

ANNUITY INVESTORS LIFE INSURANCE COMPANY

Statutory-Basis Financial Statements

*As of December 31, 2021 and 2020 and for each of the three years
ended December 31, 2021, 2020 and 2019
with Report of Independent Auditors*

ANNUITY INVESTORS LIFE INSURANCE COMPANY

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December 31, 2021, 2020 and 2019**

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Independent Auditors' Report

The Board of Directors
Annuity Investors Life Insurance Company:

Opinions

We have audited the financial statements of Annuity Investors Life Insurance Company (the Company), which comprise the balance sheet statutory-basis as of December 31, 2021, and the related statement of operations statutory-basis, statement of changes in capital and surplus statutory-basis, statement of cash flow statutory-basis for the year then ended, and the related notes to the financial statements.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the balance sheet statutory-basis of the Company as of December 31, 2021, and the results of its operations and its cash flow for the year then ended in accordance with accounting practices prescribed or permitted by the Ohio Department of Insurance described in Note B.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2021, or the results of its operations or its cash flows for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note B to the financial statements, the financial statements are prepared by the Company using accounting practices prescribed or permitted by the Ohio Department of Insurance, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles. The effects on the financial statements of the variances between the statutory accounting practices described in Note B and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material and pervasive.

Other Matter

The accompanying financial statements of the Company as of December 31, 2020 and for the periods ended December 31, 2020 and 2019 were audited by other auditors whose report thereon, dated May 14, 2021, expressed an adverse opinion on those financial statements with respect to U.S. generally accepted accounting



principles and an unmodified opinion with respect to accounting practices prescribed or permitted by the Ohio Department of Insurance.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices prescribed or permitted by the Ohio Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the supplemental schedule of selected statutory-basis financial data, supplemental investment disclosures, and supplemental schedule of life and health reinsurance disclosures is



presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Ohio Department of Insurance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

/s/KPMG LLP

Columbus, Ohio
April 25, 2022

Report of Independent Auditors

The Board of Directors
Annuity Investors Life Insurance Company

We have audited the accompanying statutory-basis financial statements of Annuity Investors Life Insurance Company (the Company), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, changes in capital and surplus and cash flow for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with accounting practices prescribed or permitted by the Ohio Department of Insurance. Management also is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note B to the statutory-basis financial statements the Company prepared these financial statements using accounting practices prescribed or permitted by the Ohio Department of Insurance, which is a basis of accounting other than U.S. generally accepted accounting principles. The variances between such practices and U.S. generally accepted accounting principles and the effects on the accompanying financial statements are described in Notes B and J.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the statutory-basis financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the Company at December 31, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory-Basis of Accounting

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note B.

/s/ Ernst & Young LLP

Cincinnati, Ohio
May 14, 2021

ANNUITY INVESTORS LIFE INSURANCE COMPANY
BALANCE SHEET
STATUTORY-BASIS

(Dollars in thousands, except share data)

| | December 31 | |
|---|--------------------|--------------|
| | 2021 | 2020 |
| ADMITTED ASSETS | | |
| Cash and invested assets: | | |
| Bonds - at amortized cost (fair value: \$2,321,166 and \$2,574,304) | \$ 2,189,149 | \$ 2,358,472 |
| Preferred stocks - principally at fair value for 2021 and at cost for 2020* | 7,307 | 6,893 |
| Common stocks - at fair value (cost: \$0 and \$1,132) | - | 1,471 |
| Cash, cash equivalents and short-term investments | 229,235 | 88,750 |
| Policy loans | 47,191 | 50,643 |
| Equity index call options | 16,529 | 18,713 |
| Other invested assets | 18,374 | 18,605 |
| Total cash and invested assets | 2,507,785 | 2,543,547 |
| Investment income due and accrued | 21,364 | 22,802 |
| Net deferred federal income tax asset | 1,201 | 1,215 |
| Receivable for securities | 27 | 18 |
| Funds held as collateral | 2,040 | 40 |
| Other admitted assets | 2,544 | 1,132 |
| Total general account admitted assets | 2,534,961 | 2,568,754 |
| Separate account assets | 690,771 | 663,545 |
| Total admitted assets | \$ 3,225,732 | \$ 3,232,299 |
| LIABILITIES, CAPITAL AND SURPLUS | | |
| Liabilities: | | |
| Annuity reserves | \$ 2,110,188 | \$ 2,175,478 |
| Liability for deposit-type contracts | 18,066 | 20,064 |
| Policy and contract claims | 5,119 | 4,554 |
| Asset valuation reserve | 16,218 | 15,547 |
| Interest maintenance reserve | 6,059 | 2,770 |
| Current federal income tax payable | 2,054 | 1,255 |
| Commissions and general expenses due and accrued | 2,043 | 1,738 |
| Taxes, licenses and fees due and accrued | 395 | 306 |
| Transfers from separate accounts due and accrued | - | (1,581) |
| Payable for securities | 31 | 2,463 |
| Liability for funds held as collateral | 2,040 | 40 |
| Other liabilities | 2,246 | 2,848 |
| Total general account liabilities | 2,164,459 | 2,225,482 |
| Separate account liabilities | 690,771 | 663,545 |
| Total liabilities | 2,855,230 | 2,889,027 |
| Capital and surplus: | | |
| Common stock - \$125 par value; 25,000 shares authorized; 20,000 shares issued and outstanding | 2,500 | 2,500 |
| Gross paid-in and contributed surplus | 171,550 | 171,550 |
| Unassigned funds | 196,452 | 169,222 |
| Total capital and surplus | 370,502 | 343,272 |
| Total liabilities, capital and surplus | \$ 3,225,732 | \$ 3,232,299 |

*See Footnote C - Fair Value Measurements for additional information.

See accompanying notes to statutory-basis financial statements.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
STATEMENT OF OPERATIONS
STATUTORY-BASIS
(Dollars in thousands)

