

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

FORM 10-K

- (Mark One)
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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

(State or other jurisdiction of
incorporation or organization)

1350 E Touhy Avenue, Suite 205W, Des Plaines, Illinois

(Address of principal executive offices)

46-2348863

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

60018

(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(s)	Name of each exchange on which registered
Common Stock, Par Value \$0.001 per share	VERY	NASDAQ Capital Market

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements..

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b)..

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the offering price and number of shares sold in the Registrant's initial public offering on August 7, 2019, was \$18,411,600.

The number of shares of Registrant's Common Stock outstanding as of December 31, 2023 was 14,875,000.

DOCUMENTS INCORPORATED BY REFERENCE

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PART I

Item 1. Business.

Overview

We conduct our business through our two operating subsidiaries, Fidelity Life Association, an Illinois-domiciled life insurance company chartered in 1896 (“Fidelity Life”), and Efinancial, LLC, a call center-based insurance agency (“Efinancial”). Fidelity Life distributes life insurance products through Efinancial and other unaffiliated agents and is licensed in the District of Columbia and every state except New York and Wyoming. A.M. Best has assigned our rating is under review with developing implications with a financial strength rating as “A-” (Excellent). Fidelity Life is located in Des Plaines, Illinois.

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 strive to deliver to this market affordable, easy to understand term and whole life insurance products through a consumer-friendly and efficient sales process. Through innovation in product design and distribution that provides access to the Middle Market, including call center and web-enabled sales and underwriting processes, quick issuance of policies and an emphasis on products not medically underwritten at the time of sale, we believe we are well positioned to make life insurance more affordable and accessible to the Middle Market.

Efinancial markets life products for Fidelity Life and other unaffiliated insurance companies. Efinancial’s primary operations are conducted through employee agents from physical call centers and remote locations which we refer to as our retail channel, and through independent agents and other marketing organizations, which we refer to as our wholesale channel. Efinancial’s principal office is located in Bellevue, Washington.

We believe our unique products and ability to unconditionally issue policies either during or within 24 to 48 hours of the initial call differentiates us from our competitors. Leveraging our patented **RAPID**Decision® sales and underwriting processes, we can sell a life insurance policy to a consumer before medical underwriting is complete. We are able to complete an initial underwriting process for most of our life insurance applicants either during or shortly after the initial call, and if not, within 24 to 48 hours after that initial call. For the year ended December 31, 2023, approximately 90% of our policy applications processed through our **RAPID**Decision® underwriting process received an underwriting disposition on or shortly after the initial sales call. Approximately one-half of the remaining applications received final underwriting decisions within the next 24 to 48 hours.

Our **RAPID**Decision®Life product provides coverage at the point of issue that is a blend of all-cause term life insurance for part of the coverage and accidental death insurance for the remainder of the total face amount. If a policyholder completes medical underwriting after the initial sale of the **RAPID**Decision®Life product, the policy benefits may be improved based on the underwriting results to increase the proportion of all-cause term life insurance coverage, typically with no increase in premium. In some instances, based upon the results of predictive analytic models, the consumer can qualify for the full amount of all-cause coverage without medical testing.

For the years ended December 31, 2023 and 2022, we had total consolidated revenue of \$177.6 million and \$163.9 million, net life premium revenue of \$96.8 million and \$100.1 million, and a net loss of \$9.5 million and \$20.5 million, respectively. As of December 31, 2023, we had total assets of \$822.8 million and equity of \$110.2 million.

Our Approach

Our business model is predicated upon gaining cost effective access to the Middle Market, engaging consumers in our sales process for life insurance with products that have higher placement rates than traditional fully underwritten term life insurance in a call center environment, and issuing those products quickly. We require access to a large quantity of quality sales leads to keep our retail call center agents productive. Currently, we acquire about half of our sales leads from third-party vendors. We supplement that lead flow with leads from affinity partner relationships and leads we generate ourselves. More significantly, we are rapidly increasing our own lead generation capabilities and growing our affinity business with non-life insurance partners that provide their customers or prospects as leads, and we market and sell life insurance products to those leads.

We tend to sell policies with lower face amounts, resulting in more affordable options for our customers. Although not the lowest priced, our products are competitive and they represent an attractive consumer value considering the coverage they provide and the relative simplicity of our sales and underwriting processes. Our business model allows us to capture end-to-end data beginning with the acquisition of sales leads through the final disposition of life insurance policies. With this data, we plan to develop and apply predictive analytics to realize efficiencies at various points in the sales process.

Business Segments

We manage our business through three segments:

- **Agency.** Our Agency Segment operates through Efinancial. Efinancial sells insurance products through its call center distribution platform and through its independent agents and other marketing organizations.
- **Insurance.** Our Insurance Segment operates through Fidelity Life. Fidelity Life engages in the principal business lines of Core Life, Non-Core Life, Closed Block, annuities and assumed life. In its Core Life and Non-Core Life business lines, Fidelity Life offers primarily term life insurance products, and to a lesser extent accidental death and final expense products. We currently do not offer annuity contracts, separate account variable products or universal life products.
- **Corporate & Other.** Our Corporate & Other Segment consists primarily of a small amount of capital required to be maintained for regulatory purposes, and also includes certain expenses considered to be corporate and not allocated to our Agency or Insurance Segments.

Agency Segment

Overview

The Agency Segment consists of the operations of Efinancial. Efinancial is a call center and remote employee based insurance agency that markets life insurance for Fidelity Life and unaffiliated insurance companies. Efinancial's primary operations are conducted through employee agents who may be located remotely or within one of our three call center locations, all located within the United States, 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 channel. Efinancial's employee agents utilize insurance sales leads to contact potential customers and then work with the customers to complete the sales process, which can occur during the initial contact or within 24 to 48 hours for non-medically underwritten policies. In our wholesale channel, in consideration for using our carrier contracts, access to leads and case management services, we receive a portion of the commission earned by the independent agent from the carrier. Efinancial also generates insurance lead sales revenue through its eCoverage web presence, and through the resale of leads that are not well suited for our call center.

Agents

Our agents in the Agency Segment are either employed by Efinancial or are independent agents who sell through our wholesale distribution channel.

Our Employee Agents

In each of our retail call center facilities, our employee agents, or call center insurance agents, conduct outbound telephone sales using insurance sales leads obtained from sales lead vendors or generated by our own marketing efforts or through our affinity partner relationships. To a much lesser extent, the call center insurance agents also handle inbound telephone and web-based inquiries directly from consumers. Our Applicant and Prospect System provides a structured environment in which our call center insurance agents are able to efficiently handle both in-bound and out-bound sales traffic.

Efinancial is reliant on a capable and well-trained sales force of insurance agents to effectively operate its call center platform. It is therefore important for Efinancial's business to attract, retain and develop its insurance agents. Efinancial primarily recruits individuals with little or no prior experience in the insurance industry. We seek to develop a career path for our recruits by providing a comprehensive training program designed to assist new recruits in becoming licensed agents and achieving success with call center marketing. In a process that typically takes between six to eighteen weeks, a new hire will receive training, learn to develop leads and work towards receiving the required insurance sales licenses. Following licensure and promotion to retail call center agent, a new agent is placed on the physical or virtual sales floor, where monitoring and coaching continue. As an agent develops sales experience, the level of supervision of that agent decreases and the agent is able to handle more sophisticated sales opportunities.

For the years ended December 31, 2023 and December 31, 2022, Efinancial's retail call centers generated a total of \$58.0 million and \$41.0 million, respectively, in commission revenues, of which \$41.0 million and \$28.9 million, respectively, were generated from sales of Fidelity Life products.

Our Independent Agents

Efinancial has developed capabilities that allow us to expand sales operations beyond the call center insurance agents traditionally associated with a direct sales operation. Efinancial also operates as a wholesale agency and recruits independent agents to market insurance products using Efinancial's platform. Through our wholesale channel, we subcontract with our independent agents to sell through Efinancial's contracts with its insurance carriers. Efinancial offers services to these independent agents, including access to our ALISS[®] technology, marketing platform, case management services, insurance sales leads and sales education. Efinancial earns a portion of the commission revenue on independent agent sales. For the years ended December 31, 2023 and December 31, 2022, Efinancial generated \$3.2 million and \$2.4 million, respectively, in revenue from our affiliation with our independent agents.

Our Partners

We partner with unaffiliated insurance carriers to market their products through our agency distribution platform. We also have marketing relationships with third-party businesses and member organizations, which we call our affinity partners, under which Efinancial provides their customers and members with access to the insurance products we market, either under their brand or Efinancial's brand.

Other Insurance Carriers

Our Agency Segment also generates revenue from the sales of insurance products issued by unaffiliated companies, or carriers. We typically enter into contractual agency relationships with carriers that are non-exclusive and terminable on short notice by either party for any reason. Efinancial's retail call center agents help consumers select among these carriers based on that consumer's needs, insurance product features, cost and other factors. The mix of insurance carrier sales will vary over time based on client preferences, carrier strategies, availability of new product features, premium cost, commissions paid, carrier placement rates, and ease of doing business.

For the years ended December 31, 2023 and December 31, 2022, Efinancial generated \$19.4 million and \$14.2 million, respectively, in total commission revenue from agency contracts with unaffiliated life insurance carriers.

The following tables show our total earned commissions for our retail and wholesale channels:

Retail Channel:

(dollars in thousands)	For the Years Ended	
	December 31,	
Carrier	2023	2022
Fidelity Life Association	\$ 40,931	\$ 28,889
Affinity partners	4,160	2,792
All other carriers	12,910	9,298
Total eSales Earned Commissions	<u>\$ 58,001</u>	<u>\$ 40,979</u>

Wholesale Channel:

(dollars in thousands)	For the Years Ended	
	December 31,	
Carrier	2023	2022
Fidelity Life Association	\$ 6	\$ 5
All other carriers	3,816	2,713
Total earned commissions	<u>3,822</u>	<u>2,718</u>
Wholesale commission expense	1,542	635
Net earned wholesale commissions	<u>\$ 2,280</u>	<u>\$ 2,083</u>

Affinity Partners

In a typical affinity partner arrangement, Efinancial will market our range of insurance products to the affinity partner's customers or prospects under Efinancial's brand or our affinity partner's brand. Affinity partner relationships offer an attractive source for insurance sales leads and increase our revenues. Given the existing relationship between an affinity partner and its prospects or customers, we believe that the sales leads generated by our affinity partners are of a high quality relative to sales leads purchased from a third-party. We expect affinity partner relationships to continue to be a valuable source of future growth. Currently, nearly all of our affinity business is derived from a single affinity partner.

Our Technology Platforms

Applicant and Prospect System

Our Applicant and Prospect System (APS) is a technology ecosystem that uses a combination of proprietary software and Software-As-A-Service (SaaS) third party vendors to operate our retail call centers. Our proprietary software application suite manages lead management, call scripting, quoting, insurance policy applications, and product information. Our technology ecosystem includes Salesforce Sales Cloud, a best in breed consumer management system that supports robust automation engines as well as layered data protection. Additionally, our environment is integrated with a third-party telephony system to prioritize and distribute calls to sales personnel. This full technology solution includes logic that makes allocations to specific call center insurance agents based on factors such as availability, complexity of sales leads, state licensing requirements, source of the sales lead and other factors, in an effort to enhance the productivity and effectiveness of our retail call centers.

ALISS[®]

Our independent agents continue to use our patented Automated Life Insurance Sales System, or ALISS[®], as a service remotely from their locations. ALISS[®] is made up of several functional models that provide much of the same functionality as the Applicant and Prospect System, including consumer relationship management. We believe that ALISS[®] provides a comprehensive package of operational features that help our distributors increase their productivity and grow their businesses.

Consumer Technologies

Fidelity Life has developed a digital purchase experience – a web portal that enables qualified consumers to calculate how much life insurance they need, obtain quotes, apply, and purchase a policy online. Consumers can also start the purchase process online and seamlessly transition to speak with an agent at any point in the journey. Fidelity Life also has a robust website, FidelityLife.com, that enables consumers to obtain customized product recommendations and quotes depending on their personal situation. Efinancial also has several web portals for consumers to shop for insurance, including Efinancial.com, termfinder.com and eCoverage.com. These web portals offer consumers easy-to-use tools, such as online price quoting and information (in the form of articles and blogs) designed to help consumers better understand the life insurance market. These websites also provide consumers with the ability to initiate the sales process online.

Marketing

Efinancial's business relies heavily on direct-to-consumer insurance lead generation. Leads generated for sales representatives consist of personal and contact information for potential purchasers of life insurance. Using proprietary methods, the sales leads are analyzed and scored based on the likelihood that the consumers are more likely than the general population to purchase life insurance products and that sales agents' outreach to the consumers will result in a successful contact.

Efinancial uses a combination of marketing methods to obtain insurance sales leads to support operations. These methods include referral leads from affinity partners whose customers and prospects are interested in life insurance. Additionally, Efinancial generates leads through branded websites (e.g. FidelityLife.com, Efinancial.com, and eCoverage.com) and acquires sales leads from third-party vendors specializing in insurance lead generation. The Efinancial business model requires large scale lead generation, therefore marketing expenses are a significant part of the total cost of doing business. As an ongoing practice, marketing expenses are continuously optimized by evaluating the profitability of each sales lead using the cost to generate the lead and resulting sales productivity.

To reduce customer acquisition costs, consumers are offered the ability to click on advertisements from other third-party marketers at various places on online lead generation pages and websites. Consumers who click on those advertisements become an Efinancial lead who is contacted and quoted a policy for purchase by Efinancial sales representatives. Consumers who click advertisements also generate click revenue for Efinancial. In addition, consumers who do not meet acceptance criteria from Efinancial lead generation programs may also be offered to other third-party marketers or insurance carriers for sale. For the years ended December 31, 2023 and December 31, 2022 we generated \$4.0 million and \$4.9 million from insurance lead sales revenues, respectively. For a description of the marketing of policies written by Fidelity Life, see "Business—Insurance Segment—Distribution."

Competition

Efinancial competes for access to talented sales representatives and for quality sales prospects or leads. Much of the competition for talent involves agent recruitment. Efinancial competitors include SelectQuote and AIG Direct, among others. Some competitors in the direct distribution call center industry have made much larger investments or have greater resources to hire insurance agents and develop new technologies. Also, when deciding which agency to join, agents base their decision on a number of factors including marketing services and support, technology tools, the insurance company that the agency represents, sales commission structure, and the number and quality of sales leads. Efinancial believes that its innovative sales processes and the Fidelity Life quick-issue products it sells, combined with the agent's ability to access a network of third-party products to customize a solution tailored to a customer's budget, positions Efinancial to successfully compete and continue to grow within the Middle Market.

Insurance Segment

Overview

Fidelity Life was chartered in 1896 and operated independently until the 1950s, when it became affiliated with several stock life insurance companies that managed its operations and controlled its strategies pursuant to a management services agreement. In 2003, the independent members of the Board of Directors undertook a review of the longstanding management relationship and future plans for operation of Fidelity Life. During 2005, the prior long-term management contract and all affiliations were terminated and a reconstituted Board of Directors and a new management team were selected. Since then, Fidelity Life has again operated independently.

As discussed in more detail below, 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 in-force 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; in-force 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 in-force 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. On March 29, 2019, the majority of the assumed block of life business was recaptured. The annuity deposits were ceded to Fidelity Life through two contracts entered into in the early 1990s. These annuity and assumed life deposits are now largely in runoff, with only minor amounts of new deposits each year. There are minimal remaining surrender charges associated with the assumed annuity contracts.

The following table sets forth the net premium revenues by business line for Fidelity Life's Insurance Segment for the years ended December 31, 2023 and December 31, 2022:

(dollars in thousands)	For the Twelve Months Ended December 31,	
	2023	2022
Net Insurance Premium		
Core Life	\$ 63,864	\$ 69,002
Non-Core Life	28,892	27,934
Closed Block	3,991	3,073
Annuities and Assumed Life	92	66
Total	<u>\$ 96,839</u>	<u>\$ 100,075</u>

Core Life and Non-Core Life

Our Products

In its Core and Non-Core Life insurance business, Fidelity Life offers an array of traditional and innovative insurance products. The principal life insurance products offered by Fidelity Life fall within the **RAPID**decision® product line. The **RAPID**decision® product line includes several term life insurance products. **RAPID**decision® products use our **RAPID**decision® underwriting process, which is a process that for many products does not rely on medical testing as part of the underwriting process, thereby substantially shortening the time required for underwriting and policy issuance. See "Underwriting and Risk Selection" in this form 10-K.

Core Life:

RAPIDdecision® Life. Our **RAPIDdecision®** Life product was introduced in 2008 and is primarily marketed by Efinancial and select unaffiliated distributors. The **RAPIDdecision®** Life product was specifically designed to address the problem of low product placement in direct distribution for medically underwritten business, stemming in part from the typical length of the life insurance underwriting process. Our **RAPIDdecision®** Life product incorporates the following features:

- A patented sales process featuring **RAPIDdecision®** underwriting, which allows for the quick issuance of a policy. Under certain circumstances, this policy will be issued entirely on an all-cause basis. In other circumstances, the issuance will provide a blend of all-cause term life insurance coverage and accidental death benefit coverage;
- If issued as a blend of all-cause and accidental death benefit coverage, there is an option permitting policyholders to begin a traditional medical underwriting process within the first six months after policy issuance;
- Depending on the underwriting results, policyholders completing medical underwriting may have the option to reduce or eliminate the accidental death coverage and increase the proportion of the all-cause term life insurance coverage under the policy with no increase in premium; and
- Policyholders not completing medical underwriting (or failing to meet medical underwriting standards) may retain the original coverage blend of term life and accidental death benefit coverage at the existing premium rates.

RAPIDdecisionLifeOne®. This product is a one-year term product designed to be a quick sale, with a focus on younger issue ages (20-45). Underwriting utilizes the **RAPIDdecision®** underwriting process.

LifeTime Benefit Term. LifeTime Benefit Term is our patented voluntary worksite product offering. Voluntary worksite policies like LifeTime Benefit Term are provided to employer and other groups for sales to their employees, participants and members. LifeTime Benefit Term insurance is sold on a group policy basis by offering future paid up coverage additions after the policy has been in-force for a certain number of years. LifeTime Benefit Term coverage can be kept by the individual after they leave employment with the group. We have been issued a patent for one variation of the LifeTime Benefit Term product. We largely ceased writing this business directly in 2014 and have entered into a licensing agreement and reinsurance agreement under which we license the product to Combined Insurance Company of America (“Combined Insurance”) and assume 50% of the business written. The most current licensing agreement provides Combined Insurance with a non-exclusive license to market the LifeTime Benefit Term product. The reinsurance agreement has been terminated as of December 31, 2021 as to new policies or certificates of insurance written on or after January 1, 2022. A revised licensing agreement was entered into in early 2022 which provides a fee to Fidelity Life allowing Combined Insurance to use our patented product. The fee in 2023 and 2022, reported in Other income was \$834 thousand and \$373 thousand, respectively. Fidelity Life continues to manage the direct in-force block of LifeTime Benefit Term policies that are now in run-off.

RAPIDdecision® Final Expense. Our **RAPIDdecision®** Final Expense product is targeted toward individuals aged 50-85 and provides permanent whole life coverage for amounts ranging from \$5,000 to \$35,000. These policies are designed to help in lessening the burden of covering final expenses, such as medical costs, funeral costs, and credit card debt. Like **RAPIDdecision®** Life, **RAPIDdecision®** Final Expense does not require a medical examination, but instead approval is determined based upon answers to various health questions and database results. There is a related graded death benefit Final Expense product for poorer underwriting risks.

Non-Core Life:

Accidental Death Benefit. Fidelity Life offers accidental death benefit insurance as both a policy rider and as stand-alone policy coverage. The accidental death benefit product covers death due to accidental causes as defined in the policy. Accidental death benefit is a quick-issue product with limited underwriting.

RAPIDdecision® Senior Life Term and Whole Life. Fidelity Life’s Senior Life Term and Whole Life products are designed for impaired risk individuals in particular age ranges (50 to 70 for term and 50 to 85 for whole life). Senior Life Term and Whole Life products are underwritten utilizing the **RAPIDdecision®** underwriting process and offer graded death benefits over an initial three-year period (the full face amount is paid for all causes of death starting in policy year four).

Distribution

For the years ended December 31, 2023 and 2022, the breakdown of sales of annualized premiums for new in-force policies by distribution channel were as follows:

	For the Years Ended December 31,	
	2023	2022
(dollars in thousands)		
External Distribution	\$ 11,389	\$ 8,492
AmeriLife	37,850	29,708
Independent Sales Distributors	23	29
Total	\$ 49,262	\$ 38,229

More information regarding our relationship with AmeriLife can be found in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Underwriting and Risk Selection

We have developed the **RAPID**Decision[®] underwriting process to support the quick issuance of our **RAPID**Decision[®] products. The first step in our **RAPID**Decision[®] underwriting process is for a consumer to complete a coverage application. We verify the medical history and conditions disclosed in the application using automated web-based links to reporting and statistical agencies and a data base service with pharmaceutical records. The underwriting decision is made based on this information. The **RAPID**Decision[®] underwriting process is supported by our proprietary technology platforms that allow us to obtain an underwriting decision during or shortly after the initial call, and if not, 24 to 48 hours after that initial call. This technology platform is our Fidelity Life Association Sales Handler, or FLASH, system.

Consistent with our business strategy and our view of the needs of our customers, we do not perform medical underwriting in the traditional way prior to the issuance of a policy. Traditionally, in our industry, the life insurance underwriting process takes place prior to policy issuance and involves a paramedical examination, blood and urine testing and other tests designed to assess the underwriting risk and the lowest premium appropriate for the level of risk involved. Such traditional underwriting delays policy issuance after an application is submitted by several weeks. This delay makes it difficult to achieve acceptable placement ratios in call center sales, leading to lost sales and unrecovered costs. In contrast, our primary underwriting process is designed to support the quick issuance of policies. We therefore do not typically require an initial paramedical exam. By not requiring this exam or postponing it until after policy issuance, we are able to issue coverage far more quickly, although without access to up front medical data that is standard in industry underwriting practices. This means that our insurance products generally are issued at lower face amounts and a relatively higher price per dollar of coverage as compared to medically underwritten products. If medical underwriting is completed after the initial sale of a **RAPID**Decision[®] Life policy, the policy benefits may be improved based on the underwriting results to increase the proportion of all-cause term life insurance coverage, typically with no increase in premium.

Fidelity Life employs a small staff of full-time employee underwriters. Most of the underwriting of individual policies is performed on an outsourced basis, primarily using two contract underwriting firms. Given the quick-issue nature of many of Fidelity Life's products, it is important to our business to be able to access underwriting services on an as-needed basis. Using outsourced contract underwriters gives Fidelity Life the flexibility to meet this need.

In our typical underwriting process, Fidelity Life's contract underwriters access the information on a potential customer, what we refer to as a case, through a web-based interface and approve or decline the individual case based on Fidelity Life's underwriting rules. If necessary, a member of our contract underwriting team can be joined to an initial phone call with a potential customer. While our in-house underwriting team does engage in certain case underwriting activities, the team's primary function is to manage and supervise the contract underwriters. Our in-house underwriting team oversees our contract underwriters to review their compliance with our underwriting standards.

Product Pricing

We regularly review claim results for each of our products, comparing actual experience to the assumptions used to design and price the products. The review process is performed by our actuarial and finance teams with assistance from the underwriting and operations team, product development team and marketing. Variances in our expectations for particular products are examined for implications on product performance and used to evaluate product prices and underwriting assumptions. Product experience is also reviewed by our reinsurance partners.

Key elements of our product pricing include assumptions regarding future mortality (amount and timing of future benefit payments), persistency experience (number and timing of policyholder discontinuations or coverage lapses) and investment returns (interest we will earn on investment of available cash and reserves).

Outsourced Functions

Fidelity Life contracts with third-party service providers to provide, or assist with, a number of key functions that are traditionally performed in-house in the life insurance industry. These functions include insurance policy administration, underwriting, investment portfolio management, internal audit, filing of insurance policy forms with state regulatory agencies and income tax return preparation. This model was adopted to reduce the fixed cost investment in our Insurance Segment, provide operating flexibility and allow access to specialized skills as needed. In doing so, we believe we can contract with partners that possess a wide range of experience and with established capabilities that would be costly and time consuming for us to develop internally.

Competition

Competition in the life insurance industry is based on many factors. These factors include the perceived financial strength of the insurer, premiums charged, policy terms and conditions, services provided, reputation, financial ratings assigned by independent rating agencies and the experience of the insurer in the line of insurance to be written. In addition, there are many competitors that participate in the non-medically underwritten segment of the life insurance industry. As new competitors enter the non-medically underwritten market using predictive analytics, they may price aggressively to capture market share.

Fidelity Life's competition includes many companies that are larger, and which have significantly more resources at their disposal. While lacking the scale and market presence of many of its principal competitors, Fidelity Life does have certain attributes we believe to provide us competitive advantages in a crowded marketplace. These include innovative products, proprietary technology and controlled distribution in Efinancial. These advantages allow us to be more flexible in adapting to product and sales process opportunities than our more established competitors. We also believe that our innovative products and processes provide a point of differentiation that appeals to consumers.

Fidelity Life also competes by placing a majority of its policies through Efinancial. While this distribution channel provides access to our target Middle Market, we are aware that some Middle Market consumers prefer to purchase life insurance through alternative methods. We have developed an internet-based direct sales platform that permits customers to complete the purchase of a Fidelity Life insurance policy completely over the internet. Several of our competitors have also begun to implement online and digital distribution platforms. We believe that through the implementation of the Fidelity Life internet-based direct sales platform we will be able to extend our reach into our target Middle Market.

A.M. Best Rating

Fidelity Life is rated by A.M. Best, an independent rating agency that specializes in ratings for the insurance industry. A.M. Best annually issues a financial strength rating for the great majority of insurance companies doing business in the U.S. The financial strength rating is an independent opinion of an insurer's financial strength and its ability to meet its ongoing insurance policy obligations. A.M. Best's financial strength rating is based on a comprehensive quantitative and qualitative evaluation of an insurer's balance sheet strength, operating performance and business profile and is subject to a regular review by A.M. Best. Currently, A.M. Best has assigned Fidelity Life a financial strength rating of "A-" (Excellent), which is the fourth highest rating category for A.M. Best. A.M. Best's financial strength rating is not a recommendation to purchase, hold, or terminate any insurance policy or contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, A.M. Best's financial strength rating does not address the risks or the advisability of any investment in our common stock.

IT Applications

Fidelity Life's business, including the marketing, sales and administration of its insurance products, relies on its technology infrastructure. Our technology infrastructure incorporates both proprietary and commercially available elements, including the following:

- ***Fidelity Life Association Sales Handler (FLASH)***. Fidelity Life has developed FLASH, a modular technology platform that interfaces with our other key systems including Salesforce, our third-party data and service providers, and our reinsurer's automated underwriting engine. FLASH allows an agent to collect the information necessary to complete an application for insurance and obtain underwriting decision while on the telephone with an applicant. In addition, FLASH is the technology platform that powers our direct-to-consumer digital sales efforts.
- ***New Business Exchange (NBX)***. Fidelity Life's business processes are managed through NBX, a proprietary system developed by Fidelity Life. The NBX system catalogues all of the data gathered in the sales process and relevant to the insurance application process, and permits Fidelity Life employees to electronically access information used for underwriting maintained by third-party database providers.

- **Other.** Fidelity Life uses several other software applications for administration and operational purposes. Typically, these are obtained from third-party vendors. For example, we use commercially available software applications for all of Fidelity Life's financial reporting and control functions.

Reinsurance

Fidelity Life uses reinsurance arrangements with multiple reinsurance carriers to limit our claims risk under our insurance contracts and to mitigate the impact of the insurance policies we issue on our statutory policyholder surplus. Our retention limit is \$300,000 on each insured life for all policies. On the products that we currently issue where we have reinsurance, our reinsurance is on a first-dollar quota-share basis. Additionally, our reinsurance arrangements provide Fidelity Life with access to underwriting technology and risk management expertise from our reinsurance partners.

We evaluate our reinsurance needs, including the appropriate amount and structure of particular reinsurance arrangements, based on a number of factors, including the expertise of particular reinsurance carriers (and their technology platforms) required to support our various life insurance products, the estimated variability of claims experience, the estimated future impact of new business written on our statutory reserves and the costs of reinsurance.

Our current reinsurance arrangements open for new business are with Hannover Life Reassurance Company of America ("Hannover Life"), Swiss Re Life & Health America Inc. ("Swiss Re"), Reinsurance Group of America ("RGA"), and Scor Global Life Americas Reinsurance Company ("Scor"). The following is a brief summary of the reinsurance agreements relating to these arrangements:

Hannover Life. Under our agreements with Hannover Life, we cede claims liability under certain of our term life policies in the Core Life business to Hannover Life on a coinsurance basis. We cede 25% of the claims liability to Hannover Life. Reinsurance premiums per policy are determined according to the amount reinsured with Hannover Life. These agreements do not have a fixed term. Either party may terminate the agreements with respect to future business with 90 days written notice to the other party.

Swiss Re. Under our agreements with Swiss Re, we cede claims liability under certain of our term life policies in the Core Life business to Swiss Re on a coinsurance basis. We cede 65% of the claims liability to Swiss Re. Reinsurance premiums per policy are determined according to the amount reinsured with Swiss Re. These agreements do not have a fixed term. Either party may terminate the agreements with respect to future business with 90 days written notice to the other party.

Swiss Re.—Accidental Death Benefit. Under our agreement with Swiss Re, we cede to Swiss Re 90% of our claims liability, subject to certain per life limits, under our accidental death benefit policies and riders on a coinsurance basis. Reinsurance premiums are determined according to the amount reinsured with Swiss Re per policy or rider. Swiss Re has the right to modify the reinsurance premium rates upon 90 days written notice to us. If we do not accept such modified reinsurance premium rates and we are unable to agree upon a revised rate structure within 60 days of Swiss Re's original notice, then the reinsurance premium rates then in effect continue unchanged. However, Swiss Re may, upon 30 days written notice to us, terminate the reinsurance on any policy or rider for which we have not accepted Swiss Re's modified reinsurance premium rate. This agreement does not have a fixed term. Either party may terminate the agreement with respect to future business with 90 days written notice to the other party. In the first quarter 2022, Fidelity Life entered into a reinsurance contract with Swiss Re Life & Health America Inc. This new treaty is in addition to existing coinsurance agreements on policies issued through and including December 31, 2020. The impact of this transaction to our segment results included an initial ceded premium of \$2.6 million based on the statutory reserves at January 1, 2022. The impact to pre-tax income at the initial sale date was nominal, however various income statement lines are impacted.

Swiss Re.—Final Expense. Under a separate agreement with Swiss Re, we cede to Swiss Re on a coinsurance basis 40% of our claims liability, subject to certain per life limits, under our final expense level death benefit and final expense graded benefit policies. This agreement does not have a fixed term. Either party may terminate the agreement with respect to future business with 60 days written notice to the other party. In the first quarter 2022, Fidelity Life entered into a reinsurance contract with Swiss Re Life & Health America Inc. This new treaty is in addition to existing coinsurance agreements on Final Expense Level Death Benefit policies issued through and including December 31, 2020. The impact of this transaction to our segment results included an initial ceded premium of \$3.9 million based on the statutory reserves at January 1, 2022. The impact to pre-tax income at the initial sale date was nominal, however various income statement lines are impacted.

