UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2023

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	**46-2348863**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1350 E Touhy Avenue, Suite 205W, Des Plaines, Illinois	**60018**
(Address of principal executive offices)	**(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 November 10, 2023 was 14,875,000.

Table of Contents

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

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Assets		
Investments:		
Fixed maturities – available-for-sale – at fair value (amortized cost; $334,600 and $331,946, net of allowances for credit losses of $21 and $0)	$ 295,524	$ 298,138
Mortgage loans (net of allowances for credit losses of $571 and $83)	42,005	45,270
Policyholder loans	7,062	6,699
Other invested assets	2,803	3,693
Total investments	347,394	353,800
Cash, cash equivalents and restricted cash	7,625	9,776
Accrued investment income	4,064	3,006
Reinsurance recoverables (net of allowances for credit losses of $126 and $126)	230,585	214,862
Deferred policy acquisition costs	88,171	90,189
Commissions and agent balances (net of allowances for credit losses of $337 and $338)	50,415	34,766
Intangible assets	1,635	1,635
Deferred income tax assets, net	32,003	28,437
Other assets	34,293	33,607
Total assets	796,185	770,078
Liabilities and Shareholders' Equity		
Liabilities		
Future policy benefits and claims	490,506	453,763
Policyholder account balances	72,245	77,443
Other policyholder liabilities	41,012	47,486
Policy dividend obligations	9,544	9,515
Reinsurance liabilities and payables	6,959	6,246
Long-term debt	37,311	30,213
Short-term debt	9,172	6,976
Other liabilities	30,113	27,093
Total liabilities	696,862	658,735
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	93,596	101,660
Accumulated other comprehensive (loss) income	(34,128)	(30,172)
Total shareholders' equity	99,323	111,343
Total liabilities and shareholders' equity	$ 796,185	$ 770,078

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues				
Net insurance premiums	$ 23,434	$ 24,468	$ 71,515	$ 73,474
Net investment income	4,010	4,126	12,846	11,390
Net (losses) gains on investments	(883)	(1,570)	(1,759)	89
Earned commissions	15,354	11,267	45,535	32,792
Insurance lead sales	1,026	1,259	3,052	3,773
Other income	720	144	1,831	419
Total revenues	43,661	39,694	133,020	121,937
Benefits and expenses				
Life, annuity, and health claim benefits	22,583	17,505	51,567	47,622
Interest credited to policyholder account balances	627	646	2,000	2,100
Operating costs and expenses	26,755	23,133	78,239	72,859
Amortization of deferred policy acquisition costs	3,283	4,086	9,913	13,237
Total benefits and expenses	53,248	45,370	141,719	135,818
Income (loss) before income tax	(9,587)	(5,676)	(8,699)	(13,881)
Income tax expense (benefit)	(1,612)	(591)	(822)	(785)
Net income (loss)	$ (7,975)	$ (5,085)	$ (7,877)	$ (13,096)

Earnings per share for the periods

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(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	$ (0.54)	$ (0.34)	$ (0.53)	$ (0.88)
Diluted earnings per share	$ (0.54)	$ (0.34)	$ (0.53)	$ (0.88)

See notes to interim condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Unaudited)		(Unaudited)	
Net income (loss)	$ (7,975)	$ (5,085)	$ (7,877)	$ (13,096)
Other comprehensive (loss) income, net of tax:				
Change in net unrealized (losses) gains	(8,082)	(10,964)	(3,956)	(40,993)
Total other comprehensive (loss) income	(8,082)	(10,964)	(3,956)	(40,993)
Total comprehensive (loss) income	$ (16,057)	$ (16,049)	$ (11,833)	$ (54,089)

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 September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
	(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	$ 101,571	$ 114,109	$ 101,660	$ 122,120
Cumulative effect adjustment from changes in accounting guidance, net of tax	—	—	(187)	—
Balance after adjustments - beginning of period	$ 101,571	$ 114,109	$ 101,473	$ 122,120
Net income (loss)	(7,975)	(5,085)	(7,877)	(13,096)
Balance – end of period	$ 93,596	$ 109,024	$ 93,596	$ 109,024
Accumulated other comprehensive income (loss)				
Balance – beginning of period	$ (26,046)	$ (19,100)	$ (30,172)	$ 10,929
Other comprehensive income (loss)	(8,082)	(10,964)	(3,956)	(40,993)
Balance – end of period	$ (34,128)	$ (30,064)	$ (34,128)	$ (30,064)
Total shareholders' equity	$ 99,323	$ 118,815	$ 99,323	$ 118,815

See notes to interim condensed consolidated financial statements

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

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
	(Unaudited)	
Cash flows from operating activities		
Net income (loss)	$ (7,877)	$ (13,096)
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:		
Depreciation and amortization and other non-cash items	3,899	3,187
Interest credited to policyholder account balances	2,000	2,100
Deferred income tax	(2,673)	(3,908)
Net investment losses (gains)	1,759	(89)
Interest expense	1,775	931
Change in:		
Accrued investment income	(1,058)	(957)
Reinsurance recoverables, net	(15,723)	(27,932)
Deferred policy acquisition costs	2,018	3,529
Commissions and agent balances	(15,649)	(4,719)
Other assets	1,638	(2,407)
Insurance liabilities	30,766	30,687
Other liabilities	1,002	5,580
Net cash (used) provided by operating activities	1,877	(7,094)
Cash flows from investing activities		
Sales, maturities and repayments of:		
Fixed maturities	39,190	33,176
Mortgage loans	3,796	4,515
Purchases of:		
Fixed maturities	(42,018)	(34,685)
Mortgage loans	(964)	(3,965)
Other invested assets	(190)	(724)
Change in policyholder loans, net	(363)	(289)
Other, net	(3,934)	(4,156)
Net cash (used) provided by investing activities	(4,483)	(6,128)
Cash flows from financing activities		
Debt issued	35,321	13,600
Debt repaid	(27,803)	(6,127)
Deposits to policyholder account balances	387	294
Withdrawals from policyholder account balances	(7,450)	(4,241)
Net cash (used) provided by financing activities	455	3,526
Net (decrease) in cash, cash equivalents and restricted cash	(2,151)	(9,696)
Cash, cash equivalents and restricted cash – beginning of period	9,776	22,399
Cash, cash equivalents and restricted cash – end of period	$ 7,625	$ 12,703
Supplemental cash flow information		
Non-cash transactions:	$ —	$ —

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).

On October 3, 2023, the Company, announced that it entered into an Agreement and Plan of Merger (the “Merger Agreement”), by and among the Company, iA American Holdings Inc. (“iA” or “Parent”), Long Grove Acquisition Corp., a wholly owned subsidiary of Parent (“Merger Sub”), and, solely for purposes of Section 6.03 and Article IX thereof, iA Financial Corporation, Inc. (“Guarantor”).

On the terms and subject to the conditions of the Merger Agreement, at the closing, Merger Sub will merge with and into the Company (the “Merger”), with the Company continuing as the surviving entity, which will become a wholly-owned subsidiary of Parent. The time that the Merger becomes effective is referred to as the “Effective Time.” The Merger was unanimously approved by the Company’s board of directors.

Following execution of the Merger Agreement, Apex Holdco L.P. (the “Consenting Stockholder” or “Apex”) executed and delivered to the Company a written consent (the “Stockholder Written Consent”), adopting the Merger Agreement and the transactions contemplated thereby, including the Merger.

As a result of the execution and delivery of the Stockholder Written Consent, the holders of at least a majority of the outstanding shares of Common Stock have adopted the Merger Agreement. No further approval of the stockholders of the Company is required to adopt the Merger Agreement.

As a result of the Merger, each share of Common Stock outstanding immediately prior to the Effective Time (subject to certain exceptions, including shares of Common Stock owned by stockholders of the Company who have not voted in favor of the adoption of the Merger Agreement and have properly exercised appraisal rights in accordance with Section 262 of the General Corporation Law of the State of Delaware) will, at the Effective Time, automatically be converted into the right to receive $11.43 in cash, without interest and subject to applicable withholding taxes (the “Merger Consideration”). The aggregate equity value of the Common Stock acquired by Parent will be approximately $170 million.