| | Year Ended December 31 | | |
|--|-------------------------------|-------------|-------------|
| | 2021 | 2020 | 2019 |
| Premiums and other revenues: | | | |
| Premiums and annuity considerations | \$ 97,434 | \$ 121,123 | \$ 160,784 |
| Net investment income | 105,179 | 114,118 | 114,578 |
| Amortization of interest maintenance reserve | 1,444 | 860 | 761 |
| Contract charges - separate accounts | 9,237 | 8,077 | 8,192 |
| Charges and fees for deposit-type contracts | 191 | 287 | 392 |
| Other income | 3,327 | 3,165 | 3,142 |
| Total premiums and other revenues | 216,812 | 247,630 | 287,849 |
| Benefits and expenses: | | | |
| Policyholders' benefits | 304,671 | 263,126 | 316,630 |
| Change in policy and contract reserves | (65,290) | (15,726) | (25,757) |
| Change in policy and contract claim reserves | 565 | 1,356 | 685 |
| Commission expenses | 8,691 | 9,971 | 12,610 |
| General insurance expenses | 12,350 | 9,305 | 9,961 |
| Insurance taxes, licenses and fees | 919 | 709 | 763 |
| Net transfers from separate accounts | (76,609) | (60,638) | (58,243) |
| Total benefits and expenses | 185,297 | 208,103 | 256,649 |
| Income from operations before federal income taxes and net realized capital gains (losses) | 31,515 | 39,527 | 31,200 |
| Federal income tax expense | (5,321) | (6,204) | (10,242) |
| Income from operations before net realized capital gains (losses) | 26,194 | 33,323 | 20,958 |
| Net realized capital gains (losses): | | | |
| Net realized capital gains (losses) before related federal income taxes and transfers to interest maintenance reserve | 8,713 | (1,054) | (166) |
| Federal income tax expense on net realized capital gains (losses) | (2,059) | (1,323) | (470) |
| Interest maintenance reserve transfers, net of tax | (4,733) | (1,975) | (72) |
| Net realized capital gains (losses) | 1,921 | (4,352) | (708) |
| Net income | \$ 28,115 | \$ 28,971 | \$ 20,250 |

See accompanying notes to statutory-basis financial statements.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
STATUTORY-BASIS
(Dollars in thousands)

| | Year Ended December 31 | | |
|--|-------------------------------|-------------|-------------|
| | 2021 | 2020 | 2019 |
| Common stock: | | | |
| Balance at beginning and end of year | \$ 2,500 | \$ 2,500 | \$ 2,500 |
| Gross paid-in and contributed surplus: | | | |
| Balance at beginning and end of year | \$ 171,550 | \$ 171,550 | \$ 171,550 |
| Unassigned funds: | | | |
| Balance at beginning of year | \$ 169,222 | \$ 175,262 | \$ 138,624 |
| Net income | 28,115 | 28,971 | 20,250 |
| Change in net unrealized (losses) gains on equity index call options | (423) | (1,367) | 16,567 |
| Change in net unrealized capital gains (losses), net of deferred taxes | 91 | (707) | 1,161 |
| Change in net deferred tax asset | 107 | 335 | 1,454 |
| Change in nonadmitted assets | 11 | 167 | (654) |
| Change in asset valuation reserve | (671) | 561 | (2,140) |
| Dividends to parent | - | (34,000) | - |
| Balance at end of year | \$ 196,452 | \$ 169,222 | \$ 175,262 |
| Total capital and surplus | \$ 370,502 | \$ 343,272 | \$ 349,312 |

See accompanying notes to statutory-basis financial statements.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
STATEMENT OF CASH FLOW
STATUTORY-BASIS
(Dollars in thousands)

| | Year Ended December 31 | | |
|--|-------------------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| Operations: | | | |
| Premiums and annuity considerations | \$ 97,434 | \$ 121,123 | \$ 160,784 |
| Net investment income | 117,493 | 126,730 | 126,504 |
| Benefits paid | (300,141) | (257,658) | (311,944) |
| Commissions, expenses and other deductions | (21,498) | (19,618) | (23,078) |
| Net transfers from separate accounts | 68,953 | 53,176 | 51,388 |
| Contract charges - separate accounts | 9,237 | 8,077 | 8,192 |
| Federal income taxes paid | (6,581) | (6,472) | (7,090) |
| Other | 12,552 | 11,205 | 11,264 |
| Net cash (used in) provided by operations | <u>(22,551)</u> | <u>36,563</u> | <u>16,020</u> |
| Investing activities: | | | |
| Sales, maturities or repayments of investments, net: | | | |
| Bonds | 426,590 | 466,606 | 230,673 |
| Stocks | 2,008 | 3,338 | 1,153 |
| Purchases of investments: | | | |
| Bonds | (247,092) | (392,474) | (213,132) |
| Stocks | - | (2,295) | (3,726) |
| Miscellaneous applications | (13,623) | (10,344) | (16,135) |
| Net decrease in policy loans | <u>3,452</u> | <u>3,550</u> | <u>1,354</u> |
| Net cash provided by investing activities | <u>171,335</u> | <u>68,381</u> | <u>187</u> |
| Financing and miscellaneous activities: | | | |
| Net withdrawals on deposit-type contracts | (6,338) | (6,588) | (7,552) |
| Dividends to parent | - | (34,000) | - |
| Other | (1,961) | (185) | 440 |
| Net cash used in financing and miscellaneous activities | <u>(8,299)</u> | <u>(40,773)</u> | <u>(7,112)</u> |
| Net increase in cash and cash equivalents | 140,485 | 64,171 | 9,095 |
| Cash and cash equivalents at beginning of year | <u>88,750</u> | <u>24,579</u> | <u>15,484</u> |
| Cash, cash equivalents and short-term investments at end of year | <u>\$ 229,235</u> | <u>\$ 88,750</u> | <u>\$ 24,579</u> |
| Cash flow information for non-cash transactions: | | | |
| Exchanges | \$ 14,210 | | |
| Transfers | 3,000 | | |

See accompanying notes to statutory-basis financial statements.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

A. ORGANIZATION AND NATURE OF OPERATIONS

Annuity Investors Life Insurance Company (“AILIC” or “the Company”), a stock life insurance company domiciled in the State of Ohio, is a wholly-owned subsidiary of Great American Life Insurance Company (“GALIC”). As of May 28, 2021, GALIC is a wholly-owned subsidiary of Glidepath Holdings, Inc., a financial services holding company wholly-owned by Massachusetts Mutual Life Insurance Company (“MassMutual”). Prior to that date, GALIC was a direct wholly-owned subsidiary of Great American Financial Resources, Inc., a financial services holding company wholly-owned by American Financial Group, Inc. (“AFG”). AILIC markets individual and group fixed, individual fixed-indexed, and individual and group variable annuities nationwide primarily to the savings and retirement markets. The Company is licensed in forty-eight states and the District of Columbia.

B. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the National Association of Insurance Commissioners (“NAIC”) and the Ohio Department of Insurance, which vary in some respects from U.S. generally accepted accounting principles (“GAAP”). Although the differences to GAAP have not been quantified, they are presumed to be material. The more significant of the differences using these statutory policies versus GAAP are as follows:

- (a) annuity receipts are accounted for as revenues versus liabilities for GAAP,
- (b) costs incurred in the acquisition of new business such as commissions, underwriting and policy issuance costs, are expensed at the time incurred versus being capitalized for GAAP,
- (c) reserves established for future policy benefits are calculated using more conservative assumptions for mortality and interest rates than would be used under GAAP,
- (d) for statutory reporting, an Interest Maintenance Reserve (“IMR”) is provided, whereby portions of certain realized gains and losses from fixed income investments are deferred and amortized into investment income as prescribed by the NAIC,
- (e) investments in bonds considered “available for sale” (as defined by GAAP) are generally recorded at amortized cost versus fair value for GAAP,
- (f) investments in non-affiliated common stocks are carried at fair value. Redeemable preferred stocks rated RP1 through RP3 are stated at book value. All other redeemable preferred stocks are stated at the lower of book value or fair value. Perpetual preferred stocks are stated at fair value, not to exceed any effective call price. GAAP requires that equity securities are carried at fair value with holding gains and losses reported in realized gains,
- (g) for statutory reporting, surplus notes are carried at book value. Under GAAP, surplus notes are considered investment in bonds “available for sale” recorded at fair value,
- (h) for statutory reporting, an Asset Valuation Reserve (“AVR”) is provided under a formula prescribed by the NAIC as a valuation allowance for invested assets, which reclassifies a portion of surplus to liabilities,
- (i) the cost of certain assets designated as “nonadmitted assets” (principally advance commissions paid to agents, certain investment income due and accrued, deferred tax assets (“DTA”) in excess of statutory limitations) is charged against surplus,
- (j) the mark to market on equity index call options is included as an unrealized gain/(loss) in unassigned funds versus income for GAAP,
- (k) the expense allowance associated with statutory reserving practices for investment contracts held in the separate accounts is reported in the general account as a negative liability,
- (l) In accordance with Statement of Statutory Accounting Principle (“SSAP”) No. 101 – *Income Taxes*, DTAs are limited to:
 - 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a timeframe corresponding with Internal Revenue Service (“IRS”) tax loss carryback provisions, not to exceed three years, including amounts established in accordance with the provision of SSAP No. 5R, plus
 - 2) for entities who meet the required realization threshold in SSAP No. 101, the lesser of the remaining gross DTAs expected to be realized within three years of the balance sheet date or 15% of capital and surplus excluding any net DTAs, EDP equipment and operating software and any net positive goodwill, plus
 - 3) the amount of remaining gross DTAs that can be offset against existing gross deferred tax liabilities (“DTL”). The remaining DTAs are nonadmitted. Deferred taxes do not include amounts for state taxes. Under GAAP, a DTA is recorded for the amount of gross DTAs expected to be realized in future years, and a valuation allowance is established for DTAs not realizable,

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

B. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (m) for statutory reporting, cash, cash equivalents, and short-term investments represent cash balances and investments with initial maturities of one year or less. Under GAAP, cash and cash equivalents include cash balances and investments with initial maturities of three months or less, and
- (n) changes in deferred taxes are recognized in operations under GAAP versus a change in surplus for statutory reporting.

The Ohio Department of Insurance recognizes only statutory accounting practices prescribed or permitted by the State of Ohio for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Ohio Insurance Law. The NAIC's *Accounting Practices and Procedures Manual*, ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Ohio. The Company has no prescribed or permitted practices that would result in differences between NAIC SAP and the State of Ohio.

Preparation of the statutory-basis financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Certain reclassifications have been made to prior years to conform to the current year's presentation.

INVESTMENTS

Investments are generally stated as follows:

- a) bonds with a NAIC rating 1 through 5 are stated at amortized cost using the interest method; all others are stated at the lower of amortized cost or fair value. For residential mortgage-backed securities ("MBS"), commercial MBS and loan-backed and structured securities ("LBASS"), the NAIC has retained a third-party investment management firm to assist in the determination of the appropriate NAIC designations and Book Adjusted Carrying Values based on not only the probability of loss, but also the severity of loss. Those residential MBS, commercial MBS and LBASS securities that are not modeled but receive a current year NAIC Credit Rating Provider rating equal to NAIC 1 and 2 are stated at amortized cost and NAIC 3-6 are stated at lower of amortized cost or fair value. Dealer modeled prepayment assumptions are used for mortgage-backed and asset-backed securities at the date of purchase to determine effective yields; significant changes in estimated cash flows from the original purchase assumptions are accounted for on a prospective basis,
- b) short-term investments are carried at cost,
- c) redeemable preferred stocks rated RP1 through RP3 are stated at book value. All other redeemable preferred stocks are stated at the lower of book value or fair value. Perpetual preferred stocks are stated at fair value, not to exceed any effective call price,
- d) common stocks are carried at fair value,
- e) equity index call options are carried at fair value,
- f) other invested assets, consisting of surplus notes, are stated at the lower of amortized cost or fair value,
- g) policy loans are stated at the aggregate unpaid balance.

If it is determined that a decline in fair value of a specific investment is other-than-temporary, an impairment is recognized as a realized capital loss. Investments that are in an unrealized loss position that the Company intends to sell, or does not have the intent and ability to hold until recovery, are written down to fair value. Loan-backed and structured securities (included in bonds) that are in an unrealized loss position that the Company has the intent and ability to hold until recovery, are written down only to the extent the present value of expected future cash flows using the security's effective yield is lower than the amortized cost. All other bonds that are in an unrealized loss position that the Company has the intent and ability to hold until recovery are written down to fair value if declines are credit-related and not written down for interest-related declines. When a decline in the value of a specific investment is considered to be other-than-temporary, a provision for impairment is charged to earnings (included in net realized capital losses) and the cost basis of that investment is reduced by the amount of the charge.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

B. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company's equity index call options are derivative instruments. The Company's derivative instruments do not meet the criteria for hedge accounting and are accounted for at fair value. The related changes in fair value are reported in unassigned funds. The derivative settlements and expirations are recorded in net investment income.

Counterparties to financial instruments expose the Company to credit-related losses in the event of nonperformance, but the Company does not expect any counterparties to fail to meet their obligations and expects any nonperformance to not have a material impact on the Company's financial statements. The Company receives collateral from its counterparties to support its purchased equity index call option assets. The fair value of this collateral is recorded as an asset and the offsetting obligation to return the collateral is recorded as a liability.

Investments having maturities of three months or less when purchased are considered to be cash equivalents for purposes of the statutory-basis financial statements. The carrying values of cash and short-term investments approximate their fair values.

Gains or losses on sales of securities are recognized at the time of disposition with the amount of gain or loss determined on the specific identification basis.

The IMR applies to interest-related realized capital gains and losses (net of tax) and is intended to defer realized gains and losses resulting from changes in the general level of interest rates. Gains and losses deferred from realized capital gains and losses are reported in interest maintenance reserve transfers, net of tax on the Statement of Operations. The IMR is amortized into investment income over the approximate remaining life of the investments sold.

The AVR provides for possible credit-related losses on securities and is calculated according to a specified formula as prescribed by the NAIC for the purpose of stabilizing surplus against fluctuations in the fair value of investment securities. Changes in the required reserve balances are made by direct credits or charges to surplus.

PREMIUMS

Annuity premiums and considerations are recognized as revenue when received.

SEPARATE ACCOUNTS

Separate account assets and liabilities reported in the accompanying statutory-basis balance sheet represent funds that are separately administered for annuity contracts, and for which the contract holder, rather than AILIC, bears the investment risk. Assets of the separate accounts are not chargeable with liabilities incurred in any other business operation of AILIC. Separate account assets are reported at fair value. The operations of the separate accounts are not included in the accompanying statutory-basis financial statements. Fees charged on separate account policyholder account values are included in Contract charges – separate accounts in the Statement of Operations.