Swiss Re.—InstaTerm. The Company cedes to Swiss Re, on a coinsurance basis 33.3% of our claims liability, subject to certain per life limits, under InstaTerm term life insurance product. Either party may terminate the agreement with respect to future business with 90 days written notice to the other party.

Swiss Re.—RapidDecision LifeOne®. The Company cedes to Swiss Re, on a coinsurance basis 80% of our claims liability, subject to certain per life limits, under RAPIDDecision LifeOne® term life insurance product. Either party may terminate the agreement with respect to future business with 90 days written notice to the other party.

RGA Reinsurance Company —Final Expense Under an agreement with RGA Reinsurance Company we cede to RGA on a coinsurance basis 40% of our claims liability, subject to certain per life limits, under our final expense level death benefit and

final expense graded benefit policies. This agreement does not have a fixed term. Either party may terminate the agreement with respect to future business with 60 days written notice to the other party.

SCOR Global Life USA Reinsurance Company Inc. (SCOR)—InstaTerm. The Company cedes to SCOR on a coinsurance basis 33.3% of our claims liability, subject to certain per life limits, under InstaTerm term life insurance product. This agreement does not have a fixed term. Either party may terminate the agreement with respect to future business with 90 days written notice to the other party.

In 2013, Fidelity Life entered into a reserve financing reinsurance arrangement with Hannover Life designed to enhance its ability to continue to grow Fidelity Life's Core Life insurance business. This agreement was first amended and restated as of July 1, 2016, and a subsequent amendment was filed with the Illinois Department of Insurance in November 2019 and approved by the Illinois Department of Insurance on December 23, 2019. The structure of the agreement, which was first effective July 1, 2013, involves a combination of coinsurance with funds withheld and yearly renewable term reinsurance covering most of the Company's non-participating in-force life insurance business with issue dates on or before December 31, 2019.

Even though we reinsure certain of our liabilities to third-party reinsurance carriers, Fidelity Life remains directly liable to policyholders for the benefit payments associated with these policies. Our reinsurance carriers have a contractual relationship with Fidelity Life to reimburse us for policy claims but are not under any contractual obligation to our policyholders. Because Fidelity Life remains directly liable to policyholders for the full amount of the death benefits payable under its policies, Fidelity Life bears credit risk relating to its reinsurers under its reinsurance contracts. As a result, Fidelity Life will only enter into a reinsurance agreement with reinsurers that have stable operating performance, including a minimum A.M. Best financial strength rating of "A-" (Excellent).

We had reinsurance recoverables of \$238.6 million and \$214.9 million as of December 31, 2023 and December 31, 2022, respectively. The following table sets forth our five largest reinsurers based on reinsurance recoverables as of December 31, 2023 and December 31, 2022, and the A.M. Best ratings of those reinsurers as of December 31, 2023:

	As of December 31, 2023				As of December 31, 2022		
	Ceded Future Policy Benefits	Claims and Other Amounts Recoverable	Total Reinsurance Recoverables	2022 A.M. Best's Rating	Ceded Future Policy Benefits	Claims and Other Amounts Recoverable	Total Reinsurance Recoverables
(dollars in thousands)							
Reinsurer							
Hannover Life	\$ 86,997	\$ 8,806	\$ 95,803	A+	\$ 80,792	\$ 12,431	\$ 93,223
Swiss Re	78,618	21,093	99,711	A+	63,182	21,560	84,742
Combined Insurance	17,315	1,768	19,083	A+	16,064	2,189	18,253
RGA Reinsurance Company	8,828	2148	10,976	A+	5,535	788	6,323
Canada Life Assurance Company	1,894	394	2,288	A+	2,056	416	2,472
Other (13 Reinsurers)	5,321	5,416	10,737		6,275	3,574	9,849
Total	\$ 198,973	\$ 39,625	\$ 238,598		\$ 173,904	\$ 40,958	\$ 214,862

Core Life. The overall relationship of ceded premium to direct premiums increased in 2022 due to the mix of business and related retention rates. For the Core Life business line, the amount of death benefit reinsured by Fidelity Life varies by insurance product, with some products having no reinsurance and others have 80% or 90% of the death benefit is reinsured, all of which is subject to the \$300,000 limit. For the Closed Block and the annuities and assumed life business lines, the percent of death benefit reinsured is higher, on average, than the average for the insurance products currently being sold in the Core Life line of business. The following table shows the different relationship of reinsurance premiums ceded to total direct and assumed premiums for each of these business lines for the years ended December 31, 2023 and December 31, 2022.

	As of December 31, 2023					As of December 31, 2022				
	Core Life	Non-Core Life	Closed Block	Annuities and Assumed Life	Total	Core Life	Non-Core Life	Closed Block	Annuities and Assumed Life	Total
(dollars in thousands)										
Ratios:										
Direct and Assumed Premium	\$ 151,457	\$ 60,683	\$ 4,969	\$ 400	\$ 217,509	\$ 150,030	\$ 61,867	\$ 7,881	\$ 460	\$ 220,238
Ceded Premium	\$ 87,593	\$ 31,791	\$ 978	\$ 308	\$ 120,670	\$ 81,028	\$ 33,933	\$ 4,808	\$ 394	\$ 120,163
Ceded % of Total Direct and Assumed Premiums	57.8%	52.4%	19.7%	77.0%	55.5%	54.0%	54.8%	61.0%	85.7%	54.6%

The period-to-period comparison of the ceded to direct and assumed premiums shows the total ceding percentage in our Core Life increasing, as the percentage of the total increased due to changes in reinsurance contracts.

Non-Core Life. Non-Core life follows the same reinsurance guidelines and procedures as Core Life, as discussed above.

Closed Block. In October 2006, Fidelity Life established a Closed Block consisting of all of the outstanding participating policies issued or assumed by Fidelity Life. We call this arrangement the Closed Block. We operate the Closed Block in accordance with a Closed Block memorandum that we entered into in connection with our 2007 reorganization as a mutual holding company. The purpose of the Closed Block is to provide reasonable assurance to the participating policyholders that sufficient assets will be available to provide for the continuation of policy benefits and experience-based dividends for these participating policies. Most of the participating policies in the Closed Block were sold on the basis of “no dividends expected” and, accordingly, such policies had never received an experience-based dividend prior to 2022. In 2022, dividends on these “no dividends expected” policies began to be paid, and dividends will be paid in future years if experience warrants. The payment of any dividends is not guaranteed based on the results of a specific block or group of participating policies. The declaration of any dividend is subject to the discretion of the Board of Directors of Fidelity Life, and dividends are not payable until declared. No new dividend-paying or participating policies have been issued by Fidelity Life since our reorganization in 2007.

The Closed Block was funded on October 1, 2006 with cash flow producing assets that together with anticipated revenues from the Closed Block policies were expected to be sufficient to support the Closed Block, including payment of claims, expenses, and taxes and to provide for continuation of dividends, to the extent experience allowed, for the life of the policies. Dividend scales were changed in 2022 due to past and expected future experience. It is possible that past experience and expectations of future experience may lead to further changes in dividend scales. If the future experience is such that the assets of the Closed Block are not sufficient to pay the claims and expenses guaranteed under the policies, then Fidelity Life would be required to make such payments from its general funds. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-K for further discussion regarding the Closed Block.

Annuities and Assumed Life

Fidelity Life reinsures products issued by other companies under four reinsurance arrangements, three of which are not open to new insurance policies but still cover the existing in-force business that was assumed prior to 1993. Under two contracts with Zurich American Life Insurance Company, Fidelity Life assumed the liability for the contractual benefits under a group of annuity contracts written through 1993. Under a contract with Protective Life Insurance Company (“Protective Life”), the successor company of a former affiliate, Fidelity Life assumed a portion of the risk on a group of life insurance contracts primarily written in the 1980s and early 1990s. On March 29, 2019, Protective Life recaptured the majority of the assumed block of life business.

Fidelity has an active reinsurance agreement with Hannover Life Reassurance Company of America (Bermuda) Ltd. (Hannover Bermuda) under which Fidelity Life assumes a portion of risks on certain life contracts originally issued by Fidelity Life and ceded to Hannover Life Reassurance Company of America. In addition, we license our LifeTime Benefit Term product to Combined Insurance Company of America (Combined Insurance) and for certificates issued prior to January 1, 2022 we reinsured 50% of the business written by Combined Insurance on that product.

The following table sets forth Fidelity Life’s assumed reinsurance liabilities as of December 31, 2023 and December 31, 2022:

	As of December 31, 2023				As of December 31, 2022			
	Future Policy Benefits	Contract Holder Account Balances	Other Policyholder Liabilities	Total Assumed Liabilities	Future Policy Benefits	Contract Holder Account Balances	Other Policyholder Liabilities	Total Assumed Liabilities
(dollars in thousands)								
Reinsurer								
Hannover Bermuda	\$ (1,268)	\$ —	\$ 9	\$ (1,259)	\$ (1,441)	\$ —	\$ 9	\$ (1,432)
Protective Life Insurance Company	1,012	—	3	1,015	1,507	—	4	1,511
Zurich American Life Insurance Company	—	62,665	—	62,665	—	69,070	—	69,070
Combined Insurance Company of America	76,453	—	1,973	78,426	60,910	—	1,776	62,686
Total	<u>\$ 76,197</u>	<u>\$ 62,665</u>	<u>\$ 1,985</u>	<u>\$ 140,847</u>	<u>\$ 60,976</u>	<u>\$ 69,070</u>	<u>\$ 1,789</u>	<u>\$ 131,835</u>

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 that are not allocated to our other segments, including public company costs and other expenses of Vericity, Inc., board expenses, allocation of executive management time spent on corporate matters, and financial reporting and auditing costs related to our consolidation and internal controls. Our Corporate & Other Segment recognizes income (loss) to the extent that net investment income and net gains (losses) on investments exceed (are less than) corporate expenses.

Intellectual Property

The Company and its subsidiaries rely on our proprietary intellectual property to conduct our business. We believe that it is easy for participants in the insurance industry to attempt to copy product and process ideas of other participants. We therefore intend to protect to the fullest extent permitted by law our intellectual property rights in the unique products and sales processes we have developed. We believe that protecting our intellectual property rights and obtaining protection for future innovations will help us to achieve better results over time.

Efinancial currently has trade name protection for certain of its key internet domains, including Efinancial.com, termfinder.com, eCoverage.com, and netcoverage.com. Efinancial has also been granted two U.S. patents for its ALISS[®] agency management system. The patents include tracking and management of leads from purchase through the sales cycle. Real-time modeling is applied to lead sourcing, user identification, purchase intent and identification of the product a customer is most likely to purchase.

We have been granted four U.S. patents related to the **RAPID**Decision[®] Life product and its supporting sales and underwriting technology and processes and a separate patent directed to the LifeTime Benefit Term product. We continue to seek additional patent protections for our **RAPID**Decision[®] Life product. We may be unable to adequately protect our intellectual property rights or avoid infringing the intellectual property rights of third parties, and the intellectual property rights we have may not be a meaningful barrier to competition.

Information Technology

Fidelity Life maintains an in-house information technology staff. Fidelity Life's in-house personnel are supplemented by independent consultants, as needed, for programming, development, and other technology-based efforts.

Fidelity Life maintains a Disaster Recovery Plan under the Enterprise Disaster Recovery Plan umbrella and has put in place various programs to increase our agility in responding to a disaster.

Similar to Fidelity Life, Efinancial maintains an in-house information technology staff. The Efinancial technology team is responsible for developing and maintaining Efinancial's applications and assisting our internal and external customers. In limited cases, we use outside contractors to provide additional programming and development expertise.

The Des Plaines, and Tempe call centers are connected via high-speed connection to TierPoint. The data and files hosted on the two TierPoint data centers are automatically backed up and duplicated to the other data center nightly and weekly.

Efinancial maintains a Disaster Recovery Plan under the Enterprise Disaster Recovery Plan umbrella.

Cybersecurity

Vericity maintains a dedicated Cybersecurity Department with a mission to safeguard the confidentiality, integrity, and availability of our information systems, identity systems, and data assets to help our company remain a trusted and secure brand by accelerating risk reduction in a way that lines up with business goals and constraints on budget and resources.

The cybersecurity framework is in alignment with corporate governance programs and regulatory requirements such as the following:

- Enterprise Risk Management led by the Legal Department
- SEC, Sarbanes-Oxley Compliance Program, and IDOI compliance led by Internal Audit
- Privacy and GLBA Compliance led by the Privacy and Compliance Teams.

The Cybersecurity Department uses the Center for Internet Security Controls as a base to safeguard our company and the team focuses on Data Protection and Compliance. The Cybersecurity Department establishes, implements and tests multiple policies, principles, standards and guidelines including, but not limited to, Cybersecurity Incident Response Plan, Disaster Recovery Plan, Access Review, Application Security, Cloud Security, Data Loss Prevention, Email Security, Endpoint Security, Penetration Testing, Privilege Management, Risk Assessments, Risk Identification, Security Awareness Training and Vulnerability Management.

We also use various tools to help manage our overall program including third party threat detection, email filtering, security training, penetration testing and other tools typically associated with protecting company data.

With a more than 20 years of experience in the information technology field, the team is led by our Director of Cybersecurity who in turn reports directly to Vericity's Chief Information Officer. Vericity's Board of Directors oversees cybersecurity risk management and delegates oversight of our information security program to our executive officers and our Chief Information Officer reports quarterly to our Board of Directors. Vericity's partially outsourced internal audit team reports in to Vericity's Audit Committee on Cybersecurity testing and the program itself.

Like most companies, our systems are exposed to cybersecurity threats on a regular basis and our efforts may be insufficient to prevent or defend against incidents or an attack. We, and certain of our third-party vendors, have experienced attacks and incidents in the past, and there can be no assurance that we, or any vendor, will be successful in preventing future attacks or incidents or detecting and stopping them once they have begun. Through the date hereof, risks from cybersecurity threats, including prior incidents and attacks, have not materially affected, and we do not believe are reasonably likely to materially affect, our business strategy, results of operations, or financial condition. However, we cannot guarantee that we will not be materially affected in the future. Cybersecurity risks rapidly evolve and are complex, so we must continually adapt and enhance our processes and defenses. As we do this, we must make judgments about where to invest resources to most effectively protect ourselves from cybersecurity risks. These are inherently challenging processes, and we can provide no assurance that processes and defenses that we implement will be effective.

Investments

We had total cash and invested assets of \$371.5 million as of December 31, 2023. All invested assets are managed pursuant to an investment plan developed by our executive management team and approved by and reviewed annually with the investment committee of our Board of Directors. All changes to the investment plan are approved by the investment committee.

We have contracted with a third-party investment advisory firm to provide portfolio management and consulting services to assist our Chief Financial Officer with the oversight of various portfolios and investment managers that manage portions of our investment portfolio. We utilize multiple investment managers to leverage specialized expertise in specific asset classes. Each investment manager operates under agreed-upon guidelines that are specifically designed for the investment manager's segment of the overall portfolio. Our investment advisor meets periodically, but not less frequently than quarterly, with the investment committee of our Board of Directors to review portfolio results, portfolio managers and discuss portfolio strategies.

Our investment strategy is to diversify among asset classes and individual issuers to achieve appropriate matching of assets with insurance liabilities, sufficient liquidity and predictability of income. The composition of our investment portfolio supporting our Insurance Segment is primarily investment grade fixed maturity securities and is managed with primary emphasis on current earnings. The Closed Block assets are segregated in a separate portfolio and are managed in accordance with the Closed Block memorandum.

Enterprise Risk Management

The review and assessment of enterprise risks is the responsibility of the Vericity, Inc. executive management team with oversight provided by the Board of Directors through its audit committee. We have established risk management policies and procedures throughout our organization. To supervise the implementation of these risk management policies and procedures, we have engaged outside consultants on this topic and have established a risk management committee that consists of members of our senior management team.

In 2015, we launched a multi-phase risk assessment project focused on formalizing our enterprise risk management process covering Efinancial, Fidelity Life, their respective subsidiaries and operations and all corporate activities. Project goals include defining key risks and risk events, establishing corporate risk tolerances and documenting the accountability for the risk management processes. We re-evaluated our program in 2019 and made significant reporting and process improvements and narrowed the focus of our enterprise risk management program. We seek continuous improvement of our program and the program will continue to evolve over time. We currently assess our key risks on four primary measures: impact, likelihood, vulnerability and speed of onset.

Employees & Human Capital

As of December 31, 2023, Fidelity Life had 131 employees and Efinancial had 327 employees. None of our employees are covered by a collective bargaining agreement. We believe that relations with our employees are good. Our core values of Putting People First,

Operating with Excellence, being Passionate Team Players and Making a Positive Difference help our employees maintain a connected culture of working together to help middle America get access to affordable life insurance products and solutions. We are also committed to helping build a diverse and well rounded employee base where we focus on a stair step approach to maintaining equity, fostering inclusion which ultimately leads to the diversity of people, thoughts and ideas we want to hear and see in all of our employees. We view our employees as part of our overall competitive advantage and the key to a successful future. We monitor competitor, industry and overall economic trends in order to ensure we maintain competitive compensation and comprehensive benefits to attract and retain our talent. We also provide training, education and other development opportunities to ensure our employees can grow and achieve their goals.

Environmental, Social, and Governance

As a publicly traded holding company for a US domiciled life insurance product manufacturer and insurance agency, our primary Environmental, Social and Governance (ESG) focus tends to lean toward the social responsibility aspects of ESG. We comply in all material respects with insurance, SEC, NASDAQ and other legal, regulatory or exchange governance requirements. Additionally as we do not manufacture industrial or waste dependent products, do not have a large industrial or commercial real estate footprint and conduct limited travel overall, the environmental impacts of the Company itself are small. We do discuss ESG principles with our third-party investment advisory firm and we monitor the potential impacts of climate change or other environmental considerations as they relate to our ability accurately underwrite our insurance policies. As a provider of a product that is especially important to those who would suffer a great deal of financial hardship due to the death of a loved one, our entire business is focused on social responsibility and providing assistance to people when they may need it the most. As to our employees, as discussed elsewhere in this document we are committed to helping build a diverse and well rounded employee base where we focus on a stair step approach where we work toward maintaining equity, foster inclusion which in turn ultimately leads to a more diverse group of people, thoughts and ideas. We believe that by serving our Middle Market consumers, engaging our diverse and multi-state workforce and ensuring we are offering products and services that help maintain financial security we make a large impact from a social responsibility perspective. We closely follow ESG activities, proposed laws, rules and regulations, including recently promulgated SEC climate disclosure rules and we do not believe we have impacts that would cause us to change or further enhance our risk factors as it relates to ESG.

Regulation

Our businesses are subject to a number of federal and state laws and regulations. These laws and regulations cover Fidelity Life operations as a life insurance company and Efinancial's insurance agency operations. Our operations are subject to extensive laws and governmental regulations, including administrative determinations, court decisions and similar constraints. The purpose of the laws and regulations affecting our operations is primarily to protect our policyholders and not our shareholders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. State insurance laws regulate most aspects of our insurance businesses, and we are regulated by the insurance departments of the states in which we sell insurance policies. The National Association of Insurance Commissioners ("NAIC") assists the various state insurance regulators in the development, review and implementation of a wide range of financial and other regulations over the insurance industry.

Insurance Regulation

Both Fidelity Life and Efinancial are licensed to transact business in all states and jurisdictions in which they conduct an insurance business. Fidelity Life is an Illinois-domiciled life insurance company licensed to transact business in 48 states and the District of Columbia. Fidelity Life is not licensed to transact business in New York or Wyoming. Efinancial is an insurance agency domiciled in the State of Washington and is licensed in all 50 states and the District of Columbia. State insurance laws regulate many aspects of our business. Such regulation is vested primarily in state agencies having broad administrative and in some instances discretionary power dealing with many aspects of our business, which may include, among other things, required reserve liability levels, permitted classes of investments, transactions among affiliates, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy, and is concerned primarily with the protection of policyholders and other consumers rather than shareholders. We are subject to financial and market conduct examinations by insurance regulators from our domiciliary states and from other states in which we do business and are currently undergoing such a financial examination by the Illinois Department of Insurance.

State laws and regulations governing the financial condition of insurers apply to Fidelity Life, including standards of solvency, risk-based capital requirements, types, quality and concentration of investments, establishment and maintenance of reserves, required methods of accounting, reinsurance and minimum capital and surplus requirements, and the business conduct of insurers, including sales and marketing practices, claim procedures and practices, and policy form content. In addition, state insurance laws require licensing of insurers and their agents. State insurance regulators have the power to grant, suspend and revoke licenses to transact business and to impose substantial fines and other penalties.

Agent Licensing

Efinancial (or its designated representative) is authorized to act as an insurance producer under company licenses or licenses held by its officers in all 50 states and the District of Columbia. In each jurisdiction in which Efinancial transacts business, it is generally subject to regulation regarding licensing, sales and marketing practices, premium collection and safekeeping, and other market conduct practices. Its business depends on the validity of, and continued good standing under, the licenses and approvals pursuant to which it operates, as well as compliance with pertinent regulations. We devote significant effort toward maintaining licenses for Efinancial and managing its operations and practices consistent with the diverse and complex regulatory environment in which we operate.

Fidelity Life sells its insurance products through Efinancial and independent distributors. Efinancial employs insurance agents working in its call centers and also works with independent insurance agents. The states in which insurance agents operate require agents to obtain and maintain licenses to sell insurance products. In order to sell insurance products, the agents must be licensed by their resident state and by any other state in which they do business and must comply with regulations regarding licensing, sales and marketing practices, premium collection and safeguarding, and other market conduct practices. In addition, in most states, Fidelity Life must appoint the agents and agencies that sell our insurance products, and Efinancial and the agents that they work with must be appointed by all carriers for which they sell.

Consistent with various federal and state legal requirements, we monitor our agents that sell for Fidelity Life and Efinancial, and we monitor the agencies with which the independent distributors and independent agents work in order to understand and evaluate the agencies' training and general supervision programs relevant to regulatory compliance. For Efinancial's call center agents using telephone sales, we periodically record and monitor the sales calls in order to identify and correct potential regulatory compliance problems.

Financial Review

Fidelity Life is required to file detailed annual and quarterly financial reports with the insurance departments in the states in which we do business, and its business and accounts are subject to examination by such agencies at any time. These examinations generally are conducted under NAIC guidelines. Under the rules of these jurisdictions, insurance companies are examined periodically (generally every three to five years) by one or more of the supervisory agencies on behalf of the states in which they do business.

Market Conduct Regulation

The laws and regulations governing our insurance businesses include numerous provisions governing the marketplace activities of insurers, such as Fidelity Life, and agencies, such as Efinancial, including regulations governing the form and content of disclosures to consumers, advertising, product replacement, sales and underwriting practices, complaint handling, and claims handling. State insurance regulators enforce compliance, in part, through periodic market conduct examinations.

Insurance Holding Company Regulation

All states in which Fidelity Life conducts insurance business have enacted legislation that requires each insurance company in a holding company system to register with the insurance regulatory authority of its state of domicile and to furnish that regulatory authority financial and other information concerning the operations of, and the interrelationships and transactions among, companies within its holding company system that may materially affect the operations, management or financial condition of the insurers within the system. These laws and regulations also regulate transactions between insurance companies and their parents and affiliates. Generally, these laws and regulations require that all transactions within a holding company system between an insurer and its affiliates be fair and reasonable and that the insurer's statutory surplus following any transaction with an affiliate be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. Statutory surplus is the excess of admitted assets over statutory liabilities. For certain types of agreements and transactions between an insurer and its affiliates, these laws and regulations require prior notification to, and non-disapproval or approval by, the insurance regulatory authority of the insurer's state of domicile. These laws and regulations also require the holding company system to file an annual report identifying certain risks ("enterprise risks") that, if not remedied, are likely to have a material adverse effect upon the financial condition of the insurer or its holding company system as a whole.

Dividend Limitations

As a holding company with no significant business operations of its own, Vericity, Inc. depends on intercompany dividends or other distributions from its subsidiaries as the principal source of cash to meet its obligations. The ability of Fidelity Life to pay dividends to its corporate parent is limited under Illinois law. Such dividends may only be paid out of earned surplus (excluding unrealized capital gains), and no dividend may be paid that would reduce Fidelity Life's statutory surplus to less than the amount required to be maintained by Illinois law for the types of business transacted by Fidelity Life. All intercompany dividends must be reported to the Illinois Department of Insurance prior to payment. In addition, Fidelity Life may not pay an "extraordinary" dividend or distribution until 30 days after the Illinois Director of Insurance ("the Director") has received sufficient notice of the intended payment and has not objected or has approved the payment within the 30-day period. An "extraordinary" dividend or distribution is defined under Illinois law as a

dividend or distribution that, together with other dividends and distributions made within the preceding 12 months, exceeds the greater of:

- 10% of the insurer's statutory surplus as of the immediately prior year end; or
- the statutory basis net income of the insurer for the prior year.

During 2023, Fidelity Life declared and paid \$5,000 in dividends.

Efinancial is not subject to the above dividend restrictions that relate to Fidelity Life.

Change of Control

Illinois law requires advance approval by the Director of any direct or indirect change of control of an Illinois-domiciled insurer, such as Fidelity Life. In considering an application to acquire control of an insurer, the Director generally will consider such factors as experience, competence, and the financial strength of the applicant, the integrity of the applicant's Board of Directors and officers, the acquirer's plans for the management and operation of the insurer, and any anti-competitive effects that may result from the acquisition. Under Illinois law, there exists a presumption of "control" when an acquiring party acquires 10% or more of the voting securities of an insurance company or of a company which itself controls an insurance company. Therefore, any person, (including those named in our merger announcement of October 3, 2023) acquiring, directly or indirectly, 10% or more of our common stock would need the prior approval of the Director, or a determination from the Director that "control" has not been acquired. Under Section 59.1(6)(i) of the Illinois Insurance Code, no person or a group of persons acting in concert (other than the Standby Purchaser in the Company's IPO-Apex Holdco L.P.), may acquire, directly or indirectly, more than 5% of the capital stock of Vericity, Inc. for a period of five years from the effective date of the Conversion without the approval of the Director.

In addition, a person seeking to acquire, directly or indirectly, control of an insurance company is required in some states to make filings prior to completing an acquisition if the acquirer and the target insurance company and their affiliates have sufficiently large market shares in particular lines of insurance in those states. Approval of an acquisition may not be required in these states, but the state insurance departments could take action to impose conditions on an acquisition that could delay or prevent its consummation.

Policy and Contract Reserve Sufficiency

Fidelity Life is required under Illinois law to conduct annual analyses of the sufficiency of its life insurance and annuity statutory reserves. In addition, other states in which Fidelity Life is licensed may have certain reserve requirements that differ from those of Illinois. In each case, a qualified actuary must submit an opinion each year that states that the aggregate statutory reserves, when considered in light of the assets held with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurer. If such an opinion cannot be provided, the affected insurer must set up additional reserves by moving funds from surplus. Fidelity Life submitted these opinions without qualification as of December 31, 2023 to applicable insurance regulatory authorities.

Risk-Based Capital (RBC) Requirements

The NAIC has established a standard for assessing the solvency of insurance companies using a formula for determining each insurer's RBC. The RBC model act provides that life insurance companies must submit an annual RBC report to state regulators reporting their RBC based upon four categories of risk: asset risk, insurance risk, interest rate risk and business risk. For each category, the capital requirement is determined by applying factors to various asset, premium and reserve items, with the factor being higher for those items with greater underlying risk and lower for less risky items. The formula is intended to be used by insurance regulators as an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action. Companies that do not maintain total adjusted risk-based capital in excess of 200% of the company's authorized control level RBC may be required to take specific actions at the direction of state insurance regulators. Fidelity Life's total adjusted capital at December 31, 2023 was well in excess of 200% of its authorized control level. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Risk-Based Capital."

NAIC Ratios

The NAIC is a voluntary association of state insurance commissioners formed to discuss issues and formulate policy with respect to regulation, reporting and accounting of insurance companies. Although the NAIC has no legislative authority and insurance companies are at all times subject to the laws of their respective domiciliary states, and to a lesser extent, other states in which they conduct business, the NAIC is influential in determining the form in which such laws are enacted. Model insurance laws, regulations

and guidelines have been promulgated by the NAIC as minimum standards by which state regulatory systems and regulations are measured.

The NAIC also has established a set of 12 financial ratios to assess the financial strength of insurance companies. The key financial ratios of the NAIC's Insurance Regulatory Information System, or IRIS, which were developed to assist insurance departments in overseeing the financial condition of insurance companies, are reviewed by experienced financial examiners of the NAIC and state insurance departments to select those companies that merit highest priority in the allocation of the regulators' resources. IRIS identifies these key financial ratios and specifies a range of "unusual values" for each ratio. The NAIC suggests that insurance companies that fall outside the "usual" range in four or more financial ratios are those most likely to require analysis by state regulators. However, according to the NAIC, it may not be unusual for a financially sound company to have several ratios outside the "usual" range. For the year ended December 31, 2023, Fidelity Life was within the "usual" range for all ratios.

Statutory Accounting Principles (SAP)

SAP is a basis of accounting developed by U.S. insurance regulators to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with evaluating an insurer's ability to pay all its current and future obligations to policyholders. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer's domiciliary jurisdiction. Uniform statutory accounting practices are established by the NAIC and generally adopted by regulators in the various U.S. jurisdictions. These accounting principles differ somewhat from GAAP, which are designed to measure a business on a going-concern basis. GAAP gives consideration to matching of revenue and expenses and, as a result, certain insurer expenses are capitalized when incurred and then amortized over the life of the associated policies. The valuation of assets and liabilities under GAAP is based in part upon best estimate assumptions made by the insurer. Shareholders' equity under GAAP represents both amounts currently available and amounts expected to emerge over the life of the business. As a result, the values for assets, liabilities and equity reflected in financial statements prepared in accordance with GAAP may be different from those reflected in financial statements prepared under SAP.

State insurance laws and regulations require Fidelity Life to file with state insurance departments publicly available quarterly and annual financial statements, prepared in accordance with statutory guidelines that generally follow NAIC uniform standards. State insurance laws require that the annual statutory financial statements be audited by an independent public accountant and that the audited statements be filed with the insurance departments in states where the insurer transacts business.

State Insurance Guaranty Funds Laws

In most states, there is a requirement that life insurers doing business within the state participate in a guaranty association, which is organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the written premium in the state by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover such paid assessments through full or partial premium tax offsets.

Life insurance company insolvencies or failures may result in additional guaranty association assessments against Fidelity Life in the future. At this time, we are not aware of any material liabilities for guaranty fund assessments that apply to Fidelity Life with respect to impaired or insolvent insurers that are currently subject to insolvency proceedings.

Regulation of Investments

Fidelity Life is subject to state laws and regulations that require diversification of its investment portfolios and limit the amount of investments in certain asset categories, such as below-investment grade fixed-income securities, equity real estate, mortgages, other equity investments, foreign investments and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring statutory surplus, and, in most instances, require divestiture.

Federal and State Legislative and Regulatory Changes

From time to time, various regulatory and legislative changes have been proposed for the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which proposals have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the NAIC. We are unable to predict whether any of these proposed laws and regulations will be adopted, the form in which any such laws and regulations would be adopted or the effect, if any, these developments would have on our business, financial condition and results of operations.

Other Laws and Regulations

USA Patriot Act and Similar Regulations

The USA Patriot Act of 2001, enacted in response to the terrorist attacks on September 11, 2001, contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. The increased obligations of financial institutions to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, require the implementation and maintenance of internal practices, procedures and controls.