If the Merger is consummated, the Company’s Common Stock will be delisted from The Nasdaq Capital Market and deregistered under the Securities Exchange Act of 1934, as amended. The completion of the Merger is subject to satisfaction or waiver of certain closing conditions, including: (i) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (“HSR”), and receipt of certain regulatory approvals; (ii) there being no law or injunction prohibiting consummation of the Merger; (iii) subject to specified materiality standards, the accuracy of the representations and warranties of the other party; and (iv) compliance by the other party in all material respects with its covenants. Parent’s and Merger Sub’s obligations are also conditioned upon the absence of a material adverse effect on the Company and the absence of any burdensome condition (as defined in the Merger Agreement) imposed by any regulators as part of the regulatory approval process.

On October 3, 2023, the Company issued a Form 8-K and press release announcing the execution of the Merger Agreement and the Form 8-K is incorporated into this filing by reference. The Merger is expected to close in the first half of 2024.

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 three and nine months ended September 30, 2023 and at September 30, 2022 and December 31, 2022. 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, 2022. 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, 2022, 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 June 2016, the FASB issued ASU No. 2016-13, Financial Instruments— Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new guidance requires that Other-Than-Temporary Impairment (OTTI) on a debt security will be recognized as an allowance going forward, such that improvements in expected future cash flows after an impairment will no longer be reflected as a prospective yield adjustment through net investment income, but rather a reversal of the previous impairment and recognized through net gains (losses) on investments. The guidance also requires enhanced disclosures. In March 2022, the FASB issued ASU 2022-02 – Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosure. This ASU was issued to eliminate the troubled debt restructuring recognition and measurement guidance for creditors that have adopted the current expected credit loss guidance while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. The Company has assessed the impact of ASU 2016-13 and has established an additional for credit losses on our mortgage portfolio of $237. The tax effected amount of $187 is reflected as a beginning of year equity as a Cumulative effect adjustment from changes in accounting guidance, net of tax. The Company has also assessed fixed maturities - available-for-sale, reinsurance recoverables and commissions and agent balances and determined no additional allowance for credit losses is needed. We also adopted the required disclosures within Note 2 Investments, Note 4 Reinsurance, Note 9 Accumulated Other Comprehensive Income and Note 10 Business Segments. Due to the adoption of the measurement of credit losses on financial instruments accounting standard, prior change in valuation allowance is now presented as a change in allowance for credit losses.

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 net of allowances for credit losses are included in accumulated other comprehensive income (AOCI) of fixed maturities available-for-sale are as follows:

	September 30, 2023			
Fixed maturities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and agencies	$ 10,206	$ 108	$ (715)	$ 9,599
U.S. agency mortgage-backed	7,353	15	(835)	6,533
State and political subdivisions	76,764	12	(13,437)	63,339
Corporate and miscellaneous	174,536	664	(19,397)	155,803
Foreign government	130	—	(5)	125
Residential mortgage-backed	7,249	56	(685)	6,620
Commercial mortgage-backed	21,801	6	(2,152)	19,655
Asset-backed	36,561	71	(2,782)	33,850
Total fixed maturities	$ 334,600	$ 932	$ (40,008)	$ 295,524

	December 31, 2022				
Fixed maturities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI Losses [(1)]
U.S. government and agencies	$ 9,258	$ 349	$ (501)	$ 9,106	$ —
U.S. agency mortgage-backed	9,429	63	(614)	8,878	—
State and political subdivisions	68,213	26	(12,015)	56,224	—
Corporate and miscellaneous	171,283	1,473	(16,275)	156,481	—
Foreign government	130	1	—	131	—
Residential mortgage-backed	4,912	140	(622)	4,430	(709)
Commercial mortgage-backed	21,374	2	(1,914)	19,462	—
Asset-backed	47,347	5	(3,926)	43,426	—
Total fixed maturities	$ 331,946	$ 2,059	$ (35,867)	$ 298,138	$ (709)

[(1)] Due to the adoption of the measurement of credit losses on financial instruments accounting standard, OTTI is not presented in respect in the table above.

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

	September 30, 2023	
	Amortized Cost	Fair Value
Due in one year or less	$ 4,150	$ 4,122
Due after one year through five years	39,652	37,578
Due after five years through ten years	73,284	68,163
Due after ten years	144,550	119,003
Securities not due at a single maturity date — primarily mortgage and asset-backed	72,964	66,658
Total fixed maturities	$ 334,600	$ 295,524

Fixed maturities with a carrying value of $2,486 and $2,680 were on deposit with governmental authorities, as required by law at September 30, 2023 and December 31, 2022, 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 96.2% and 95.1% of the Company's total fixed maturities portfolio at September 30, 2023 and December 31, 2022, respectively.

At September 30, 2023 and December 31, 2022, the Company had commitments to make investments in available-for-sale securities in the amount of $0 and $1,290, 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 35 such investment instruments with ownership shares ranging from 0.6% to 30.0% of the trust at September 30, 2023. The Company owns a share of 319 mortgage loans with an average loan balance of $133 and a maximum exposure related to any single loan of $600. Mortgage loan holdings are diversified by geography and property type as follows:

	September 30, 2023		December 31, 2022	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Property Type:				
Retail	$ 12,997	30.5 %	$ 13,866	30.6 %
Office	11,276	26.5 %	11,115	24.5 %
Industrial	7,682	18.0 %	8,138	17.9 %
Mixed use	4,860	11.4 %	5,249	11.6 %
Apartments	2,100	4.9 %	2,796	6.2 %
Medical office	2,546	6.0 %	3,053	6.7 %
Other	1,115	2.7 %	1,136	2.5 %
Gross carrying value of mortgage loans	42,576	100.0 %	45,353	100.0 %
Credit loss allowance [1]	(571)		(83)	
Net carrying value of mortgage loans	$ 42,005		$ 45,270	

	September 30, 2023		December 31, 2022	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
U.S. Region:				
West South Central	$ 10,779	25.2 %	$ 11,608	25.6 %
East North Central	12,457	29.3 %	12,320	27.2 %
South Atlantic	8,153	19.1 %	8,815	19.4 %
West North Central	2,477	5.8 %	2,871	6.3 %
Mountain	2,626	6.2 %	2,824	6.2 %
Middle Atlantic	2,072	4.9 %	2,310	5.1 %
East South Central	3,558	8.4 %	3,661	8.1 %
New England	—	0.0 %	34	0.1 %
Pacific	454	1.1 %	910	2.0 %
Gross carrying value of mortgage loans	42,576	100.0 %	45,353	100.0 %
Credit loss allowance [1]	(571)		(83)	
Net carrying value of mortgage loans	$ 42,005		$ 45,270	

[1] Due to the adoption of the measurement of credit losses on financial instruments accounting standard, prior valuation allowance is now presented as an allowance for expected credit losses.

During the nine months ended September 30, 2023 and September 30, 2022, $964 and $3,965 of new mortgage loans were purchased, respectively, which did not include second lien mortgage loans. There were no taxes, assessments, or any amounts advanced that were not included in the mortgage loan balances at September 30, 2023 and December 31, 2022. At September 30, 2023 and December 31, 2022, the Company had 2 and 3 mortgage loans with a total carrying value of $358 and $692 that were in a restructured status, respectively. There was 1 impairment for mortgage loans during the three months ended September 30, 2023 and zero impairment of mortgage loans during the three months ended September 30, 2022 and December 31, 2022.

The changes in the allowances for credit losses (includes $237 related to adoption of ASU 2016-13) for commercial mortgage loans were as follows:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022
Beginning balance	$ 83	$ 69
Net increase in allowances for credit losses related to change in accounting standards (See Note 1)	237	—
Net (decrease) increase in allowances for credit losses	251	14
Ending balance	$ 571	$ 83

At September 30, 2023 and December 31, 2022, the Company had no mortgage loans that were on non-accrual status.

At September 30, 2023 and December 31, 2022, the Company had commitments to make investments in mortgage loans in the amount of $3,023 and $2,575, respectively.

Net Investment Income

The sources of net investment income are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Income from:				
Fixed maturities	$ 3,684	$ 3,763	$ 11,690	$ 10,385
Policyholder loans	88	90	268	272
Mortgage loans	509	594	1,815	1,830
Cash, cash equivalents and restricted cash	47	32	110	34
Gross investment income	4,328	4,479	13,883	12,521
Investment expenses	(318)	(353)	(1,037)	(1,131)
Net investment income	$ 4,010	$ 4,126	$ 12,846	$ 11,390

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 (Losses) Gains

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Investment (losses) gains from sales:				
Fixed maturities	$ (373)	$ (61)	$ (462)	$ (191)
Mortgage loans	56	(134)	56	(80)
Gains and losses from sales	(317)	(195)	(406)	(271)
Valuation change of other invested assets - (decline) appreciation:	(271)	(1,087)	(1,080)	779
Change in allowance for credit losses [(1)]	(295)	(288)	(273)	(419)
Total net gains (losses) on investments	$ (883)	$ (1,570)	$ (1,759)	$ 89

[(1)] Due to the adoption of the measurement of credit losses on financial instruments accounting standard, prior change in valuation allowance is now presented as a change in allowance for credit losses.