POLICY BENEFIT RESERVES

Annuity reserves are developed by actuarial methods and are determined based on published tables using statutorily specified interest rates and valuation methods that will provide, in the aggregate, reserves that are greater than or equal to the minimum or guaranteed policy cash values or the amounts required by the Ohio Department of Insurance.

Annuity policy and deposit fund reserves are based on principles underlying the Commissioners Annuity Reserve Valuation Method. Valuation interest rates range from 3.25% to 7.00%. Valuation mortality rates are from the 1983 Individual Annuity Mortality table, 1994 Minimum Guaranteed Death Benefit Mortality table, the Annuity 2000 mortality table and the 2012 Individual Annuity Reserving mortality table. Reserves for fixed-indexed annuities are calculated using the market value reserve method as defined in NAIC Actuarial Guideline 35.

Tabular interest, tabular less actual reserves released and tabular costs have been determined by formula. Tabular interest on funds not involving life contingencies is calculated as the product of such valuation rate of interest times the mean of the amount of funds subject to such valuation rate of interest held at the beginning and end of the year of valuation.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

B. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AILIC's variable annuity contracts contain a guaranteed minimum death benefit ("GMDB") to be paid if the policyholder dies before the annuity payout period commences. In periods of declining equity markets, the GMDB may exceed the value of the policyholder's account. The total reserve for variable annuities, which includes a provision for the GMDB, is determined according to the provisions of NAIC VM-21.

The liability for unreported claims is based on actual, recent Company experience of unreported annuity claim development. This experience is monitored and the liability is adjusted accordingly each quarter.

The Company is required to perform an annual asset adequacy test of reserves, to determine if they are adequate under moderately adverse conditions. The Appointed Actuary oversees the analysis and determines if and how much additional reserves are required. As of December 31, 2021 and 2020 additional reserves were not required.

FEDERAL INCOME TAXES

For the first five months of 2021, the Company had an intercompany tax allocation agreement with AFG. Pursuant to the agreement, the Company's tax expense was determined based upon its inclusion in the consolidated tax return of AFG and its includable subsidiaries. Estimated payments were made quarterly during the year. Following year-end, additional settlements would be made on the original due date of the return and, when extended, at the time the return was filed. The method of allocation among the companies under the agreement was based upon separate return calculations with current credit for net losses to the extent the losses provided a benefit in the consolidated return.

Beginning in June of 2021, GALIC and its subsidiaries entered into a separate intercompany tax allocation agreement (the Tax Agreement). The Tax Agreement sets forth the manner in which the total combined federal income is allocated among the subsidiaries. The Tax Agreement provides GALIC with the enforceable right to recoup federal income taxes paid in prior years in the event of future net capital losses, which it may incur. Further, the Tax Agreement provides GALIC with the enforceable right to utilize its net losses carried forward as an offset to future net income subject to federal income taxes. Estimated payments are made quarterly during the year. Following year-end, additional settlements are made on the original due date of the return and, when extended, at the time the return is filed.

SUBSEQUENT EVENTS

Management has evaluated all events occurring after December 31, 2021 through the date the financial statements were available to be issued, to determine whether any event required either recognition or disclosure in the financial statements.

In 2021 the Ohio Department of Insurance promulgated Ohio Administrative Code Section 3901-1-67, Alternative Derivative and Reserve Accounting Practices (OAC 3901-1-67), which constitutes a prescribed practice as contemplated by the NAIC SAP. The prescribed practice allows Ohio-domiciled insurance companies to utilize certain alternative derivative and reserve accounting practices for eligible derivative instruments and indexed products, respectively, in order to better align the measurement of indexed product reserves and the derivatives that hedge them. Effective January 1, 2022, the Company elected to apply OAC 3901-1-67 to its derivative instruments hedging equity indexed annuity products and equity indexed reserve liabilities. The financial impact of adopting OAC 3901-1-67 is still being determined but is expected to be material.

As a result of the ongoing conflict in the Ukraine, the Company has confirmed that it has no direct investment exposure to Ukraine or Russia. There were no other subsequent events that require recognition or disclosure in the financial statements through the report date.

C. FAIR VALUE MEASUREMENTS

Accounting standards for measuring fair value are based on inputs used in estimating fair value. The three levels of the hierarchy are as follows:

Level 1 - Quoted prices for identical assets or liabilities in active markets (markets in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis). AILIC's Level 1 financial instruments consist primarily of publicly traded equity securities for which quoted market prices in active markets are available.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

C. FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (markets in which there are few transactions, the prices are not current, price quotations vary substantially over time or among market makers, or in which little information is released publicly); and valuations based on other significant inputs that are observable in active markets. AILIC's Level 2 financial instruments include corporate and municipal bonds, asset-backed securities, MBS, separate account assets, funds held as collateral, surplus notes and equity index call options. Level 2 inputs include benchmark yields, reported trades, corroborated broker/dealer quotes, issuer spreads and benchmark securities. When non-binding broker quotes can be corroborated by comparison to similar securities priced using observable inputs, they are classified as Level 2.

Level 3 - Valuations derived from market valuation techniques generally consistent with those used to estimate the fair value of Level 2 financial instruments in which one or more significant inputs are unobservable or when the market for a security exhibits significantly less liquidity relative to markets supporting Level 2 fair value measurements. The unobservable inputs may include management's own assumptions about the assumptions market participants would use based on the best information available in the circumstances. AILIC's Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker quotes or internally developed using significant inputs not based on, or corroborated by, observable market information.

Management is responsible for the valuation process and uses data from outside sources (including nationally recognized pricing services and broker/dealers) in establishing fair value. Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by internal investment professionals who are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price. To validate the appropriateness of the prices obtained, the investment manager considers widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. In addition, management communicates directly with the pricing service regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the service to value specific securities. See "Note D - Investments" for fair value of investment securities.