Privacy of Consumer Information

U.S. federal and state laws and regulations require financial institutions, including insurance companies, to protect the security and confidentiality of consumer financial information and to notify consumers about their policies and practices relating to their collection and disclosure of consumer information and their policies relating to protecting the security and confidentiality of that information. Similarly, federal and state laws and regulations also govern the disclosure and security of consumer health information. In particular, regulations promulgated by the U.S. Department of Health and Human Services regulate the disclosure and use of protected health information by health insurers and others (including life insurers), the physical and procedural safeguards employed to protect the security of that information and the electronic transmission of such information.

Telephone and Email Solicitation Sales Regulations

The United States Congress, the Federal Communications Commission and various states have promulgated and enacted rules and laws that govern personal privacy, telephone and email solicitations and data privacy. There are numerous state statutes and regulations governing phone and email solicitation activities that apply or may apply to us. For example, some states place restrictions on the methods and timing of telephone solicitation calls and require that certain mandatory disclosures be made during the course of a call. We specifically train our retail call center sales agents to handle calls in an approved manner, and such compliance training is costly and time consuming. Federal and state “Do Not Call” regulations must be followed for us to engage in telephone sales activities. In addition, the Federal Trade Commission has promulgated rules in response to the CAN-SPAM Act of 2003 that regulates the use of electronic mail in commercial contexts. This regulation applies to all electronic mail for which the primary purpose is the commercial advertisement or promotion of a commercial product or service.

Federal Income Taxation

The U.S. Congress and state and local governments consider from time-to-time legislation that could increase or change the manner of taxing the products Fidelity Life sells and of calculating the amount of taxes paid by life insurance companies or other corporations, including Fidelity Life. To the extent that any such legislation is enacted in the future, we could be adversely affected.

Item 1A. Risk Factors.

In addition to the risks delineated throughout Item 1, the outbreak of the novel coronavirus (“COVID-19”) in many countries has adversely impacted global commercial activity. The measures governments worldwide have enacted to combat the pandemic have resulted in disruptions in global and local supply chains and have led to adverse impacts on economic and market conditions as well as increases in unemployment. The severity of COVID-19 and duration of government containment actions have impacted both employees and customers of the Company and presented material uncertainty and risk with respect to the Company’s performance, liquidity, results of operations, and financial condition.

The stress and disruption placed on the global economy and financial markets from the outbreak of COVID-19 or other viral outbreaks may have near and long-term negative effects on investment valuations, returns, and credit allowance exposure. The Company will continue to closely monitor the potential for impacts from any similar type of outbreak, 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 any such similar outbreak or its impact to the Company’s operations, but the effect could be material.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

We operate from three locations that are leased from unaffiliated parties. Vericity, Inc. and Fidelity Life are headquartered in Des Plaines, Illinois at 1350 E. Touhy Avenue, Suite 205W. Efinancial is headquartered in Bellevue, Washington at 1203 114th Avenue, Southeast. Efinancial has a call center in Des Plaines, Bellevue and Tempe, Arizona. In total, the three locations can house in excess of 200 employees. During the COVID pandemic we began transitioning most employee roles to remote capable roles. Today we operate as a remote first workforce and our locations supplement those remote capabilities to provide hybrid work location alternatives for our employees.

Item 3. Legal Proceedings.

We are, from time to time, involved in various legal proceedings in the ordinary course of business. These matters often raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to the underlying facts of each matter; novel legal issues; differences or developments in applicable laws and judicial interpretations; class certification issues; judges reconsidering prior rulings; the length of time before many of these matters might be resolved by settlement, through litigation, or otherwise.

The outcome of these matters may be affected by many factors included but not limited to decisions, verdicts, and settlements in other individual and class action lawsuits that involve the Company, other insurers, or other entities and/or by other legal, governmental, and regulatory actions that involve the Company, other insurers, or other entities.

While it is not possible to forecast the outcome of such legal proceedings, in light of known facts, current issues under consideration via motions to dismiss or otherwise, existing insurance, reinsurance, and established reserves, we believe that there is no individual or class action case pending against the Company that is currently likely to have a material adverse effect on our financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Non-Applicable

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the NASDAQ Capital Market under the symbol “VERY.”

On November 6, 2019, the Company announced that its Board of Directors had declared a special one-time cash distribution of \$6.25 per share to common shareholders of record on November 21, 2019, that was paid on December 6, 2019. The cash distribution totaled approximately \$93 million. The cash distribution was declared after the completion of a capital needs assessment undertaken by Vericity, Inc. management at the direction of the Board of Directors, following the closing of the Company’s IPO.

Since we are a holding company, our ability to pay cash dividends depends in large measure on our subsidiaries' ability to make distributions of cash or property to us. Illinois insurance laws restrict the amount of distributions Fidelity Life can pay to us without the approval of the Director. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 9 to our audited consolidated financial statements, which are incorporated by reference in this Item 5. In connection with the approval of the Conversion by the Director, we agreed, for a period of twenty-four months following the completion of the Conversion, to (i) seek the prior approval of the Illinois Department of Insurance for any declaration of an ordinary dividend by Fidelity Life, and (ii) either maintain \$20 million of the proceeds of the IPO at Vericity, Inc. or use all or a portion of that \$20 million to fund our operations. Fidelity Life declared and paid \$5,000 in dividends in 2023.

As of April 1, 2024, the Company had 804 shareholders of record of common stock.

Item 6. Selected Financial Data.

As a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and Item 10(f)(1) of Regulation S-K, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore is not required to provide the information required by Item 301 of Regulation S-K.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This Form 10-K 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 investment 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 8 of this Form 10-K. Some of the information contained in this discussion and analysis and set forth elsewhere in this Form 10-K constitutes forward looking information that involves risks and uncertainties. You should review “Forward Looking Statements” for a discussion of important factors that could cause actual results to differ materially from the results described, or implied by, the forward-looking statements contained herein.

Overview

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

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

COVID-19

The 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 war in Ukraine and in and around Israel do not have a material impact on the condensed consolidated financial statements of the Company at December 31, 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 Chairman.

Agency Segment

This segment primarily consists of the operations of Efinancial. Efinancial is a physical call center and remote employee 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 desire to work for the carriers that Efinancial represents, which we refer to as our wholesale channel. Efinancial also generates insurance lead sales revenue through its eCoverage web presence. For the years ended December 31, 2023 and December 31, 2022, our Agency Segment revenue earned 90% and 86% through the retail channel, 4% and 5% through the wholesale channel, and 6% and 9% through insurance lead sales revenue, respectively.

The Agency Segment's main source of revenue is commissions earned on the sale of insurance policies sold through our retail channel. Efinancial's employee agents utilize insurance sales leads to contact or be contacted by potential customers and then work with the customers to complete the sales process, which can occur during the initial contact or within 24 to 48 hours for non-medically underwritten policies. In our wholesale channel, we subcontract with our independent agents who sell through Efinancial's contracts with its unaffiliated insurance carriers. In consideration for using our carrier contracts and services, we receive a portion of the commission earned by the independent agent from the carrier.

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 are able to 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. For years ended December 31, 2023 and December 31, 2022, these offsetting revenues were \$4.0 million and \$4.5 million, respectively, which reduced our total agency expenses by approximately 6% and 8%, respectively. Our Agency Segment recognizes income (loss) to the extent that commissions and other revenue exceed (are less than) our marketing and overhead costs for the period.

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

Closed Block - Our Closed Block represents all inforce participating insurance policies of Fidelity Life. The Closed Block was established in connection with our 2007 reorganization into a mutual holding company structure and represents all in-force participating insurance policies of Fidelity Life. Annuities and assumed life represent (i) our assumed life business, which consists of policies primarily written in the 1980s and early 1990s; (ii) our direct annuity contracts, which consist of approximately 77 structured settlement contracts that remain from a group of contracts entered into in the late 1980s; and (iii) our assumed annuities, which consist of contract-holder deposits assumed from a former affiliate under two coinsurance treaties entered into in 1991 and 1992. The 2019 demutualization of Members Mutual had no impact on how the Closed Block is structured.

We have not accepted new policies in these legacy lines since 2006 or prior, and these lines are considered to be in “run-off” with a declining number of policies in-force each period. We recognize income on the Closed Block, and annuities and assumed life to the extent that premium revenues and net investment income exceed the benefit expenses and operating expenses (including paid and accrued policyholder dividends) of these lines of business. On the two annuity lines, we recognize income (loss) to the extent that our net investment income earned exceeds (are less than) benefit expenses (direct annuities) and amounts credited on policy deposits (assumed annuities) and operating expenses of the two lines.

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. On March 29, 2019, the majority of the assumed block of life business was recaptured. The annuity deposits were ceded to Fidelity Life through two contracts entered into in the early 1990s. These annuity and assumed life deposits are now largely in runoff, with only minor amounts of new deposits each year. There are minimal remaining surrender charges associated with the assumed annuity contracts.

Our Insurance Segment revenues consist of net insurance premiums, net investment income, and net gains (losses) on investments. Our distributors consist of the independent insurance agencies and Efinancial that we contract with to sell our insurance products to the customers (policyholders) who buy our insurance policies. 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 companies. 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 securities that we purchase with cash flows from our premium revenues. We also realize gains and losses on sales of investment securities. These investments support our liability for policy reserves and provide the capital required to operate our insurance business. Capital requirements are primarily established by regulatory authorities. See “Note 2—Investments” and “Business—Risk-Based Capital (RBC) Requirements.”

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 and 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. As the number of in-force policies increases, these expenses will increase. Conversely, when the number of in-force policies declines, variable policy expenses decline. Our insurance operations also incur overhead costs for functional and administrative staff to support insurance operations, financial reporting and information technology. We recognize income (loss) on insurance operations to the extent that premium revenues, net investment income and investment gains (losses) exceed (are less than) benefit expenses and general operating expenses for the period.

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 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.

Factors Affecting Our Results

Strategic Goals and Financial Impact of Sales of Policies Produced by Efinancial

Using Efinancial as both a direct writing and sub-agent of AmeriLife we have full vertical integration for the sale and issuance of life insurance policies and are able to gather end-to-end consumer data, extending from tracking data to analyzing the characteristics of leads that generate successful marketing efforts to the associated underwriting and claims experience. Since we acquired Efinancial in 2009, we have made significant investments in the development of our controlled distribution strategy for reaching our target market. By converting data we generate through our distribution platform into actionable insight using statistical analysis, we will seek to be more efficient in our acquisition and use of leads, improve our call center placement ratios and strive to achieve overall profitability. However, the investments made in pursuit of this strategy, among other factors, have adversely affected our historical results of operations. Additionally, while unlikely, changes in the relationship between Efinancial and Amerilife could also negatively impact our financial condition and results of operations.

Accuracy of Our Pricing Assumptions

In order for our insurance operations to be profitable, we must achieve product experience consistent with our pricing assumptions. We price our products using a number of assumptions that are designed to support the desired level of profitability. Our operating results will be affected by variances between our pricing assumptions and our actual experience. The key pricing assumptions made are:

- **Investment Returns.** We earn income on the investments held to support reserves and capital requirements. 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 we own, the interest rates earned and amount of dividends received on our investments. If the actual amount of net investment income earned is less than projected, our products may not generate the desired level of profitability.
- **Persistency Experience.** Many of the non-medically underwritten products that we issue have a limited amount of insurance industry information to use in developing policy lapse rates. We are developing our own historical experience as to expected lapse rates for these products and reflect our emerging experience in our pricing. If actual policy lapse rates exceed the lapse rates assumed in pricing our products, we may receive lower premium revenues and may not receive enough premium to cover all of our acquisition costs for the policy.

- ***Mortality Experience.*** We use our historical experience combined with experience projections from our reinsurance partners to develop our assumptions for the level, frequency and pattern of future claims experience. In our Insurance Segment, we principally issue non-medically underwritten products through underwriting processes that generally have limited recent company and industry experience; therefore, their performance may be less reliable and subject to greater variance than products underwritten through processes with more established industry experience.
- ***Operating Expenses.*** Our level of operating expenses affects our reported net income (loss). Our general operating expenses include expenses that vary based on the growth in our revenues and expenses that are fixed regardless of revenue growth. As discussed above, we have experienced operating losses principally because our operating expenses and corporate overhead exceed our revenues, and our inability to defer a majority of our commission expense on policies produced by our affiliated agency, Efinancial.

Efinancial Commission Financing

In instances where Efinancial has agreed to accept the receipt of levelized commissions on the successful placement of an insurance policy, Efinancial has entered into a commission financing arrangement with Hannover Life. Under this arrangement, Efinancial receives an upfront commission from Hannover Life and agrees to pay a levelized commission back to Hannover Life. This payment stream is over the level premium period the policy stays in-force and premiums are received. This arrangement covered certain RD Life business issued October 2017 through December 2020 and issued January 2022 through December 2023. This arrangement has been terminated for new business effective December 31, 2023.

Critical Accounting Policies

The accounting policies discussed in this section are those that we consider to be the most critical to an understanding of our consolidated financial statements, and include valuation of fixed maturity securities, allowance for credit losses on available-for-sale securities, mortgage loans, deferred policy acquisition costs (DAC), future policy benefit reserves and income taxes. Our significant policies are described in Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements included elsewhere in this Form 10-K. The preparation of the 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.

Valuation of Fixed Maturity Securities

Our fixed maturity securities are classified as “available-for-sale” securities, which are carried at fair value on the balance sheet. Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants on the measurement date. For investments that are not actively traded, the determination of fair value requires us to make a significant number of assumptions and judgments. Fair value determinations include consideration of both observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. Security pricing is applied using a hierarchy approach.

Level 1—Unadjusted quoted prices for identical assets in active markets the Company can access.

Level 2—This level includes fixed maturity securities 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 in 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—Fair values are derived from valuation techniques in which one or more significant inputs are unobservable. Level 3 instruments include less liquid securities 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. Level 3 hierarchy requires the use of observable market data when available.

At December 31, 2023 the estimated fair value of our fixed maturity securities by fair value hierarchy was as follows:

Fair Value of Investments at December 31, 2023 (dollars in thousands)				
Level 1	Level 2	Level 3	Total Fair Value	
\$ 2,258	\$ 281,023	\$ 30,102	\$	313,383
1 %	90 %	9 %		100 %

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

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

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

If we believe the pricing information received from third-party pricing services is not reflective of market activity or other inputs observable in the market, we may challenge the price through a formal process with the pricing service. Historically, we have 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 us 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).

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 a fixed maturity security impairment is calculated as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate of cash flows discounted at the effective rate implicit to the security at the date of purchase or prior impairment. The methodology and assumptions for estimating the cash flows vary depending on the type of security. For mortgage-backed and asset-backed securities, cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral characteristics, expectations of delinquency and default rates, and structural support, including subordination and guarantees. If the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the fixed maturity security, a credit loss allowance is recorded in

earnings for the shortfall in expected cash flows; however, the amortized cost, net of the credit loss allowance, may not be lower than the fair value of the security. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss exists. The non-credit component, determined as the difference between the adjusted amortized cost basis and fair value, is recognized in other comprehensive (loss) income. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss exists.

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.

Mortgage Loans

Our mortgage loans are held on commercial real estate and are stated at the aggregate unpaid principal balances, net of any credit losses and valuation allowances. We identify loans for evaluation of credit loss primarily based on the collection experience of each loan. Mortgage loans are considered to have a credit loss when, based on current information and events, it is probable that we will be unable to collect principal or interest amounts according to the contractual terms of the loan agreement. Credit losses are measured on a loan-by-loan basis based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral. Credit losses are included in net gains (losses) on investments in the Consolidated Statements of Operations.

Interest income from mortgage loans is recognized on an accrual basis using the effective yield method. Accrual of income is generally suspended for mortgage loans that are in default or when full and timely collection of principal and interest payments is not probable. Mortgage loans are considered past due when full principal or interest payments have not been received according to contractual terms.

At December 31, 2023 and December 31, 2022, there was a valuation allowance of \$573 thousand and \$83 thousand, respectively.

Deferred Policy Acquisition Costs (DAC)

For our Insurance Segment, the costs of acquiring new business are deferred to the extent that they are directly related to the successful acquisition of insurance contracts. Deferred acquisition costs include commissions paid in the first policy year that are in excess of the ultimate renewal commissions payable on the policy. For any of our policies for which we do not pay renewal commissions, the deferred acquisition costs (at the segment level) include all commissions paid in the first year. For policies for which we pay levelized commissions over the life of the policy, we expense the first-year commission and therefore do not defer any other commission expense. We also defer costs associated with policy underwriting and issuance related to the successful acquisition of insurance contracts. Non-deferred first year acquisition costs that are expensed as incurred include expenses that do not meet the definition of a deferrable cost, which includes the acquisition costs incurred on insurance applications that do not result in an in-force policy (unsuccessful efforts).

The amortization of DAC for traditional life insurance products is determined as a level proportion of premium based on actuarial methods and assumptions about mortality, morbidity, lapse rates, expenses, and future yield on related investments, established by us at the time the policy is issued. GAAP requires that assumptions for these types of products not be modified while the policy is outstanding. Amortization is adjusted each period to reflect policy lapse or termination rates compared to anticipated experience. Accordingly, acceleration of DAC amortization could occur if policies terminate earlier than originally assumed. We establish the assumptions used to determine DAC amortization based on estimates using Company experience and other relevant information that is used to price the products. We monitor our actual experience and will update the actuarial factors applied to future policy issues if warranted. The selection of actuarial assumptions requires considerable judgment and has inherent uncertainty. Should actual policy lapse experience be higher than that assumed during a reporting period, we will amortize our DAC balance faster and report lower net income.

We evaluate the recoverability of our DAC asset as part of our premium deficiency testing. If a premium deficiency exists, we reduce DAC by the amount of the deficiency through a charge to current period earnings (loss). If the deficiency is more than the recognized DAC balance, we reduce the DAC balance to zero and increase the reserve for future policy benefits by the excess with a corresponding charge to current period earnings (loss). See "Future Policy Benefit Reserves" below for more information on premium deficiency testing.

Future Policy Benefit Reserves

We calculate and maintain reserves for estimated future claims payments to policyholders using actuarial assumptions in accordance with industry practice and GAAP. Many factors affect these reserves, including mortality trends, policy persistency and investment returns. We establish our reserves based on estimates, assumptions and our analysis of historical experience.

The calculation of future policy reserves requires the use of significant judgment and is inherently uncertain. If our actual experience differs from the experience assumed in establishing our reserves, the impact of these differences is reflected in the results of operations in each period. If actual claims are higher than assumed claims experience, our reported income (loss) will be reduced (increased) for the periods in which this experience occurs. If actual policy lapses are generally higher than that assumed, our future policy benefit reserves will be reduced for the period in which this experience occurs.

The primary reserve method that is used in calculation of our future policy benefit reserves is the net level premium method. The net level premium method requires that the future policy benefit reserves are accrued as a level proportion of the premium paid by the policyholder. In applying this method, we use a number of actuarial assumptions that represent management's best estimate at the time the contract was issued with the addition of a margin for adverse deviation. Actuarial assumptions include estimates of morbidity, mortality, policy persistency, discount rates and expenses over the life of the contracts.

A premium deficiency exists if the discounted present value of future gross premiums is not sufficient to cover anticipated future cash outflows. To assess the adequacy of our benefit reserves, we annually perform premium deficiency testing for each of our lines of business using best estimate assumptions as of the date of the test without provision for adverse deviation. If benefit reserves minus the DAC asset are less than the present value of future cash flows on the line of business, then first the DAC asset will be reduced. If reducing the DAC asset down to zero is still not sufficient to eliminate the premium deficiency, then benefit reserves will be increased. Recognizing a premium deficiency will reduce our reported net income or increase our reported loss, for the period.

Under best estimate assumptions as to mortality, lapses, expenses, and investment yields, DAC is still recoverable on the Core Life and Non-Core Life products (Open Block), Closed Block, and assumed life line of business. The annuities line has no remaining DAC, and under best estimate assumptions on that line, no benefit reserve increases are needed.

In connection with our premium deficiency testing, we performed sensitivity analyses on our Open Block, Closed Block, annuities, and assumed life business lines to capture the effect that certain key assumptions have on expected future cash flows, and the impact of those assumptions on the adequacy of DAC balances and GAAP benefit reserves. The sensitivity tests are performed independently, without consideration for any correlation among the key assumptions.

We performed the following sensitivity tests as of December 31, 2023:

- future lapse assumptions increased by a multiplicative factor of 1.05,
- future mortality increased by a multiplicative factor of 1.05 for all life blocks,
- future investment yield assumptions were lowered by 50 basis points.

Under all tests described above, the DAC was still recoverable on the Core Life plus Non-Core Life and assumed life lines of business. For the annuities line, there is no remaining DAC due to the age of the contracts. As such, these sensitivity runs tested the adequacy of the benefit reserves for this line. For the annuities line, a drop in investment yield of 50 basis points would result in a required reserve increase of \$0.3 million, while for the mortality scenario and the lapse scenario there would be no impact to benefit reserves.

Income Taxes

Under applicable Federal income tax guidance, the taxation of life insurance companies is subject to special rules not applicable to other (non-life) companies. Accordingly, we have to consider the implications of these different tax rules in accounting for income tax expense, as separately applicable to our life and non-life subgroups of companies.

We record federal income tax expense in our Consolidated Statements of Operations based on pre-tax income as determined using GAAP accounting. The timing of the recognition of certain income and expense items for GAAP accounting can differ from the timing of recognition of the same income and expense items in our federal tax returns. The timing of recognition in the federal tax return is based on tax laws and regulations. As a result, the annual tax expense reflected in our Consolidated Statements of Operations is different than that reported in the tax returns.

We account for income taxes under the asset and liability method, which requires the recognition of deferred taxes for temporary differences between the financial statement and tax return basis of assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which we have already recorded the tax benefit in our income statement. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred or expenditures for which we have already taken a deduction in our tax return but have not yet been recognized in our financial statements. Under GAAP, we are required to evaluate the recoverability of our deferred tax assets and establish a valuation allowance if necessary.

to reduce our deferred tax assets to an amount that is more likely than not to be realized. Significant judgment is required in determining whether valuation allowances should be established, as well as the amount of such allowances. To the extent that we are required to establish an additional valuation allowance against deferred income tax assets, the amount of such valuation allowance would generally be charged against our net income for the period in which that valuation allowance is established.

We establish or adjust valuation allowances for deferred tax assets when we estimate that it is more likely than not that future taxable income will be insufficient to realize the value of the deferred tax asset. We evaluate all significant available positive and negative evidence as part of our analysis. Negative evidence includes the existence of losses in recent years. Positive evidence includes the forecast of future taxable income and tax-planning strategies that would result in the realization of deferred tax assets. The underlying assumptions we use in forecasting future taxable income require significant judgment and take into account our recent performance. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which temporary differences are deductible or creditable. If actual experience differs from these estimates and assumptions, the recognized deferred tax asset value may not be fully realized, resulting in an increase to income tax expense in our results of operations.

As of December 31, 2023, we had a 100% valuation allowance recorded against the deferred tax assets related to the non-life subgroup of our tax return. The Company also maintains a valuation allowance against a portion of the unrealized investment losses at December 31, 2022 in the life group. Valuation allowances are established because we determined that it is more likely than not that these assets will not be recoverable. The recording of the valuation allowance not related to investment losses, increases our federal income tax expense which in turn reduces our reported net income or increases our net loss as applicable. Our recorded net deferred tax asset is shown in the following table.

	December 31, 2023			December 31, 2022		
	Life	Non-Life	Total	Life	Non-Life	Total
<i>(dollars in thousands)</i>						
Deferred income tax assets, net						
Total deferred tax assets	\$ 62,331	\$ 31,084	\$ 93,415	\$ 53,747	\$ 37,910	\$ 91,657
Total deferred tax liabilities	28,805	5,577	34,382	24,244	14,550	38,794
Net deferred tax asset (liability) before valuation allowance	33,526	25,507	59,033	29,503	23,360	52,863
Valuation allowance	(1,130)	(25,507)	(26,637)	(1,066)	(23,360)	(24,426)
Deferred income tax asset, net	\$ 32,396	\$ —	\$ 32,396	\$ 28,437	\$ —	\$ 28,437

Principal Revenue & Expense Items

Revenues

Our primary revenue sources are net insurance premiums, commissions, net investment income, net gains (losses) on investments, insurance lead sales and other income.

Net Insurance Premiums

Net premiums consist of direct life insurance premiums due and collected from our policyholders on in-force insurance policies and premiums collected on assumed life reinsurance contracts, less reinsurance premiums paid to reinsurers. Direct premiums are recorded in our Insurance Segment and classified as first year premiums when they relate to the first calendar year coverage period. Premiums for policies outside their first calendar year are called renewal premiums.

Net Investment Income

Net investment income consists of income generated from our investment portfolio and is recorded net of related expenses incurred to manage our investments. Net investment income primarily consists of interest income earned on fixed maturity security investments and dividends earned on our equity holdings, net of related expenses incurred to manage our investments. Net investment income earned on assets required to support insurance reserves, annuity deposits and related regulatory capital requirements is allocated to our Insurance Segment. Any other net investment income is recorded in the Corporate & Other Segment.

Earned Commissions

Earned commission revenue consists of amounts received and due from insurance carriers on policies sold by Efinancial and is recorded in our Agency Segment. However, the commission revenue from sales of Fidelity Life policies, not included in the AmeriLife agreement, are eliminated in our Consolidated Statements of Operations, because Efinancial and Fidelity Life are affiliated.

Net Gains (Losses) on Investments

Net gains (losses) on investments result from sales of investment securities and net of allowances for credit losses of fixed maturity securities.

Insurance Lead Sales

In our Agency Segment, insurance lead sales revenue consists of (i) click-through revenues we generate when leads click through to our webpages to access information about life insurance options sponsored by another company and (ii) data revenues we generate through the sale of information regarding leads.

Other Income

For our Insurance Segment, other income primarily consists of cost of insurance charges on universal life contracts. Included in other income are fees received from the licensing of our patented worksite product where the licensee is required under the agreement to pay a licensing fee as premiums are earned. The license of intellectual property rights for a licensing transaction in which consideration is tied to the subsequent sale or usage of intellectual property, the revenue recognition standard provides an exception to the recognition principle that is part of step 5 (i.e., recognize revenue when or as control of the goods or services is transferred to the customer). Under this sales- or usage-based royalty exception, an entity would not estimate the variable consideration from sales- or usage-based royalties. Instead, the entity would wait until the subsequent sale or usage occurs to determine the amount of revenue to recognize. Accordingly, licensing fee income under this arrangement is recognized as the licensee earns premiums.

Benefits and Expenses

This category consists of benefits to policyholders, which include policyholder dividends and policyholder dividend obligations (PDO), interest credited to policyholder and contract-holder balances, general operating expenses and amortization of DAC.

Life, Annuity and Health Claim Benefits

Benefit expenses are recorded in our Insurance Segment. Benefit expenses include claims paid or payable on in-force insurance policies, as well as the change in our reserves for future policy benefits during the period. Benefit expenses are reduced by amounts ceded to reinsurance companies with whom we contract to share policy risks.

Interest Credited to Policyholder Account Balances

The interest credited primarily relates to amounts that contract-holders earn on any contract-holder deposits from our assumed annuity contracts and other amounts left on deposit with us. Our universal life policies and assumed annuity contracts require Fidelity Life to periodically establish the crediting rate to be paid on policyholder and contract-holder deposits. All current assumed annuity contracts are credited with interest at the minimum interest rate guaranteed in the contract. Interest credited relates solely to our Insurance Segment.

Operating Costs and Expenses

Operating expenses are incurred by all of our segments. The operating expenses of our Insurance Segment include policy acquisition costs in excess of amounts that qualify for deferral, ceding commissions received on ceded reinsurance in excess of amounts deferred, variable policy administration costs, general overhead and administration costs, and insurance premium taxes and assessments paid to various states. Agency Segment expenses consist of compensation paid to employee sales agents, costs of insurance sales leads (marketing), costs of sales management and support activities, agent licensing expenses and general overhead and administration expenses. The expenses of the Corporate & Other Segment include allocation of a portion of the compensation of senior executives related to corporate activities, Board of Director expenses related to corporate business, and other operating costs considered to be of a corporate nature and not directly related to either of our other business segments. Overhead and administrative expenses of the segments include employee costs (salaries, bonuses and benefits), office rent, information technology and costs of third-party administrators and other contractors.

Amortization of Deferred Policy Acquisition Costs

DAC amortization represents the actuarially determined reduction in the DAC asset for the period. The amount of acquisition cost amortization recognized each period is based on actual factors established when the insurance contracts were written.

Results of Operations

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

(dollars in thousands)	Vericity, Inc. Consolidated Results of Operations	
	Year Ended December 31,	
Revenues	2023	2022
Net insurance premiums	\$ 96,839	\$ 100,075
Net investment income	16,613	16,036
Net (losses) gains on investments	(2,507)	(327)
Earned commissions	59,937	42,634
Insurance lead sales	4,008	4,453
Other income	2,675	1,041
Total revenues	177,565	163,912
Benefits and expenses		
Life, annuity, and health claim benefits	67,674	67,502
Interest credited to policyholder account balances	2,638	2,780
Operating costs and expenses	104,151	97,755
Amortization of deferred policy acquisition costs	13,954	18,443
Total benefits and expenses	188,417	186,480
(Loss) income before income taxes	(10,852)	(22,568)
Income tax (benefit) expense	(959)	(2,108)
Net (loss) income	\$ (9,893)	\$ (20,460)

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Total Revenues

For the year ended December 31, 2023, total revenues were \$177.6 million compared to \$163.9 million for the year ended December 31, 2022. This increase of \$13.7 was primarily due to an increase in earned commissions and net investment income, partially offset by a decrease in net insurance premiums, a higher net loss on investments and a decrease in insurance lead sales.

Benefits and Expenses

For the year ended December 31, 2023, total benefits and expenses were \$188.4 million compared to \$186.5 million for the year ended December 31, 2022. This increase of \$1.9 million was primarily due to higher operating expenses partially offset by amortization of deferred policy acquisition expenses.

Loss from Operations Before Income Taxes

For the year ended December 31, 2023, we had a loss before taxes of \$10.9 million compared to a loss before taxes of \$22.6 million for the year ended December 31, 2022. This decrease in loss of \$11.7 million was primarily due to increases in earned commission, net investment income and lower deferred policy acquisition costs, partially offset by higher operating costs and expenses, lower net insurance premiums and higher net losses on investments.

Income Taxes

For the year ended December 31, 2023, our income tax benefit was \$1.0 million compared to an income tax benefit of \$2.1 million for the year ended December 31, 2022. The decreased benefit of \$1.1 million reflects a smaller loss attributable to the life sub-group. The non-life sub-group has a full valuation allowance, therefore no income tax impact. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Income Taxes."

Analysis of Segment Results

Reconciliation of Segment Results to Consolidated Results

The following analysis reconciles the reported segment results to the Vericity, Inc. total consolidated results.

	Year Ended December 31,	
	2023	2022
	(dollars in thousands)	
(Loss) income before income tax by segment		
Agency	\$ 1,444	\$ (8,695)
Insurance	(3,502)	(7,652)
Corporate & Other	(8,794)	(6,221)
(Loss) income from operations before income tax	(10,852)	(22,568)
Income tax (benefit) expense	(959)	(2,108)
Net (loss) income	\$ (9,893)	\$ (20,460)

Agency Segment

The results of our Agency Segment were as follows:

	Year Ended December 31,	
	2023	2022
	(dollars in thousands)	
Revenues		
Earned commissions	\$ 60,282	\$ 43,063
Insurance lead sales & other	5,579	4,890
Total revenues	65,861	47,953
Expenses		
Operating costs and expenses	64,417	56,648
Total expenses	64,417	56,648
Income (loss) before income taxes	\$ 1,444	\$ (8,695)

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Earned Commissions

For the year ended December 31, 2023, earned commissions were \$60.3 million compared to \$43.1 million for the year ended December 31, 2022. This increase of \$17.2 million resulted primarily from increased sales in the retail channel.