Change in Allowance for Credit Losses

The Company regularly reviews its fixed income portfolio to identify and evaluate whether a security may require a credit loss allowance. For each fixed income security in an unrealized loss position, the Company assesses whether management with the appropriate authority has made the decision to sell or whether it is more likely than not the Company will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If a security meets either of these criteria, any existing credit loss allowance would be written-off against the amortized cost basis of the asset along with any remaining unrealized losses, with incremental losses recorded in earnings. 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 have a credit loss.

Significant judgment is required in the determination of whether a credit loss has occurred for a security. The Company has developed a consistent methodology and has identified significant inputs for determining whether a credit loss has occurred. Some of the factors considered in evaluating whether a decline in fair value is a credit loss 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 impaired for credit reasons and a credit loss is recognized in earnings. The non-credit component, determined as the difference between the adjusted amortized cost basis and fair value, is recognized a credit loss in other comprehensive (loss) income.

The measurement of credit losses for available-for-sale fixed income securities measured at fair value is not affected except that credit losses recognized are limited to the amount by which fair value is below amortized cost and the credit loss adjustment is recognized through an allowance which may change over time but once recorded cannot subsequently be reduced to an amount below zero. Previously these credit loss adjustments were recorded as OTTI and were not reversed once recorded.

A roll-forward of the cumulative credit losses on fixed maturities are as follows:

	September 30, 2023	December 31, 2022
Beginning balance of credit losses on fixed maturities	$ 1,263	$ 837
Additional credit loss not previously recognized [1]	—	394
Additional credit loss that was previously recognized [1]	21	48
Reduction of credit losses related to securities sold during period	—	(16)
Ending balance of credit losses on fixed maturities	$ 1,284	$ 1,263

[1] Due to the adoption of the measurement of credit losses on financial instruments accounting standard, additional credit losses for OTTI is now presented as an additional credit loss.

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	
September 30, 2023	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	$ 977	$ (22)	$ 2,527	$ (693)	$ 3,504	$ (715)
U.S. agency mortgage-backed	780	(23)	4,712	(812)	5,492	(835)
State and political subdivisions	19,634	(1,108)	42,635	(12,329)	62,269	(13,437)
Corporate and miscellaneous	46,767	(3,546)	64,833	(15,851)	111,600	(19,397)
Foreign Government	125	(5)	—	—	125	(5)
Residential mortgage-backed	3,009	(69)	2,786	(616)	5,795	(685)
Commercial mortgage-backed	1,711	(61)	17,499	(2,091)	19,210	(2,152)
Asset-backed	5,262	(417)	26,143	(2,365)	31,405	(2,782)
Total fixed maturities	$ 78,265	$ (5,251)	$ 161,135	$ (34,757)	$ 239,400	$ (40,008)

December 31, 2022	12 months or less		Longer than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturities						
U.S. agency mortgage-backed	$ 2,722	$ (501)	$ —	$ —	$ 2,722	$ (501)
State and political subdivisions	5,297	(578)	216	(36)	5,513	(614)
Corporate and miscellaneous	38,252	(7,036)	15,057	(4,979)	53,309	(12,015)
Foreign government	94,461	(13,479)	8,322	(2,796)	102,783	(16,275)
Residential mortgage-backed	3,286	(554)	344	(68)	3,630	(622)
Commercial mortgage-backed	16,218	(1,611)	2,655	(303)	18,873	(1,914)
Asset-backed	20,465	(1,726)	21,069	(2,200)	41,534	(3,926)
Total fixed maturities	$ 180,701	$ (25,485)	$ 47,663	$ (10,382)	$ 228,364	$ (35,867)

The indicated gross unrealized losses in all fixed maturity categories decreased to $40,008 from $35,867 at September 30, 2023 and December 31, 2022, 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 to hold these securities, the Company concluded that these securities do not have credit losses.

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 September 30, 2023.

	Unrealized Losses 12 months or less				
	Gross Unrealized Losses	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	$ (22)	$ (22)	$ —	$ —	100 %
U.S. agency mortgage-backed	(23)	(23)	—	—	100 %
State and political subdivisions	(1,108)	(948)	(160)	—	100 %
Corporate and miscellaneous	(3,546)	(1,607)	(960)	(979)	84 %
Foreign Government	(5)	(5)	—	—	100 %
Residential mortgage-backed	(69)	(69)	—	—	75 %
Commercial mortgage-backed	(61)	(51)	(10)	—	100 %
Asset-backed	(417)	(271)	(85)	(61)	100 %
Gross unrealized losses	$ (5,251)	$ (2,996)	$ (1,215)	$ (1,040)	
Total number of fixed maturities	300	257	33	10	

	Unrealized Losses greater than 12 months				
	Gross Unrealized Losses	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	$ (693)	$ (95)	$ —	$ (598)	100%
U.S. agency mortgage-backed	(812)	(44)	(752)	(16)	100%
State and political subdivisions	(12,329)	(563)	(1,822)	(9,944)	100%
Corporate and miscellaneous	(15,851)	(835)	(3,348)	(11,668)	87%
Residential mortgage-backed	(616)	(56)	(306)	(254)	89%
Commercial mortgage-backed	(2,091)	(487)	(1,376)	(228)	100%
Asset-backed	(2,365)	(789)	(1,172)	(404)	97%
Gross unrealized losses	$ (34,757)	$ (2,869)	$ (8,776)	$ (23,112)	
Total number of fixed maturities	587	145	201	241	

	Investment Grade	Below Investment Grade	Total
Fixed income securities with unrealized loss position less than or equal to 20% of amortized cost, net [1] [2]	$ 15,251	$ 604	$ 15,855
Fixed income securities with unrealized loss position greater than 20% of amortized cost, net [3] [4]	23,704	449	24,153
Total unrealized losses	$ 38,955	$ 1,053	$ 40,008

[1] Below investment grade fixed income securities include $150 that have been in an unrealized loss position for less than twelve months.
[2] Related to securities with an unrealized loss position less than 20% of amortized cost, net, the degree of which suggests that these securities do not pose a high risk of having credit losses.
[3] Below investment grade fixed income securities include $902 that have been in an unrealized loss position for a period of twelve or more consecutive months.
[4] Evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations.

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 $12,198 and $13,118 at September 30, 2023 and December 31, 2022, respectively, is computed as the present value of contractually specified future benefits. The amounts included in the policy liability for structured settlements that are life contingent at September 30, 2023 and December 31, 2022, is $9,499 and $10,097, 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 $0 and $470 is included as part of the liability for structured settlements with respect to this deficiency at September 30, 2023 and December 31, 2022, 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 2.5% and 3.9% of the face value of total life insurance at September 30, 2023 and December 31, 2022, 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 in 2022 of $6.5 million based on the statutory reserves at January 1, 2022. The impact to pre-tax income in 2022 was nominal, however various income statement lines were impacted.

On July 18, 2023, the Liquidation Order of Scottish Re was approved by the Delaware Court specifying the effective date of the liquidation as September 30, 2023. The Liquidation Order specifies that all reinsurance agreements of Scottish Re are cancelled effective September 30, 2023. Accordingly, ceded future policy benefits of $657 were taken down as of the effective date of the order.

Reinsurance recoverables are as follows:

	September 30, 2023	December 31, 2022
Ceded future policy benefits	$ 192,968	$ 173,904
Claims and other amounts recoverables	37,617	40,958
Ending balance	$ 230,585	$ 214,862

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Direct premiums	$ 46,413	$ 44,740	$ 135,613	$ 131,792
Assumed premiums	8,960	10,838	27,493	35,512
Ceded premiums	(31,939)	(31,110)	(91,591)	(93,830)
Net insurance premiums	$ 23,434	$ 24,468	$ 71,515	$ 73,474

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Direct	$ 34,658	$ 36,963	$ 93,623	$ 105,673
Assumed	10,209	5,656	16,136	15,911
Ceded	(22,284)	(25,114)	(58,192)	(73,962)
Life, annuity, and health claim benefits	$ 22,583	$ 17,505	$ 51,567	$ 47,622

Net policy charges on universal life products were $41 and $44 for the three months ended September 30, 2023 and 2022, respectively and $135 and $136 for the nine months ended September 30, 2023 and 2022, respectively, and are included in other income.