Financial assets and liabilities measured at fair value on a recurring basis categorized into the three-level fair value hierarchy at December 31, 2021 are summarized below (in thousands):

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|-------------|-------------------|-------------|-------------------|
| Assets: | | | | |
| Bonds: | | | | |
| Residential MBS | \$ - | \$ 331 | \$ - | \$ 331 |
| Total bonds | <u>\$ -</u> | <u>\$ 331</u> | <u>\$ -</u> | <u>\$ 331</u> |
| Non-affiliated preferred stocks | \$ - | \$ 4,503 | \$ - | \$ 4,503 |
| Equity index call options | - | 16,529 | - | 16,529 |
| Separate account assets | - | 690,771 | - | 690,771 |
| Total assets accounted for at fair value | <u>\$ -</u> | <u>\$ 712,134</u> | <u>\$ -</u> | <u>\$ 712,134</u> |
| Liabilities: | | | | |
| Separate account liabilities | \$ - | \$ 690,771 | \$ - | \$ 690,771 |
| Total liabilities accounted for at fair value | <u>\$ -</u> | <u>\$ 690,771</u> | <u>\$ -</u> | <u>\$ 690,771</u> |

*The adoption of SSAP No. 32 – *Preferred Stock – Revised* ("SSAP 32R") in 2021 resulted in a shift of the Company's preferred stocks from the cost basis to fair value on a recurring basis.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

C. FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets and liabilities measured at fair value on a recurring basis categorized into the three-level fair value hierarchy at December 31, 2020 are summarized below (in thousands):

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|-----------------|-------------------|-------------|-------------------|
| Assets: | | | | |
| Bonds: | | | | |
| Residential MBS | \$ - | \$ 11 | \$ - | \$ 11 |
| Total bonds | <u>\$ -</u> | <u>\$ 11</u> | <u>\$ -</u> | <u>\$ 11</u> |
| Non-affiliated common stocks | \$ 1,471 | \$ - | \$ - | \$ 1,471 |
| Equity index call options | - | 18,713 | - | 18,713 |
| Separate account assets | - | 663,545 | - | 663,545 |
| Total assets accounted for at fair value | <u>\$ 1,471</u> | <u>\$ 682,269</u> | <u>\$ -</u> | <u>\$ 683,740</u> |
| Liabilities: | | | | |
| Separate account liabilities | \$ - | \$ 663,545 | \$ - | \$ 663,545 |
| Total liabilities accounted for at fair value | <u>\$ -</u> | <u>\$ 663,545</u> | <u>\$ -</u> | <u>\$ 663,545</u> |

The Company did not have any material transfers in or out of Level 3 during the 2021 and 2020 reporting periods.

The Company did not have any assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2021 and 2020.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

C. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table categorizes all the financial assets and liabilities in the financial statements into the three-level fair value hierarchy at December 31, 2021 (in thousands):

| Description | Fair Value | Carrying Value | Level 1 | Level 2 | Level 3 |
|---|---------------------|---------------------|-------------------|---------------------|---------------------|
| Financial assets: | | | | | |
| Bonds: | | | | | |
| U.S. Government and government agencies | \$ 2,500 | \$ 2,315 | \$ - | \$ 2,500 | \$ - |
| States, municipalities and political subdivisions | 271,348 | 249,385 | - | 271,348 | - |
| Foreign government | 4,106 | 3,996 | - | 4,106 | - |
| Residential MBS | 139,896 | 134,022 | - | 139,896 | - |
| Commercial MBS | 53,472 | 51,648 | - | 53,472 | - |
| Asset-backed securities | 385,314 | 381,455 | - | 367,776 | 17,538 |
| All other bonds | 1,464,530 | 1,366,328 | - | 1,455,483 | 9,047 |
| Total bonds | <u>\$ 2,321,166</u> | <u>\$ 2,189,149</u> | <u>\$ -</u> | <u>\$ 2,294,581</u> | <u>\$ 26,585</u> |
| Non-affiliated preferred stocks | 7,582 | 7,307 | - | 4,503 | 3,079 |
| Surplus notes* | 21,283 | 18,374 | - | 21,283 | - |
| Equity index call options | 16,529 | 16,529 | - | 16,529 | - |
| Funds held as collateral | 2,040 | 2,040 | - | 2,040 | - |
| Separate account assets | 690,771 | 690,771 | - | 690,771 | - |
| Cash, cash equivalents and short-term investments | 229,235 | 229,235 | 229,235 | - | - |
| Policy loans | 47,191 | 47,191 | - | - | 47,191 |
| Total financial assets | <u>\$ 3,335,797</u> | <u>\$ 3,200,596</u> | <u>\$ 229,235</u> | <u>\$ 3,029,707</u> | <u>\$ 76,855</u> |
| Financial liabilities: | | | | | |
| Annuity reserves | | | | | |
| and liability for deposit-type contracts | \$ 2,084,993 | \$ 2,128,254 | \$ - | \$ - | \$ 2,084,993 |
| Separate account liabilities | 690,771 | 690,771 | - | 690,771 | - |
| Funds held as collateral | 2,040 | 2,040 | - | 2,040 | - |
| Total financial liabilities | <u>\$ 2,777,804</u> | <u>\$ 2,821,065</u> | <u>\$ -</u> | <u>\$ 692,811</u> | <u>\$ 2,084,993</u> |

*Surplus notes are included in other invested assets on the balance sheet.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

C. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table categorizes all the financial assets and liabilities in the financial statements into three-level fair value hierarchy at December 31, 2020 (in thousands):

| Description | Fair Value | Carrying Value | Level 1 | Level 2 | Level 3 |
|---|---------------------|---------------------|------------------|---------------------|---------------------|
| Financial assets: | | | | | |
| Bonds: | | | | | |
| U.S. Government and government agencies | \$ 2,863 | \$ 2,553 | \$ 444 | \$ 2,419 | \$ - |
| States, municipalities and political subdivisions | 334,170 | 300,141 | - | 334,170 | - |
| Foreign government | 4,220 | 3,991 | - | 4,220 | - |
| Residential MBS | 141,953 | 126,561 | - | 138,938 | 3,015 |
| Commercial MBS | 59,059 | 55,620 | - | 59,059 | - |
| Asset-backed securities | 510,888 | 504,446 | - | 502,169 | 8,719 |
| All other bonds | 1,521,151 | 1,365,160 | - | 1,512,950 | 8,201 |
| Total bonds | <u>\$ 2,574,304</u> | <u>\$ 2,358,472</u> | <u>\$ 444</u> | <u>\$ 2,553,925</u> | <u>\$ 19,935</u> |
| Non-affiliated preferred stocks | 7,678 | 6,893 | 4,578 | - | 3,100 |
| Non-affiliated common stocks | 1,471 | 1,471 | 1,471 | - | - |
| Surplus notes* | 21,193 | 18,605 | - | 21,193 | - |
| Equity index call options | 18,713 | 18,713 | - | 18,713 | - |
| Funds held as collateral | 40 | 40 | - | 40 | - |
| Separate account assets | 663,545 | 663,545 | - | 663,545 | - |
| Cash, cash equivalents and short-term investments | 88,751 | 88,750 | 88,751 | - | - |
| Policy loans | 50,643 | 50,643 | - | - | 50,643 |
| Total financial assets | <u>\$ 3,426,338</u> | <u>\$ 3,207,132</u> | <u>\$ 95,244</u> | <u>\$ 3,257,416</u> | <u>\$ 73,678</u> |
| Financial liabilities: | | | | | |
| Annuity reserves | | | | | |
| and liability for deposit-type contracts | \$ 2,214,191 | \$ 2,195,542 | \$ - | \$ - | \$ 2,214,191 |
| Separate account liabilities | 663,545 | 663,545 | - | 663,545 | - |
| Funds held as collateral | 40 | 40 | - | 40 | - |
| Total financial liabilities | <u>\$ 2,877,776</u> | <u>\$ 2,859,127</u> | <u>\$ -</u> | <u>\$ 663,585</u> | <u>\$ 2,214,191</u> |