Insurance Lead Sales & other

For the year ended December 31, 2023, insurance lead sales and other were \$5.6 million compared to \$4.9 million for the year ended December 31, 2022. This increase of \$0.7 million was primarily due to higher click-through revenue.

Operating Costs and Expenses

For the year ended December 31, 2023, general operating expenses were \$64.4 million compared to \$56.7 million for the year ended December 31, 2022. This increase of \$7.7 million was primarily due to an increase in variable costs.

Net (Loss) Income

For the year ended December 31, 2023, the Agency Segment had a net gain of \$1.4 million compared to a net loss of \$8.7 million for the year ended December 31, 2022. This increase in net income of \$10.2 million was the result of higher earned commissions and insurance lead sales, partially offset by increased operating costs and expenses.

Insurance Segment

The results of our Insurance Segment were as follows:

	Year Ended December 31,	
	2023	2022
	(dollars in thousands)	
Revenues		
Net insurance premiums	\$ 96,839	\$ 100,075
Net investment income	16,305	15,556
Net (losses) gains on investments	(2,143)	(590)
Other income	1,104	604
Total revenues	<u>112,105</u>	<u>115,645</u>
Benefits and expenses		
Life, annuity, and health claim benefits	67,674	67,502
Interest credited to policyholder account balances	2,638	2,780
Operating costs and expenses	31,341	34,572
Amortization of deferred policy acquisition costs	13,954	18,443
Total benefits and expenses	<u>115,607</u>	<u>123,297</u>
(Loss) income before income taxes	<u>\$ (3,502)</u>	<u>\$ (7,652)</u>

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Net Insurance Premiums

For the year ended December 31, 2023, net insurance premiums were \$96.8 million compared to \$100.1 million for the year ended December 31, 2022. The decrease of \$3.3 million was primarily due to a decrease in Core of \$5.1 million driven mostly by a decrease in LBT of \$8.8 million and RDL of \$1.0 million, offset by Final Expense increase of \$4.8 million and increases in Non-Core of \$1.0 million and Closed Block of \$1.0 million. The Swiss Re deal (see discussion earlier in this Management Discussion and Analysis of Financial Condition and Results of Operations) contributed a positive \$7.3 million increase to the net premium from 2022 to 2023.

Net Investment Income

For the year ended December 31, 2023, net investment income was \$16.3 million compared to \$15.6 million for the year ended December 31, 2022. This 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-K.

Net (Losses) Gains on Investments

For the year ended December 31, 2023, net loss on investments was \$2.1 million compared to a loss of \$0.6 million for the year ended December 31, 2022. The \$1.5 million decrease was mainly due to valuation changes of other invested assets. For more information on net gains (losses) on investments, see “Note 2–Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-K.

Life, Annuity and Health Claim Benefits

For the year ended December 31, 2023, life, annuity and health claim benefits were \$67.7 million compared with \$67.5 million for the year ended December 31, 2022. The increase of \$0.2 million was primarily due to a \$3.0 million increase in our Core lines and a \$0.6 million increase in FKLA, partially offset by \$3.2 million decrease in Non-Core lines and a decrease in \$0.3 million in annuities. The impact of the reinsurance agreement with Swiss Re was a decrease in ceded benefits of \$7.0 million (see discussion earlier in this Management Discussion and Analysis of Financial Condition and Results of Operations).

Interest Credited to Policyholder Account Balances

For the year ended December 31, 2023, interest credited was \$2.6 million compared to \$2.8 million for the year ended December 31, 2022. This decrease of \$0.2 million was due to lower interest credited on assumed fixed annuity contract-holder account balances.

Operating Costs and Expenses

For the year ended December 31, 2023, general operating expenses were \$31.3 million compared to \$34.6 million for the year ended December 31, 2022. This decrease of \$3.3 million was attributable, primarily to higher ceded allowances.

Amortization of Deferred Policy Acquisition Costs

For the year ended December 31, 2023, amortization of deferred acquisition costs was \$13.9 million compared to \$18.4 million for the year ended December 31, 2022. This decrease of \$4.5 million includes a decrease in the Closed Block of \$2.5 million and \$3.9 million in our Core lines, partially offset by an increase of \$1.9 million in our Non-Core lines.

Net (Loss) Income

For the year ended December 31, 2023, net loss was \$3.5 million compared to a net loss of \$7.7 million for the year ended December 31, 2022. The decrease in net loss of \$4.2 million resulted from lower operating costs and expenses and amortization of deferred policy acquisition costs, partially offset by lower net insurance premiums and lower net gains on investments.

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.

Included in Closed Block assets at December 31, 2023 and December 31, 2022 are \$11.1 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 Consolidated Financial Statements.

Corporate & Other Segment

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

	Year Ended December 31,	
	2023	2022
	(dollars in thousands)	
Revenues		
Net investment income	\$ 308	\$ 480
Net (losses) gains on investments	(364)	263
Earned commissions	(345)	(429)
Total revenues	(401)	314
Expenses		
Operating costs and expenses	8,393	6,535
Total expenses	8,393	6,535
(Loss) income from operations before income tax	\$ (8,794)	\$ (6,221)

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Net Gains (Losses) on Investments

For the year ended December 31, 2023, net losses on investments were \$0.4 million compared to a gain of \$0.3 million for the year ended December 31, 2022. This change is attributable to net asset valuation changes of other invested assets.

Operating Expenses

For the year ended December 31, 2023, operating expenses were \$8.4 million compared to \$6.5 million for the year ended December 31, 2022, primarily related to \$3.4 million of transaction costs related to the recent merger agreement with iA American Holdings, Inc., partially offset with lower staff costs.

Investments

Investment Returns

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

Gains and losses on sales of investments are classified as net gains (losses) on investments 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 our Insurance Segment is designed to maintain a well-diversified, high quality fixed maturity 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 our Insurance Segment are managed with an emphasis on current income within quality and diversification constraints. The focus is on book yield of the fixed maturity 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. Almost 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 and in particular these managers are selected based upon their expertise in the particular asset classes that we own. We contract with an investment management firm to provide overall assistance with oversight of our portfolio managers, evaluation of investment performance and assistance with development and implementation of our investment strategy. This investment management firm reports to our Chief Financial Officer and to the Investment Committee of Fidelity Life’s Board of Directors. On a quarterly basis, or more frequently if circumstances require, we review the performance of all portfolios and portfolio managers with the Investment Committee.

The following table shows the distribution of the fixed maturity securities classified as available-for-sale by quality rating, using the rating assigned by Standard & Poor's (S&P), a nationally recognized statistical rating organization. For securities where the S&P rating is not available (not rated), the National Association of Insurance Commissioners (NAIC) rating is used. Over the periods presented, we have maintained a consistent weighted average bond quality rating of "A." The percentage allocation of total investment grade securities has increased to 96.0% at December 31, 2023 from 95.1% at December 31, 2022 due to the S&P ratings on certain new securities acquired in our portfolio of distressed residential mortgage-backed securities.

S&P Rating	Estimated Fair Value			
	December 31, 2023		December 31, 2022	
	(dollars in thousands)			
AAA	\$ 36,750	11.7%	\$ 53,065	17.8%
AA	81,513	26.0%	66,283	22.2%
A	70,682	22.6%	64,018	21.5%
BBB	51,638	16.5%	56,194	18.8%
Not rated	60,263	19.2%	44,163	14.8%
Total investment grade	300,846	96.0%	283,723	95.1%
BB	5,134	1.6%	5,520	1.9%
B	2,844	1.0%	4,778	1.6%
CCC	407	0.1%	492	0.2%
Not Rated	4,151	1.3%	3,625	1.2%
Total below investment grade	12,536	4.0%	14,415	4.9%
Total	\$ 313,382	100.0%	\$ 298,138	100.0%

The following table sets forth the maturity profile of our fixed maturity securities at December 31, 2023 and 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.

(dollars in thousands)	December 31, 2023				December 31, 2022			
	Amortized Cost	%	Fair Value	%	Amortized Cost	%	Fair Value	%
Due in one year or less	\$ 7,754	2.3%	\$ 7,670	2.4%	\$ 6,239	1.9%	\$ 6,207	2.1%
Due after one year through five years	37,576	11.2%	36,830	11.8%	34,330	10.3%	32,719	11.0%
Due after five years through ten years	74,512	22.2%	71,313	22.8%	72,312	21.8%	67,472	22.6%
Due after ten years	144,102	42.9%	129,902	41.5%	136,004	41.0%	115,545	38.7%
Securities not due at a single maturity date—primarily mortgage and asset-backed securities	72,198	21.5%	67,667	21.6%	83,061	25.0%	76,195	25.6%
Total fixed maturities	\$ 336,142	100.1%	\$ 313,382	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 determine if a credit loss has occurred. 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Change in Allowance for Credit Losses".

Net Investment Income

One key measure of our net investment income is the book yield on our holdings of fixed maturity securities classified as available-for-sale, which holdings totaled \$313.4 million and \$298.1 million, and represented 86.2% and 84.3% of our invested assets, as of December 31, 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 years ended December 31, 2023 and December 31, 2022, our book yield on fixed maturity securities available-for-sale was 4.5% for the years ended December 31, 2023 and December 31, 2022.

See "Note 2 – Investments" in the Notes to the Consolidated Financial Statements included in this Form 10-K.

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:

	December 31, 2023			December 31, 2022		
	Ending Balance	Year to Date Interest Credited	Average Credit Rate	Ending Balance	Year to Date Interest Credited	Average Credit Rate
(dollars in thousands)						
Annuity contract holder deposits—assumed	\$ 62,665	\$ 2,438	3.9%	\$ 69,070	\$ 2,576	3.7%
Dividends left on deposit	6,492	165	2.5%	6,731	169	2.5%
Other	1,569	35	2.2%	1,642	35	2.1%
Total	<u>\$ 70,726</u>	<u>\$ 2,638</u>	3.7%	<u>\$ 77,443</u>	<u>\$ 2,780</u>	3.6%

The liability for deferred annuity deposits represents the contract-holder account balances. We credit interest on all contract-holder deposit liabilities at contractual rates that are currently at the minimum rate allowed by the contract or by state regulations.

Our Insurance Segment realizes operating profit from the excess of our book yield realized on fixed maturity securities that support our contract-holder deposits over the amount of interest that we credit to the contract-holder. We refer to this operating profit as the “spread” we earn on contract-holder deposits. Our book yields on fixed maturity investments have declined in recent periods due to current market conditions. If book yields continue to decline, 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 in particular correlate generally with movements in the major equity market indexes. The amounts classified as investment gains and losses in our Consolidated Statements of Operations include amounts realized from sales of investments, mark-to-market adjustments on investments classified as equity holdings and investments that use the equity method of accounting (limited partnership interests which are included in Other invested assets on the Consolidated Balance Sheet) and individual securities related to credit losses.

See “Note 2 – Investments” in the Notes to the Consolidated Financial Statements included in this Form 10-K.

Unrealized Holding Gains (Losses)

We also record capital appreciation/depreciation on our available-for-sale fixed maturity securities. We had Accumulated Other Comprehensive income of \$9.0 million and a loss of \$41.1 million, net of federal income taxes and reserve, for years ended December 31, 2023 and December 31, 2022, respectively.

At December 31, 2023 our fixed maturity securities had an unrealized loss of \$22.8 million compared to an unrealized loss of \$33.8 million at December 31, 2022. Duration measures the sensitivity of a bond’s price to changes in market yields and convexity measures a bond’s duration sensitivity to changes in market yields. The Company’s unrealized gain incurred in 2023 was \$11.0 million in our fixed maturities portfolio which has a duration of 7.1, convexity of 0.791, and current yield of 5.6%, is accounted for by the fluctuation of the 10-year treasury bill yield in 2023.

Financial Position

At December 31, 2023, we had total assets of \$822.8 million compared to total assets at December 31, 2022 of \$770.1 million, an increase of \$52.7 million. Reinsurance recoverables increased \$23.7 million as a result of a \$22.4 million increase in ceded policy and claim reserves and \$1.3 million related to timing of settlements of reinsured claims. Commission and agent balances increased \$18.7 million mainly due to increased commission receivables in the Agency segment and increased agent debit balances in the insurance segment. The invested asset base increased \$9.6 million, mainly due to \$11.0 million in net unrealized gains partially offset by net sales of investments. Deferred income tax assets increased \$4.0 million due to tax credits of \$5.9 million as a result of a net loss, partially offset by \$1.9 million of unrealized investment market gains. Accrued investment income increased \$0.6 million due to timing of receipt of investment income. The above increases were partially offset by the following: Deferred policy acquisition costs decreased \$2.1 million, resulting from amortization of \$14.0 million being higher than deferrals of new business of \$11.8 million and cash decreased \$1.7 million primarily related to cash used from investing, offset by inflows from operating and financing.

At December 31, 2023, we had total liabilities of \$712.6 million compared to total liabilities of \$658.7 million at December 31, 2022, an increase of \$53.9 million. Future policy benefits and claims increased \$48.7 million, primarily due to a \$49.8 million increase in Core Life and Non-Core Life lines, resulting from growth of the underlying blocks of business, partially offset by decreases in

Annuities and assumed life of \$1.0 million and Closed Block of \$0.1 million. Debt increased \$11.8 million due increase in net borrowing of \$9.2 million and interest accrued of \$2.6 million under our commission financing agreement with Hannover Life. Other liabilities increased \$6.0 million, due to an increase in operating liabilities. The above increases were partially offset by decreases in policyholder account balances of \$6.7 million largely due to annuity payments and Other policyholder liabilities of \$6.0 million due to a decrease in claim liabilities.

At December 31, 2023, total equity decreased to \$110.2 million from \$111.3 million at December 31, 2022. This decrease in equity of \$1.1 million primarily consists of a net loss of \$9.9 million and a increase of \$8.9 million in other comprehensive income.

Liquidity and Capital Resources

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

Under our commission financing arrangement, Efinancial receives an upfront commission from Hannover Life on certain insurance products and agrees to pay levelized commissions back to Hannover Life over the period the policy stays in-force and premiums are received. On March 31, 2022, Efinancial entered into a new commission financing arrangement and is taking new advances on this financing arrangement. As of December 31, 2023 and December 31, 2022, we had net advances of \$40.4 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. We own FHLBC common stock with a book value of \$0.3 million, The Company's ability to borrow under this facility is subject to the FHLBC's discretion and requires the availability of qualifying assets. Interest on borrowed funds is charged at variable rates established from time to time by the FHLBC based on the interest rate option selected at the time of borrowing. The Company borrowed and repaid \$21 million and \$4 million in 2023 and 2022, respectively.

Fidelity Life's ability to pay dividends to Vericity Holdings, Inc. (VHI) is limited by the insurance laws of the State of Illinois. All shareholder dividends are subject to notice filings with the Illinois Director of Insurance. The maximum amount of dividends that can be paid by Illinois life insurance companies to shareholders without 30 days prior notice to the Illinois Director of Insurance is the greater of (i) statutory net income for the preceding year or (ii) 10% of statutory surplus as of the preceding year-end. Under Illinois insurance statutes, dividends may be paid only from surplus, excluding unrealized appreciation in value of investments, without prior approval. Dividends in excess of these amounts require advance approval of the Illinois Director of Insurance. There are no limitations on the amount of dividends that Efinancial can pay.

Cash inflows from operating activities come primarily from net insurance premiums, earned commissions and net investment income. Cash outflows from operations are the result of life, annuity and health claim benefits, operating expenses and income taxes.

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

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

Cash Flows

For the for the year ended December 31, 2023, the Company had a net decrease in cash of \$1.7 million compared to a net decrease of \$12.6 million for the year ended December 31, 2022.

The increase in cash flows from operating activities is primarily due to timing related to reinsurance recoverables and an increase in other policyholder liabilities.

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 year ended December 31, 2023, \$6.7 million was used principally to acquire \$5.6 million of capitalized software and \$1.1 million of investment purchases net of sales and maturities.

Cash flows from financing activities was \$0.1 million which includes \$9.3 million net proceeds from our commission financing program, partially offset by \$9.2 million, 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 years ended December 31, 2023 and 2022.

	Year Ended December 31,	
	2023	2022
(dollars in thousands)		
Consolidated Summary of Cash Flows		
Net cash provided (used) by operating activities	\$ 4,833	\$ (7,370)
Net cash (used) provided by investing activities	(6,680)	(8,766)
Net cash provided (used) by financing activities	115	3,513
Net (decrease) in cash, cash equivalents and restricted cash	<u>\$ (1,732)</u>	<u>\$ (12,623)</u>

Risk-Based Capital

Fidelity Life is subject to regulatory guidelines related to the ratio of its capital level compared to its RBC level as determined by formulas adopted by state insurance departments and applicable to all life insurance companies. A company's "authorized control level RBC" is a measure of the amount of capital appropriate for an insurance company to support its overall business operations in light of its size, growth and risk profile. RBC standards are used by regulators to determine appropriate regulatory actions for insurers that show signs of weak or deteriorating conditions. Companies that do not maintain total adjusted RBC in excess of 200% of the company's authorized control level RBC may be required to take specific actions at the direction of state insurance regulators. Fidelity Life's total adjusted capital at December 31, 2023 and 2022 was well in excess of 200% of its authorized control level. See "Business—Regulation—Risk-Based Capital (RBC) Requirements."

Due to the continued growth in Fidelity Life's sales of new insurance policies, Fidelity Life's statutory surplus has been declining. The accounting principles applicable to regulatory reporting require that insurance companies expense all policy acquisition costs as incurred. Acquisition expenses attributable to Fidelity Life's increasing new business growth have resulted in net losses being reported for regulatory reporting purposes. Regulatory accounting principles allow limited recognition of the future benefits of deferred tax assets. Accordingly, we recognize no income tax benefit that would offset our operating losses for regulatory reporting purposes.

Fidelity Life is also subject to the model regulation entitled "Valuation of Life Insurance Policies" commonly known as "Regulation XXX." This regulation requires life insurance companies that issue insurance policies with level premium guarantees to carry reserves that can greatly exceed the amount that the insurance company believes is necessary to reflect its liability for future claim payments. Such reserves are sometimes referred to as "non-economic reserves." Many insurance companies use reinsurance, financing, formation of captive reinsurers and other reserve financing transactions to reduce the regulatory capital needs under Regulation XXX. Generally, these solutions have only been available to carriers with much larger amounts of affected liabilities than Fidelity Life. To mitigate the future impact on regulatory capital from Regulation XXX and help stabilize our regulatory capital position in light of anticipated sales increases, we entered into a reserve financing agreement with Hannover Life effective July 1, 2013 that covered certain products with policies written on or before September 30, 2012. This agreement was first amended and restated as of July 1, 2016 and a subsequent amendment was filed with the Illinois Department of Insurance in November 2019 and approved by the Illinois Department of Insurance on December 23, 2019. The structure of the agreement, which was first effective July 1, 2013, involves a combination coinsurance with funds withheld and yearly renewable term reinsurance covering most of the Company's non-participating in-force life insurance business with issue dates on or before December 31, 2019. As of December 31, 2023 and December 31, 2022, the reserve credit net of funds held of (\$67.6 million and \$69.2 million for 2023 and 2022), respectively under this arrangement was approximately \$145.3 million and \$136.0 million, respectively.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity or capital expenditures.

Quantitative and Qualitative Information about Market Risk

We own a diversified portfolio of investments including cash, bonds, commercial mortgages, and common stock. Each of these investments is subject, in varying degree, to market risk that can affect their return and their fair value. Bonds are the majority of our investments and include debt issues of corporations, residential and commercial mortgage-backed securities or other asset-backed securities, U.S. Treasury securities, or obligations of U.S. Government Sponsored Enterprises and are classified as fixed maturity investments in our financial statements. Our investment portfolios are subject to market risks.

Market risk is the risk that we will incur losses due to adverse changes in market rates and prices on the fair value of the investment securities that we own. We have exposure to market risk through our investment activities, including interest rate risk, credit risk, equity risk and foreign currency risk. We have not and do not plan to enter into any derivative financial instruments for trading or speculative purposes.

Interest Rate Risk

Interest rate risk arises from the price sensitivity of investments to changes in interest rates. The changes in the fair value of our fixed maturity investments are inversely related to changes in market interest rates. As market interest rates fall the fixed income streams of fixed maturity investments held become more valuable and market values rise. As market interest rates rise, the opposite effect occurs. Interest rate risk can also arise if market rates fall, which can result in lower interest spreads on our assumed annuity deposits, which are our primary interest rate sensitive liability.

We review the interest rate sensitivity of our available-for-sale fixed maturity securities by calculating the impact on the market value of our holdings that would result from a hypothetical instantaneous shift in market interest rates across all maturities, which we consider to be reasonably possible. The impact of such a parallel shift upward in the yield curve of 200 basis points would reduce the market value of our fixed maturity securities portfolio by \$41.3 million (13.2%) and \$39.4 million (13.2%) as of December 31, 2023 and December 31, 2022, respectively. The estimated market value changes assume all other factors are held constant and do not attempt to estimate any offsetting change in the value of our liabilities.

With regard to our assumed annuity deposits, we are subject to risk from contract-holder behavior resulting from changes in interest rates. The assumed annuity contracts have virtually no surrender charges remaining that could be assessed against withdrawals. When market interest rates exceed the amount that we are crediting on deposits, we are subject to higher contract-holder withdrawals or an increase in contract loans, both of which could force the Company to sell assets prematurely and could lead to the realization of capital losses on such sales. As of December 31, 2023, we were crediting interest at the minimum contract interest rate, which on a composite basis is approximately 3.9% annually. We manage our exposure to rising interest rates through our ability to increase the contract crediting rate. Our ability to increase our crediting rate is constrained by our portfolio yield at the time of the decision to increase rates. Increases in the contract crediting rates could reduce our income unless we are able to maintain a constant interest spread on our assets.

Credit Risk

Credit risk is the risk of loss due to an adverse change in the financial condition of a specific debt issuer or, in the case of a securitized investment, adverse change in the assets being securitized. We address credit risk by establishing minimum rating standards for investments that our portfolio managers can acquire and, in the case of a downgrade, continue to hold the investment. For our core fixed maturity portfolio, which comprises a significant majority of our invested assets, only investment grade securities (minimum credit rating for new investments is BBB- as established by Standard & Poor's or a comparable nationally recognized statistical rating organization) can be purchased and such portfolio managers must maintain an overall credit rating for the portfolio of at least A-. Through our portfolio managers, we monitor the financial condition of all the issues of securities that we own. As an additional step to reduce our exposure to credit risk, we have established diversification guidelines limiting the total amount of holding by issuer and by investment sector.

Recent Accounting Pronouncements

All applicable adopted accounting pronouncements have been reflected in our consolidated financial statements as of and for the years ended December 31, 2023 and December 31, 2022.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and Item 10(f)(1) of Regulation S-K, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore is not required to provide the information required by Item 305 of Regulation S-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of Vericity, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Vericity, Inc. and subsidiaries (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows, for each of the two years in the period ended December 31, 2023, and the related notes and schedules listed in the Index at Item 8 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
April 1, 2024

We have served as the Company's auditor since 2005.

Vericity, Inc.
Consolidated Balance Sheets
(dollars in thousands, except share and par value data)

	December 31,	December 31,
	2023	2022
Assets		
Investments:		
Fixed maturities – available-for-sale – at fair value (net of allowance for credit loss of \$28 and \$0, and amortized cost \$336,142 and \$331,946)	\$ 313,382	\$ 298,138
Mortgage loans (net of allowances for credit losses of \$573 and \$83)	40,534	45,270
Policyholder loans	7,149	6,699
Other invested assets	2,364	3,693
Total investments	363,429	353,800
Cash, cash equivalents and restricted cash	8,044	9,776
Accrued investment income	3,630	3,006
Reinsurance recoverables (net of allowances for credit losses of \$167 and \$126)	238,598	214,862
Deferred policy acquisition costs	88,076	90,189
Commissions and agent balances (net of allowances for credit losses of \$336 and \$338)	53,494	34,766
Intangible assets	1,635	1,635
Deferred income tax assets, net	32,396	28,437
Other assets	33,516	33,607
Total assets	822,818	770,078
Liabilities and Shareholders' Equity		
Liabilities		
Future policy benefits and claims	502,464	453,763
Policyholder account balances	70,726	77,443
Other policyholder liabilities	41,450	47,486
Policy dividend obligations	9,636	9,515
Reinsurance liabilities and payables	6,262	6,246
Long-term debt	39,761	30,213
Short-term debt	9,249	6,976
Other liabilities	33,057	27,093
Total liabilities	712,605	658,735
Commitments and Contingencies (Note 10)		
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	91,580	101,660
Accumulated other comprehensive (loss) income	(21,222)	(30,172)
Total shareholders' equity	110,213	111,343
Total liabilities and shareholders' equity	\$ 822,818	\$ 770,078

See footnotes to the consolidated financial statements.

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

	Year Ended December 31,	
	2023	2022
Revenues		
Net insurance premiums	\$ 96,839	\$ 100,075
Net investment income	16,613	16,036
Net (losses) gains on investments	(2,507)	(327)
Earned commissions	59,937	42,634
Insurance lead sales	4,008	4,453
Other income	2,675	1,041
Total revenues	<u>177,565</u>	<u>163,912</u>
Benefits and expenses		
Life, annuity, and health claim benefits	67,674	67,502
Interest credited to policyholder account balances	2,638	2,780
Operating costs and expenses	104,151	97,755
Amortization of deferred policy acquisition costs	13,954	18,443
Total benefits and expenses	<u>188,417</u>	<u>186,480</u>
(Loss) Income before income tax	(10,852)	(22,568)
Income tax (benefit) expense	(959)	(2,108)
Net (loss) income	<u>\$ (9,893)</u>	<u>\$ (20,460)</u>

Earnings per share for the periods

	Year Ended December 31,	
	2023	2022
Weighted average shares outstanding, basic and diluted	14,875,000	14,875,000
Basic (loss) earnings per share	\$ (0.67)	\$ (1.38)
Diluted earnings per share	\$ (0.67)	\$ (1.38)

See footnotes to the consolidated financial statements.

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

	<u>Year Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Net (loss) income	\$ (9,893)	\$ (20,460)
Other comprehensive (loss) income, net of tax:		
Change in net unrealized gains (losses)	8,950	(41,101)
Total other comprehensive income (loss)	8,950	(41,101)
Total comprehensive (loss) income	<u>\$ (943)</u>	<u>\$ (61,561)</u>

See footnotes to the consolidated financial statements.

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

	Year Ended December 31,	
	2023	2022
Common stock		
Balance – beginning of period	\$ 15	\$ 15
Balance – end of period	<u>\$ 15</u>	<u>\$ 15</u>
Additional paid-in capital		
Balance – beginning of period	\$ 39,840	\$ 39,840
Balance – end of period	<u>\$ 39,840</u>	<u>\$ 39,840</u>
Retained earnings		
Balance – beginning of period	\$ 101,660	\$ 122,120
Cumulative effect adjustment from changes in accounting guidance, net of tax	(187)	—
Balance after adjustments - beginning of period	<u>\$ 101,473</u>	<u>\$ 122,120</u>
Net (loss) income	(9,893)	(20,460)
Balance – end of period	<u>\$ 91,580</u>	<u>\$ 101,660</u>
Accumulated other comprehensive (loss) income		
Balance – beginning of period	\$ (30,172)	\$ 10,929
Other comprehensive (loss) income	8,950	(41,101)
Balance – end of period	<u>\$ (21,222)</u>	<u>\$ (30,172)</u>
Total shareholders' equity	<u>\$ 110,213</u>	<u>\$ 111,343</u>

See footnotes to the consolidated financial statements.

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

	Year Ended December 31,	
	2023	2022
Cash flows from operating activities		
Net (loss) income	\$ (9,893)	\$ (20,460)
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:		
Depreciation and amortization and other non-cash items	5,413	4,105
Interest credited to policyholder account balances	2,638	2,780
Deferred income tax	(5,849)	(6,160)
Net investment (losses) gains	2,507	327
Interest expense	2,529	1,648
Change in:		
Accrued investment income	(624)	(416)
Reinsurance recoverables, net	(23,736)	(30,731)
Deferred policy acquisition costs	2,113	5,526
Commissions and agent balances	(18,728)	(6,077)
Other assets	2,566	(402)
Insurance liabilities	42,636	41,783
Other liabilities	3,261	707
Net cash provided (used) by operating activities	<u>4,833</u>	<u>(7,370)</u>
Cash flows from investing activities		
Sales, maturities and repayments of:		
Fixed maturities	44,466	37,534
Mortgage loans	5,266	6,650
Other invested assets	454	-
Purchases of:		
Fixed maturities	(49,019)	(42,373)
Mortgage loans	(964)	(4,527)
Other invested assets	(840)	(980)
Change in policyholder loans, net	(450)	(328)
Other, net	(5,593)	(4,742)
Net cash (used) provided by investing activities	<u>(6,680)</u>	<u>(8,766)</u>
Cash flows from financing activities		
Debt issued	43,983	22,169
Debt repaid	(34,691)	(13,006)
Deposits to policyholder account balances	753	381
Withdrawals from policyholder account balances	(9,930)	(6,031)
Net cash provided (used) by financing activities	<u>115</u>	<u>3,513</u>
Net (decrease) in cash, cash equivalents and restricted cash	(1,732)	(12,623)
Cash, cash equivalents and restricted cash – beginning of period	9,776	22,399
Cash, cash equivalents and restricted cash – end of period	<u>\$ 8,044</u>	<u>\$ 9,776</u>
Supplemental cash flow information		
Non-cash transactions:	\$ —	\$ —

See footnotes to the consolidated financial statements.

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

Note 1—Summary of Significant Accounting Policies

Description of Business

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, including receipt of approval from the Illinois Department of Insurance, 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. 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 de-listed from The Nasdaq Capital Market and de-registered under the Securities Exchange Act of 1934, as amended. 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. As of the date of this filing, the Company is awaiting the Illinois Department of Insurance approval of the transaction. No other regulatory approvals remain outstanding. The Merger is expected to close during the second quarter 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 consolidated financial statements present the accounts of the Company and subsidiaries at December 31, 2023 and December 31, 2022, and for the years ended December 31, 2023 and 2022.

Basis of Presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of 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.

Unconsolidated Variable Interest Entities

In the normal course of investing activities, the Company enters into relationships with variable interest entities (VIEs), as an investor in limited partnership interests and asset-backed securities. The Company is not the primary beneficiary of these VIEs, and therefore does not consolidate them. The Company determines whether it is the primary beneficiary of a VIE based on a qualitative assessment of the relative power and benefits of the Company and the other participants in the VIE. The Company’s maximum exposure to loss with respect to these investments is limited to the investment carrying values included in the Company’s Consolidated Balance Sheets and any unfunded commitments.

Fixed Maturities

Fixed maturities classified as available-for-sale are reported at fair value. Changes in fair value are reported as unrealized gains or losses as discussed below. Fixed maturities include bonds, residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities. Unrealized gains and losses on available-for-sale fixed maturity securities are reported as a component of accumulated other comprehensive income (AOCI), net of applicable deferred income taxes.