At September 30, 2023 and December 31, 2022, reserves related to fixed-rate annuity deposits assumed from a former affiliate company amounted to approximately $64,095 and $69,070, 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 condensed consolidated financial statements on the same basis as other accounts of the Company. The maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities represent the estimated future Closed Block profits that will accrue to the Company and is calculated as the excess of Closed Block assets over Closed Block liabilities. Included in Closed Block assets at September 30, 2023 and December 31, 2022 is $11,058 and $10,792 of additional Closed Block funding, plus accrued interest, that is eligible for reversion to the Company if not needed to fund Closed Block experience, respectively.

The Closed Block was funded based on a model developed to forecast the future cash flows of the Closed Block, which is referred to as the actuarial calculation. The actuarial calculation projected the anticipated future cash flows of the Closed Block as established at the initial funding. We compare the actual results of the Closed Block to expected results from the actuarial calculation as part of the annual assessment of the current level of policyholder dividends. The assessment of policyholder dividends includes projections of future experience of the Closed Block. The review of Closed Block experience also includes consideration of whether a policy dividend obligation should be recorded to reflect favorable Closed Block experience that has not yet been reflected in the dividend scales. At September 30, 2023 and December 31, 2022, the Company recognized a policyholder dividend obligation of $9,544 and $9,515, 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	**September 30, 2023**	**December 31, 2022**
Future policy benefits and claims	$ 29,216	$ 29,382
Policyholder account balances	6,567	6,731
Other policyholder liabilities	3,436	5,298
Policyholder dividend obligations	9,544	9,515
Other liabilities	38	586
Total Closed Block liabilities	48,801	51,512
Assets Designated to the Closed Block		
Investments:		
Fixed maturities - available-for-sale (amortized cost $41,673 and $40,522, respectively)	36,464	36,625
Policyholder loans	1,238	1,132
Total investments	37,702	37,757
Cash and Cash Equivalents	365	—
Premiums due and uncollected	382	1,852
Accrued investment income	490	457
Reinsurance recoverables	10,834	13,885
Deferred income tax assets, net	4,712	4,263
Total assets designated to the Closed Block	54,485	58,214
Excess of Closed Block assets over liabilities	5,684	6,702
Amounts included in accumulated other comprehensive income:		
Unrealized investment loss (gains), net of income tax	(4,116)	(3,079)
Total amounts included in accumulated other comprehensive income	(4,116)	(3,079)
Maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities (includes excess assets of $11,058 and $10,792, respectively)	$ (9,800)	$ (9,781)

Policyholder Dividend Obligations	**September 30, 2023**	**December 31, 2022**
Beginning balance	$ 9,515	$ 12,669
Impact from earnings allocable to policyholder dividend obligations	29	(165)
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligations	—	(2,989)
Ending balance	$ 9,544	$ 9,515

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues				
Net insurance premiums	$ 769	$ 329	$ 3,351	$ 2,357
Net investment income	456	375	1,361	1,157
Net Realized Investment Gains (Losses)	5	—	8	—
Total revenues	1,230	704	4,720	3,514
Benefits and expenses				
Life and annuity benefits - including policyholder dividends of $452, $498, $1,474 and $1,102, respectively	1,353	1,072	4,258	3,588
Interest credited to policyholder account balances	42	44	124	128
Operating costs and expenses	(38)	(356)	314	(482)
Total expenses	1,357	760	4,696	3,234
Revenues, net of expenses before provision for income tax expense (benefit)	(127)	(56)	24	280
Income tax expense (benefit)	(27)	(12)	5	59
Revenues, net of expenses and provision for income tax expense (benefit)	$ (100)	$ (44)	$ 19	$ 221

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 September 30, 2023. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Amortized Cost	Fair Value
Due in one year or less	$ 1,100	$ 1,093
Due after one year through five years	6,615	6,482
Due after five years through ten years	6,836	6,374
Due after ten years	23,683	19,193
Securities not due at a single maturity date — primarily mortgage and asset-backed	3,439	3,322
Total fixed maturities	$ 41,673	$ 36,464

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.

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:

September 30, 2023	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	$ —	$ 9,599	$ —	$ 9,599
U.S. agency mortgage-backed	—	6,533	—	6,533
State and political subdivisions	—	62,895	444	63,339
Corporate and miscellaneous	2,231	127,012	26,560	155,803
Foreign government	—	125	—	125
Residential mortgage-backed	—	6,620	—	6,620
Commercial mortgage-backed	—	19,655	—	19,655
Asset-backed	—	30,512	3,338	33,850
Total fixed maturities	2,231	262,951	30,342	295,524
Total recurring assets	$ 2,231	$ 262,951	$ 30,342	$ 295,524

December 31, 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	$ —	$ 9,106	$ —	$ 9,106
U.S. agency mortgage-backed	—	8,878	—	8,878
State and political subdivisions	—	55,782	442	56,224
Corporate and miscellaneous	2,847	126,644	26,990	156,481
Foreign government	—	131	—	131
Residential mortgage-backed	—	4,430	—	4,430
Commercial mortgage-backed	—	19,462	—	19,462
Asset-backed	—	40,293	3,133	43,426
Total fixed maturities	2,847	264,726	30,565	298,138
Total recurring assets	$ 2,847	$ 264,726	$ 30,565	$ 298,138

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 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:

		Total gains (losses) included in:						
	Balance at January 1, 2023	Net Income (loss)	OCI	Purchases	Sales	Settlements	Net Transfers	Balance at September 30, 2023
Financial Assets								
Fixed maturities								
State and political subdivision	$ 442	$ —	$ 2	$ —	$ —	$ —	$ —	$ 444
Corporate and miscellaneous	26,991	2	(31)	2,449	(2,989)	—	138	26,560
Asset-backed	3,133	90	80	145	(610)	—	500	3,338
Total assets	$ 30,566	$ 92	$ 51	$ 2,594	$ (3,599)	$ —	$ 638	$ 30,342

		Total gains (losses) included in:						
	Balance at January 1, 2022	Net Income	OCI	Purchases	Sales	Settlements	Net Transfers	Balance at December 31, 2022
Financial Assets								
Fixed maturities								
State and political subdivisions	$ 498	$ —	$ (56)	$ —	$ —	$ —	$ —	$ 442
Corporate and miscellaneous	24,740	2	(398)	3,198	(2,582)	1,468	563	26,991
Asset-backed	2,838	(122)	(325)	1,907	(1,260)	—	95	3,133
Total assets	$ 28,076	$ (120)	$ (779)	$ 5,105	$ (3,842)	$ 1,468	$ 658	$ 30,566

There were 4 transfers from Level 3 to Level 2 and 5 transfers from level 2 to level 3 in 2023. There were 2 transfers from Level 3 to Level 2 and 6 transfers from level 2 to level 3 in 2022.

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:

		Estimated Fair Value			
September 30, 2023	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments recorded as assets:					
Mortgage loans	$ 42,005	$ —	$ —	$ 38,074	$ 38,074
Policyholder loans	$ 7,062	$ —	$ —	$ 8,136	$ 8,136
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	$ 15,776	$ —	$ —	$ 14,511	$ 14,511
Long/short-term debt	$ 46,483	$ —	$ —	$ 47,762	$ 47,762
Policyholder account balances	$ 72,245	$ —	$ —	$ 65,459	$ 65,459

		Estimated Fair Value			
December 31, 2022	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments recorded as assets:					
Mortgage loans	$ 45,270	$ —	$ —	$ 41,622	$ 41,622
Policyholder loans	$ 6,699	$ —	$ —	$ 7,722	$ 7,722
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	$ 16,555	$ —	$ —	$ 15,192	$ 15,192
Long/short-term debt	$ 37,189	$ —	$ —	$ 36,763	$ 36,763
Policyholder account balances	$ 77,443	$ —	$ —	$ 70,157	$ 70,157

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 $974 and $1,952 of second and mezzanine mortgages carried at cost for which fair value is not measurable at September 30, 2023 and December 31, 2022, 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 — 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. Certain non-interest sensitive reserves are at carrying value, which approximates fair value.

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

In 2022 and subsequent amendments in 2023, 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 $46.0 million. At September 30, 2023 and December 31, 2022, the Company had a net advance of $38,618 and $31,100, respectively, under this arrangement. At September 30, 2023, the Company expects to pay back the aggregate amounts as presented in the following table.