*Surplus notes are included in other invested assets on the balance sheet.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

C. FAIR VALUE MEASUREMENTS (CONTINUED)

PRIOR YEAR INFORMATION

Financial assets and liabilities measured at fair value on a recurring basis categorized into the three-level fair value hierarchy at December 31, 2020 are summarized below (in thousands):

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|-----------------|-------------------|-------------|-------------------|
| Assets: | | | | |
| Bonds: | | | | |
| Residential MBS | \$ - | \$ 11 | \$ - | \$ 11 |
| Total bonds | <u>\$ -</u> | <u>\$ 11</u> | <u>\$ -</u> | <u>\$ 11</u> |
| Non-affiliated common stocks | \$ 1,471 | \$ - | \$ - | \$ 1,471 |
| Equity index call options | - | 18,713 | - | 18,713 |
| Separate account assets | - | 663,545 | - | 663,545 |
| Total assets accounted for at fair value | <u>\$ 1,471</u> | <u>\$ 682,269</u> | <u>\$ -</u> | <u>\$ 683,740</u> |
| Liabilities: | | | | |
| Separate account liabilities | \$ - | \$ 663,545 | \$ - | \$ 663,545 |
| Total liabilities accounted for at fair value | <u>\$ -</u> | <u>\$ 663,545</u> | <u>\$ -</u> | <u>\$ 663,545</u> |

Financial assets and liabilities measured at fair value on a recurring basis categorized into the three-level fair value hierarchy at December 31, 2019 are summarized below (in thousands):

| Description | Level 1 | Level 2 | Level 3 | Total |
|---|-----------------|-------------------|-------------|-------------------|
| Assets: | | | | |
| Bonds: | | | | |
| Residential MBS | \$ - | \$ 33 | \$ - | \$ 33 |
| Total bonds | <u>\$ -</u> | <u>\$ 33</u> | <u>\$ -</u> | <u>\$ 33</u> |
| Non-affiliated common stocks | \$ 7,660 | \$ - | \$ - | \$ 7,660 |
| Equity index call options | - | 21,115 | - | 21,115 |
| Separate account assets | - | 627,680 | - | 627,680 |
| Total assets accounted for at fair value | <u>\$ 7,660</u> | <u>\$ 648,828</u> | <u>\$ -</u> | <u>\$ 656,488</u> |
| Liabilities: | | | | |
| Separate account liabilities | \$ - | \$ 627,680 | \$ - | \$ 627,680 |
| Total liabilities accounted for at fair value | <u>\$ -</u> | <u>\$ 627,680</u> | <u>\$ -</u> | <u>\$ 627,680</u> |

The Company did not have any material transfers in or out of Level 3 during the 2020 and 2019 reporting periods.

The Company did not have any assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2020 and 2019.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

C. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table categorizes all the financial assets and liabilities in the financial statements into the three-level fair value hierarchy at December 31, 2020 (in thousands):

| Description | Fair Value | Carrying Value | Level 1 | Level 2 | Level 3 |
|---|---------------------|---------------------|------------------|---------------------|---------------------|
| Financial assets: | | | | | |
| Bonds: | | | | | |
| U.S. Government and government agencies | \$ 2,863 | \$ 2,553 | \$ 444 | \$ 2,419 | \$ - |
| States, municipalities and political subdivisions | 334,170 | 300,141 | - | 334,170 | - |
| Foreign government | 4,220 | 3,991 | - | 4,220 | - |
| Residential MBS | 141,953 | 126,561 | - | 138,938 | 3,015 |
| Commercial MBS | 59,059 | 55,620 | - | 59,059 | - |
| Asset-backed securities | 510,888 | 504,446 | - | 502,169 | 8,719 |
| All other bonds | 1,521,151 | 1,365,160 | - | 1,512,950 | 8,201 |
| Total bonds | <u>\$ 2,574,304</u> | <u>\$ 2,358,472</u> | <u>\$ 444</u> | <u>\$ 2,553,925</u> | <u>\$ 19,935</u> |
| Non-affiliated preferred stocks | 7,678 | 6,893 | 4,578 | - | 3,100 |
| Non-affiliated common stocks | 1,471 | 1,471 | 1,471 | - | - |
| Surplus notes* | 21,193 | 18,605 | - | 21,193 | - |
| Equity index call options | 18,713 | 18,713 | - | 18,713 | - |
| Funds held as collateral | 40 | 40 | - | 40 | - |
| Separate account assets | 663,545 | 663,545 | - | 663,545 | - |
| Cash, cash equivalents and short-term investments | 88,751 | 88,750 | 88,751 | - | - |
| Policy loans | 50,643 | 50,643 | - | - | 50,643 |
| Total financial assets | <u>\$ 3,426,338</u> | <u>\$ 3,207,132</u> | <u>\$ 95,244</u> | <u>\$ 3,257,416</u> | <u>\$ 73,678</u> |
| Financial liabilities: | | | | | |
| Annuity reserves | | | | | |
| and liability for deposit-type contracts | \$ 2,214,191 | \$ 2,195,542 | \$ - | \$ - | \$ 2,214,191 |
| Separate account liabilities | 663,545 | 663,545 | - | 663,545 | - |
| Funds held as collateral | 40 | 40 | - | 40 | - |
| Total financial liabilities | <u>\$ 2,877,776</u> | <u>\$ 2,859,127</u> | <u>\$ -</u> | <u>\$ 663,585</u> | <u>\$ 2,214,191</u> |

*Surplus notes are included in other invested assets on the balance sheet.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

C. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table categorizes all the financial assets and liabilities in the financial statements into three-level fair value hierarchy at December 31, 2019 (in thousands):

