changes in the equity securities portfolio. The equity securities portfolio was sold in 2021. For more information on net gains (losses) on investments, 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 June 30, 2022, life, annuity and health claim benefits were $15.3 million compared with $17.4 million for the three months ended June 30, 2021. This decrease of $2.1 million was primarily due to a decrease in claim benefits of $1.8 million which includes a reduction of $0.8 million related to the new reinsurance agreement with Swiss Re (see discussion earlier in this Management Discussion and Analysis of Financial Condition and results of Operations) and a reduction of claims related to Covid-19.

Operating Costs and Expenses

For the three months ended June 30, 2022, operating costs and expenses were $9.3 million compared to $5.9 million for the three months ended June 30, 2021. The $3.4 million increase was attributable to a decrease in reinsurance allowances of $1.3 million, largely related to changes in the reinsurance agreements, primarily Swiss Re and $2.1 million of other operating expenses, primarily staff costs, depreciation expense and other operating expenses.

Amortization of Deferred Policy Acquisition Costs

For the three months ended June 30, 2022, amortization of deferred policy acquisition costs was $4.2 million compared to $3.9 million for the three months ended June 30, 2021. The increase of $0.3 million primarily related to Closed Block.

Income (Loss) Before Income Taxes

For the three months ended June 30, 2022, net income was $1.2 million compared to net income of $2.2 million for the three months ended June 30, 2021. This decrease in net income of $1.0 million resulted primarily from an increase in operating expenses of $3.4 million and a decrease in net gains (losses) from investments of $1.2 million, partially offset a $2.1 million decrease in life, annuity and health claim benefits, and increased net insurance premiums of $1.4 million.

Six Months Ended June 30, 2022 Compared to the Six Months Ended June 30, 2021

Net Insurance Premiums

For the six months ended June 30, 2022, net insurance premiums were $49.0 million compared to $50.7 million for the six months ended June 30, 2021. The decrease of $1.7 million in net insurance premiums was primarily due to a new reinsurance agreement with Swiss Re (see discussion earlier in this Management Discussion and Analysis of Financial Condition and results of Operations) which reduced net insurance premiums by $9.8 million in both our core and non-core lines of business. Offsetting this decrease was a $7.7 million increase due to growth in our Core and non-core lines and $0.3 million in Closed Block.

Net Investment Income

For the six months ended June 30, 2022, net investment income increased to $7.1 million compared to $6.8 million for the six months ended June 30, 2021. The $0.3 million increase was mainly due to higher reinvestment yields in the fixed maturities portfolio, offset by a decrease from equity securities and the mortgage loan portfolio. The equity securities portfolio was sold in 2021. 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 (Losses) Gains on Investments

For the six months ended June 30, 2022, net gains (losses) on investments decreased to $0.9 million compared to $2.2 million for the six months ended June 30, 2021. The $1.3 million decrease was mainly due to a reduction in sales of fixed maturities and valuation changes in both the equity securities portfolio and other invested assets. The equity securities portfolio was sold in 2021. For more information on net gains (losses) on investments, 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 six months ended June 30, 2022, life, annuity and health claim benefits were $30.1 million compared with $39.4 million for the six months ended June 30, 2021. This decrease of $9.3 million was primarily due to a new reinsurance agreement with Swiss Re (see discussion earlier in this Management Discussion and Analysis of Financial Condition and results of Operations) which reduced Life, annuity and health claim benefits by $8.4 million and our core and non-core lines of business also decreased $0.9 million primarily due to a reduction of claims related to Covid-19.

Operating Costs and Expenses

For the six months ended June 30, 2022, operating costs and expenses were $17.2 million compared to $12.2 million for the six months ended June 30, 2021. The $5.0 million increase was attributable to a decrease in reinsurance allowances of $2.6 million largely related to changes in the reinsurance agreements, primarily Swiss Re and a $2.4 million increase of other operating expenses, primarily related to staff costs.

Amortization of Deferred Policy Acquisition Costs

For the six months ended June 30, 2022, amortization of deferred policy acquisition costs was $9.2 million compared to $7.2 million for the six months ended June 30, 2021. The increase of $2.0 million primarily relates to increases in our core and non-core lines of $1.0 million and Closed Block of $1.1 million.