	September 30, 2023
Due in one year or less	$ 9,172
Due after one year through two years	6,328
Due after two years through three years	5,891
Due after three years through four years	5,493
Due after four years through five years	5,014
Due after five years	38,411
Less discount	(23,826)
Total long/short-term debt	$ 46,483

Federal Home Loan Bank of Chicago

The Company is a member of the Federal Home Loan Bank of Chicago (FHLBC). As a member, the Company is able to borrow on a collateralized basis from the FHLBC which can be used as an alternative source of liquidity. The FHLBC membership requires the Company to own member stock. At September 30, 2023 and December 31, 2022, the Company held $270 and $180 of FHLBC common stock, which is included in Other invested assets, respectively. 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 September 30, 2023 and December 31, 2022, the Company had not pledged any assets and there were no outstanding borrowings.

Note 9 – Accumulated Other Comprehensive (Loss) Income

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

	2023			2022		
	Net Unrealized Gains (Losses) on Investments with Credit Losses	Net Unrealized Gains (Losses) on Other Investments	Total	Net Unrealized Gains (Losses) on Investments with Credit Losses	Net Unrealized Gains (Losses) on Other Investments	Total
Balance at beginning of year	$ 362	$ (30,534)	$ (30,172)	$ 362	$ 10,567	$ 10,929
Third Quarter						
Other comprehensive income (loss)						
Unrealized holding (losses) gains from changes in the market value of securities	—	(10,166)	(10,166)	—	(15,424)	(15,424)
Impact on policy benefit liabilities of changes in market value of securities	—	340	340	—	1,545	1,545
Change in net unrealized investment (losses) gains allocated to policyholder dividend obligations	—	—	—	—	—	—
Deferred income tax (expense) benefit	—	1,744	1,744	—	2,915	2,915
Third Quarter, net	—	(8,082)	(8,082)	—	(10,964)	(10,964)
Year to Date						
Other comprehensive (loss) income						
Unrealized holding (losses) gains from changes in the market value of securities	—	(5,268)	(5,268)	—	(60,944)	(60,944)
Impact on policy benefit liabilities of changes in market value of securities	—	469	469	—	6,065	6,065
Change in net unrealized investment (losses) gains allocated to policyholder dividend obligations	—	—	—	—	2,989	2,989
Deferred income tax benefit (expense)	—	843	843	—	10,897	10,897
Year to Date, net	—	(3,956)	(3,956)	—	(40,993)	(40,993)
Balance at end of period	$ 362	$ (34,490)	$ (34,128)	$ 362	$ (30,426)	$ (30,064)

Note 10 – Business Segments

Our Chief Operating Decision Maker makes decisions by analyzing our segment information. For internal decision-making purposes and external reporting purposes, we do not disaggregate revenue beyond our segment information and believe that any further disaggregation is immaterial. The Company's current operations were 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 recently announced merger transaction and 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 September 30, 2023				Three Months Ended September 30, 2022			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Net insurance premiums	$ 23,434	$ —	$ —	$ 23,434	$ 24,468	$ —	$ —	$ 24,468
Net investment income	3,931	—	79	4,010	3,927	—	199	4,126
Net (losses) gains on investments [1]	(883)	—	—	(883)	(1,100)	—	(470)	(1,570)
Earned commissions	—	15,354	—	15,354	—	11,379	(112)	11,267
Other income	274	1,472	—	1,746	144	1,259	—	1,403
Total revenues	26,756	16,826	79	43,661	27,439	12,638	(383)	39,694
Life, annuity, and health claim benefits	23,210	—	—	23,210	18,151	—	—	18,151
Operating costs and expenses	7,914	16,564	2,277	26,755	7,957	14,110	1,066	23,133
Amortization of deferred policy acquisition costs	3,283	—	—	3,283	4,086	—	—	4,086
Total benefits and expenses	34,407	16,564	2,277	53,248	30,194	14,110	1,066	45,370
Income (loss) before income taxes	$ (7,651)	$ 262	$ (2,198)	$ (9,587)	$ (2,755)	$ (1,472)	$ (1,449)	$ (5,676)

[1] Due to the adoption of the measurement of credit losses on financial instruments accounting standard, items previously reported as OTTI, are now included in net (losses) gains on investments.

	Nine Months Ended September 30, 2023				Nine Months Ended September 30, 2022			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Net insurance premiums	$ 71,515	$ —	$ —	$ 71,515	$ 73,474	$ —	$ —	$ 73,474
Net investment income	12,618	—	228	12,846	10,982	—	408	11,390
Net realized investment gains (losses) [1]	(1,395)	—	(364)	(1,759)	(267)	—	356	89
Earned commissions	—	45,880	(345)	45,535	—	33,105	(313)	32,792
Other income	804	4,079	—	4,883	419	3,773	—	4,192
Total revenues	83,542	49,959	(481)	133,020	84,608	36,878	451	121,937
Life, annuity, and health claim benefits	53,567	—	—	53,567	49,722	—	—	49,722
Operating costs and expenses	23,843	48,636	5,760	78,239	25,143	42,573	5,143	72,859
Amortization of deferred policy acquisition costs	9,913	—	—	9,913	13,237	—	—	13,237
Total benefits and expenses	87,323	48,636	5,760	141,719	88,102	42,573	5,143	135,818
(Loss) income before income tax	$ (3,781)	$ 1,323	$ (6,241)	$ (8,699)	$ (3,494)	$ (5,695)	$ (4,692)	$ (13,881)

[1] Due to the adoption of the measurement of credit losses on financial instruments accounting standard, items previously reported as OTTI, are now included in net (losses) gains on investments.

	September 30, 2023				December 31, 2022			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Investments and cash	$ 351,240	$ 800	$ 2,979	$ 355,019	$ 358,620	$ 1,094	$ 3,862	$ 363,576
Commissions and agent balances	8,550	41,865	—	50,415	4,751	30,015	—	34,766
Deferred policy acquisition costs	88,171	—	—	88,171	90,189	—	—	90,189
Intangible assets	—	1,635	—	1,635	—	1,635	—	1,635
Reinsurance recoverables net	230,585	—	—	230,585	214,862	—	—	214,862
Deferred income tax assets, net	18,361	—	13,642	32,003	13,489	—	14,948	28,437
Other	28,635	9,068	654	38,357	26,800	5,869	3,944	36,613
Total assets	$ 725,542	$ 53,368	$ 17,275	$ 796,185	$ 708,711	$ 38,613	$ 22,754	$ 770,078

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

On October 3, 2023, Vericity, Inc. announced that it entered into an Agreement and Plan of Merger with iA American Holdings Inc. Please refer to Note 1 - Summary of Significant Accounting Policies for additional details.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and nine months ended September 30, 2023 and 2022

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.

War in Ukraine and Israel

The Company believes the wars in Ukraine and in and around Israel do not have a material impact on the interim condensed consolidated financial statements of the Company at September 30, 2023.

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 Company's 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.

Non Core Life - Our Non Core 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, 2022 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, 2022, 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 (certain prior year values have been re-classified due to the adoption of ASU 2016-02, see footnote 1 in this form 10-Q):

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

(dollars in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Revenues				
Net insurance premiums	$ 23,434	$ 24,468	$ 71,515	$ 73,474
Net investment income	4,010	4,126	12,846	11,390
Net (losses) gains on investments	(883)	(1,570)	(1,759)	89
Earned commissions	15,354	11,267	45,535	32,792
Insurance lead sales	1,026	1,259	3,052	3,773
Other income	720	144	1,831	419
Total revenues	43,661	39,694	133,020	121,937
Benefits and expenses				
Life, annuity, and health claim benefits	22,583	17,505	51,567	47,622
Interest credited to policyholder account balances	627	646	2,000	2,100
Operating costs and expenses	26,755	23,133	78,239	72,859
Amortization of deferred policy acquisition costs	3,283	4,086	9,913	13,237
Total benefits and expenses	53,248	45,370	141,719	135,818
Income (loss) before income taxes	(9,587)	(5,676)	(8,699)	(13,881)
Income tax expense (benefit)	(1,612)	(591)	(822)	(785)
Net income (loss)	$ (7,975)	$ (5,085)	$ (7,877)	$ (13,096)

Three Months Ended September 30, 2023 Compared to the Three Months Ended September 30, 2022

Total Revenues

For the three months ended September 30, 2023, total revenues were $43.7 million compared to $39.7 million for the three months ended September 30, 2022. This increase of $4.0 million resulted primarily from an increase in earned commissions and lower net losses on investments, partially offset by a decrease in net insurance premiums, net investment income and a decrease in insurance lead sales.