Fair value is based on quoted market prices, when available. When quoted market prices are not available, fair value is estimated by discounting fixed maturity securities cash flows to reflect interest rates currently being offered on similar terms to borrowers of similar credit quality, by quoted market prices of comparable instruments, and by independent pricing sources. See "Note 11—Assets and Liabilities Measured at Fair Value" for further discussion on inputs and assumptions used to estimate fair value.

Mortgage Loans

Mortgage loans are held on commercial real estate and are stated at the aggregate unpaid principal balances, net of any write-downs and valuation allowances. The Company identifies loans for evaluation of impairment primarily based on the collection experience of each loan. Mortgage loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect principal or interest amounts according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral. Impairments are included in net gains (losses) on investments in the Consolidated Statements of Operations.

Interest income from mortgage loans is recognized on an accrual basis using the effective yield method. Accrual of income is generally suspended for mortgage loans that are in default or when full and timely collection of principal and interest payments is not probable.

Short-Term Investments

Short-term investments include highly liquid securities and other investments with remaining maturities of one year or less, but greater than three months from the date of purchase. Securities included within short-term investments are classified as available-for-sale and are reported at fair value. Changes in fair value are reported as unrealized gains or losses and are a component of AOCI, net of applicable deferred income taxes. Fair value is based on quoted market prices, when available. When quoted market prices are not available, fair value is estimated by discounting fixed maturity securities cash flows to reflect interest rates currently being offered on similar terms to borrowers of similar credit quality, by quoted market prices of comparable instruments, and by independent pricing sources. See "Note 11—Assets and Liabilities Measured at Fair Value" for further discussion on inputs and assumptions used to estimate fair value.

Policyholder Loans

Policyholder loans are carried at the aggregate of the unpaid balance. Interest income on such loans is recorded as earned in net investment income using the contractually agreed-upon interest rate.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on hand, amounts due from banks and highly liquid investments that are both readily convertible into known amounts of cash and have maturities of three months or less at the time of acquisition such that they present insignificant risk of changes in value due to changing interest rates and lack of credit exposure. The carrying value of these securities approximates their fair value.

Reinsurance

The Company enters into reinsurance agreements to diversify risk and limit its overall financial exposure. Although these reinsurance agreements contractually obligate the reinsurers to reimburse the Company, they do not discharge the Company from its primary liability and obligation to policyholders. Risk transfer criteria are reviewed for each reinsurance contract to determine if the contract will be accounted for as reinsurance or under the deposit method of accounting.

The Company estimates the amount of allowances for credit losses on reinsurance recoverables based on periodic evaluations of balances due from reinsurers, reinsurer solvency, and management's experience. Changes in the allowances for credit losses are presented as a component of life, annuity, and health claim benefits in the Consolidated Statements of Operations. Amounts owed by reinsurers are considered past due based on the terms of the reinsurance contract. Reinsurance recoverables and any related allowance are written off after collection efforts have been exhausted or a negotiated settlement is reached with the reinsurer.

Deferred Policy Acquisition Costs (DAC)

Incremental direct costs of acquiring new business, principally commissions on sales, underwriting, policy issuance and processing, and medical inspection costs, are deferred for successfully placed contracts. DAC for the life insurance business is amortized over the life of the business; for traditional life products, the DAC is amortized as a level percentage of gross premiums. For immaterial blocks, a simplified approach was taken. There was no remaining DAC on the assumed block or on the deferred annuities.

Intangible Assets

Impairment testing may be performed when events or changes in circumstances indicate that the carrying amount of the intangible assets may not be recoverable. Intangible assets are tested for impairment based on undiscounted cash flows, which requires the use of estimates and judgment, and, if impaired, are written down to fair value based on discounted cash flows. For years ended December 31, 2023 and December 31, 2022, we have not recorded an impairment of intangible assets.

Future Policy Benefits, Policyholder Account Balances, and Other Policyholder Liabilities

Future policy benefits represent the reserve for traditional life insurance policies and annuities in payout status. Reserves for traditional life insurance policies are computed using the net level premium method on the basis of actuarial assumptions at the issue date of the contracts, including mortality, policy lapse assumptions, and rates of interest. The reserves for annuities in payout status (structured settlements) represent the present value of assumed future payments based on contract terms for the future payouts and can include assumptions for mortality. To the extent that unrealized gains on available-for-sale fixed maturity securities would result in a premium deficiency had those gains actually been realized, an adjustment is recorded net of tax as a (decrease) increase of unrealized capital gains included in AOCI. For years ended December 31, 2023 and 2022, this adjustment, net of tax, was \$125 and (\$4,687), respectively.

A premium deficiency exists if the discounted present value of future gross premiums is not sufficient to cover anticipated future cash outflows. To assess the adequacy of our benefit reserves, we annually perform premium deficiency testing for each of our lines of business using best estimate assumptions as of the date of the test without provision for adverse deviation. If benefit reserves minus the DAC asset are less than the present value of future cash flows on the line of business, then first the DAC asset will be reduced. If reducing the DAC asset down to zero is still not sufficient to eliminate the premium deficiency, then benefit reserves will be increased. Recognizing a premium deficiency will reduce our reported net income or increase our reported loss, for the period.

In connection with our premium deficiency testing on our most significant business lines, we performed sensitivity analyses on our Core Life, Non-Core Life, Closed Block, and annuities and assumed life business lines to capture the effect that certain key assumptions have on expected future cash flows, and the impact of those assumptions on the adequacy of DAC balances and GAAP benefit reserves. The sensitivity tests are performed independently, without consideration for any correlation among the key assumptions.

Policyholder account balances include the liability for assumed deferred annuity and universal life contracts and the liabilities for policyholder dividends and death benefits on life insurance contracts that have been left on deposit with the Company. These liabilities represent the account value of the policyholder as there are no other benefits due. This liability is equal to the balance that accrues to the benefit of the policyholder, which includes the accumulation of deposits, plus interest credited, less withdrawals.

Other policyholder liabilities include the amounts estimated for claims that have been reported but not settled and estimates for claims incurred but not reported.

Long and Short-Term Debt

Debt represents upfront commission payments received on certain term life products that are to be repaid as level commissions over the life of the underlying policies issued. The debt liability is accounted for under the interest method, which requires the imputation of interest resulting in the recognition of a discount as the difference between the cash payments received and the level commissions expected to be repaid based on current policy lapse assumptions. Under the interest method, the discount is amortized as interest expense over the period that level commissions are repaid resulting in a constant rate of interest when applied to the amount outstanding at the beginning of any given period. The amount to be repaid as level commissions are dependent on the level of expected policy lapses assumed for the underlying commissions financed; therefore, the debt liability may be adjusted in periods where revisions to policy lapse assumptions are made, which may result in the recognition of a gain or loss.

Shareholders' Equity - Common Stock

Apex Holdco L.P., an affiliate of J.C. Flowers IV L.P., a private equity fund advised by J.C. Flowers & Co. LLC, pursuant to a standby stock purchase agreement under which Apex Holdco L.P. agreed to act as the standby purchaser for the IPO (“Standby Purchaser”). As a result, the Standby Purchaser owns approximately 76.5% of the issued and outstanding shares of Vericity, Inc. common stock.

Income Taxes

The current receivable for federal income tax is recognized based on the estimated amounts to be reflected on the filed tax returns. Federal income tax expense or benefit is recognized based on amounts reported in the consolidated financial statements and using the applicable current federal income tax rate. Income taxes are allocated to operations and other comprehensive (loss) income based on the source of the taxable event. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effects of changes in tax rates or laws are recognized in the period that includes the enactment date. If necessary, a valuation allowance is established to reduce the carrying amount of deferred tax assets to amounts that are more likely than not to be realized. See “Note 4 – Income Taxes” for further details.

Revenue Recognition

Life and health insurance contract premiums are recognized as income when due from policyholders. Deposits on deposit-type contracts are entered directly as a liability when cash is received.

Commission revenue from the sale of insurance products by Efinancial is recognized once the insurance policy is issued by the insurance company and accepted by the customer (policy placement) and recorded as commission receivable, net of any advances received. Provision is made for commission revenue that, based on experience, will ultimately not be earned due to the customer discontinuing the underlying insurance policy. Commission revenue that Efinancial earns from the sale of insurance products where Efinancial acts as the general agent and utilizes a sub-agent to sell the policy (wholesale distribution) is recorded net of related commission expense paid to the writing agency. Efinancial commissions earned for the sale of Fidelity Life products, where Efinancial is acting in the capacity as a sub-agent, are not eliminated, primarily related to the agreement with AmeriLife in which services under the agency and sub-agency agreements are distinct from one another.

Our primary revenue-generating arrangements that are within the scope of Accounting Standards Codification (ASC) 606 are our brokerage arrangements associated with selling an insurance policy where Efinancial is either acting in the capacity of a general agent and selling directly to the insurance carrier, or acting as a sub-agent under general agency agreement. In these arrangements, our customer is the insurance carrier and we have a single performance obligation to place a policy for the insurance carrier. Our performance obligation is satisfied at the point in time when the policy is placed, which is the point in time when the customer obtains control over the policy and has the right to use and obtain the benefits from the policy. In these arrangements, depending on the number of years the policy is in-force, a majority of our consideration is received in the first year. In addition to the first-year consideration, depending on the specific carrier and product involved, we may also be entitled to renewal commissions over the period of time the policy remains in-force. Our consideration is variable based on the amount of time we estimate a policy will remain in-force. We estimate the amount of variable consideration that we expect to receive based on our historical experience or carrier experience to the extent available, industry data and our expectations as to future persistency rates. Additionally, we consider application of the constraint and only recognize the amount of variable consideration that we believe is probable to be received and will not be subject to a significant revenue reversal. We monitor and update this estimate at each reporting date. Because we recognize revenue prior to being entitled to the payment for these renewal commissions, we recognize a contract asset. We have determined that any contract costs (e.g., costs to obtain or costs to fulfill) related to our brokerage arrangements are immaterial.

Insurance lead sales include the sale of potential life insurance customer leads to outside parties including agencies and unaffiliated insurers. Sales of leads are recorded at the time the lead data is sold to the customer and recorded as a receivable, net of allowance for returns.

Net Investment Income and Net Gains (Losses) on Investments

Net investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis and reflects amortization of premiums and accretion of discounts on an effective yield basis, based on expected cash flows. Dividends are recorded on the ex-dividend date. Net gains (losses) on investments, resulting from sales or calls of investments and representing the difference between the net proceeds and the carrying value of investments sold, are determined on a specific identification basis. Net gains (losses) on investments are also recognized when there are write-downs from impairments and changes in the allowance for credit losses. Changes in value reported for investments accounted for using the equity method of accounting are classified within net gains (losses) on investments.

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.

Policyholder Dividend Obligations

Dividends payable to policyholders are determined annually based on the experience of the Closed Block policies and are payable only upon declaration by the Board of Directors of Fidelity Life. At December 31, 2023 and 2022, a provision has been made for dividends expected to be paid in the following calendar year of \$1,536 and \$1,236, respectively. The provision is recorded in other policyholder liabilities in the Consolidated Balance Sheets.

The Company also establishes a policyholder dividend obligation when cumulative actual earnings of the Closed Block are in excess of the cumulative expected earnings that were determined at the inception of the Closed Block. See “Note 8 – Closed Block” for further discussion.

Recently Issued and Adopted Accounting Pronouncements

Pursuant to the Jumpstart Our Business Startups Act (“JOBS Act”), an emerging growth company is provided the option to adopt new or revised accounting standards that may be issued by the Financial Accounting Standards Board (FASB) or the SEC either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. The Company has elected to use the extended transition period for complying with any new or revised financial accounting standards. Accordingly, the information contained herein may be different than the information you receive from other public companies. We also intend to continue to take advantage of some of the reduced regulatory and reporting requirements of emerging growth companies pursuant to the JOBS Act so long as we qualify as an emerging growth company, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

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 allowance for credit losses on our mortgage portfolio of \$237. The tax effected amount of \$187 is reflected in the 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 6 Reinsurance, Note 13 Accumulated Other Comprehensive Income and Note 14 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.

In August 2018, the FASB issued ASU No. 2018-12, *Targeted Improvements to the Accounting for Long-Duration Insurance Contracts (Topic 944)*. The FASB amends the accounting model under GAAP for certain long-duration insurance contracts and requires insurers to provide additional disclosures in annual and interim reporting periods. The amendments are aimed at improving the following four key areas of financial reporting: measurement of the liability for future policy benefits related to non-participating traditional and limited-payment contracts, measurement and presentation of market risk benefits, amortization of deferred acquisition costs (DAC), and presentation and disclosures. The Company expects the impact to be material and is in the process of quantifying the impact of this standard. In November 2020, the FASB issued ASU 2020-11—*Financial Services—Insurance (Topic 944): Effective Date and Early Application*. This ASU was issued to provide additional time for implementation of ASU 2018-12 by deferring the effective date by one year. For smaller reporting companies, this update is effective for fiscal years beginning after December 15, 2024 and interim periods within fiscal years beginning after December 15, 2025. In December 2022, FASB issued ASU 2022-05 —*Financial Services—Insurance*

(Topic 944): *Transition for Sold Contracts*. This ASU introduced an optional accounting policy election under which the insurer can choose not to apply the amendments made by ASU 2018-12 to certain contracts that are derecognized as a result of a sale or disposal before the effective date of ASU 2018-12. Insurers that make this policy election would also be subject to additional disclosure requirements.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting: Improvements to Reportable Segment Disclosures (Topic 280)*. The primary objective of ASU 2023-07 is to enhance the reportable segment disclosures provided by entities in their financial statements. It aims to improve transparency and usefulness of information related to an entity's reportable operating segments. Entities must disclose significant segment expenses that are regularly provided to the chief operating decision maker (CODM). The disclosures include: (i) General Information: Description of the nature of the segments, products, and services. (ii) Segment Profit or Loss: Revenue, operating profit or loss, and other relevant financial information for each segment. (iii) Segment Assets: Total assets for each segment. (iv) Measurement Criteria: Explanation of how segment profit or loss is measured. ASU 2023-07 will be effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The Company is evaluating the impact of the guidance on its annual disclosures.

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

Fixed maturities	December 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and agencies	\$ 10,188	\$ 365	\$ (488)	\$ 10,065
U.S. agency mortgage-backed	7,173	61	(516)	6,718
State and political subdivisions	79,362	347	(9,490)	70,219
Corporate and miscellaneous	174,263	2,733	(11,700)	165,296
Foreign government	130	5	—	135
Residential mortgage-backed	7,302	96	(523)	6,875
Commercial mortgage-backed	22,043	23	(1,678)	20,388
Asset-backed	35,681	86	(2,081)	33,686
Total fixed maturities	\$ 336,142	\$ 3,716	\$ (26,476)	\$ 313,382

Fixed maturities	December 31, 2022				
	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, realized capital losses previously reported as OTTI write-downs are now presented as credit losses; therefore OTTI is not presented in the 2023 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 by contractual maturity, are presented in the following table:

	December 31, 2023	
	Amortized Cost	Fair Value
Due in one year or less	\$ 7,754	\$ 7,670
Due after one year through five years	37,576	36,830
Due after five years through ten years	74,512	71,313
Due after ten years	144,102	129,902
Securities not due at a single maturity date — primarily mortgage and asset-backed	72,198	67,667
Total fixed maturities	<u>\$ 336,142</u>	<u>\$ 313,382</u>

Fixed maturities with a carrying value of \$2,689 and \$2,680 were on deposit with governmental authorities, as required by law at December 31, 2023 and 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 S&P or NAIC rating of NAIC 1 or NAIC 2. Investment grade securities comprised 96.0% and 95.1% of the Company's total fixed maturities portfolio at December 31, 2023 and 2022, respectively.

At December 31, 2023 and December 31, 2022, the Company had unfunded commitments to make investments in fixed maturity 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 December 31, 2023. The Company owns a share of 311 mortgage loans with a loan average balance of \$132 and a maximum exposure related to any single loan of \$600. Mortgage loan holdings are diversified by geography and property type as follows:

	December 31, 2023		December 31, 2022	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Property Type:				
Retail	\$ 12,812	31.2%	\$ 13,866	30.6%
Office	10,635	25.9%	11,115	24.5%
Industrial	7,476	18.2%	8,138	17.9%
Mixed use	4,798	11.7%	5,249	11.6%
Apartments	2,077	5.0%	2,796	6.2%
Medical office	2,423	5.9%	3,053	6.7%
Other	886	2.1%	1,136	2.5%
Gross carrying value of mortgage loans	<u>41,107</u>	<u>100.0%</u>	<u>45,353</u>	<u>100.0%</u>
Credit loss allowance ⁽¹⁾	(573)		(83)	
Net carrying value of mortgage loans	<u>\$ 40,534</u>		<u>\$ 45,270</u>	

	December 31, 2023		December 31, 2022	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
U.S. Region:				
West South Central	\$ 10,038	24.3%	\$ 11,608	25.6%
East North Central	12,184	29.6%	12,320	27.2%
South Atlantic	8,046	19.6%	8,815	19.4%
West North Central	2,328	5.7%	2,871	6.3%
Mountain	2,560	6.2%	2,824	6.2%
Middle Atlantic	1,986	4.8%	2,310	5.1%
East South Central	3,519	8.7%	3,661	8.1%
New England	—	0.0%	34	0.1%
Pacific	446	1.1%	910	2.0%
Gross carrying value of mortgage loans	41,107	100.0%	45,353	100.0%
Credit loss allowance ⁽¹⁾	(573)		(83)	
Net carrying value of mortgage loans	\$ 40,534		\$ 45,270	

(1) Due to the adoption of the measurement of credit losses on financial instruments accounting standard, the valuation allowance in 2022 is now presented as an allowance for expected credit losses in 2023.

During the years ended December 31, 2023 and 2022, \$964 and \$4,527 of new mortgage loans were purchased, respectively, which did not include second lien mortgage loans. All taxes, assessments, or any amounts advanced were not included in the mortgage loan balances at December 31, 2023 and 2022. At December 31, 2023 and 2022, the Company had zero and 3 mortgage loans with a total carrying value of \$0 and \$692 that were in a restructured status, respectively. There were no impairments for mortgage loans in 2023 and 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:

	Year Ended December 31, 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 increase (decrease) in allowances for credit losses	253	14
Ending balance	\$ 573	\$ 83

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

At December 31, 2023 and 2022, the Company had a commitment to make investments in mortgage loans in the amount of \$3,734 and \$2,575, respectively.

Net Investment Income

The sources of net investment income are as follows:

	Year Ended December 31,	
	2023	2022
Income from:		
Fixed maturities	\$ 15,155	\$ 14,556
Policyholder loans	365	378
Mortgage loans	2,312	2,472
Cash, cash equivalents and restricted cash	144	66
Gross investment income	17,976	17,472
Investment expenses	(1,363)	(1,436)
Net investment income	\$ 16,613	\$ 16,036

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 (Losses) Gains on Investments

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

	Year Ended December 31,	
	2023	2022
Investment (losses) gains from sales:		
Fixed maturities	\$ (567)	\$ (364)
Mortgage loans	56	(80)
Cash and cash equivalents	—	1
Gains and losses from sales	(511)	(443)
Valuation change of other invested assets - (decline) appreciation:	(1,715)	572
Change in allowance for credit losses ⁽¹⁾	(281)	(456)
Total net (losses) gains on investments	<u>\$ (2,507)</u>	<u>\$ (327)</u>

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 a fixed maturity security impairment is calculated as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate of cash flows discounted at the effective rate implicit to the security at the date of purchase or prior impairment. The methodology and assumptions for estimating the cash flows vary depending on the type of security. For mortgage-backed and asset-backed securities, cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral characteristics, expectations of delinquency and default rates, and structural support, including subordination and guarantees. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss exists. The non-credit component, determined as the difference between the adjusted amortized cost basis and fair value, is recognized in other comprehensive (loss) income. The credit loss component of a fixed maturity security impairment is calculated as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate of cash flows discounted at the effective rate implicit to the security at the date of purchase or prior impairment. The methodology and assumptions for estimating the cash flows vary depending on the type of security. For mortgage-backed and asset-backed securities, cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral characteristics, expectations of delinquency and default rates, and structural support, including subordination and guarantees. If the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the fixed maturity security, a credit loss allowance is recorded in earnings for the shortfall in expected cash flows; however, the amortized cost, net of the credit loss allowance, may not be lower than the fair value of the security. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss exists. The non-credit component, determined as the difference between the adjusted amortized cost basis and fair value, is recognized 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 maturity securities is as follows:

	December 31, 2023
Beginning allowance for credit loss balance	\$ -
Additional credit loss allowance	28
Reduction of credit losses allowances related to securities sold during period	—
Ending allowance for credit loss balance	\$ 28

Unrealized Losses for Fixed Maturities

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

	12 months or less		Longer than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
December 31, 2023						
Fixed maturities						
U.S. government and agencies	\$ 499	\$ (1)	\$ 2,732	\$ (488)	\$ 3,231	\$ (489)
U.S. agency mortgage-backed	94	—	4,879	(515)	4,973	(515)
State and political subdivisions	8,151	(176)	45,628	(9,314)	53,779	(9,490)
Corporate and miscellaneous	22,527	(1,871)	66,482	(9,829)	89,009	(11,700)
Residential mortgage-backed	269	(10)	3,029	(513)	3,298	(523)
Commercial mortgage-backed	1,430	(53)	17,582	(1,625)	19,012	(1,678)
Asset-backed	3,551	(190)	26,644	(1,891)	30,195	(2,081)
Total fixed maturities	<u>\$ 36,521</u>	<u>\$ (2,301)</u>	<u>\$ 166,976</u>	<u>\$ (24,175)</u>	<u>\$ 203,497</u>	<u>\$ (26,476)</u>

	12 months or less		Longer than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
December 31, 2022						
Fixed maturities						
U.S. government and agencies	\$ 2,722	\$ (501)	\$ —	\$ —	\$ 2,722	\$ (501)
U.S. agency mortgage-backed	5,297	(578)	216	(36)	5,513	(614)
State and political subdivisions	38,252	(7,036)	15,057	(4,979)	53,309	(12,015)
Corporate and miscellaneous	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	<u>\$ 180,701</u>	<u>\$ (25,485)</u>	<u>\$ 47,663</u>	<u>\$ (10,382)</u>	<u>\$ 228,364</u>	<u>\$ (35,867)</u>

The indicated gross unrealized losses in all fixed maturity categories were \$26,476 and \$35,867 at December 31, 2023 and 2022, respectively.

At as of December 31, 2023 and 2022, the Company did not have the intent to sell these investments, and it was not more likely than not that the Company would be required to sell these investments before an anticipated recovery of value. The Company evaluated these investments for credit losses at December 31, 2023. The Company considers many factors in evaluating whether the unrealized losses were credit related including, but not limited to, the extent to which the fair value has been less than amortized cost, conditions related to the security, industry, or geographic area, payment structure of the investment and the likelihood of the issuer's ability to make contractual cashflows, defaults or other collectability concerns related to the issuer, changes in the ratings assigned by a rating agency,

and other credit enhancements that affect the investment's expected performance. The Company determined that the unrealized losses on these securities were due to non-credit related factors at the evaluation date.

Information and concentrations related to fixed maturities in an unrealized loss position are included below. The tables below include the number of fixed maturities in an unrealized loss position for greater than and less than 12 months and the percentage that were investment grade at December 31, 2023.

	Unrealized Losses 12 months or less				Percent Investment Grade
	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	
Fixed maturities					
U.S. government and agencies	\$ (1)	\$ (1)	\$ —	\$ —	100 %
U.S. agency mortgage-backed	—	—	—	—	0 %
State and political subdivisions	(176)	(176)	—	—	100 %
Corporate and miscellaneous	(1,871)	(621)	(747)	(502)	82 %
Residential mortgage-backed	(10)	(10)	—	—	17 %
Commercial mortgage-backed	(53)	(53)	—	—	100 %
Asset-backed	(190)	(114)	(76)	—	100 %
Gross unrealized losses	<u>\$ (2,301)</u>	<u>\$ (975)</u>	<u>\$ (823)</u>	<u>\$ (502)</u>	
Total number of fixed maturities	<u>154</u>	<u>127</u>	<u>22</u>	<u>5</u>	

	Unrealized Losses greater than 12 months				Percent Investment Grade
	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	
Fixed maturities					
U.S. government and agencies	\$ (488)	\$ (62)	\$ —	\$ (426)	100 %
U.S. agency mortgage-backed	(515)	(202)	(313)	—	100 %
State and political subdivisions	(9,314)	(601)	(3,391)	(5,322)	100 %
Corporate and miscellaneous	(9,829)	(1,454)	(4,055)	(4,320)	86 %
Residential mortgage-backed	(513)	(47)	(336)	(130)	90 %
Commercial mortgage-backed	(1,625)	(746)	(680)	(198)	100 %
Asset-backed	(1,891)	(871)	(883)	(138)	97 %
Gross unrealized losses	<u>\$ (24,175)</u>	<u>\$ (3,983)</u>	<u>\$ (9,658)</u>	<u>\$ (10,534)</u>	
Total number of fixed maturities	<u>584</u>	<u>221</u>	<u>224</u>	<u>139</u>	

Gross unrealized losses by unrealized loss position and credit quality at December 31, 2023 are as follows:

	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⁾	\$ 14,902	\$ 539	\$ 15,441
Fixed income securities with unrealized loss position greater than 20% of amortized cost, net ⁽³⁾⁽⁴⁾	10,618	417	11,035
Total unrealized losses	<u>\$ 25,520</u>	<u>\$ 956</u>	<u>\$ 26,476</u>

(1) Below investment grade fixed income securities include \$103 that have been in an unrealized loss position for less than twelve months.

(2) Related to securities with an unrealized loss position less than or equal to 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 \$853 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—Deferred Policy Acquisition Costs

Policy acquisition costs deferred primarily consist of commissions on sales, policy underwriting and issuance costs, and variable sales and marketing costs. Annually, the Company reviews the assumptions and experience underlying the expected gross margins for policies accounted for as investment contracts, which may or may not result in the recognition of unlocking adjustments.

The deferred policy acquisition costs and changes are as follows:

	December 31, 2023	December 31, 2022
Beginning balance	\$ 90,189	\$ 95,715
Acquisition costs deferred	11,841	12,917
Amortization	(13,954)	(18,443)
Ending balance	<u>\$ 88,076</u>	<u>\$ 90,189</u>

Note 4—Income Taxes

Provided below are income taxes based on the difference between the expected tax provision, applying the statutory tax rate (21%) to the actual tax provision.

	Year Ended December 31,	
	2023	2022
(Loss) income before income taxes	\$ (10,852)	\$ (22,568)
Statutory rate	21 %	21 %
Income tax (benefit) expense at statutory rate	(2,279)	(4,739)
Effect of:		
Return to provision adjustments	(1,198)	(664)
Valuation allowance		
Increase (decrease) in the valuation allowance related to return to provision adjustments	290	172
Increase in the valuation allowance - current year	2,269	3,129
Total increase in the valuation allowance	2,559	3,301
Other	(41)	(6)
Income tax (benefit) expense	<u>\$ (959)</u>	<u>\$ (2,108)</u>

The components of income tax (benefit) expense are as follows:

	Year Ended December 31,	
	2023	2022
Income tax applicable to:		
Current	\$ 4,890	\$ 4,052
Deferred (net of increase in allowance: 2023 - \$2,559, 2022 - \$3,301)	(5,849)	(6,160)
Ending balance	<u>\$ (959)</u>	<u>\$ (2,108)</u>

The components of the net deferred income tax assets are as follows:

	Year Ended December 31,	
	2023	2022
Deferred tax assets:		
Net operating loss carryforward	\$ 24,818	\$ 23,490
Reinsurance assets	50,175	48,717
Net unrealized investment losses	4,780	7,100
Policyholder dividend obligation	2,023	1,998
Policyholder dividend	323	259
Commission receivable, net	6,822	6,813
Incentive compensation	581	378
Other	3,893	2,902
Total deferred tax assets	93,415	91,657
Valuation allowance	(26,637)	(24,426)
Total deferred income tax assets	66,778	67,231
Deferred tax liabilities:		
Life insurance reserves	25,753	27,539
Deferred policy acquisition cost	4,948	7,096
Intangible assets	344	344
Basis difference – investments	593	464
Fixed assets	2,507	2,784
Other	237	567
Total deferred tax liabilities	34,382	38,794
Deferred income tax assets, net	\$ 32,396	\$ 28,437

As of December 31, 2023, we had a 100% valuation allowance recorded against the deferred tax assets related to the non-life subgroup of our tax return. The Company also maintains a valuation allowance of \$718 and \$1,066 against a portion of the unrealized investment losses at December 31, 2023 and 2022, respectively in the life group. In 2023, the Company established a full valuation allowance against the realized capital losses portion of the life group deferred tax asset in the amount of \$412. Valuation allowances are established because we determined that it is more likely than not that these assets will not be recoverable. The recording of the valuation allowance not related to investment losses, increases our federal income tax expense which in turn reduces our reported net income or increases our net loss as applicable. It is possible that some or all of these DTAs may not be realized unless we are able to generate sufficient taxable income from our operations. If we do not generate sufficient taxable income in the future a valuation allowance to reduce our DTAs may be required, which could materially increase our expenses in the period the allowance is recognized and materially adversely affect our results of operations and statement of financial condition.

On December 22, 2017, the Tax Cut and Jobs Act Bill H.R.1 was enacted, which, among other things, allows Net Operating Losses (NOLs) to be carried forward indefinitely; therefore, NOLs generated after December 31, 2017 are reflected in the table below under the caption no expiration. Internal Revenue Code Section 382 (“Section 382”) limits how much of a loss carry-forward existing as of the date of an ownership change that can be used to offset annual taxable income subsequent to the change of ownership. As a result of the IPO and Section 382, the Company will be restricted in its ability to utilize loss carry-forwards. The annual limit is estimated to be approximately \$3,100 . In 2023, no NOLs expired and there was a return to provision adjustment related to non-life NOLs of (\$400). These expiring NOLs have no impact on the Company’s results due to a full valuation allowance on these NOLs. The Inflation Reduction Act of 2022 (“Act”), which contains several tax-related provisions, was signed into law in August 2022. The Act creates a 15% corporate alternative minimum tax (“CAMT”) on certain large corporations and an excise tax of 1% on stock repurchases by publicly traded U.S. corporations, both effective after December 31, 2022. The Company has determined that it is not considered an “applicable corporation” under the rules of CAMT.

The Company's net operating loss carry-forwards are as follows:

	Life Sub-Group	Non-Life Sub-Group	Total
Year net operating loss expires			
2025	\$ —	\$ 1,229	\$ 1,229
2026	—	5,249	5,249
2027	—	5,057	5,057
2028	—	3,061	3,061
2029	—	1,708	1,708
2030	—	8,121	8,121
2031	—	5,361	5,361
2032	—	2,539	2,539
2033	—	1,099	1,099
2034	—	13,527	13,527
2035	—	5,311	5,311
2036	—	5,267	5,267
2037	—	4,266	4,266
No expiration	—	56,385	56,385
	<u>\$ -</u>	<u>\$ 118,180</u>	<u>\$ 118,180</u>

The Company has no unrecognized tax benefits for the years ended December 31, 2023 and 2022 and the Company does not expect the unrecognized tax benefits to increase in the next 12 months. The Company records penalties and interest related to unrecognized tax benefits within income tax expense.

Note 5—Policy Liabilities

Future Policy Benefits and Claims

Future policy benefits and claims 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 \$12,665 and \$13,118 at December 31, 2023 and 2022, respectively, is computed as the present value of contractually-specified future benefits. The amount included in the policy liability for structured settlements that are life contingent at December 31, 2023 and 2022, is \$10,014 and \$10,097 respectively.