Income (Loss) Before Income Taxes

For the six months ended June 30, 2022, net loss was $0.7 million compared to net loss of $0.4 million for the six months ended June 30, 2021. This increase in net loss of $0.3 million resulted primarily from an increase in operating expenses of $5.0 million, amortization of deferred policy acquisition costs of $2.0 million, decreased net insurance premiums of $1.7 million and a decrease in net gains (losses) from investments of $1.3 million, partially offset by $9.3 million decrease in life, annuity and health claim benefits and $0.3 million in net investment income.

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 June 30, 2022 and December 31, 2021, are $10.6 million and $10.5 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.

Corporate & Other Segment

The results of the Corporate & Other Segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Net investment income	$ 78	$ 59	$ 209	$ 105
Net gains (losses) on investments	165	195	826	590
Earned commissions	(99)	(606)	(200)	(1,858)
Total revenues	144	(352)	835	(1,163)
Expenses				
Operating costs and expenses	1,582	2,597	4,076	5,602
Total expenses	1,582	2,597	4,076	5,602
(Loss) income before income taxes	$ (1,438)	$ (2,949)	$ (3,241)	$ (6,765)

Three Months Ended June 30, 2022 Compared to the Three Months Ended June 30, 2021

Net Investment Income

For the three months ended June 30, 2022, net investment income was $0.1 million compared to $0.1 million for the three months ended June 30, 2021. The slight change is a result of increased yields in the fixed maturity portfolio.

Net Gains (Losses) on Investment

For the three months ended June 30, 2022, net gains (losses) on investments were $0.2 million compared to $0.2 million for the three months ended June 30, 2021. The gains are attributable to net asset valuation changes of other invested assets.

Earned Commissions

For the three months ended June 30, 2022, earned commissions were ($0.1) million compared to ($0.6) million for the three months ended June 30, 2021. This increase is attributable to the elimination of lower intersegment earned commissions resulting from declining intersegment sales.

Operating Expenses

For the three months ended June 30, 2022, operating expenses were $1.6 million compared to $2.6 million for the three months ended June 30, 2021. The decrease of $1.0 million is primarily related to the completion of corporate wide initiatives.

(Loss) Income Before Income Taxes

For the three months ended June 30, 2022, net loss decreased to $1.4 million from $2.9 million for the three months ended June 30, 2021. The reduced loss is primarily a result of lower intersegment sales and reduced operating costs and expenses.

Six Months Ended June 30, 2022 Compared to the Six Months Ended June 30, 2021

Net Investment Income

For the six months ended June 30, 2022, net investment income was $0.2 million compared to $0.1 million for the six months ended June 30, 2021. The slight change is a result of increased yields in the fixed maturity portfolio.

Net Gains (Losses) on Investment

For the six months ended June 30, 2022, net gains (losses) on investments were $0.8 million compared to $0.6 million for the six months ended June 30, 2021. This change is a result of gains from other invested assets related to net asset value changes.

Earned Commissions

For the six months ended June 30, 2022, earned commissions were ($0.2) million compared to ($1.9) million for the six months ended June 30, 2021. This decrease is attributable to the elimination of lower intersegment earned commissions resulting from declining intersegment sales.

Operating Expenses

For the six months ended June 30, 2022, operating expenses were $4.1 million compared to $5.6 million for the six months ended June 30, 2021. The decrease of $1.5 million is primarily related to the completion of corporate wide initiatives partially offset by one-time severance activity.

(Loss) Income Before Income Taxes

For the six months ended June 30, 2022, net loss decreased to $3.2 million from $6.8 million for the six months ended June 30, 2021. The decreased loss is primarily a result of lower intersegment sales and lower operating costs and expenses.

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 & Other Segments. We earn income on these investments in the form of interest on fixed maturities (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 maturities 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 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 94.4% and 94.8% at June 30, 2022 and December 31, 2021, respectively.

	Estimated Fair Value			
	June 30, 2022		December 31, 2021	
	(dollars in thousands)			
S&P Rating				
AAA	$ 54,959	18.5%	$ 68,171	19.3%
AA	60,023	20.1%	73,535	20.9%
A	66,626	22.3%	79,603	22.6%
BBB	57,611	19.3%	69,420	19.7%
Not rated	42,401	14.2%	43,254	12.3%
Total investment grade	281,620	94.4%	333,983	94.8%
BB	6,618	2.2%	7,832	2.2%
B	3,954	1.3%	4,031	1.1%
CCC	296	0.1%	341	0.1%
D	-	0.0%	4	0.0%
Not Rated	5,890	2.0%	6,192	1.8%
Total below investment grade	16,758	5.6%	18,400	5.2%
Total	$ 298,378	100.0%	$ 352,383	100.0%

The following table sets forth the maturity profile of our fixed maturities at June 30, 2022 from December 31, 2021. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without penalty.