Benefits and Expenses

For the three months ended September 30, 2023, total benefits and expenses were $53.2 million compared to $45.4 million for the three months ended September 30, 2022. This increase of $7.8 million is driven by higher operating expenses and claim benefits, partially offset by lower amortization of deferred policy acquisition costs.

Income (loss) Before Income Taxes

For the three months ended September 30, 2023, net loss before taxes was $9.6 million compared to net loss before taxes of $5.7 million for the three months ended September 30, 2022. This increase in net loss of $3.9 million was primarily due to higher claim benefits and operating expenses and lower net insurance premiums and net investment income, partially offset by higher earned commissions, lower net loss on investments, and lower amortization of deferred policy acquisition costs.

Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

Total Revenues

For the nine months ended September 30, 2023, total revenues were $133.0 million compared to $121.9 million for the nine months ended September 30, 2022. This increase of $11.1 million resulted primarily from higher earned commissions and net investment income, partially offset by a decrease in net insurance premiums, lower net gains on investments and a decrease in insurance lead sales.

Benefits and Expenses

For the nine months ended September 30, 2023, total benefits and expenses were $141.7 million compared to $135.8 million for the nine months ended September 30, 2022. This increase of $5.9 million is driven by higher operating expenses and claim benefits, partially offset by lower amortization of deferred policy acquisition costs.

Income (loss) Before Income Taxes

For the nine months ended September 30, 2023, net loss before taxes was $8.7 million compared to net loss before taxes of $13.9 million for the nine months ended September 30, 2022. This decrease in net loss of $5.2 million was primarily due to increases in earned commissions and net investment income, lower deferred policy acquisition costs, partially offset with an increase in claim benefits and operating expenses, lower net insurance premiums and higher net losses on investments.

Consolidated Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(dollars in thousands)		(dollars in thousands)	
Income (loss) before income tax by segment				
Agency	$ 262	$ (1,472)	$ 1,323	$ (5,695)
Insurance	(7,651)	(2,755)	$ (3,781)	(3,494)
Corporate & Other	(2,198)	(1,449)	$ (6,241)	(4,692)
Income (loss) from operations before income tax	(9,587)	(5,676)	(8,699)	(13,881)
Income tax expense (benefit)	(1,612)	(591)	(822)	(785)
Net income (loss)	$ (7,975)	$ (5,085)	$ (7,877)	$ (13,096)

Agency Segment

The results of our Agency Segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(dollars in thousands)	(dollars in thousands)		(dollars in thousands)	
Revenues				
Earned commissions	$ 15,354	$ 11,379	$ 45,880	$ 33,105
Insurance lead sales & Other	1,472	1,259	4,079	3,773
Total revenues	16,826	12,638	49,959	36,878
Expenses				
Operating costs and expenses	16,564	14,110	48,636	42,573
Total expenses	16,564	14,110	48,636	42,573
Income (loss) before income taxes	$ 262	$ (1,472)	$ 1,323	$ (5,695)

Three Months Ended September 30, 2023 Compared to the Three Months Ended September 30, 2022

Earned Commissions

For the three months ended September 30, 2023, earned commissions were $15.4 million compared to $11.4 million for the three months ended September 30, 2022. This increase of $4.0 million resulted from increased sales in the retail channel.

Insurance Lead Sales

For the three months ended September 30, 2023 insurance lead sales were $1.5 million compared to $1.3 million for the three months ended September 30, 2022. This increase of $0.2 million was primarily due to higher click-through revenue.

Operating Costs and Expenses

For the three months ended September 30, 2023, operating costs and expenses were $16.6 million compared to $14.1 million for the three months ended September 30, 2022. This increase of $2.5 million was primarily due to an increase in variable costs.

Income (Loss) Before Income Taxes

For the three months ended September 30, 2023, the Agency Segment net income was $0.3 million compared to net loss of $1.5 million for the three months ended September 30, 2022. This increase in net income of $1.8 million was the result of higher earned commissions, partially offset by increased operating expenses.

Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

Earned Commissions

For the nine months ended September 30, 2023, earned commissions were $45.9 million compared to $33.1 million for the nine months ended September 30, 2022. This increase of $12.8 million resulted from increased sales in the retail channel.

Insurance Lead Sales

For the nine months ended September 30, 2023 insurance lead sales were $4.1 million compared to $3.8 million for the nine months ended September 30, 2022. This increase of $0.3 million was primarily due to higher click-through revenue.

Operating Costs and Expenses

For the nine months ended September 30, 2023, operating costs and expenses were $48.6 million compared to $42.6 million for the nine months ended September 30, 2022. This increase of $6.0 million was primarily due to an increase in variable costs.

Income (Loss) Before Income Taxes

For the nine months ended September 30, 2023, the Agency Segment net income was $1.3 million compared to net loss of $5.7 million for the nine months ended September 30, 2022. This increase in net income of $7.0 million was the result of higher earned commissions, partially offset by increased operating expenses.

Insurance Segment

The results of our Insurance Segment were as follows (certain prior period values have been re-classified due to the adoption of ASU 2016-02, see footnote 1 in this form 10-Q):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(dollars in thousands)			(dollars in thousands)	
Revenues				
Net insurance premiums	$ 23,434	$ 24,468	$ 71,515	$ 73,474
Net investment income	3,931	3,927	12,618	10,982
Net (losses) gains on investments	(883)	(1,100)	(1,395)	(267)
Other income	274	144	804	419
Total revenues	$ 26,756	$ 27,439	83,542	84,608
Benefits and expenses				
Life, annuity, and health claim benefits	22,583	17,505	51,567	47,622
Interest credited to policyholder account balances	627	646	2,000	2,100
Operating costs and expenses	7,914	7,957	23,843	25,143
Amortization of deferred policy acquisition costs	3,283	4,086	9,913	13,237
Total benefits and expenses	34,407	30,194	87,323	88,102
Income (loss) before income taxes	$ (7,651)	$ (2,755)	$ (3,781)	$ (3,494)

Three Months Ended September 30, 2023 Compared to the Three Months Ended September 30, 2022

Net Insurance Premiums

For the three months ended September 30, 2023, net insurance premiums were $23.4 million compared to $24.5 million for the three months ended September 30, 2022. This decrease of $1.1 million in net insurance premiums was primarily due to decreases in our Core lines of $1.3 million, primarily due to our LifeTime benefit Term (LBT) product, and a decrease of $0.1 million in our Non-core lines, partially offset by an increase in Closed Block of $0.4 million.

Net (Losses) Gains on Investments

For the three months ended September 30, 2023, net losses on investments was $0.9 million compared to net losses of $1.1 million for the three months ended September 30, 2022. The $0.2 million decrease in net loss was mainly due to lower valuation losses in our other invested assets, partially offset by higher losses in our fixed maturity portfolio. For more information on net (losses) gains on investments, see “Note 2 – Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Other Income

For the three months ended September 30, 2023, other income increased to $0.3 million compared to $0.1 million for the three months ended September 30, 2022. The $0.2 million increase was mainly due to higher licensing fees on our patented LifeTime Benefit term product.

Life, Annuity and Health Claim Benefits

For the three months ended September 30, 2023, life, annuity and health claim benefits were $22.6 million compared with $17.5 million for the three months ended September 30, 2022. This increase of $5.0 million was primarily due to an increases in our Core lines of $4.9 million that included a reserve increase related to our assumed worksite business, and Closed Block of $0.3 million, partially offset by a decrease in our Non-core lines of $0.5 million.

Operating Costs and Expenses

For the three months ended September 30, 2023, operating costs and expenses were $7.9 million compared to $8.0 million for the three months ended September 30, 2022. The $0.1 million decrease was attributable to higher ceded commissions of $0.1 million.

Amortization of Deferred Policy Acquisition Costs

For the three months ended September 30, 2023, amortization of deferred policy acquisition costs was $3.3 million compared to $4.1 million for the three months ended September 30, 2022. This decrease of $0.8 million is primarily related to a decrease of $0.5 million in Closed Block and a decrease in Core of $0.3 million.

Income (Loss) Before Income Taxes

For the three months ended September 30, 2023, net loss was $7.7 million compared to net loss of $2.8 million for the three months ended September 30, 2022. This increase in net loss of $4.9 million resulted primarily from an increase in claim benefits of $5.1 million and a decrease in net insurance premiums of $1.0 million, partially offset by a decrease in amortization of deferred policy acquisition costs of $0.8 million, a decrease in net losses on investments of $0.3 million and an increase in other income of $0.1 million.

Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

Net Insurance Premiums

For the nine months ended September 30, 2023, net insurance premiums were $71.5 million compared to $73.5 million for the nine months ended September 30, 2022. The decrease of $2.0 million was primarily due to a 2022 reinsurance agreement with Swiss Re in 2022, (see discussion earlier in this Management Discussion and Analysis of Financial Condition and results of Operations) which reduced 2022 net insurance premiums by $6.5 million. Excluding the impact of the Swiss Re agreement, the decrease in net insurance premiums decreased by $8.5 million, which was primarily driven by a $8.1 million decrease in Core lines, mainly in the LBT product, and a $1.3 million decrease in Non-core lines, partially offset by $1.0 million increase in Closed Block.

Net Investment Income

For the nine months ended September 30, 2023, net investment income increased to $12.6 million compared to $11.0 million for the nine months ended September 30, 2022. The $1.6 million increase was mainly due to higher reinvestment yields in the fixed maturities portfolio. 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 nine months ended September 30, 2023, net losses on investments were $1.4 million compared to net losses of $0.3 million for the nine months ended September 30, 2022. The $1.1 million increase in net losses was mainly due to valuation changes of other invested assets. For more information on net (losses) gains on investments, see “Note 2 – Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Other Income

For the nine months ended September 30, 2023, other income increased to $0.8 million compared to $0.4 million for the nine months ended September 30, 2022. The $0.4 million increase was mainly due to higher licensing fees on our patented LifeTime Benefit term product.

Life, Annuity and Health Claim Benefits

For the nine months ended September 30, 2023, life, annuity and health claim benefits were $51.6 million compared with $47.6 million for the nine months ended September 30, 2022. This $4.0 million increase was primarily due to a $5.1 million increase in our Core lines and a $0.7 million increase in Closed Block, partially offset by $2.2 million decrease in Non-core lines. The 2022 life, annuity and health claim benefits were reduced $6.5 million by the impact of the reinsurance agreement with Swiss Re (see discussion earlier in this Management Discussion and Analysis of Financial Condition and results of Operations). Excluding the impact of the Swiss Re agreement, life, annuity and health claim benefits decreased by $2.5 million, primarily driven by lower claim benefits in Core lines and Non-core lines of $1.4 million and $2.2 million respectively, partially offset by an increase in Closed Block of $0.8 million .

Operating Costs and Expenses

For the nine months ended September 30, 2023, operating costs and expenses were $23.8 million compared to $25.1 million for the nine months ended September 30, 2022. The $1.3 million decrease was attributable to higher ceded commissions of $3.0 million, partially offset by a decrease of $1.7 million in other operating expenses.

Amortization of Deferred Policy Acquisition Costs

For the nine months ended September 30, 2023, amortization of deferred policy acquisition costs was $9.9 million compared to $13.2 million for the nine months ended September 30, 2022. The decrease of $3.3 million primarily relates to a decrease of $4.2 million in Core and Closed Block of $1.2 million, partially offset by an increase in Non-Core of $2.1 million.

Income (Loss) Before Income Taxes

For the nine months ended September 30, 2023, net loss was $3.8 million compared to net loss of $3.5 million for the nine months ended September 30, 2022. This increase in net loss of $0.3 million resulted primarily from an increase in claim benefits of $4.0 million, a decrease in net insurance premiums of $2.0 million and an increase in net losses on investments of $1.0 million, partially offset by a decrease in amortization of deferred policy acquisition costs of $3.3 million, an increase in net investment income of $1.6 million, a decrease in operating expenses of $1.3 million and an increase in other income of $0.4 million.

Closed Block

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

The maximum future earnings to be recognized from Closed Block assets and liabilities represent the estimated future Closed Block profits that will accrue to the Company and is calculated as the excess of Closed Block assets over Closed Block liabilities. Included in Closed Block assets at September 30, 2023 and December 31, 2022, are $11.0 million and $10.8 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Net investment income	$ 79	$ 199	$ 228	$ 408
Net (losses) gains on investments	—	(470)	(364)	356
Earned commissions	—	(112)	(345)	(313)
Total revenues	79	(383)	(481)	451
Expenses				
Operating costs and expenses	2,277	1,066	5,760	5,143
Total expenses	2,277	1,066	5,760	5,143
(Loss) income from operations before income tax	$ (2,198)	$ (1,449)	$ (6,241)	$ (4,692)

Three Months Ended September 30, 2023 Compared to the Three Months Ended September 30, 2022

Net (Losses) Gains on Investments

For the three months ended September 30, 2023, net (losses) on investments were zero compared to $0.5 million for the three months ended September 30, 2022. The change is attributable to net asset valuation changes of other invested assets.

Earned Commissions

For the three months ended September 30, 2023, earned commissions were zero compared to ($0.1) million for the three months ended September 30, 2022. This change is attributable to reduced intersegment earned commissions, which are eliminated within the Corporate and Other segment.

Operating Expenses

For the three months ended September 30, 2023, operating expenses were $2.3 million compared to $1.1 million for the three months ended September 30, 2022. This increase of $1.2 million is attributable to transaction costs related to the recent merger agreement with iA American Holdings, Inc.

(Loss) Income Before Income Taxes

For the three months ended September 30, 2023, net loss increased $2.2 million from $1.4 million for the three months ended September 30, 2022. The increased loss is primarily due to an increase in operating expenses and a decrease in net investment income, partially offset by lower losses on investments.

Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

Net (Losses) Gains on Investments

For the nine months ended September 30, 2023, net losses on investments were $0.4 million compared to net gains on investments of $0.4 million for the nine months ended September 30, 2022. The change is attributable to net asset valuation changes of other invested assets.

Operating Expenses

For the nine months ended September 30, 2023, operating expenses were $5.8 million compared to $5.1 million for the nine months ended September 30, 2022. The increase of $0.7 million is primarily related to $1.8 million in transaction costs related to the recent merger agreement with iA American Holdings, Inc., partially offset with lower salaries and related expenses.

(Loss) Income Before Income Taxes

For the nine months ended September 30, 2023, net loss increased to $6.2 million from $4.7 million for the nine months ended September 30, 2022. The increased loss is primarily due to an increase in net losses on investments, higher operating expenses and a decrease in net investment income.

<u>Investments</u>

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 96.2% and 95.1% at September 30, 2023 and December 31, 2022, respectively.

	Estimated Fair Value			
	September 30, 2023		December 31, 2022	
	(dollars in thousands)			
S&P Rating				
AAA	$ 34,948	11.8 %	$ 53,065	17.8 %
AA	76,013	25.7 %	66,283	22.2 %
A	67,635	22.9 %	64,018	21.5 %
BBB	48,281	16.4 %	56,194	18.8 %
Not rated	57,370	19.4 %	44,163	14.8 %
Total investment grade	284,247	96.2 %	283,723	95.1 %
BB	3,190	1.1 %	5,520	1.9 %
B	3,270	1.1 %	4,778	1.6 %
CCC	406	0.1 %	492	0.2 %
Not Rated	4,411	1.5 %	3,625	1.2 %
Total below investment grade	11,277	3.8 %	14,415	4.9 %
Total	$ 295,524	100.0 %	$ 298,138	100.0 %

The following table sets forth the maturity profile of our fixed maturities at September 30, 2023 from December 31, 2022. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without penalty.