To the extent that unrealized gains on fixed maturity securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve is recorded. A liability of \$629 and \$470 is included as part of the liability for structured settlements with respect to this deficiency at December 31, 2023 and 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 2.3% and 3.9% of the face value of total life insurance in-force at December 31, 2023 and 2022, respectively.

Note 6—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. The reinsurance recoverable balances are stated net of allowances for credit losses. We have recorded claim amounts anticipated to be uncollectible of \$0.2 million in 2023 and \$0.1 million in 2022, respectively.

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 at the initial sale date was nominal, however various income statement lines are impacted. See "Item 1 Reinsurance" in this form 10-K.

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. Amounts recoverable on paid claims of \$1.4 million and \$1.1 million as of December 31, 2023 and 2022, respectively have been evaluated for any further credit losses and all amounts recorded are expected to be collectible.

Reinsurance recoverables are as follows:

	December 31, 2023	December 31, 2022
Ceded future policy benefits	\$ 198,973	\$ 173,904
Claims and other amounts recoverables	39,625	40,958
Ending balance	<u>\$ 238,598</u>	<u>\$ 214,862</u>

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

	Year Ended December 31,	
	2023	2022
Direct premiums	\$ 181,638	\$ 174,600
Assumed premiums	35,871	45,637
Ceded premiums	(120,670)	(120,162)
Net insurance premiums	<u>\$ 96,839</u>	<u>\$ 100,075</u>

The reconciliation of direct, assumed and ceded amounts for life, annuity, and health claim benefits is as follows:

	Year Ended December 31,	
	2023	2022
Direct	\$ 126,937	\$ 139,083
Assumed	19,990	20,459
Ceded	(79,253)	(92,040)
Life, annuity, and health claim benefits	<u>\$ 67,674</u>	<u>\$ 67,502</u>

Net policy charges on universal life products were \$178 and \$181 for the year ended December 31, 2023 and 2022, respectively, and are included in other income.

At December 31, 2023 and December 31, 2022 reserves related to fixed-rate annuity deposits assumed from a former affiliate company amounted to approximately \$62,665 and \$69,070, respectively, and are included with policyholder account balances in the Consolidated Balance Sheets.

Note 7—Retirement and Executive Compensation Plans

The Company sponsors a defined contribution 401(k) plan covering substantially all employees. For the years ended December 31, 2023 and 2022, the Company's expenses were \$608 and \$712, respectively. These expenses were recorded as part of Operating costs and expenses in the Consolidated Statements of Operations.

Note 8—Closed Block

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

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

The assets and liabilities within the Closed Block are included in the Company's consolidated financial statements on the same basis as other accounts of the Company. The maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities represent the estimated future Closed Block profits that will accrue to the Company and is calculated as the excess of Closed Block liabilities over Closed Block assets. Included in Closed Block assets are \$11,143 and \$10,792 at December 31, 2023 and 2022, 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 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 policyholder dividend obligations should be recorded to reflect favorable Closed Block experience that has not yet been reflected in the dividend scales. At December 31, 2023 and 2022, the Company recognized policyholder dividend obligations of \$9,636 and \$9,515, respectively, resulting from the excess of actual cumulative earnings over the expected cumulative earnings and from accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block.

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

	December 31, 2023	December 31, 2022
Closed Block Liabilities		
Future policy benefits and claims	\$ 29,144	\$ 29,382
Policyholder account balances	6,492	6,731
Other policyholder liabilities	5,207	5,298
Policyholder dividend obligations	9,636	9,515
Other liabilities	2,068	586
Total Closed Block liabilities	52,547	51,512
Assets Designated to the Closed Block		
Investments:		
Fixed maturities - available-for-sale (amortized cost \$42,506 and \$40,522, respectively)	39,678	36,625
Policyholder loans	1,234	1,132
Total investments	40,912	37,757
Premiums due and uncollected	81	1,852
Accrued investment income	484	457
Reinsurance recoverables	14,739	13,885
Deferred income tax assets, net	4,100	4,263
Total assets designated to the Closed Block	60,316	58,214
Excess of Closed Block assets over liabilities	7,769	6,702
Amounts included in accumulated other comprehensive income:		
Unrealized investment loss (gains), net of income tax	(2,234)	(3,079)
Total amounts included in accumulated other comprehensive income	(2,234)	(3,079)
Maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities (includes excess assets of \$11,143 and \$10,792, respectively)	\$ (10,003)	\$ (9,781)

Information regarding the policyholder dividend obligations is as follows:

	December 31, 2023	December 31, 2022
Policyholder Dividend Obligations		
Beginning balance	\$ 9,515	\$ 12,669
Impact from earnings allocable to policyholder dividend obligations	121	(165)
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligations	—	(2,989)
Ending balance	\$ 9,636	\$ 9,515

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

	Year Ended December 31,	
	2023	2022
Revenues		
Net insurance premiums	\$ 3,991	\$ 3,073
Net investment income	1,788	1,666
Net Realized Investment Gains (Losses)	9	(1)
Total revenues	<u>5,788</u>	<u>4,738</u>
Benefits and expenses		
Life and annuity benefits - including policyholder dividends of \$1,855 and \$1,483, respectively	5,077	4,994
Interest credited to policyholder account balances	165	169
Operating costs and expenses	265	(484)
Total expenses	<u>5,507</u>	<u>4,679</u>
Revenues, net of expenses before provision for income tax expense (benefit)	281	58
Income tax expense (benefit)	59	12
Revenues, net of expenses and provision for income tax expense (benefit)	<u>\$ 222</u>	<u>\$ 46</u>

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

The following table presents the amortized cost and fair value of the Closed Block fixed maturity securities portfolio by contractual maturity at December 31, 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	\$ 4,057	\$ 4,005
Due after one year through five years	3,656	3,675
Due after five years through ten years	7,330	7,105
Due after ten years	24,186	21,697
Securities not due at a single maturity date — primarily mortgage and asset-backed	3,277	3,196
Total fixed maturities	<u>\$ 42,506</u>	<u>\$ 39,678</u>

Note 9—Regulatory Matters

Minimum Capital and Surplus Requirements

Fidelity Life is required to comply with the provisions of state insurance statutes in the jurisdictions in which it does business. These statutes include minimum statutory capital and surplus requirements. At December 31, 2023, Fidelity Life exceeded the minimum statutory capital and surplus level of \$2,000 required by Illinois, its state of domicile.

Risk-Based Capital Requirements

The NAIC established a standard for assessing the solvency of insurance companies using a formula for determining each insurer's risk-based capital (RBC). At December 31, 2023, the RBC of the Company's insurance subsidiary, Fidelity Life, exceeded the levels at which certain regulatory corrective actions would be initiated.

Dividend Limitations

The maximum amount of dividends that can be paid by Illinois life insurance companies to shareholders without 30 days prior notice to the Director of the IDOI is the greater of (i) statutory net income for the preceding year or (ii) 10% of statutory surplus as of the preceding year-end. However, under State of Illinois insurance statutes, dividends may be paid only from surplus, excluding unrealized appreciation in value of investments without prior approval. All dividends paid by Fidelity Life must be reported to the IDOI prior to payment.

Fidelity Life declared and paid \$5,000 and zero dividends during the twelve months ended December 31, 2023 and 2022, respectively.

In connection with the approval of the Conversion by the Director, the Company agreed, for a period of twenty-four months following the completion of the Conversion, to (i) seek the prior approval of the IDOI for any declaration of an ordinary dividend by Fidelity Life, and (ii) either maintain \$20,000 of the proceeds of the IPO at Vericity, Inc. or use all or a portion of that \$20,000 to fund Company operations.

Statutory Accounting Practices

Fidelity Life prepares their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the IDOI. The IDOI requires that insurance companies domiciled in Illinois prepare their statutory-basis financial statements in accordance with the NAIC's Accounting Practices and Procedures Manual, as modified by the IDOI. In addition, the IDOI has the right to permit other specific practices that may deviate from prescribed practices.

Statutory Financial Information

The statutory capital and surplus and net income for Fidelity Life, as determined in accordance with statutory accounting practices prescribed or permitted by the IDOI, at December 31, 2023 and 2022, and for the years ended December 31, 2023 and 2022, are as follows:

	At December 31,	
	2023	2022
Statutory capital and surplus		
Fidelity Life	\$ 94,349	\$ 106,260
	Year Ended December 31,	
	2023	2022
Statutory net income (loss)		
Fidelity Life	\$ 3,925	\$ 1,282

Note 10—Commitments and Contingencies

Leases

Minimum future operating lease payments, including lease payments for real estate, vehicles, computers and office equipment at December 31, 2023, are as follows:

Year	
2024	\$ 588
2025	281
2026	240
2027	247
2028	254
2029	116
Total	<u>\$ 1,726</u>

Lease expense for the years ended December 31, 2023 and 2022 was \$1,001 and \$1,393, respectively.

Litigation

The Company is subject to legal and regulatory actions in the ordinary course of its business. Management does not believe such litigation will have a material impact on the Company's 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 11—Assets and Liabilities Measured at Fair Value

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

Fair values for the Company's fixed maturities 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 maturity securities 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 investments are only included in the fair value hierarchy disclosure when the investment is 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 and liabilities that are carried at fair value on a recurring and non-recurring basis, by fair value hierarchy level, are as follows:

December 31, 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	\$ —	\$ 10,065	\$ —	\$ 10,065
U.S. agency mortgage-backed	—	6,718	—	6,718
State and political subdivisions	—	69,726	493	70,219
Corporate and miscellaneous	2,258	136,688	26,351	165,297
Foreign government	—	135	—	135
Residential mortgage-backed	—	6,875	—	6,875
Commercial mortgage-backed	—	20,388	—	20,388
Asset-backed	—	30,428	3,258	33,686
Total fixed maturities	2,258	281,023	30,102	313,383
Total recurring assets	\$ 2,258	\$ 281,023	\$ 30,102	\$ 313,383

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 and Liabilities on a Recurring Basis

Level 1 securities include preferred stocks classified as fixed maturities that are valued based on quoted market prices for identical assets.

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

Level 3 fair value classification consists of investments in structured securities and privately placed 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:

	<u>Total gains (losses) included in:</u>							<u>Balance at December 31, 2023</u>
	<u>Balance at January 1, 2023</u>	<u>Net Income (loss)</u>	<u>OCI</u>	<u>Purchases</u>	<u>Sales</u>	<u>Settlements</u>	<u>Net Transfers</u>	
Financial Assets								
Fixed maturities								
State and political subdivisions	\$ 442	\$ —	\$ 50	\$ —	\$ —	\$ —	\$ —	\$ 492
Corporate and miscellaneous	26,991	(38)	74	2,982	(4,030)	—	372	26,351
Asset-backed	3,133	106	182	658	(820)	—	—	3,259
Total assets	<u>\$ 30,566</u>	<u>\$ 68</u>	<u>\$ 306</u>	<u>\$ 3,640</u>	<u>\$ (4,850)</u>	<u>\$ —</u>	<u>\$ 372</u>	<u>\$ 30,102</u>

	<u>Total gains (losses) included in:</u>							<u>Balance at December 31, 2022</u>
	<u>Balance at January 1, 2022</u>	<u>Net Income</u>	<u>OCI</u>	<u>Purchases</u>	<u>Sales</u>	<u>Settlements</u>	<u>Net Transfers</u>	
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	<u>\$ 28,076</u>	<u>\$ (120)</u>	<u>\$ (779)</u>	<u>\$ 5,105</u>	<u>\$ (3,842)</u>	<u>\$ 1,468</u>	<u>\$ 658</u>	<u>\$ 30,566</u>

There were 3 transfers from Level 2 to Level 3 and 1 transfer from Level 3 to Level 2 in 2023. In 2022, there were 2 transfers from Level 3 to Level 2 and 6 transfers from Level 2 to Level 3.

Financial Instruments not Measured at Fair Value

The carrying amount and estimated fair values of the Company's financial instruments that are not measured at fair value on the Consolidated Balance Sheets are as follows:

December 31, 2023	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
Financial instruments recorded as assets:					
Mortgage loans	\$ 40,534	\$ —	\$ —	\$ 37,005	\$ 37,005
Policyholder loans	\$ 7,149	\$ —	\$ —	\$ 8,234	\$ 8,234
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	\$ 16,307	\$ —	\$ —	\$ 15,319	\$ 15,319
Long/short-term debt	\$ 49,010	\$ —	\$ —	\$ 51,927	\$ 51,927
Policyholder account balances	\$ 70,726	\$ —	\$ —	\$ 65,881	\$ 65,881

December 31, 2022	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
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 \$1,098 and \$1,952 of second and mezzanine mortgages carried at cost which fair value is not measurable at December 31, 2023 and 2022, respectively.

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

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

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

Note 12—Long and Short-Term Debt

Commission Financing

In 2022, Efinancial entered into a new commission financing arrangement and is taking new advances on this financing arrangement. Efinancial's ability to receive advances under this agreement will terminate when the aggregate amount advanced under the arrangement equals or exceeds \$46,000. At December 31, 2023 and December 31, 2022, we had a net advance of \$40,393 and \$31,100 respectively, under this arrangement. At December 31, 2023, the Company expects to pay back the aggregate amounts as presented in the following table.

	December 31, 2023
Due in one year or less	\$ 9,249
Due after one year through two years	6,632
Due after two years through three years	6,175
Due after three years through four years	5,721
Due after four years through five years	5,221
Due after five years	40,252
Less discount	(24,240)
Total long/short-term debt	<u>\$ 49,010</u>

Federal Home Loan Bank of Chicago

The Company is a member of the FHLBC. As a member, the Company is able to borrow on a collateralized basis from FHLBC which can be used as an alternative source of liquidity. The FHLBC membership requires the Company to own member stock. The Company held \$270 and \$180 of FHLBC common stock at December 31, 2023 and December 31, 2022, respectively. The Company's ability to borrow under this facility is subject to the FHLBC's discretion and requires the availability of qualifying assets. In 2023 and 2022, the Company borrowed and repaid \$21,000 and \$4,000, respectively. FHLBC common stock is classified in Other Invested Assets in the Consolidated Balance Sheet. As of December 31, 2023 and December 31, 2022, the Company had not pledged any assets and there were no outstanding borrowings.

Note 13—Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated Other Comprehensive (Loss) Income, net of taxes are as follows:

	Net Unrealized Gains (Losses) on Investments with Credit Losses	Net Unrealized Gains (Losses) on Other Investments	Total
Balance at January 1, 2023	\$ 362	\$ (30,534)	\$ (30,172)
Other comprehensive (loss) income			
Unrealized holding gains (losses) from changes in the market value of securities	—	11,047	11,047
Impact on Policy benefit liabilities of changes in market value of securities	—	(159)	(159)
Change in net unrealized investment (losses) gains allocated to policyholder dividend obligations	—	—	—
Income tax (expense) benefit	—	(1,938)	(1,938)
Other comprehensive (loss) income, net of tax	—	8,950	8,950
Balance at December 31, 2023	<u>\$ 362</u>	<u>\$ (21,584)</u>	<u>\$ (21,222)</u>

	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized Gains (Losses) on Other Investments	Total
Balance at January 1, 2022	\$ 362	\$ 10,567	\$ 10,929
Other comprehensive (loss) income			
Unrealized holding (losses) gains from changes in the market value of securities	—	(59,600)	(59,600)
Impact on Policy benefit liabilities of changes in market value of securities	—	5,934	5,934
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligations	—	2,989	2,989
Income tax benefit (expense)	—	9,576	9,576
Other comprehensive (loss) income, net of tax	—	(41,101)	(41,101)
Balance at December 31, 2022	<u>\$ 362</u>	<u>\$ (30,534)</u>	<u>\$ (30,172)</u>

(1) Due to the adoption of the measurement of credit losses on financial instruments accounting standard, realized capital losses previously reported as OTTI write-downs are now presented as credit losses; therefore OTTI is not presented in the 2023 table above.

Note 14—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 Direct Life, Closed Block, and Assumed Life and Annuities. Direct Life and the Closed Block are distinct operations; the assumed business and the small amount of structured settlements are all blocks in run-off 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 certain expenses that are corporate expenses or that will benefit the overall organization and are not allocated to a segment.

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:

	Year Ended December 31, 2023				Year Ended December 31, 2022			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Net insurance premiums	\$ 96,839	\$ —	\$ —	\$ 96,839	\$ 100,075	\$ —	\$ —	\$ 100,075
Net investment income	16,305	—	308	16,613	15,556	—	480	16,036
Net realized investment gains (losses) ⁽¹⁾	(2,143)	—	(364)	(2,507)	(590)	—	263	(327)
Earned commissions	—	60,282	(345)	59,937	—	43,063	(429)	42,634
Other income	1,104	5,579	—	6,683	604	4,890	—	5,494
Total revenues	<u>112,105</u>	<u>65,861</u>	<u>(401)</u>	<u>177,565</u>	<u>115,645</u>	<u>47,953</u>	<u>314</u>	<u>163,912</u>
Life, annuity, and health claim benefits	70,312	—	—	70,312	70,282	—	—	70,282
Operating costs and expenses	31,341	64,417	8,393	104,151	34,572	56,648	6,535	97,755
Amortization of deferred policy acquisition costs	13,954	—	—	13,954	18,443	—	—	18,443
Total benefits and expenses	<u>115,607</u>	<u>64,417</u>	<u>8,393</u>	<u>188,417</u>	<u>123,297</u>	<u>56,648</u>	<u>6,535</u>	<u>186,480</u>
(Loss) income before income tax	<u>\$ (3,502)</u>	<u>\$ 1,444</u>	<u>\$ (8,794)</u>	<u>\$ (10,852)</u>	<u>\$ (7,652)</u>	<u>\$ (8,695)</u>	<u>\$ (6,221)</u>	<u>\$ (22,568)</u>

	December 31, 2023				December 31, 2022			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Investments and cash	\$ 367,746	\$ 643	\$ 3,084	\$ 371,473	\$ 358,620	\$ 1,094	\$ 3,862	\$ 363,576
Commissions and agent balances	8,471	45,023	—	53,494	4,751	30,015	—	34,766
Deferred policy acquisition costs	88,076	—	—	88,076	90,189	—	—	90,189
Intangible assets	—	1,635	—	1,635	—	1,635	—	1,635
Reinsurance recoverables net	238,598	—	—	238,598	214,862	—	—	214,862
Deferred income tax assets, net	19,195	—	13,201	32,396	13,489	—	14,948	28,437
Other	27,623	9,009	514	37,146	26,800	5,869	3,944	36,613
Total assets	<u>\$ 749,709</u>	<u>\$ 56,310</u>	<u>\$ 16,799</u>	<u>\$ 822,818</u>	<u>\$ 708,711</u>	<u>\$ 38,613</u>	<u>\$ 22,754</u>	<u>\$ 770,078</u>

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 15—Quarterly Financial Information

As a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and Item 10(f)(1) of Regulation S-K, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore is not required to provide the information required by Item 503(c) of Regulation S-K.

Note 16—Subsequent Events

Management has evaluated subsequent events up to and including April 1, 2024, the date these Consolidated Financial Statements were issued and determined there were no reportable subsequent events.

Vericity, Inc.
Schedule I
Summary of Investments Other Than Investments in Related Parties
As of December 31, 2023
(dollars in thousands)

Type of Investment	Cost / Amortized Cost	Fair Value	Balance Sheet
Fixed maturities:			
Bonds:			
U.S. government and agencies	\$ 10,188	\$ 10,065	\$ 10,065
U.S. agency mortgage-backed	7,173	6,718	6,718
State and political subdivisions	79,362	70,219	70,219
Corporate and miscellaneous	174,263	165,296	165,296
Foreign government	130	135	135
Residential mortgage-backed securities	7,302	6,875	6,875
Commercial mortgage-backed securities	22,043	20,388	20,388
Asset backed securities	35,681	33,686	33,686
Total fixed maturity securities	<u>336,142</u>	<u>313,382</u>	<u>313,382</u>
Mortgage loans	40,534	37,005	40,534
Policy loans	7,149	8,234	7,149
Other invested assets	2,966	2,364	2,364
Total investments	<u>\$ 386,791</u>	<u>\$ 360,985</u>	<u>\$ 363,429</u>

Vericity, Inc.
Schedule II
Condensed Financial Information of Registrant (Parent Company) Statement of Operations
As of and for the Years Ended December 31, 2023 and 2022
(dollars in thousands)

For the Years Ended December 31,	2023	2022
Revenues		
Net investment income and (losses) gains	\$ (56)	\$ 786
Total revenues	(56)	786
Expenses		
Operating costs and expenses	7,853	5,650
Total expenses	7,853	5,650
(Loss) Income before income taxes	(7,909)	(4,864)
Income tax (benefit) expense	(607)	(298)
Net (loss) income before equity in net loss of subsidiary	(7,302)	(4,566)
Equity in net (loss) of subsidiary	(2,591)	(15,894)
Net (loss) income	(9,893)	(20,460)
Equity in other comprehensive income of subsidiary	8,950	(41,101)
Total comprehensive (loss) income	\$ (943)	\$ (61,561)

See footnotes to the condensed financial statements.

Vericity, Inc.
Schedule II (Continued)
Condensed Financial Information of Registrant (Parent Company) Statement of Financial Position
(dollars in thousands)

For the Years Ended December 31,	2023	2022
Assets		
Investment in subsidiaries	\$ 104,889	\$ 98,168
Fixed maturities - available-for-sales - at fair value (amortized cost; \$2,871 and \$2,563)	2,871	2,563
Other invested assets	-	818
Cash, cash equivalents and restricted cash	153	419
Inter-company receivables	301	8,433
Current income tax receivable	2,085	1,477
Other assets	514	635
Total assets	110,813	112,513
Liabilities and Shareholders' Equity		
Liabilities:		
Other liabilities	600	1,170
Total liabilities	600	1,170
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	91,580	101,660
Accumulated other comprehensive (loss) income	(21,222)	(30,172)
Total shareholders' equity	110,213	111,343
Total liabilities and shareholders' equity	\$ 110,813	\$ 112,513

See footnotes to the condensed financial statements.

Vericity, Inc.
Schedule II (Continued)
Condensed Financial Information of Registrant (Parent Company) Statement of Cash Flows
(dollars in thousands)

For the Years Ended December 31,	2023	2022
Cash flows from operating activities		
Net (loss) income	\$ (9,893)	\$ (20,460)
Adjustments to reconcile net income to net cash provided (used) by operations:		
Equity in earnings of subsidiaries	2,591	15,894
Net investment (gains) losses	364	(263)
Accretion of bond discount	(308)	(462)
Change in:		
Due to subsidiaries	7,582	(1,338)
Accrued investment income	—	—
Other liabilities	(570)	(874)
Other assets	121	120
Income tax	(607)	136
Net cash used by operating activities	<u>(720)</u>	<u>(7,247)</u>
Cash flows from investing activities		
Purchases of fixed maturities	—	(228)
Sales of other invested assets	454	—
Sales of fixed maturities	—	4,010
Net cash provided (used) by investing activities	<u>454</u>	<u>3,782</u>
Cash flows from financing activities		
Net cash flows provided by financing	—	—
Net (decrease) increase in cash and cash equivalents	(266)	(3,465)
Cash, cash equivalents and restricted cash - beginning of period	419	3,884
Cash, cash equivalents and restricted cash - end of period	<u>\$ 153</u>	<u>\$ 419</u>

See footnotes to the condensed financial statements.

Vericity, Inc.
Schedule II (Continued)
Notes to Condensed Financial Information of Registrant

Note 1—General

Pursuant to rules and regulations of the SEC, the unconsolidated condensed financial statements of the Parent Company do not reflect all of the information and notes normally included with financial statements prepared in accordance with GAAP. Therefore, these condensed financial statements of the Registrant should be read in conjunction with the consolidated financial statements and notes thereto included in Item 8.

Vericity, Inc.
Schedule III
Supplementary Insurance Information
As of and for the Years Ended December 31, 2023 and 2022
(dollars in thousands)

Segment	Deferred Policy Acquisition Costs	Future Policy Benefits Losses and Expenses	Other Policy Claims and Benefits Payable	Net Insurance Premiums	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of DAC	Other Operating Expenses
2023								
Insurance	\$ 88,076	\$ 502,464	\$ 121,812	\$ 96,839	\$ 16,305	\$ 70,312	\$ 13,954	\$ 31,341
Agency	—	—	—	—	—	—	—	64,417
Corporate & other	—	—	—	—	308	—	—	8,393
Total	<u>\$ 88,076</u>	<u>\$ 502,464</u>	<u>\$ 121,812</u>	<u>\$ 96,839</u>	<u>\$ 16,613</u>	<u>\$ 70,312</u>	<u>\$ 13,954</u>	<u>\$ 104,151</u>
2022								
Insurance	\$ 90,189	\$ 453,763	\$ 134,444	\$ 100,075	\$ 15,556	\$ 70,282	\$ 18,443	\$ 34,572
Agency	—	—	—	—	—	—	—	56,648
Corporate & other	—	—	—	—	480	—	—	6,535
Total	<u>\$ 90,189</u>	<u>\$ 453,763</u>	<u>\$ 134,444</u>	<u>\$ 100,075</u>	<u>\$ 16,036</u>	<u>\$ 70,282</u>	<u>\$ 18,443</u>	<u>\$ 97,755</u>

Vericity, Inc.
Schedule IV
Reinsurance
As of and for the Years Ended December 31, 2023 and 2022
(dollars in thousands)

	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
2023					
Life insurance face amount in-force (millions)	\$ 40,967	\$ 36,415	\$ 2,564	\$ 7,116	36.0%
Premiums					
Life insurance	\$ 181,035	\$ 120,537	\$ 35,871	\$ 96,369	37.2%
Accident and health	603	133	—	470	0.0%
Total premiums	<u>\$ 181,638</u>	<u>\$ 120,670</u>	<u>\$ 35,871</u>	<u>\$ 96,839</u>	<u>37.0%</u>
2022					
Life insurance face amount in-force (millions)	\$ 35,139	\$ 33,815	\$ 3,188	\$ 4,512	70.7%
Premiums					
Life insurance	\$ 173,944	\$ 120,015	\$ 45,637	\$ 99,566	45.8%
Accident and health	656	147	—	509	0.0%
Total premiums	<u>\$ 174,600</u>	<u>\$ 120,162</u>	<u>\$ 45,637</u>	<u>\$ 100,075</u>	<u>45.6%</u>

Vericity, Inc.
Schedule V
Valuation and Qualifying Accounts
For the Years Ended December 31, 2023 and 2022
(dollars in thousands)

	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Costs and Expenses	Other		
2023					
Allowance for losses on commercial mortgage	\$ 83	\$ 253	\$ 237	\$ —	\$ 573
Allowance for uncollectible receivables	464	39	—	—	503
Valuation allowance on deferred tax asset	24,426	2,559	(348)	—	26,637
	<u>\$ 24,973</u>	<u>\$ 2,851</u>	<u>\$ (111)</u>	<u>\$ —</u>	<u>\$ 27,713</u>
2022					
Allowance for losses on commercial mortgage	\$ 69	\$ 14	\$ —	\$ —	\$ 83
Allowance for uncollectible receivables	581	—	—	117	464
Valuation allowance on deferred tax asset	20,059	3,301	1,066	—	24,426
	<u>\$ 20,709</u>	<u>\$ 3,315</u>	<u>\$ 1,066</u>	<u>\$ 117</u>	<u>\$ 24,973</u>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the SEC under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities Exchange Act and made known to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2023 based on the criteria related to internal control over financial reporting described in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2023.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(d) or 15d-15(d) of the Exchange Act) during 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Not applicable

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable

Item 10. Directors, Executive Officers and Corporate Governance.

The table below provides information of our directors and executive officers as of March 30, 2024.

Name	Age	Position
Eric Rahe	55	Director and Chairman
Neil Ashe	56	Director
Calvin Dong	36	Director
Richard A. Hemmings	77	Director
Scott Perry	61	Director
Laura R. Zimmerman	65	Director
James E. Hohmann	68	Chief Executive Officer, President and Director
Melissa Balsan	41	Executive Vice President, Chief Marketing Officer
John Buchanan	53	Executive Vice President, General Counsel and Corporate Secretary
David R. Drollette	41	Executive Vice President, Chief Data Officer & Chief Technology Officer
James C. Harkensee	65	Executive Vice President of Vericity, President and Chief Operating Officer of Fidelity Life
Chris S. Kim	52	Executive Vice President, Chief Financial Officer and Treasurer

Directors

Our directors were initially chosen based upon their individual skills, experiences and qualifications which collectively provide a balanced level of expertise to the Company. Additionally, we believe that each of our directors possess high professional and personal ethics and values, which are attributes that are important characteristics to the Company.

Eric Rahe has served as Vericity's Chairman since August 7, 2019. Mr. Rahe has served as a Managing Director of J.C. Flowers & Co. LLC since 2014, a leading private investment firm dedicated to investing globally in the financial services industry and serves as a member of the firm's Management Committee. From 2008 to 2014, Mr. Rahe was a Managing Director at Clayton, Dubilier & Rice where he established and led the firm's financial services practice. Previously, he was a senior investment professional at the hedge fund SAB Capital, and before that a Partner at Capital Z Partners, the financial services focused private equity firm. Mr. Rahe began his career at Donaldson, Lufkin & Jenrette. Mr. Rahe serves on the Boards of Directors of ELMC Group, LLC.

He received an A.B. in Economics from Harvard College, where he graduated magna cum laude, and an M.B.A. from Harvard Business School.

Mr. Rahe was selected to serve on our Board of Directors because of his experience in the insurance and financial services industries. Mr. Rahe has been investing in the insurance industry for over 25 years and has served on the board of directors of a number of insurance companies.

Richard A. Hemmings has served as a director of Vericity since 2013 and served as the Chairman of the Board of Directors of Members Mutual from its formation in 2007 until its conversion in 2019. From 2007 until 2014, Mr. Hemmings also served as the President and Chief Executive Officer of Members Mutual. Mr. Hemmings also served as the Chairman of the Board of Directors and Chief Executive Officer (and prior to 2012, President) of Fidelity Life, positions held by him from 2005 to 2014. Mr. Hemmings became a director of Fidelity Life in 2002. Prior to joining Fidelity Life in 2005, Mr. Hemmings was a partner in the Chicago law firm of Lord, Bissell & Brook LLP and was associated with the firm for 25 years.

Mr. Hemmings was selected to serve on our Board of Directors because of his experience in the life insurance industry; his knowledge of the legal and regulatory matters affecting our operations; and his executive experience with Members Mutual and Fidelity Life.

James E. Hohmann has served as a director, Chief Executive Officer and President of Vericity since September 2014 and served as a director and Chief Executive Officer of Vericity from September 2014 until its conversion in 2019. For approximately two years prior thereto, Mr. Hohmann worked as a private consultant in the life insurance industry, including providing consulting services for Members Mutual. From April 2009 until June 2012, Mr. Hohmann served as a director, President, and Chief Executive Officer of FBL Financial Group, an individual life insurance and annuity products company. From January 2007 until January 2009, Mr. Hohmann was an executive officer of Allstate Corporation with accountabilities as President and Chief Executive Officer of Allstate Financial. From December 2004 until December 2006, Mr. Hohmann was President and Chief Operating Officer of Conseco, Inc. Earlier, he served as President and Chief Executive Officer of a newly formed XL Life and Annuity business at XL Capital, was Chief Actuary and then

President of the Financial Institutions business of Zurich (Kemper), and worked for nearly 13 years as a management consultant, first for KPMG Peat Marwick, followed by Tillinghast/Towers Perrin (now Willis Towers Watson) where he was Managing Principal of the Chicago Life Practice. Effective March 22, 2022, Mr. Hohmann reassumed the President and Chief Operating Officer role at eFinancial, a role he previously had prior to Mr. Campbell's arrival in 2017.