| Description | Value | Value | Level 1 | Level 2 | Level 3 |
|---|---------------------|---------------------|------------------|---------------------|---------------------|
| Financial assets: | | | | | |
| Bonds: | | | | | |
| U.S. Government and government agencies | \$ 3,149 | \$ 2,942 | \$ 425 | \$ 2,724 | \$ - |
| States, municipalities and political subdivisions | 369,720 | 349,675 | - | 369,720 | - |
| Foreign government | 4,137 | 3,987 | - | 4,137 | - |
| Residential MBS | 144,148 | 126,509 | - | 139,703 | 4,445 |
| Commercial MBS | 71,352 | 68,720 | - | 71,352 | - |
| Asset-backed securities | 409,035 | 405,274 | - | 404,999 | 4,036 |
| All other bonds | 1,551,642 | 1,470,005 | - | 1,544,610 | 7,032 |
| Total bonds | <u>\$ 2,553,183</u> | <u>\$ 2,427,112</u> | <u>\$ 425</u> | <u>\$ 2,537,245</u> | <u>\$ 15,513</u> |
| Non-affiliated preferred stocks | 5,330 | 4,982 | 2,230 | - | 3,100 |
| Non-affiliated common stocks | 7,660 | 7,660 | 7,660 | - | - |
| Surplus notes* | 20,997 | 18,826 | - | 20,997 | - |
| Equity index call options | 21,115 | 21,115 | - | 21,115 | - |
| Funds held as collateral | 40 | 40 | - | 40 | - |
| Separate account assets | 627,680 | 627,680 | - | 627,680 | - |
| Cash and cash equivalents | 24,579 | 24,579 | 24,579 | - | - |
| Policy loans | 54,193 | 54,193 | - | - | 54,193 |
| Total financial assets | <u>\$ 3,314,777</u> | <u>\$ 3,186,187</u> | <u>\$ 34,894</u> | <u>\$ 3,207,077</u> | <u>\$ 72,806</u> |
| Financial liabilities: | | | | | |
| Annuity reserves | | | | | |
| and liability for deposit-type contracts | \$ 2,219,467 | \$ 2,212,674 | \$ - | \$ - | \$ 2,219,467 |
| Separate account liabilities | 627,680 | 627,680 | - | 627,680 | - |
| Funds held as collateral | 40 | 40 | - | 40 | - |
| Total financial liabilities | <u>\$ 2,847,187</u> | <u>\$ 2,840,394</u> | <u>\$ -</u> | <u>\$ 627,720</u> | <u>\$ 2,219,467</u> |

*Surplus notes are included in other invested assets on the balance sheet.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair values of financial instruments:

Separate Accounts: Separate Account Assets are stated at the net asset values of their respective portfolios.

Bonds: Fair value for investments in publicly traded bonds are obtained from nationally recognized pricing services. Fair values for privately placed investment grade bonds are obtained from broker quotes or determined internally by security analysts of the Company's affiliated investment portfolio manager.

Annuity Reserves: The fair value of all annuity benefits was estimated based on expected cash flows discounted using forward interest rates adjusted for cash flow uncertainty and the Company's credit risk and includes the impact of maintenance expenses.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

C. FAIR VALUE MEASUREMENTS (CONTINUED)

Equity index call options: The fair values for AILIC's equity index call options are based on settlement values, quoted market prices of comparable instruments, fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and counterparties' credit standing (guarantees, loan commitments), or, if there are no relevant comparables, on pricing models or formulas using current assumptions.

Surplus notes: Surplus notes are stated at the lower of amortized cost or fair value. Fair values are based on market prices provided by an outside pricing service.

Policy Loans: The Company states policy loans at the aggregate unpaid balance, which approximates fair value.

Non-affiliated preferred and common stock: Fair values of equity securities are generally based on closing prices obtained from the exchanges on which the securities are traded. For the remainder of these securities, fair values are determined by management's internal investment professionals using data from nationally recognized pricing services as well as non-binding broker quotes.

Funds held as collateral: The collateral held by AILIC consists of cash under the Company's exclusive control and is stated at fair value.

D. INVESTMENTS

Bonds at December 31 consisted of the following (in thousands):

| | 2021 | | | |
|--|---------------------|---------------------|-------------------|-----------------|
| | Carrying Value | Fair Value | Gross Unrealized | |
| | | | Gains | Losses |
| U.S. Government and government agencies | \$ 2,315 | \$ 2,500 | \$ 185 | \$ - |
| States, municipalities, and political subdivisions | 249,385 | 271,348 | 22,007 | 44 |
| Foreign government | 3,996 | 4,106 | 110 | - |
| Residential MBS | 134,022 | 139,896 | 6,939 | 1,065 |
| Commercial MBS | 51,648 | 53,472 | 1,854 | 30 |
| Asset-backed securities | 381,455 | 385,314 | 4,999 | 1,140 |
| All other bonds | 1,366,328 | 1,464,530 | 98,890 | 688 |
| Total bonds | \$ 2,189,149 | \$ 2,321,166 | \$ 134,984 | \$ 2,967 |

| | 2020 | | | |
|--|---------------------|---------------------|-------------------|-----------------|
| | Carrying Value | Fair Value | Gross Unrealized | |
| | | | Gains | Losses |
| U.S. Government and government agencies | \$ 2,553 | \$ 2,863 | \$ 310 | \$ - |
| States, municipalities, and political subdivisions | 300,141 | 334,170 | 34,280 | 251 |
| Foreign government | 3,991 | 4,220 | 229 | - |
| Residential MBS | 126,561 | 141,953 | 15,534 | 142 |
| Commercial MBS | 55,620 | 59,059 | 3,489 | 50 |
| Asset-backed securities | 504,446 | 510,888 | 8,604 | 2,162 |
| All other bonds | 1,365,160 | 1,521,151 | 156,730 | 739 |
| Total bonds | \$ 2,358,472 | \$ 2,574,304 | \$ 219,176 | \$ 3,344 |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

D. INVESTMENTS (CONTINUED)

At December 31, 2021 and 2020, the Company held unrated or less-than-investment grade bonds of \$42.0 million and \$42.4 million, respectively, with an aggregate fair value of \$43.0 million and \$43.2 million, respectively. Those holdings amounted to 1.9% and 1.8% of the Company's investments in bonds and 1.3% and 1.3% of the Company's total admitted assets at December 31, 2021 and 2020, respectively. The Company performs periodic evaluations of the relative credit standing of the issuers of these bonds.

Unrealized gains and losses on investments in non-affiliated preferred and common stocks are reported directly in unassigned surplus and do not affect operations. The cost, gross unrealized gains and losses and fair value of those investments are summarized as follows (in thousands):

| | <u>Cost</u> | <u>Fair Value</u> | <u>Gross Unrealized</u> | |
|---------------------------------|-----------------|-----------------------|-------------------------|---------------|
| | | | <u>Gains</u> | <u>Losses</u> |
| At December 31, 2021 | | | | |
| Non-affiliated preferred stocks | \$ 6,805 | \$ 7,582 | \$ 777 | \$ - |
| Non-affiliated common stocks | - | - | - | - |
| Total | <u>\$ 6,805</u> | <u>\$ 7,582</u> | <u>\$ 777</u> | <u>\$ -</u> |
| | | | | |
| | <u>Cost</u> | <u>Fair Value</u> | <u>Gross Unrealized</u> | |
| | | | <u>Gains</u> | <u>Losses</u> |
| At December 31, 2020 | | | | |
| Non-affiliated preferred stocks | \$ 6,893 | \$ 7,678 | \$ 785 | \$ - |
| Non-affiliated common stocks | 1,132 | 1,471 | 339 | - |
| Total | <u>\$ 8,025</u> | <u>\$ 9,149</u> | <u>\$ 1,124</u> | <u>\$ -</u> |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