	September 30, 2023				December 31, 2022			
(dollars in thousands)	Amortized Cost	%	Fair Value	%	Amortized Cost	%	Fair Value	%
Due in one year or less	$ 4,150	1.2 %	$ 4,122	1.4 %	$ 6,239	1.9 %	$ 6,207	2.1 %
Due after one year through five years	39,652	11.9 %	37,578	12.7 %	34,330	10.3 %	32,719	11.0 %
Due after five years through ten years	73,284	21.9 %	68,163	23.1 %	72,312	21.8 %	67,472	22.6 %
Due after ten years	144,550	43.2 %	119,003	40.3 %	136,004	41.0 %	115,545	38.7 %
Securities not due at a single maturity date-primarily mortgage and asset-backed securities	72,964	21.8 %	66,658	22.6 %	83,061	25.0 %	76,195	25.6 %
Total fixed maturities	$ 334,600	100.0 %	$ 295,524	100.0 %	$ 331,946	100.0 %	$ 298,138	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 has credit losses. 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 2 – Investments" 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 $295.5 million and $298.1 million as of September 30, 2023 and December 31, 2022, respectively. Book yield is the effective interest rate, before investment expenses, that we earn on these investments. Book yield is calculated as the percent of net investment income to the average amortized cost of the underlying investments for the period. For the nine months ended September 30, 2023 and 2022, our book yield on fixed maturities available-for-sale was 4.7% and 4.3%, respectively. See “Note 2 – Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Interest Credited to Policyholder Account Balances

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

	September 30, 2023		December 31, 2022		September 30, 2023		September 30, 2022	
	Ending Balance		Ending Balance		Year to Date Interest Credited		Year to Date Interest Credited	
	(dollars in thousands)							
Annuity contract holder deposits—assumed	$	64,095	$	69,070	$	1,849	$	1,946
Dividends left on deposit		6,567		6,731		124		128
Other		1,583		1,642		27		26
Total	$	72,245	$	77,443	$	2,000	$	2,100

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 allowances for credit loss 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 September 30, 2023 and 2022, accumulated other comprehensive income (loss), from mark-to-market adjustments of our available-for-sale fixed income securities, net of federal income taxes and reserves was ($4.0) million and ($41.0) 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 September 30, 2023 our fixed maturity securities had an unrealized loss of $39.1 million compared to an unrealized loss of $33.8 million at December 31, 2022. The Company’s unrealized loss incurred in 2023 was $5.3 million in our fixed maturities portfolio which has a duration of 6.9 years, convexity of 0.795, and current yield of 6.2%, is primarily accounted for the increase in the 10-year treasury bill yield for the first nine months of 2023 of 71 basis points.

Financial Position

At September 30, 2023, we had total assets of $796.2 million compared to total assets at December 31, 2022 of $770.1 million, an increase of $26.1 million.

Reinsurance recoverables increased $15.7 million as a result of a $15.5 million increase in ceded policy and claim reserves and $0.3 million related to timing of settlements of reinsured claims. Commission and agent balances increased $15.6 million due to increased commission receivables in the Agency segment and increased agent debit balances in the insurance segment. The invested asset base decreased $6.4 million, mainly due to $5.3 million in net unrealized losses in fixed maturity securities, partially offset by valuation losses in Other invested assets and net sales. Deferred income tax assets increased $3.6 million due to a tax credit of $2.7 million on net income and $0.9 million increase as a result of a tax on unrealized investment gains.

Accrued investment income increased $1.1 million due to the timing of receipt of investment income. Other assets increased $0.7 million, primarily due to an increase in prepaid. The above increases were partially offset by a decrease in deferred policy acquisition costs of $2.0 million, resulting from deferrals on new business of $7.9 million and amortization of $10.0 million, and a decrease in Cash and cash equivalents of $2.2 million, primarily used in investing activities. See Cash Flows section for further discussion on changes in cash.

At September 30, 2023, we had total liabilities of $696.9 million compared to total liabilities of $658.7 million at December 31, 2022, an increase of $38.2 million. Future policy benefits and claims increased $36.7 million, primarily due to a $38.2 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 $1.7 million and Closed Block of $0.1 million. Debt increased $9.3 million related to an increase in net borrowing of $7.5 million and interest accrued of $1.8 million under our commission financing agreement with Hannover Life. Other liabilities increased $3.0 million, primarily due to an increase in other operating liabilities. The above increases were partially offset by decreases in Other policyholder liabilities of $6.5 million due to a decrease in claim liabilities, and a $5.2 million decrease in Policyholder account balances largely due to annuity payments.

At September 30, 2023, total equity decreased to $99.3 million from $111.3 million at December 31, 2022. This decrease in equity of $12.0 million was attributable to a decrease in Other comprehensive income of $3.9 million related to market declines in fixed maturities, net of tax and retained earnings of $8.1 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. As of September 30, 2023 and December 31, 2022, we had net advances of $38.6 million and $31.1 million, respectively, under this arrangement.

We are a member of the Federal Home Loan Bank of Chicago (the “FHLBC”). As a member, we are able to borrow on a collateralized basis from the FHLBC. At September 30, 2023 and December 31, 2022, the Company held $270 and $180 of FHLBC common stock, which is included in Other invested assets, respectively. 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. The Company borrowed and repaid $18.0 million and $4.0 million in the nine months ended September 30, 2023 and the twelve months ended December 31, 2022, respectively.

Cash Flows

For the nine months ended September 30, 2023, the Company had a net decrease in cash of $2.2 million compared to a net decrease of $9.7 million for the nine months ended September 30, 2022.

The current year increase in cash flows from operating activities is primarily due to lower net claims, partially offset by higher operating costs and expenses.

Cash flows from investing activities mainly includes our fixed maturities and mortgage loans. 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 nine months of 2023, cash of $4.5 million was used by investing activities and includes $3.9 million of capitalized software, partially offset by $0.6 million of investment purchases net of sales and maturities.

Cash flows from financing activities were $0.5 million which includes $7.5 million, net proceeds from our commission financing program, partially offset by $7.1 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 nine months ended September 30, 2023 and 2022**:**

	Nine Months Ended September 30,	
	2023	2022
	(dollars in thousands)	
Consolidated Summary of Cash Flows		
Net cash (used) provided by operating activities	$ 1,877	$ (7,094)
Net cash (used) provided by investing activities	(4,483)	(6,128)
Net cash (used) provided by financing activities	455	3,526
Net (decrease) in cash, cash equivalents and restricted cash	$ (2,151)	$ (9,696)

Recent Accounting Pronouncements

All applicable adopted accounting pronouncements have been reflected in our Interim Condensed Consolidated Financial Statements as of and for the nine months ended September 30, 2023. including the adoption ASU No. 2016-13, Financial Instruments— Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, See “Note 1 – Summary of Significant Accounting Policies” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

Limitations on Effectiveness of Controls and Procedures

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

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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

In advance of the effective date of the recently adopted Securities and Exchange Commission rules regarding cybersecurity disclosure, we are disclosing a recent security incident involving unauthorized access to approximately 250,000 Fidelity Life customers’ personally identifiable information. This incident was caused by our vendor’s subcontractor using the MOVEit Transfer software. As has been documented extensively in the media, this software contained a zero-day vulnerability that a threat actor exploited to gain access to hundreds of companies' data. Fidelity Life itself did not and does not use the MOVEit application and our computer systems and infrastructure were not impacted by the incident.

We have worked with the vendor to ensure this incident was appropriately remediated. We have also worked with the vendor to mail notices to all impacted Fidelity Life customers and while we are unaware of any actual misuse of the compromised data, free credit monitoring was offered to each impacted customer. We have also provided notice of this third party vendor's security incident to all appropriate regulators. While the breach was not directly related to our systems or infrastructure, as a result of or otherwise related to the incident, we did receive a notice of filed litigation related to this matter (which we believe has no merit) and we may be subject to subsequent investigations, claims or actions.

While the event did not impact our systems we are working with our cybersecurity insurance carrier. While we intend to continue to carry cybersecurity insurance, future cybersecurity insurance coverage may be difficult to obtain or may only be available at significantly higher costs to us.

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

None since initial public offering of August 7, 2019

Item 3. Default upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

Rule 16a-1(f)

During the nine months ended September 30, 2023, none of the officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) or directors of the Company adopted or, terminated or, modified any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement," as such term is defined in Item 408(a) of Regulation S-K.

Cybersecurity, Privacy and Data Protection Regulation

In July 2023, the U.S. Securities and Exchange Commission adopted the Risk Management, Strategy, Governance, and Incident Disclosure Final Rule (the "Cybersecurity Final Rule") enhancing disclosure requirements for registered companies covering cybersecurity risk and management. The Cybersecurity Final Rule requires registrants to disclose material cybersecurity incidents on Form 8-K within four business days of a determination that a cybersecurity incident is material, and such materiality determination must be made without unreasonable delay. The rule also requires periodic disclosures of, among other things, details on the company's processes to assess, identify, and manage cybersecurity risks, cybersecurity governance, and management's role in overseeing such a compliance program, including the board of directors' oversight of cybersecurity risks. Certain reporting requirements under the Cybersecurity Final Rule become effective as early as December 2023.

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: November 14, 2023

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: November 14, 2023

/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: November 14, 2023

/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 September 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: November 14, 2023

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 September 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: November 14, 2023	By:	/s/ Chris S. Kim
		Chris S. Kim
		Executive Vice President, Chief Financial Officer and Treasurer, Vericity, Inc.