Mr. Hohmann is a member of the board of directors of Bankers Trust (non-public) and is Chairman of MIB Group Inc., a life insurance industry membership organization. He also serves on the ACLI Forum 500 board of directors. He has previously served as a director of the Board of Governors for the Property Casualty Insurance Association of America and is a former member of the board of directors of American Council of Life Insurers. Mr. Hohmann is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.

Mr. Hohmann was selected to serve on our Board of Directors because of his executive leadership experience, his expertise in insurance and financial services, and his actuarial background.

Calvin Dong has served as a director of Vericity since August 7, 2019. He is a Vice President at J.C. Flowers & Co. LLC, where he has been employed since 2013. Prior to joining J.C. Flowers & Co. LLC, Mr. Dong was a member of the Financial Institutions Group at Barclays Investment Bank in New York for three years, focusing on mergers and acquisitions and capital raising transactions in the insurance sector.

Mr. Dong received a B.S. (Honors) in Finance and Accounting with High Distinction from the Kelley School of Business, Indiana University.

Mr. Dong was selected to serve on our Board of Directors because of his experience in the insurance and financial services industries. Mr. Dong has over 11 years of experience as an investor and banker to the life insurance industry.

Scott Perry has served as a director of Vericity since August 7, 2019. He joined AmeriLife Group Holdings as Chief Executive Officer in December 2016. AmeriLife is a distributor of annuity, life, and health insurance products and is a portfolio company of a fund advised by Thomas H. Lee Partners, L.P. He was previously the Chief Business Officer of CNO Financial Group, Inc., (formerly, Conseco, Inc.), where he oversaw the operations of Bankers Life, Colonial Penn and Washington National, from 2009 until 2016. Prior to that, Mr. Perry served as the President of Bankers Life from 2002 until 2009. Before joining Bankers Life, Mr. Perry worked for 12 years in sales, marketing, and management roles at Golden Rule, Anthem Blue Cross Blue Shield and Premera Blue Cross. Earlier in his career, he advised healthcare payers and providers on strategies to improve operational and financial performance with the Deloitte & Touche Integrated Health Care Group.

Mr. Perry has served on the boards of LL Global (LIMRA) and the American College. He also served as a board member and Chair of the Greater Illinois chapter of the Alzheimer's Association.

Mr. Perry was selected to serve on our Board of Directors because of his experience in the insurance industry. Mr. Perry has over 30 years of experience in the life insurance industry. As Chief Executive Officer of AmeriLife and former President of Bankers Life, Chief Business Officer of CNO, he brings particular expertise in the distribution of a wide variety of life and health products across various distribution channels.

Neil Ashe has served as a director of Vericity since August 7, 2019. He is the Chief Executive officer of Acuity Brands which is a global technology manufacturer, driving an innovative and comprehensive portfolio of lighting products, controls, software, and services. Mr. Ashe also serves as the Chief Executive officer of Faster Horses LLC, which invests in, operates and advises companies that are embracing the power of digital to grow and change their businesses. Mr. Ashe has served in this position since 2017. From 2012 to 2017, Mr. Ashe was the President and Chief Executive Officer of Global eCommerce and Technology for Wal-Mart Stores, Inc. Mr. Ashe was with CNET Networks (NASDAQ: CNET) from 2002 to 2008, having been appointed as Chief Executive Officer in 2006, and, subsequently, the President of CBS Interactive from 2008 until 2011, following the sale of CNET to CBS. He has served on the boards of directors of numerous companies, including CNET and AMC Networks (NASDAQ: AMCX), and was a member of the Georgetown University Board of Regents.

Mr. Ashe has an M.B.A. from the Harvard Business School and a B.S. in Business Administration from Georgetown University.

Mr. Ashe was selected to serve on our Board of Directors because of his experience helping companies use and adopt technology to grow their businesses. Through his experience running several leading internet businesses, Mr. Ashe brings a breadth of experience that will be germane to the Company's internet agency, Efinancial.

Laura R. Zimmerman served as Executive Vice President and Chief Marketing Officer of Vericity from February 2016 to January 2023. Ms. Zimmerman served as Executive Vice President and Chief Marketing Officer of Members Mutual from February 2016 until its conversion in 2019. Prior thereto, Ms. Zimmerman served as Vice President, Chief Marketing Officer, Group Worksite, at The Guardian Life Insurance Company of America from July 2014 to February 2016, where she led marketing and enrollment services for the employee benefits division. Prior thereto, Ms. Zimmerman served as the Managing Director at Bridgestar Solutions, LLC from July 2013 to June 2014. Prior thereto, Ms. Zimmerman served as Senior Vice President for Aon Hewitt from November 2011 to June 2012, where she led marketing and advertising strategy. Before joining Aon Hewitt, Ms. Zimmerman served as Managing Director, Head of Marketing and Product at Legg Mason Global Asset Management from June 2010 to June 2011. Prior thereto, Ms. Zimmerman served in various positions during a thirteen-year career at Allstate Insurance Company. Among other positions at Allstate, Ms. Zimmerman served as Chief Strategy Officer for Allstate's financial services division. Ms. Zimmerman earned her bachelor's degree from Dartmouth College and her MBA from the Kellogg School of Management at Northwestern University.

Ms. Zimmerman was selected to serve on our Board of Directors due to her extensive marketing and leadership experience, her insurance industry knowledge and her familiarity with the operations of the Company.

Executive Officers

Set forth below is biographical information for our executive officers (except for Mr. Hohmann, whose biographical information is set forth above):

James C. Harkensee has served as Executive Vice President of Vericity since its conversion in 2019 and as President and Chief Operating Officer of Fidelity Life since November 2012. From July 1, 2013 to August 4, 2014, Mr. Harkensee served as Interim Chief Financial Officer of Members Mutual. Prior to that, Mr. Harkensee served in various capacities at Fidelity Life, including most recently as Vice President of Product and Corporate Development and prior to that as President of America Direct Insurance Agency, Inc., a subsidiary of Fidelity Life, which he joined in 2005. He was formerly President of Zurich Direct, a direct marketing insurance agency. Mr. Harkensee began his career at Bankers Life & Casualty in 1980, later joining Zurich Life, where he was promoted to Chief Actuary. Mr. Harkensee also serves as Executive Vice President of Vericity. He is a Fellow of the Society of Actuaries.

Chris S. Kim has served as Chief Financial Officer of Vericity since August 2014 and served as Chief Financial Officer of Members Mutual from August 2014 until its conversion in 2019. He has served as Executive Vice President of Vericity since its conversion in 2019. Prior thereto, Mr. Kim served as Chief Accounting Officer of Members Mutual since June 2013. Mr. Kim has over 20 years of experience in public accounting and controllership with a focus on property and casualty and life insurers. He has extensive experience in advising public companies on accounting and financial reporting matters related to capital raising activities and advising clients on complex accounting matters. Mr. Kim also serves as Executive Vice President of Vericity. Prior to joining Members Mutual, he was employed by PricewaterhouseCoopers LLC for a total of seventeen years within the audit and transaction services practice in Kansas City, Chicago, and New York, from 1995-2002 and again from 2004-2013. From 2002-2004, Mr. Kim held the position of Assistant Controller with Employers Reinsurance Corporation, a subsidiary of GE Capital.

John Buchanan has served as Executive Vice President, General Counsel and Corporate Secretary of Vericity since February, 2016. Mr. Buchanan served as Executive Vice President, General Counsel and Corporate Secretary of Members Mutual from February 2016 until its conversion in 2019. Prior thereto, from 1995 to February 2016, Mr. Buchanan served in various legal roles during a twenty-year career at Allstate Insurance Company most recently as Chief Counsel supporting Allstate's agency operations from July 2014 to February 2016, and prior to that as Corporate Counsel supporting direct sales from July 2009 until July 2014. Among other positions at Allstate, Mr. Buchanan led several legal teams within Allstate's P&C and life insurance operations, including acting as lead counsel for Allstate Life of New York. He also served as lead counsel to Allstate's Chief Marketing Officer and Lead Counsel to Allstate's Eastern Region President. Mr. Buchanan served as Secretary on NJ Life and Health Guaranty Fund boards. Mr. Buchanan began his career as a trial attorney with dozens of jury and bench trials on insurance matters.

David R. Drollette has served as Executive Vice President and Chief Data Officer & Chief Technology Officer since September 1, 2020. Prior thereto, Mr. Drollette served as Vice President Product Analytics at athenahealth, Inc. from September 2018 through August 2020, where he led the product analytics team and set the research & development strategy for the data and artificial intelligence engineering teams across multiple geographies. Prior thereto, Mr. Drollette served in various leadership roles at Wayfair, Inc. from January 2006 through August 2018, where he led a 180+ person team of analysts, data scientists, and software engineers. He holds a bachelor's degree in Mathematics/Physics from Ithaca College in New York where he graduated Cum Laude.

Melissa Balsan has served as Executive Vice President and Chief Marketing Officer since January 2023. With more than 20 years of experience in direct-to-consumer marketing and branding, Melissa has built deep knowledge of customer acquisition and led digital transformation within insurance, education, and e-commerce businesses. She served as Chief Marketing Officer for GoHealth, a Medicare insurance broker, as well as Chief Marketing Officer for Endurance Warranty, a leader in auto protection services. At Perdoceo Education Corporation, Melissa held marketing leadership positions responsible for new student enrollment and retention; and as a digital native, helped establish search engine and social media marketing at CareerBuilder.com. She began her career in advertising

guiding established brands like Ford Motor Company and La-Z-Boy through digital transformation. Melissa graduated from Adrian College in Adrian, Michigan with a BBA in Marketing where she also completed Public Relations studies.

Corporate Governance

Overview of Our Board Structure

As part of the conversion of Members Mutual in connection with our IPO, Apex Holdco purchased approximately 76.5% of the shares sold in the IPO pursuant to a standby stock purchase agreement under which Apex Holdco acted as the standby purchaser for the IPO. As such, we qualify as a “controlled company” within the meaning of the corporate governance rules of Nasdaq. “Controlled companies” under those rules are companies of which more than 50% of the voting power is held by an individual, a group or another company.

As we are a “controlled company” we have availed ourselves of the “controlled company” exception under the Nasdaq rules and will not be subject to the Nasdaq listing requirements that would otherwise require us to have a board of directors comprised of a majority of independent directors, a compensation committee composed solely of independent directors or a nominating committee composed solely of independent directors.

The standby purchase agreement and/or our bylaws contain provisions regarding our corporate governance and board structure and chief executive officer, including:

- the board of directors shall consist of designees appointed by the standby purchaser (the “standby purchaser designees”) and designees appointed by Vericity (the “company designees”). The number of company designees shall not exceed six or at any time be less than two, and the number of standby purchaser designees at any given time shall be one more than the number of company designees, but in no event less than three, provided that the standby purchaser may designate the minimum additional number of designees as necessary to comply with SEC and Nasdaq Stock Market rules relating to the number of independent directors serving on the board of directors or any committee of the board. Messrs. Rahe, Dong, Perry and Ashe serve as the standby purchaser designees, and Messrs. Hemmings, Hohmann and Schacht serve as the company designees;
- the compensation payable to the company designees may not be decreased without the consent of a majority of the company designees, and may not be increased without the consent of a majority of the standby purchaser designees;
- in the event of any vacancy in the office of any standby purchaser designee or company designee, a majority of the remaining designees, as applicable, will have the right to nominate a replacement to fill the vacancy, provided that in the case of a vacancy of a company designee, the standby purchaser may elect to reduce the size of the board of directors by two so long as one of the standby purchaser designees resigns, and provided further that in the event that there are no remaining company designees to nominate a replacement, the Advisory Board shall have the right to designate a replacement company designee;
- at any election of directors of Vericity, a majority of the standby purchaser designees will have the right to nominate the successors of the standby purchaser designees, and a majority of the company designees will have the right to nominate the successors of the company designees, provided that in the event that there are no remaining company designees to nominate successors, the Advisory Board shall have the right to designate successor company designees;
- any transaction between the standby purchaser or any of its affiliates, on the one hand, and Vericity or any of its subsidiaries, on the other hand, shall be subject to approval by the company designees, other than ordinary course transactions on arm’s length terms; and
- Mr. Hohmann shall serve as Chief Executive Officer of the Company for no less than three years after the closing of the offering, subject to his earlier death, retirement, resignation or removal for cause as defined in the standby purchase agreement.

Director Independence

We have undertaken a review of the composition of our Board of Directors and considered whether any director has a relationship that could compromise that director independent judgment in carrying out his responsibilities and all other facts and circumstances that the Board of Directors deemed relevant in determining their independence. We have affirmatively determined that each of our directors, with the exception of Mr. Hohmann, Mr. Rahe and Ms. Zimmerman, is an independent director under the Nasdaq Marketplace Rules.

Committees of the Board of Directors

We have the following committees of our Board of Directors in place: the audit committee; the compensation committee; and the nominating and governance committee. Each of these committees operates under a committee charter to be approved by our Board of Directors and available on our website at www.vericity.com. The composition, duties and responsibilities of our committees are as set forth below:

Audit Committee

The audit committee is responsible for the oversight of the integrity of our consolidated financial statements, our systems of internal control over financial reporting, our risk management, the qualifications, independence and performance of our independent registered public accounting firm, the performance of our internal auditor and our compliance with applicable legal and regulatory requirements. The audit committee has the sole authority and responsibility to select, determine the compensation for, evaluate and, when appropriate, replace our independent registered public accounting firm. All audit and non-audit services, other than *de minimis* non-audit services, to be provided to us by our independent registered public accounting firm must be approved in advance by our audit committee. The audit committee also approves related-party transactions.

Our audit committee is composed of Mr. Perry (chair), Mr. Hemmings, and Mr. Dong. Our Board of Directors has determined that each of the members of the audit committee meets the definition of “independent director” for purposes of serving on the audit committee under Exchange Act Rule 10A-3 and the Nasdaq Marketplace Rules. In addition, the Board of Directors has determined that Scott R. Perry qualifies as an “audit committee financial expert” as such term is defined in Item 407(d)(5) under Regulation S-K.

Compensation Committee

The compensation committee is responsible for annually reviewing and approving the corporate goals and objectives relevant to the compensation of our Chief Executive Officer and evaluating our Chief Executive Officer’s performance in light of these goals; reviewing and approving the compensation of our executive officers and other appropriate officers; reviewing and reporting to the Board of Directors on compensation of directors and board committee members; and administering our incentive and equity-based compensation plans.

Our compensation committee is composed of Mr. Rahe (chair), Mr. Hemmings, Mr. Ashe, Mr. Dong and Mr. Hohmann.

Nominating and Governance Committee

Our nominating and corporate governance committee is composed of Mr. Dong (chair), Mr. Rahe, and Mr. Ashe and Mr. Hohmann. The nominating and governance committee is responsible for identifying and recommending candidates for election to our Board of Directors and each committee of our Board of Directors, developing and recommending corporate governance guidelines to the Board of directors and overseeing performance reviews of the Board of Directors, its committees and the individual members of the Board.

Code of Ethics

We have adopted a code of business conduct and ethics applicable to all of our directors and employees, including our principal executive, financial and accounting officers and all persons performing similar functions. A copy of that code is available on our website at www.vericity.com. We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of such provisions, on our website to the extent required by applicable rules and exchange requirements.

Advisory Board

Upon completion of the offerings, we established an Advisory Board to provide general policy advice to the Board of Directors. Only individuals who served as directors of Members Mutual as of the date of the standby stock purchase agreement are eligible to serve on our Advisory Board. Advisory board members are entitled to attend meetings of the Board of Directors but shall not vote. Members of the Advisory Board shall have the right to nominate individuals to be company designees in the event that there are no then-serving company designees. Members of the Advisory Board will receive the same compensation provided to company designees serving on the Board of Directors of Vericity. Advisory Board members will serve until the earlier of the sale of Vericity to a third party, the fifth anniversary of the closing of our 2019 offering or a member’s death, resignation or removal for cause. The initial Advisory Board consists of Ms. Bynoe, Mr. Fibiger and Mr. Groot. Mr. Schacht was added to the Advisory Board in August of 2022 as he attained the age of 80 in 2022 and was no longer eligible to serve on the Vericity Board. Amount shown in Director Compensation represents total payments for 2023 which include compensation for participation on the Advisory Board.

Set forth below is biographical information for the members of the Advisory Board:

Linda Walker Bynoe is the President and Chief Executive Officer of Telemat Ltd., a project management and consulting firm based in Chicago, Illinois. Ms. Bynoe has served in that position since 1995. From 1989 to 1995, Ms. Bynoe was the Chief Operating Officer of Telemat Ltd. From 1978 to 1989, Ms. Bynoe worked in executive capacities with the capital markets division of Morgan Stanley, serving as Vice President since 1985. Ms. Bynoe serves on the board of directors of Anixter International Inc., Prudential Retail Mutual Funds and the Northern Trust Corporation, and as a Trustee of Equity Residential. Ms. Bynoe became a director of Fidelity Life from 2002, and a director of Members Mutual from 2007 through the completion of the conversion in 2019.

John A. Fibiger served in various positions, including President, Chief Financial Officer and Chairman of the board of directors, of the Transamerica Life Companies. Prior to his association with the Transamerica Life Companies, Mr. Fibiger served in various positions with New England Mutual Life Insurance Company, including as its President from 1982 to 1989. He recently served as an independent trustee with the following mutual fund complexes associated with Genworth Financial, Inc.: GPS Funds II (10 portfolios); since 2004, Genworth Financial Asset Management Funds (10 portfolios); and from 2008 to 2011, Genworth Variable Insurance Trust (20 portfolios). He served as a trustee of the Menninger Foundation, and was Chairman of the Menninger Fund.

Mr. Fibiger has been a member since 1956 and a Fellow since 1959 of the Society of Actuaries. He has been a Member since 1963 of the American Academy of Actuaries and served as its President from 1987 to 1988. He is also a trustee of the Austin Symphony Orchestra and a life trustee of the Museum of Science, Boston, Massachusetts. Mr. Fibiger became a director of Fidelity Life from 2004, and a director of Members Mutual from 2007, through the completion of the conversion in 2019.

Steven L. Groot held a series of actuarial and executive management positions during a thirty-plus year career with Allstate Insurance Company. Among other positions at Allstate, Mr. Groot served as President of Allstate Insurance Companies of Canada, President of Allstate Indemnity, President of Allstate International and President of Allstate’s direct distribution and e-commerce business. He was a member of the Allstate Insurance Company board of directors from 1994 to 2002 and served on the investment and executive committees of the Allstate Insurance Company board of directors.

Mr. Groot is a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries and also a member of the California State Bar Association. He currently serves as a member of the board of directors of CEM Insurance Company, a privately held property and casualty insurer, and was a life trustee of Lawrence Hall Youth Services in Chicago, Illinois. Since 2006, Mr. Groot has served on the board of directors of American Safety Insurance Holdings, Ltd., a specialty commercial insurer that was sold in 2013. Mr. Groot served as a director of Fidelity Life from 2006, and a director of Members Mutual from 2007, through the completion of the conversion in 2019.

James W. Schacht has served as a director of Vericity since 2013 and as the President of The Schacht Group, Inc., which advises national and international clients with respect to insurance and regulatory matters, since its founding in 2008. Prior thereto, Mr. Schacht was for thirteen years a Managing Director at two international consulting firms. Mr. Schacht has over 45 years of broad-based experience in the insurance industry and all areas of insurance regulation. Mr. Schacht has served as an expert consultant and witness on a variety of insurance, reinsurance, and regulatory issues in litigation, and advises clients on new insurance products, organizing insurance companies, financial and reporting requirements, and securing regulatory approval for a variety of transactions. Mr. Schacht served as the Director of the Illinois Department of Insurance on three occasions. Mr. Schacht serves on the board of directors of Spinnaker Insurance Company, a property and casualty insurer. Mr. Schacht has served on the Board of Directors of Members Mutual from 2007 through its conversion in 2019.

Mr. Schacht was selected to serve on our original board and now our Advisory Board because of his experience in the insurance industry and his knowledge of legal and regulatory matters affecting our operations.

Item 11. Executive Compensation.

The following table shows the compensation information for our President and Chief Executive Officer, our Executive Vice President and President and Chief Operating Officer of Fidelity Life and our Executive Vice President and President and Chief Operating Officer of Efinancial based on compensation earned for the years ended December 31, 2023 and December 31, 2022 (our “named executive officers”).

Name and Principal Position	Year	Salary (\$)	Non-Equity Incentive Plan Compensation (\$)(1)	All Other Compensation (2)(3)	Total (\$)
James Hohmann	2023	767,350	814,820	37,859	1,620,029
President and Chief Executive Officer of Vericity	2022	767,350	411,491	41,181	1,220,022
James Harkensee	2023	450,000	311,118	36,034	797,152
Executive Vice President of Vericity, President and Chief Operating Officer of Fidelity Life	2022	450,000	177,086	31,312	658,398
Melissa Balsan	2023	505,000	431,581	515,567	1,452,148
Executive Vice President, Chief Marketing Officer	2022	—	—	—	—

(1) See “Executive Compensation—Short-Term Incentive Program” below for additional information. Note that compensation earned for annual performance is paid in March of the following year.

(2) All other compensation consists of the following: (i) company portion of health, dental, life, disability and vision insurance premiums and (ii) 401(k) company matching contributions. For Ms. Balsan, this amount also includes a sign-on bonus and a second bonus payment to compensate for long term compensation that was lost in accepting her role with the Company.

(3) Following the closing of the IPO, the named executive officers also received grants under an equity incentive plan adopted, maintained and administered by the standby purchaser. See “—Apex Holdco Equity Incentive Plan” below for additional information.

Short-Term Incentive Program

2023 Short-Term Incentive Program

Under the annual bonus program, the compensation committee established 2023 bonus opportunities. Mr. Hohmann's annual bonus opportunity was 0% to 140% of his base salary, with his target bonus opportunity equal to 80% of base salary. The bonus opportunity for Mr. Harkensee was 0% to 96.25% of his base salary, with the target bonus opportunity equal to 55% of his base salary. The bonus opportunity for Ms. Balsan was 0% to 105% of her base salary, with the target bonus opportunity equal to 60% of her base salary. The amount of bonus paid depended on achievement of performance measures recommended by management and approved by the compensation committee.

The performance award for each of our named executive officers was based on the following performance categories:

- Corporate (Fidelity Life pre-tax GAAP earnings and Efinancial EBITDA combined; Capital Management, Infrastructure Modernization and Call Center Operational Improvements;
- Fidelity Life (pre-tax statutory operating income; pre-tax GAAP income; 3rd party business growth
- Efinancial (EBITDA; Opex as a % of Revenue and eSales net revenue.

Mr. Hohmann's bonus opportunity was weighted 50% Corporate, 25% Fidelity Life, and 25% Efinancial. Mr. Harkensee's bonus opportunity was weighted 30% Corporate, 40% Fidelity Life, and 30% Efinancial. Ms. Balsan's bonus opportunity was weighted 40% Corporate, 30% Fidelity Life, and 30% Efinancial.

In 2023, we achieved 139% of target for Corporate, 81% for Fidelity Life, and 172% for Efinancial. Based on this performance, 2023 annual bonuses for our named executive officers are reflected in the table above.

2022 Short-Term Incentive Program

Under the annual bonus program, the compensation committee established 2022 bonus opportunities. Mr. Hohmann's annual bonus opportunity was 0% to 140% of his base salary, with his target bonus opportunity equal to 80% of base salary. The bonus opportunity for each of Messrs. Harkensee was 0% to 96.25% of his base salary, with the target bonus opportunity equal to 55% of his base salary. Ms. Balsan started her role in January of 2023 and did not participate in any 2022 incentive compensation. The amount of bonus paid depended on achievement of performance measures recommended by management and approved by the compensation committee.

The performance award for each of our named executive officers was based on the following performance categories:

- Corporate (Fidelity Life pre-tax GAAP earnings and Efinancial EBITDA combined; Cash Management at Holding Company level, research & technology initiatives;
- Fidelity Life (pre-tax statutory operating income; pre-tax GAAP income; 3rd party business growth
- Efinancial (EBITDA; net revenue; and gross contribution margin).

Mr. Hohmann's bonus opportunity was weighted 50% Corporate, 25% Fidelity Life, and 25% Efinancial. Mr. Harkensee's bonus opportunity was weighted 30% Corporate, 40% Fidelity Life, and 30% Efinancial.

In 2022, we achieved 66% of target for Corporate, 109% for Fidelity Life, and 27% for Efinancial. Based on this performance, 2022 annual bonuses for our named executive officers are reflected in the table above.

In November of 2023, the Company adopted clawback requirements related to executive incentive compensation. A copy of this policy is attached to this filing as Exhibit 97.

Deferred Compensation Plan

We offer a non-qualified deferred compensation plan to our named executive officers, directors and certain other executive officers. Deferred compensation plan participants can elect to defer a portion of their annual compensation into the deferred compensation plan, with the deferrals generally not subject to current income tax. Deferred compensation plan balances are credited with interest, computed monthly, using the yield rate that we earn on our invested assets. Net gains (losses) on investments are not considered in determining earnings on deferred compensation accounts. There are currently no participants in this plan.

Apex Holdco Equity Incentive Plan

Following the closing of the IPO, the standby purchaser established the Apex Holdco L.P. 2019 Equity Incentive Plan (the “EI Plan”) under the terms of the amended and restated limited partnership agreement of the standby purchaser. Under the EI Plan, Class B units representing 20.6% of the fully diluted units of the standby purchaser at the closing of the IPO were reserved for issuance to employees, directors, advisory board members and other service providers of the Company. Following the closing, awards under the EI Plan were made to the executive officers, certain directors, certain other employees, and advisory board members of the Company in an aggregate amount of approximately 85.4% of the available pool of Class B units under the EI Plan. Class B units are non-voting profits interests in the standby purchaser that entitle the holders thereof to participate in the appreciation in the value of the standby purchaser, as represented by its ownership of the Company’s common stock, above a per share threshold representing the amount of the standby purchaser’s investment in the Company’s common stock, subject to certain customary adjustments, and are immediately vested and payable in the event of a future sale of the Company. The grants of Class B Units made to the named executive officers, directors and advisory board members represented the following percentages of the fully diluted units of the standby purchaser at the closing of the IPO: Mr. Hohmann, 5.00%; Mr. Harkensee, 1.75%; Ms. Balsan 1.0%; Mr. Ashe, 1.00%; Mr. Hemmings, 0.80%; Mr. Perry, 0.25%; Mr. Schacht, 0.80%, Ms. Bynoe, 0.80%; Mr. Fibiger, 0.80%; and Mr. Groot, 0.80%.

Under the EI Plan, for all of our directors and our executive officers other than Mr. Hohmann, the grants of Class B units vest ratably over five years, subject to forfeiture under certain conditions. Mr. Hohmann’s grant was fully vested upon grant, subject to recoupment ratably over five years and forfeiture under certain conditions. The grants to the directors of Vericity are not subject to forfeiture. The EI Plan is adopted, maintained and administered by the standby purchaser, not the Company.

Employment Agreements

We have entered into employment agreements with Messrs. Hohmann, Harkensee, Kim and Buchanan. The employment agreements provide for a base salary, subject to increase as determined by the Company. Pursuant to the employment agreements, these executives are eligible to participate in all employee profit sharing and welfare benefit plans for executives as well as our annual short term incentive program, and Change in Control Severance Benefits Plan (the “CIC Plan”). The employment agreements require the Company to indemnify any executive who is made a party or is threatened to be made a party to any action, suit or proceeding because he or she is or was a director or officer of the Company, subject to certain conditions. In such case, the Company will provide for the advancement of certain expenses.

Under the employment agreements, the agreement and an executive’s employment thereunder may be terminated due to (i) death; (ii) total disability; (iii) by the Company for Cause; (iv) by the Company at any time without Cause; (v) or by an executive on at least thirty days’ notice. In the event an executive is terminated by the Company without Cause and there has not been a Change in Control under the Company’s CIC Plan, the executive will be entitled to the following (x) an amount equal to eighteen months of executive’s then current base salary; (y) an amount equal to the executive’s target bonus percentage for the current year multiplied by the amount payable pursuant to (x); and (z) COBRA coverage for eighteen months provided the executive makes the appropriate election and continues to pay the relevant premiums at the same level as when employed. The amounts payable pursuant to (x) and (y) shall be paid in monthly installments. Pursuant to the employment agreements, the executives are subject to certain restrictions regarding confidential information and trade secrets. In addition, for a period of up to eighteen months, the executives are prohibited from soliciting the Company’s customers and employees and from engaging in certain activities which compete with the Company.

Change in Control Severance Benefits Plan

Our named executive officers, among others, participate in the Vericity Holdings Change in Control Severance Benefits Plan (the “CIC plan”). The CIC plan provides for the payment of severance benefits to certain eligible employees whose employment is terminated without Cause or who voluntarily terminates for Good Reason following a Change in Control as those terms are defined in the CIC plan.

Pursuant to the CIC Plan, if our named executive officers are terminated without Cause or voluntarily terminate their employment due to Constructive Termination within 12 months of a Change in Control, they would be entitled to receive 24 months of base salary. Also, our named executive officers would receive payment of a bonus computed as the average of their short-term annual bonus as a percentage of base salary for the past three complete years in which a bonus plan was in effect. The annual bonus payout would be multiplied to be consistent with the period covered by the base salary award (2 times for 24 months). Base salary payments would continue to be paid on the same frequency as before the termination, while the bonus payment would be made in a lump sum. Following the termination of employment, we would pay the employee’s share of any health insurance premiums as were paid before the termination if the employee elects to continue coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (“COBRA”) for the continuation period under COBRA. The Company would also reimburse the named executive officer the cost of obtaining comparable life and long-term disability insurance coverage that the employee was provided before the termination for 24 months. In addition, our named executive officers would be entitled to receive the immediate payment of all outstanding (vested and un-vested) awards under the Company’s incentive and bonus plans, including the annual bonus program.

In the event that any payments made under the CIC plan would cause our named executive officers to be considered the recipient of an excess parachute payment within the meaning of Section 280G(b) of the Code, the amount of such payments would be reduced to an amount necessary to avoid application of Section 280G(b) of the Code.

Director Compensation

In 2023, each non-employee director and advisory director of Vericity, Inc. received an annual retainer of \$100,000 which was paid on a quarterly basis. Messrs. Rahe, Dong and Perry and Ms. Zimmerman do not receive cash compensation from the Company for service as a director of Vericity, Inc. Following the closing of the IPO, each director other than Messrs. Rahe and Dong also received a grant of Class B Units under the EI Plan. See “—Apex Holdco Equity Incentive Plan” above for additional information.

The table below summarizes the total compensation earned from the Company and its subsidiaries by our non-employee directors for service as a director for the fiscal year ended December 31, 2023.

	Fees Earned or Paid in Cash	Non-Equity Incentive Plan Compensation	Total
Linda Walker Bynoe	\$ 100,000	\$ —	\$ 100,000
John A. Fibiger	100,000	—	100,000
Richard A. Hemmings	100,000	—	100,000
Steven L. Groot	100,000	—	100,000
James W. Schacht ⁽¹⁾	100,000	—	100,000
Neil Ashe	100,000	—	100,000
Eric Rahe	—	—	—
Calvin Dong	—	—	—
Scott Perry	—	—	—
Laura Zimmerman	—	—	—

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

The tables below provide information regarding the beneficial ownership of the Company's common stock for:

- each beneficial owner known by us to be the beneficial owner of more than five percent of the Company's common stock;
- each of our directors;
- each of our named executive officers; and
- all directors and executive officers as a group.