	June 30, 2022				December 31, 2021			
(dollars in thousands)	Amortized Cost	%	Estimated Fair Value	%	Amortized Cost	%	Estimated Fair Value	%
Due in one year or less	$ 6,317	2.0%	$ 6,340	2.1%	$ 1,753	0.5%	$ 1,771	0.5%
Due after one year through five years	29,203	9.2%	28,652	9.6%	36,245	11.1%	38,497	10.9%
Due after five years through ten years	72,210	22.7%	69,547	23.3%	67,802	20.8%	71,435	20.3%
Due after ten years	128,990	40.5%	116,461	39.1%	127,396	39.0%	145,580	41.3%
Securities not due at a single maturity date-primarily mortgage and asset-backed securities	81,386	25.6%	77,378	25.9%	93,395	28.6%	95,100	27.0%
Total fixed maturities	$ 318,106	100.0%	$ 298,378	100.0%	$ 326,591	100.0%	$ 352,383	100.0%

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 (Loss) Income" 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 maturities classified as available-for-sale. Fair value of these securities totaled $298.4 million and $352.4 million as of June 30, 2022 and December 31, 2021, 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 six months ended June 30, 2022 and 2021, our book yield on fixed maturities available-for-sale was 4.1% and 3.6%, 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:

	June 30, 2022	December 31, 2021	June 30, 2022	June 30, 2021
	Ending Balance	Ending Balance	Year to Date Interest Credited	Year to Date Interest Credited
	(dollars in thousands)			
Annuity contract holder deposits—assumed	$ 70,762	$ 71,832	$ 1,353	$ 1,368
Dividends left on deposit	6,850	6,957	84	86
Other	1,674	1,705	17	19
Total	$ 79,286	$ 80,494	$ 1,454	$ 1,473

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 maturities 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 Gains (Losses) on Investments

Net gains (losses) on investments 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 maturities. At June 30, 2022 and 2021, 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 ($30.3) million and ($3.3) million, respectively. See “Note 9 – Accumulated other comprehensive (loss) income” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

At June 30, 2022 our fixed maturity securities had an unrealized loss of $19.7 million compared to an unrealized gain of $25.8 million at December 31, 2021, resulting in an unrealized loss of $45.5 million for the six months ended June 30, 2022. Duration measures the sensitivity of a bond’s price to changes in market yields and convexity measures a bond’s duration sensitivity to changes in market yields. The company’s unrealized loss of $45.5 million in our fixed maturities portfolio which has a duration of 7.4, convexity of 0.876, and current yield of 4.8%, is accounted for by the increase in the 10-year treasury bill yield for the first six months of 2022 of 147 basis points, along with the widening of credit spreads over the same period of time.

Financial Position

At June 30, 2022, we had total assets of $764.2 million compared to total assets at December 31, 2021 of $788.0 million, a decrease of $23.8 million. The invested asset base decreased $51.7 million, mainly due to $45.5 million in net unrealized losses. The remainder represents net purchases and sales in the portfolio. Deferred policy acquisition costs decreased $3.3 million, primarily due to a reduction of $6.9 million driven by a change in reinsurance agreement, partially offset by deferrals on new business in excess of amortization. Cash and cash equivalents decrease of $0.7 million is attributable to cash used in operating, investing and financing activities. See Cash Flows section for further discussion on changes in cash. The above decreases were partially offset by the following: Reinsurance recoverables increased $18.0 million as a result of a $16.1 million increase in ceded policy and claim reserves and $1.9 million related to timing of settlements of reinsured claims. Deferred income tax assets increased $9.8 million due to tax credits of $8.0 million on unrealized investment market losses and $1.8 million as a result of net loss. Other assets increased $2.4 million, primarily due to establishment of a right-of-use asset in the amount of $1.7 million from the adoption of ASU No. 2016-02, Leases (Topic 842) and internally developed software. Commission and agent balances increased $1.6 million due to increases in agent debit balances.