We have based our calculations of the percentage of beneficial ownership on 14,875,000 shares of common stock outstanding on March 31, 2024.

Five Percent Shareholders

The following table sets forth information regarding all persons known by the Company to be the beneficial owner of more than 5% of the Company's common stock as of March 31, 2024.

Five Percent (5%) Shareholders	Number of Shares and Nature of Beneficial Ownership	Percentage of Class (%)
Apex Holdco, L.P. (1) 767 Fifth Avenue New York, NY 10153	11,373,352	76.5%

Directors and Executive Officers

The Company has adopted insider trading policies and procedures governing the purchase, sale, and/or other dispositions of the issuer's securities by directors, officers and employees. A copy of this policy is attached as Exhibit 19. To date no director or officer has adopted a Rule 10b5-1 trading plan.

The following table sets forth information regarding our common stock beneficially owned as of March 31, 2024 by (i) each director, (ii) each of the named executive officers, and (iii) all current directors and executive officers as a group.

Directors & Executive Officers	Number of Shares and Nature of Beneficial Ownership	Percentage of Class (%)
Neil Ashe	-	0
Calvin Dong	453	*(1)
Richard A. Hemmings	193,500	1.3
James E. Hohmann	625,532	4.2
Scott Perry	-	0
Eric Rahe	-	0
James C. Harkensee	327,782	2
Laura Zimmerman	120,104	*(1)
All current directors and executive officers as a group (12 persons)	1,553,296	10.4

Ownership percentage is less than 1.0%.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The Company has no related party transactions.

Item 14. Principal Accountant Fees and Services.

The following table provides information regarding the fees incurred to Deloitte & Touche LLP during the years ended December 31, 2023 and 2022. All fees described below were approved by the audit committee.

(dollars in thousands)	2023		2022	
Audit Fees (1)	\$	1,225	\$	1,200
Audit Related Fees (2)		—		—
Tax Fees (3)		—		—
All Other Fees (4)		—		—
Total	\$	1,225	\$	1,200

(1) Audit Fees of Deloitte & Touche LLP for 2023 and 2022 were for professional services associated with the annual audit of our consolidated financial statements, the reviews of our quarterly condensed consolidated financial statements and the issuance of consents and comfort letters in connection with registration statement filings with the SEC.

(2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." No such services were incurred in 2023 and 2022.

(3) Tax Fees consist of fees for tax compliance, tax advice and tax planning. No such services were incurred in 2023 and 2022.

(4) All Other Fees include any fees billed that are not audit, audit-related or tax fees. No such services were incurred in 2023 and 7 in 2022.

Before an independent registered public accounting firm is engaged by the Company to render audit or non-audit services, our audit committee must review the terms of the proposed engagement and pre-approve the engagement. The audit committee may delegate authority to one or more of the members of the audit committee to provide these pre-approvals for audit or non-audit services, provided that the person or persons to whom authority is delegated must report the pre-approvals to the full audit committee at its next scheduled meeting. Audit committee pre-approval of non-audit services (other than review and attest services) are not required if those services fall within available exceptions established by the SEC. The audit committee pre-approved all audit, audit-related, tax and other services provided by Deloitte & Touche LLP for the fiscal years 2023 and 2022 and the estimated costs of those services. Actual amounts billed, to the extent in excess of the estimated amounts, were periodically reviewed and approved by the audit committee.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) We have filed the following documents as part of this Form 10-K:

(1) Consolidated Financial Statements

See Item 8, Index to Financial Statements

(2) Financial Statement Schedules

NOTE: Certain financial statement schedules have been omitted as they are deemed inapplicable or not required by Regulation S-X.

(b) Exhibits: The following are exhibits to this report, and if incorporated by reference, we have indicated the document previously filed with the SEC in which the exhibit was included:

Exhibit Index

Exhibit Number	Description
3.1	<u>Amended and Restated Certificate of Incorporation of Vericity, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2019)</u>
3.2	<u>Amended and Restated Bylaws of Vericity, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2019)</u>
4.1	<u>Form of Stock Certificate of Vericity, Inc. (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
4.2*	<u>Description of Capital Stock</u>
10.1	<u>Fidelity Life Association Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.2	<u>Form of Executive Employment Agreement (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.3	<u>Vericity Holdings, Inc. Change in Control Severance Benefits Plan (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.4	<u>Form of Indemnification Agreement for Directors and Certain Officers of Vericity, Inc. (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.5	<u>Automatic Coinsurance Agreement dated as of January 1, 2012 between Fidelity Life Association and Hannover Life Reassurance Company of America (as amended by Amendment I effective January 20, 2014 and Amendment II effective January 1, 2015) (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.6	<u>Indemnity Reinsurance Agreement (Combined Block) effective as of October 1, 2012 by and between Combined Insurance Company of America and Fidelity Life Association (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.7	<u>Indemnity Reinsurance Agreement (Transition Block) effective as of October 1, 2012 by and between Combined Insurance Company of America and Fidelity Life Association (as amended by Amendment Number One dated August 27, 2013 and Amendment Number Two effective January 1, 2014.) (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.8	<u>License Agreement dated October 1, 2012 by and between Fidelity Life Association, James Harkensee and Combined Insurance Company of America (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.9	<u>Amended and Restated Reinsurance Agreement effective July 1, 2016 between Fidelity Life Association and Hannover Life Reassurance Company of America (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.10	<u>Automatic Self-Administered Accidental Death Benefit Rider Policy Coinsurance Reinsurance Agreement between Fidelity Life Association and Swiss Re Life and Health America Inc. effective June 1, 2013 (including Amendment 1 dated September 22, 2014, Amendment 2 dated December 23, 2014, Amendment 3 dated March 31, 2015, Amendment 4 dated April 7, 2015, Amendment 5 January 29, 2016, Amendment 6 dated March 23, 2016, and Amendment 7 dated March May 16, 2016) (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>

10.11	<u>Automatic Self-Administered Coinsurance Reinsurance Agreement effective February 21, 2014 between Fidelity Life Association and Swiss Re Life & Health America Inc. (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.12	<u>Amended and Restated Purchase and Sale Agreement dated as of April 20, 2018 by and between Hannover Life Reassurance Company of America (Bermuda) LTD., Fidelity Life Association, and Efinancial, LLC (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.13	<u>Amended and Restated Standby Stock Purchase Agreement dated as of March 26, 2019 by and among Apex Holdco L.P., Vericity, Inc., Members Mutual Holding Company, and Fidelity Life Association (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.14	<u>Amended and Restated Guaranty dated March 26, 2019 by J.C. Flowers IV L.P. in favor of Members Mutual Holding Company and Vericity, Inc. (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.15	<u>Amendment No. 1 dated as of December 17, 2018 to the Amended and Restated Purchase and Sale Agreement dated as of April 20, 2018 by and between Hannover Life Reassurance Company of America (Bermuda) LTD., Fidelity Life Association, and Efinancial, LLC (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
10.16	<u>Apex Holdco L.P. 2019 Equity Incentive Plan (incorporated by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2019)</u>
10.17	<u>Form of Employee-Consultant Award Agreement (incorporated by reference to Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2019)</u>
10.18	<u>Form of Director Award Agreement (incorporated by reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2019)</u>
10.19	<u>Form of CEO Award Agreement (incorporated by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2019)</u>
19.0*	<u>Insider Trading Policy</u>
21.1	<u>Subsidiaries of Vericity, Inc. (incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019)</u>
31.1*	<u>Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended</u>
31.2*	<u>Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended</u>
32.1*	<u>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</u>
32.2*	<u>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</u>
97.0*	<u>Clawback Policy</u>
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema with Embedded Linkbase Documents

101.CAL*	Inline XBRL Taxonomy Extension Calculation
101.DEF*	Inline XBRL Taxonomy Extension Definition
101.LAB*	Inline Taxonomy Extension Label
101.PRE*	Inline XBRL Taxonomy Extension Presentation
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

Item 16. Form 10-K Summary

None.

DESCRIPTION OF CAPITAL STOCK

Authorized Capital Stock. Our authorized capital stock consists of 30,000,000 shares of common stock, par value \$0.001 per share.

Voting Rights. Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders, including the election of directors. Holders of our common stock are not entitled to cumulative voting in the election of directors. Directors of the Company are elected by a plurality of the shares of our common stock present in person or by proxy and entitled to vote thereon. Other than for the election of directors, matters to be voted on by stockholders must generally be approved by the affirmative vote of the majority of the shares of our common stock present in person or by proxy and entitled to vote thereon.

Dividends. Holders of our common stock are entitled to receive ratably, on a per share basis, the dividends, if any, as may be declared from time to time by our board of directors out of funds legally available therefor.

Transfer Restrictions. The shares of common stock purchased by our directors and officers pursuant to subscription rights granted to them in connection with our conversion from mutual to stock form and related initial public offering completed in August 2019 (“IPO”) will be restricted for a period of one year from the effective date of the conversion pursuant to the plan of conversion and Section 59.1(7)(a)(iii) of the Illinois Insurance Code. The shares purchased by the standby purchaser in our IPO will be restricted securities and subject to trading limitations under applicable law and our agreement with the standby purchaser.

Liquidation. If there is a liquidation, dissolution or winding up of Vericity, holders of our common stock would be entitled to share in our assets remaining after the payment of liabilities, ratably on a per share basis.

Other Characteristics. Holders of our common stock have no preemptive or conversion rights or other subscription rights, and no redemption or sinking fund provisions apply to our common stock.

Advance Notice Requirements for Stockholder Proposals and Director Nominations. Our bylaws provide that stockholders seeking to bring business before a meeting of stockholders, or to nominate candidates for election as directors at a meeting of shareholders, must provide timely notice of their intent in writing. Our bylaws also specify certain requirements as to the form and content of a stockholder’s notice. Our bylaws also require that such stockholder provide information concerning each item of business proposed by the stockholder and individuals nominated for election as a director, as applicable.

These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders. These provisions could also have an anti-takeover effect and make the following transactions more difficult: acquisition of us by means of a tender offer; acquisition of us by means of a proxy contest or otherwise; or removal of our incumbent officers and directors.

Stockholder Action by Written Consent. Our charter and bylaws do not prohibit action by written consent of our stockholders, and therefore any action required or permitted to be taken by our stockholders may be taken by written consent. Our standby purchaser acquired a majority of our shares of common stock in the IPO, and as a result will be able to approve most corporate actions requiring stockholder approval by written consent without a duly-noticed and duly-held meeting of stockholders.

Corporate Governance and Board Structure. Our bylaws and/or our agreement with the standby purchaser contain provisions regarding our corporate governance and board structure, including that the board of directors shall consist of designees appointed by the standby purchaser (the “standby purchaser designees”) and designees appointed by Vericity (the “company designees”). The number of company designees shall not exceed six or at any time be less than two, and the number of standby purchaser designees at any given time shall be one more than the number of company designees, but in no event less than three, provided that the standby purchaser may designate the minimum additional number of designees as necessary to comply with SEC and Nasdaq Stock Market rules relating to the number of independent directors serving on the board of directors or any committee of the board.

**VERICITY, INC.
INSIDER TRADING POLICY**

Purpose

This Insider Trading Policy provides guidelines with respect to transactions in the securities of Vericity, Inc. (together with its subsidiaries, “Vericity”) and the handling of confidential information about Vericity and the companies with which Vericity does business.

Persons Subject to the Policy

All directors, officers, employees and advisory board members of Vericity, and any family members living in such a person’s household, other members of such a person’s household and any entity controlled by such a person (each a “Covered Person”) are subject to, and must comply with, this Policy. The Office of the General Counsel shall maintain a list of all Vericity employees identified as a “Designated Employee” for purposes of this Policy.

Transactions Subject to the Policy

This Policy applies to transactions in Vericity’s securities, including Vericity’s common stock, options for common stock, restricted stock units and any other securities Vericity may issue from time to time, as well as derivative securities not issued by Vericity, such as exchange-traded put or call options or swaps relating to Vericity’s securities (collectively referred to in this Policy as “Vericity Securities”).

Statement of Policy

No Covered Person who is aware of Material Nonpublic Information (defined below) relating to Vericity may, directly, or indirectly through family members or other persons or entities:

- (1) Engage in transactions in Vericity Securities, except as otherwise specifically permitted by this Policy or Vericity;
- (2) Recommend the purchase or sale of any Vericity Securities;
- (3) Disclose Material Nonpublic Information to persons within Vericity whose jobs do not require them to have that information, or to persons outside of Vericity, unless any such disclosure is required in fulfillment of their job responsibilities and subject to appropriate confidentiality restrictions; or
- (4) Assist anyone engaged in the above activities.

In addition, a Covered Person who, in the course of working for Vericity, learns of Material Nonpublic Information about a company with which Vericity has a relationship or does business, including a customer or supplier of Vericity, may not:

- trade in that company’s securities until the information becomes public or is no longer material, or
- disclose such information to anyone other than a co-worker within Vericity with a business need to know.

Anyone with any questions regarding trading in Vericity Securities, including questions regarding restrictions on a specific transaction, should contact Vericity’s Office of the General Counsel.

Definition of Material Nonpublic Information

Material Nonpublic Information is positive or negative information that is not generally known to the public and, if publicly known, would be considered by a reasonable investor to be important in making a decision to buy, hold or sell securities or might reasonably be expected to affect the market for or price of Vericity Securities (or the securities of a company with which Vericity has a relationship or does business). While it is not possible to define

all categories of Material Nonpublic Information, there are various categories of information that are particularly sensitive and, as a general rule, should be considered material. Examples of such information include:

- Financial results
- Projections of future earnings or losses, or other earnings guidance
- A pending or proposed acquisition or disposition of a significant asset
- A pending or proposed merger, acquisition or tender offer
- A change in dividend policy, the declaration of a dividend or a stock split, or an offering of additional securities
- Bank borrowings or other financing transactions out of the ordinary course
- The establishment of a repurchase program for Vericity Securities
- A change in management or key personnel
- Pending or threatened significant litigation, or the resolution of such litigation
- The gain or loss of a significant customer or business partner

Directors, Officers, Advisory Board and Designated Employees: Special and Prohibited Transactions

Vericity has determined that there is a heightened legal risk and/or the appearance of improper or inappropriate conduct if Vericity's directors, officers, advisory board members or Designated Employees engage in certain types of transactions. It therefore is Vericity's policy that directors, officers, advisory board members and Designated Employees may not engage in any of the following transactions:

- Short sales of Vericity Securities
- Transactions in publicly-traded options, including put options, call options or other derivative securities, on an exchange or in any other organized market
- Hedging or monetization transactions, including through the use of financial instruments such as prepaid variable forwards, equity swaps, collars and exchange funds
- Holding Vericity Securities in a margin account or otherwise pledging Vericity Securities as collateral for a loan (other than Vericity Securities acquired prior to August 8, 2019, the first day Vericity common stock was available for trading on the Nasdaq Capital Market).
- Any other hedging or derivative transactions designed to hedge or offset the effect of a change in the market price of Vericity Securities

Directors, Executive Officers, Advisory Board and Designated Employees: Additional Procedures

Vericity has established the following additional procedures applicable to directors, executive officers, advisory board members and Designated Employees:

- Pre-Clearance Procedures. No one subject to these procedures may engage in any transaction in Vericity Securities without first obtaining pre-clearance of the transaction from Vericity. A request for pre-clearance should be submitted to Vericity's Office of the General Counsel at least three business days in advance of the proposed transaction, or such shorter period as may be acceptable to such Office.

Any pre-clearance received from the Office of the General Counsel to engage in a proposed transaction is effective for the first to occur of (1) five (5) business days from the preclearance date, (2) the beginning of a Blackout Period, or (3) the time at which such person comes into possession of Material Nonpublic Information, after which preapproval must be requested again. If anyone subject to these procedures comes into possession of Material Nonpublic Information after obtaining pre-clearance, he or she should **immediately** stop any transactions in Vericity Securities.

- Quarterly Trading Restrictions. No one subject to this restriction may conduct any transactions involving Vericity Securities (other than as specified by this Policy), during a “Blackout Period” beginning 21 trading days prior to the end of each fiscal quarter and ending on the third business day following the date of the public release of Vericity’s earnings results for that quarter. Following the receipt of pre-clearance as described above, those persons subject to this restriction generally may conduct transactions in Vericity Securities during the “Window Period” beginning on the third business day following the public release of Vericity’s quarterly earnings and ending 21 trading days prior to the close of the next fiscal quarter.
- Event-Specific Trading Restriction Periods. From time to time, an event may occur that is material to Vericity and is known by only a few directors, officers and/or employees. So long as the event remains material and nonpublic, the persons designated by the Office of the General Counsel or may not trade Vericity Securities. In that situation, the Office of the General Counsel may notify these persons that they should not trade in Vericity Securities.
- Exceptions. The requirement for pre-clearance, the quarterly trading restrictions and event-driven trading restrictions do not apply to transactions conducted pursuant to approved Rule 10b5-1 Plans.

Rule 10b5-1 Plans

If an individual enters into a plan that meets the requirements of Rule 10b5-1 (a “Rule 10b5-1 Plan”), Vericity Securities may be purchased or sold pursuant to such Rule 10b5-1 Plan by that person without regard to certain insider trading restrictions. To comply with the Policy, a Rule 10b5-1 Plan must be approved by Vericity and meet the requirements of Rule 10b5-1. In general, a Rule 10b5-1 Plan must be entered into at a time when the person entering into the plan is not aware of Material Nonpublic Information. Once the Rule 10b5-1 Plan is adopted, the person must not exercise any influence over the amount of securities to be traded, the price at which they are to be traded or the date of the trade. The plan must either specify the amount, pricing and timing of transactions in advance or delegate discretion on these matters to an independent third party. No further pre-approval of transactions conducted pursuant to a Vericity-approved Rule 10b5-1 Plan will be required.

Post-Termination Transactions

This Policy continues to apply to transactions in Vericity Securities even after termination of service to Vericity. If an individual is in possession of Material Nonpublic Information when his or her service terminates, that individual may not trade in Vericity Securities until that information has become public or is no longer material.

Transactions Not Involving a Purchase or Sale

Bona fide gifts of securities are not transactions subject to this Policy.

Consequences of Violations

The purchase or sale of securities while aware of Material Nonpublic Information, or the disclosure of Material Nonpublic Information to others who then trade in Vericity Securities, is prohibited by federal and state laws (as well as the laws of foreign jurisdictions). Insider trading violations are pursued vigorously by the U.S. Securities and Exchange Commission, U.S. Attorneys and state enforcement authorities. Punishment for insider trading violations is severe, and could include significant fines and imprisonment. In addition, an individual’s failure to comply with this Policy may subject the individual to Vericity-imposed sanctions, including dismissal for cause, whether or not the employee’s failure to comply results in a violation of law.

Company Assistance

Any person who has a question about this Policy or its application to any proposed transaction may obtain additional guidance from the Office of the General Counsel.

I, James Hohmann, certify that:

1. I have reviewed this report on Form 10-K 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: March 31, 2024

/s/ James E. Hohmann

James E. Hohmann

Chief Executive Officer and President, Vericity, Inc.

I, Chris Kim, certify that:

1. I have reviewed this report on Form 10-K 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: March 31, 2024

/s/ Chris S. Kim

Chris S. Kim

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

Vericity, Inc.

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

The undersigned officer of Vericity, Inc. (“Vericity”) certifies, to his knowledge and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the report on Form 10-K of Vericity for the period ended December 31, 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-K fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: March 31, 2024

By: /s/ James E. Hohmann

James E. Hohmann

Chief Executive Officer and President, Vericity, Inc.

Vericity, Inc.

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

The undersigned officer of Vericity, Inc. (“Vericity”) certifies, to his knowledge and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the report on Form 10-K of Vericity for the period ended December 31, 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-K fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: March 31, 2024

By: /s/ Chris S. Kim

Chris S. Kim

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

**VERICITY, INC.
CLAWBACK POLICY**

(As adopted on November 9, 2023)

1. Introduction and Purpose

- a. Introduction. This document sets forth the Vericity, Inc. Clawback Policy (the "Policy"), as adopted on the date listed above.
- b. Purpose. Vericity, Inc. (the "Company") has established this Policy to appropriately align the interests of the executives of the Company, who have been designated as Covered Executives, with those of the Company and to provide for the recovery of (i) Erroneously Awarded Compensation from Covered Executives, and (ii) Recoverable Amounts from Covered Executives. This Policy is designed to comply with Nasdaq Rule 5608 ("Rule 5608") and with Section 10D and Rule 10D-1 of the Exchange Act ("Rule 10D-1"). All capitalized terms not defined herein shall have the meanings set forth in Section 4 of this Policy.

2. Mandatory Recovery as Required by the SEC and Nasdaq

- a. Recovery of Erroneously Awarded Compensation due to an Accounting Restatement.

I. In the event of an Accounting Restatement, the Company will reasonably promptly recover the Erroneously Awarded Compensation in accordance with Rule 5608 and Rule 10D-1 as follows:

Upon the occurrence of an Accounting Restatement, the Compensation Committee (the "Committee"), shall determine the amount of any Erroneously Awarded Compensation and shall promptly deliver a written notice to each Covered Executive containing the amount of any Erroneously Awarded Compensation and a demand for repayment or return of such compensation, as applicable. For the avoidance of doubt, recovery of Erroneously Awarded Compensation is on a "no fault" basis, meaning that it will occur regardless of whether the Covered Executive engaged in misconduct or was otherwise directly or indirectly responsible, in whole or in part, for the Accounting Restatement. To determine the amount of any Erroneously Awarded Compensation for Incentive-based Compensation that is based on a Financial Reporting Measure after an Accounting Restatement:

- The Company shall recalculate the applicable Financial Reporting Measure and the amount of Incentive-based Compensation that would have been Received based on such Financial Reporting Measure; and
- The Company shall determine whether the Covered Executive Received a greater amount of Incentive-based Compensation than would have been Received applying the recalculated Financial Reporting Measure, based on: (i) the originally calculated Financial Reporting Measure, and (ii) taking into consideration any discretion that the Committee applied to reduce the amount originally received.

To determine the amount of any Erroneously Awarded Compensation for Incentive-based Compensation that is based on stock price or TSR, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement:

- The amount to be repaid or returned shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the Company's stock price or TSR upon which the Incentive-based Compensation was Received; and
 - The Company shall maintain documentation of the determination of such reasonable estimate and provide the relevant documentation as required to Nasdaq.
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(ii) The Committee shall have discretion to determine the appropriate means of recouping Erroneously Awarded Compensation hereunder based on the particular facts and circumstances which may include, without limitation:

- requiring reimbursement of cash Incentive-based Compensation previously paid;
- seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards;
- offsetting the recouped amount from any compensation otherwise owed by the Company to the Covered Executive;
- canceling outstanding vested or unvested equity awards; and/or
- taking any other remedial and recovery action permitted by law, as determined by the Committee, in its sole discretion.

(iii) Notwithstanding the foregoing, except as set forth in Section 2.a.II. below, in no event may the Company accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of a Covered Executive's obligations hereunder.

(iv) To the extent that a Covered Executive fails to repay all Erroneously Awarded Compensation to the Company when due, the Company shall take all actions reasonable and appropriate to recover such Erroneously Awarded Compensation from the applicable Covered Executive. The applicable Covered Executive shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such Erroneously Awarded Compensation in accordance with the immediately preceding sentence.

II. Notwithstanding anything herein to the contrary, the Company shall not be required to take the actions contemplated by Section 2.a.I. above if the Committee determines that recovery would be impracticable and any of the following two conditions are met:

(i) The Committee has determined that the direct expenses, such as reasonable legal expenses and consulting fees, paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. In order for the Committee to make this determination, the Company must make a reasonable attempt to recover the Erroneously Awarded Compensation, document such attempt(s) to recover, and provide such documentation to Nasdaq; or

(ii) Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Code.

(iii) Company is not longer listed on the Nasdaq exchange or the company becomes a direct or indirect subsidiary of a publicly traded company listed on any national securities exchange.

- b. **Mandatory Disclosure.** The Company shall file this Policy with its next 10k and, in the event of an Accounting Restatement, will disclose information related to such Accounting Restatement in accordance with applicable law, including, for the avoidance of doubt, Rule 10-D1 and Rule 5608.
- c. **Prohibition of Indemnification.** The Company shall not be permitted to insure or indemnify any Covered Executive against (i) the loss of any Erroneously Awarded Compensation that is repaid, returned, or recovered pursuant to the terms of this Policy, or (ii) any claims relating to the Company's enforcement of its rights under this Policy. While Covered Executive subject to this Policy may purchase their own personal insurance to cover their potential recovery obligations, the Company shall not be permitted to pay or reimburse the
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Covered Executive for premiums for such an insurance policy. Further, the Company shall not enter into any agreement that exempts any Incentive-based Compensation that is granted, paid, or awarded to a Covered Executive from the application of this Policy or that waives the Company's right to recovery of any Erroneously Awarded Compensation, and this Policy shall supersede any such agreement (whether entered into before, on, or after the Effective Date of this Policy), including, for the avoidance of doubt, the Company's Indemnification Agreement.

- d. Other Recoupment Rights. This Policy shall be binding and enforceable against all Covered Executives and, to the extent required by applicable law or guidance from the SEC or Nasdaq, their beneficiaries, heirs, executors, administrators, or other legal representatives. The Administrator intends that this Policy will be applied to the fullest extent required by applicable law. Any employment agreement, equity award agreement, compensatory plan, or any other agreement or arrangement with a Covered Executive shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Covered Executive to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company under applicable law, regulation, or rule pursuant to the terms of any policy of the Company or any provision in any employment agreement, equity award agreement, compensatory plan, agreement, or other arrangement.

3. Miscellaneous and Definitions

- a. Administration and Interpretation. This Policy shall be administered by the Committee or by the Board acting as the Committee (either of these, as applicable, the "Administrator"), which shall have authority to (i) exercise all of the powers granted to it under the Policy, (ii) construe, interpret, and implement this Policy, (iii) make all determinations necessary or advisable in administering this Policy and for the Company's compliance with Rule 5608, Section 10D and Rule 10D-1, and any other applicable law, regulation, rule, or interpretation of the SEC or Nasdaq rules promulgated or issued in connection therewith, and (iv) amend this Policy, including to reflect changes in applicable law or stock exchange regulation. Any determinations made by the Administrator shall be final and binding on all affected individuals.
 - b. Application and Method of Recovery. Nothing in this Policy will limit in any respect (i) the Company's right to take or not to take any action with respect to any Covered Executive's or any other person's employment or (ii) the obligation of the Chief Executive Officer or the Chief Financial Officer to reimburse the Company in accordance with Section 304 of the Sarbanes-Oxley Act of 2002, as amended. Any determination made pursuant to Section 3 of this Policy and any application and implementation thereof need not be uniform with respect to each Covered Executive, or payment recovered or forfeited under this Policy. To the extent permitted by applicable law, the Board may seek to recoup Recoverable Amounts by all legal means available, including but not limited to, by requiring any affected Covered Executive to repay such amount to the Company, by set-off, by reducing future compensation of the affected Covered Executive, or by such other means or combination of means as the Board, in its sole discretion, determines to be appropriate.
 - c. Disclosure of Clawback Events. If the Board determines that a Clawback Event has occurred that is subsequently disclosed by the Company in a public filing required under the Exchange Act (a "Disclosed Event"), the Company will disclose in the proxy statement relating to the year in which such determination is made (i) if any amount was clawed back from a Covered Executive and the aggregate amount clawed back or (ii) if no amount was clawed back from the Covered Executive as a result of the Disclosed Event, the fact that no amount was clawed back.
 - d. Amendment; Termination. The Administrator may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary. Notwithstanding anything in this Section to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, Rule 10D-1, or any Nasdaq rules. This policy shall automatically terminate on the date that the Company is no longer listed on the Nasdaq exchange or the company becomes a direct or indirect subsidiary of a publicly traded company listed on any national securities exchange.
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e. Definitions. For purposes of this Policy, the following terms shall have the following meanings:

- (a) "Accounting Restatement" means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (a "Big R" restatement), or that corrects an error that is not material to previously issued financial statements but would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a "little R" restatement).
 - (b) "Board" means the Board of Directors of the Company.
 - (c) "Clawback Eligible Incentive Compensation" means all Incentive-based Compensation Received by a Covered Executive (i) on or after the Effective Date, (ii) after beginning service as a Covered Executive, (iii) who served as a Covered Executive at any time during the applicable performance period relating to any Incentive-based Compensation (whether or not such Covered Executive is serving at the time any Erroneously Awarded Compensation is required to be repaid to the Company), (iv) while the Company has a class of securities listed on a national securities exchange or a national securities association, and (v) during the applicable Clawback Period.
 - (d) "Clawback Period" means, with respect to any Accounting Restatement, the three completed fiscal years of the Company immediately preceding the Restatement Date and if the Company changes its fiscal year, any transition period of less than nine months within or immediately following those three completed fiscal years.
 - (e) "Code" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.
 - (f) "Committee" means the Compensation Committee of the Board of Directors of the Company, which is required to be composed entirely of independent directors.
 - (g) "Covered Executive" means each "officer," as defined in Rule 16a-1 under the Exchange Act, and any other senior executive as designated by the Committee or the Board.
 - (h) "Effective Date" means November 28, 2023.
 - (i) "Erroneously Awarded Compensation" means, with respect to each Covered Executive in connection with an Accounting Restatement, the amount of Clawback Eligible Incentive Compensation that exceeds the amount of Incentive-based Compensation that would have been Received had it been determined based on the restated amounts in the Accounting Restatement, computed without regard to any taxes paid.
 - (j) "Exchange Act" means the Securities Exchange Act of 1934, as amended.
 - (k) "Financial Reporting Measures" means measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and all other measures that are derived wholly or in part from such measures. Stock price and TSR (and any measures that are derived wholly or in part from stock price or TSR) shall, for purposes of this Policy, be considered Financial Reporting Measures. For the avoidance of doubt, a Financial Reporting Measure need not be presented in the Company's financial statements or included in a filing with the SEC.
 - (l) "Incentive-based Compensation" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.
 - (m) "Nasdaq" means the Nasdaq Stock Market.
 - (n) "Recoverable Amounts" means (i) any equity compensation (including stock options, restricted stock, time-based restricted stock units, performance-based restricted stock units, and any other equity awards) or (ii) cash incentive-based compensation (other than base salary), in each case received after the Effective Date.
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- (o) "Received" means, with respect to any Incentive-based Compensation , actual or deemed receipt, and Incentive-based Compensation shall be deemed received in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-based Compensation award is attained even if the payment or grant of the Incentive-based Compensation to the Covered Executive occurs after the end of that period. For the avoidance of doubt, Incentive-based Compensation shall only be treated as Received during one (and only one) fiscal year, even if such Incentive-based Compensation is deemed received in one fiscal year and actually received in a later fiscal year. For example, if an amount is deemed received in 2024, but actually received in 2025, such amount shall be treated as Received under this definition only in 2024.
 - (p) "Restatement Date" means the earlier to occur of (i) the date the Board , a committee of the Board , or officers of the Company authorized to take action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.
 - (q) "SEC" means the U.S. Securities and Exchange Commission.
 - (r) "Securities Act" means the U.S. Securities Act of 1933, as amended.
 - (s) "TSR" means total shareholder return.
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