At June 30, 2022, we had total liabilities of $629.4 million compared to total liabilities of $615.1 million at December 31, 2021, an increase of $14.3 million. Future policy benefits and claims increased $17.3 million, primarily due to a $23.8 million increase in Core Life and Non-Core Life lines, resulting from growth of the underlying blocks of business, partially offset by decreases in Annuities and assumed life of $4.6 million and Closed Block of $1.9 million. Debt increased $6.6 million related to an increase in net borrowing of $5.9 million and interest accrued of $0.7 million under our commission financing agreement with Hannover Life. The above increases were partially offset by the following decreases: Other policyholder liabilities decreased $5.0 million due to a decrease in claim reserves and Policyholder dividend obligation related to the Closed Block decreased $3.2 million, primarily related to changes in accumulated net unrealized investment gains of $3.0 million. Policyholder account balances decreased $1.2 million largely due to annuity payments. Other liabilities decreased $0.2 million, due to reductions in operating expense accruals of $1.9 million, largely offset by an operating lease liability from the adoption of ASU No. 2016-02, Leases (Topic 842) in the amount of $1.7 million.

At June 30, 2022, total equity decreased to $134.9 million from $172.9 million at December 31, 2021. This decrease in equity of $38.0 million was attributable to decreases in other comprehensive loss of $30.0 million related to market declines in fixed maturities net of tax and in retained earnings of $8.0 million due to net loss.

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*ecision® 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*ecision® Life business while helping to provide liquidity for Efinancial through the receipt of larger first year only commissions. In the first quarter of 2021, the Company ceased new advances on this financing arrangement. On March 31, 2022, Efinancial entered into a new commission financing arrangement and is taking new advances on this financing arrangement. As of June 30, 2022 and December 31, 2021, we had net advances of $27.8 million and $21.9 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, The Company's ability to borrow under this facility is subject to the FHLBC's discretion and requires the availability of qualifying assets, 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 2022 and 2021.

Cash Flows

For the six months ended June 30, 2022, the Company had a net decrease in cash of $0.7 million compared to a net decrease of $16.4 million for the six months ended June 30, 2021.

The current year decrease in cash flows from operating activities is primarily due to timing related to reinsurance recoverables, partially offset by increases in policy liabilities.

Cash flows from investing activities mainly includes our fixed maturities, mortgage loans, and equity holdings. Period to period, the cash flows associated with the changes in these portfolios will vary between cash sources and cash uses depending on the need for cash or the excess of cash from operating activities, as well as portfolio trading due to investment market conditions. In the first six months of 2022 cash of $5.1 million was provided and includes net sales and maturities of $8.2 million of invested assets, partially offset by $3.1 million of capitalized software.

Cash flows from financing activities increased $3.3 million which includes $5.9 million, net proceeds from our commission financing program, partially offset by $2.6 million in cash withdrawals, net of deposits, by contract holders of annuities that were primarily written in the late 1980s.

The following table summarizes our cash flows for the six months ended June 30, 2022 and 2021**:**

	Six Months Ended June 30, 2022	2021
	(dollars in thousands)	
Consolidated Summary of Cash Flows		
Net cash (used) provided by operating activities	$ (9,099)	$ (7,759)
Net cash provided (used) by investing activities	5,082	(1,951)
Net cash provided (used) by financing activities	3,318	(6,670)
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (699)	$ (16,380)

Recent Accounting Pronouncements

All applicable adopted accounting pronouncements have been reflected in our Interim Condensed Consolidated Financial Statements as of and for the six months ended June 30, 2022. 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 Effectives 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 was $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	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL 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: August 15, 2022

By: /s/ Chris S. Kim
Chris S. Kim
Executive Vice President, Chief Financial Officer and Treasurer

Exhibit 31.1

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: August 15, 2022

/s/ James E. Hohmann

James E. Hohmann
Chief Executive Officer and President, Vericity, Inc.

Exhibit 31.2

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: August 15, 2022

/s/ Chris S. Kim

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

Exhibit 32.1

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 June 30, 2022 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: August 15, 2022

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

Exhibit 32.2

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 June 30, 2022 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: August 15, 2022

By: /s/ Chris S. Kim
Chris S. Kim
Executive Vice President, Chief Financial Officer and Treasurer, Vericity, Inc.