D. INVESTMENTS (CONTINUED)

The following tables present gross unrealized losses and fair values on bonds and non-affiliated preferred and common stocks by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31 (in thousands):

| | 2021 | | | |
|---|-----------------------|-----------------------------|-------------------------|-----------------------------|
| | Twelve Months or Less | | More Than Twelve Months | |
| | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss |
| States, municipalities and political subdivisions | \$ 2,321 | \$ 44 | \$ - | \$ - |
| Residential MBS | 68,693 | 933 | 2,492 | 132 |
| Commercial MBS | 7,402 | 30 | - | - |
| Asset-backed securities | 89,418 | 630 | 26,323 | 510 |
| All other bonds | 66,793 | 568 | 7,729 | 120 |
| Total bonds | <u>\$ 234,627</u> | <u>\$ 2,205</u> | <u>\$ 36,544</u> | <u>\$ 762</u> |
| Non-affiliated preferred stocks | \$ - | \$ - | \$ - | \$ - |
| Non-affiliated common stocks | - | - | - | - |
| Total non-affiliated preferred and common stocks | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | 2020 | | | |
| | Twelve Months or Less | | More Than Twelve Months | |
| | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss |
| States, municipalities and political subdivisions | \$ 2,832 | \$ 8 | \$ 2,833 | \$ 243 |
| Residential MBS | 9,684 | 112 | 756 | 30 |
| Commercial MBS | 4,450 | 50 | - | - |
| Asset-backed securities | 78,068 | 1,396 | 86,566 | 766 |
| All other bonds | 26,963 | 532 | 1,788 | 207 |
| Total bonds | <u>\$ 121,997</u> | <u>\$ 2,098</u> | <u>\$ 91,943</u> | <u>\$ 1,246</u> |
| Non-affiliated preferred stocks | \$ - | \$ - | \$ - | \$ - |
| Non-affiliated common stocks | - | - | - | - |
| Total non-affiliated preferred and common stocks | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

D. INVESTMENTS (CONTINUED)

At December 31, 2021, the gross unrealized losses related to 172 bonds. At December 31, 2020 the gross unrealized losses related to 150 bonds.

When a decline in the value of a specific investment is considered to be other-than-temporary, a provision for impairment is charged to earnings (accounted for as realized capital loss) and the cost basis of that investment is reduced by the amount of the charge. The determination of whether unrealized losses are other-than-temporary requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include:

- (a) whether the unrealized loss is credit-driven or a result of changes in market interest rates,
- (b) the extent to which fair value is less than cost basis,
- (c) cash flow projections received from independent sources,
- (d) historical operating, balance sheet and cash flow data contained in issuer Securities and Exchange Commission filings and news releases,
- (e) near-term prospects for improvement in the issuer and/or its industry,
- (f) third party research and communications with industry specialists,
- (g) financial models and forecasts,
- (h) the continuity of dividend payments, maintenance of investment grade ratings and hybrid nature of certain investments,
- (i) discussions with issuer management, and
- (j) the ability and intent to hold investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Based on its analysis of the factors enumerated above, management believes (i) AILIC will recover its cost basis in the securities with unrealized losses and (ii) that AILIC has the ability and intent to hold securities until they recover in value. Although AILIC has the ability to continue holding its investments with unrealized losses, its intent to hold them may change due to deterioration in the issuers' creditworthiness, decisions to lessen exposure to a particular issuer or industry, asset/liability management decisions, market movements, changes in views about appropriate asset allocation or the desire to offset taxable realized gains. Should AILIC's ability or intent change with regard to a particular security, a charge for impairment would likely be required. While it is not possible to accurately predict if or when a specific security will become impaired, charges for other-than-temporary impairment ("OTTI") could be material to results of operations in future periods.

Net realized gains (losses) on investments sold and charges for OTTI on investments held were as follows for the years ended December 31 (dollars in thousands):

| Year | Net Realized Gains (Losses) (Net of IMR Transfers and Taxes) | Charges for Impairment | Total | Number of Investments with Impairment Charges |
|------|---|---------------------------|------------|---|
| 2021 | \$ 1,942 | \$ (21) | \$ 1,921 | 3 |
| 2020 | \$ 140 | \$ (4,492) | \$ (4,352) | 15 |

The table below sets forth the scheduled maturities of AILIC's bonds as of December 31, 2021 (in thousands):

| Maturity: | Carrying Value | Fair Value |
|------------------------------------|-------------------|---------------|
| One year or less | \$ 22,049 | \$ 22,373 |
| After one year through five years | 662,496 | 701,772 |
| After five years through ten years | 718,959 | 784,488 |
| After ten years | 218,520 | 233,851 |
| Subtotal | 1,622,024 | 1,742,484 |
| Mortgage-backed securities | 185,670 | 193,368 |
| Asset-backed securities | 381,455 | 385,314 |
| Total bonds by maturity | \$ 2,189,149 | \$ 2,321,166 |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

D. INVESTMENTS (CONTINUED)

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The aggregate amount of investment income generated as a result of prepayment penalties and accelerations fees was \$3.2 million and \$3.6 million during 2021 and 2020, respectively.

Mortgage-backed and asset-backed securities had an expected average life of approximately 4.0 and 3.3 years, respectively, at December 31, 2021.

Proceeds from sales of bonds were \$23.0 million and \$166.9 million for 2021 and 2020, respectively. Gross realized gains of \$8.0 million and \$4.9 million and gross realized losses of \$0.1 million and \$1.6 million were realized on bonds during 2021 and 2020, respectively. The number of securities disposed of with a callable feature in 2021 was 89.

AILIC's \$185.7 million investment in MBS represents approximately 8.5% of the carrying value of its bonds at December 31, 2021. The Company's indirect exposure to subprime mortgage risk as of December 31, 2021 included 22 residential MBS with total actual cost and book adjusted carrying values of approximately \$9.3 million, and a total fair value of approximately \$9.7 million.

The Company has no aggregate loan-backed securities with an OTTI in which the Company has the intent to sell or the inability or lack of intent to retain the investment in the security for a period of time to recover the amortized cost basis.

The following table shows each loan-backed security with an OTTI recognized in 2021, as the present value of cash flows expected to be collected is less than the amortized cost basis of the security (in whole dollars):

| CUSIP | Amortized Cost Before OTTI | Present Value of Projected Cash Flows | OTTI Charge | | Fair Value at Time of OTTI | Date Reported |
|-----------|-------------------------------|---|--------------------------------------|------------------------------|-------------------------------|---------------|
| | | | Recognized in Income Statement | Amortized Cost After OTTI | | |
| 12641QBX9 | \$ 126,385 | \$ 125,311 | \$ 1,074 | \$ 125,311 | \$ 123,348 | 9/30/2021 |
| 47232VDK5 | 32,098 | 16,443 | 15,655 | 16,443 | 34,282 | 9/30/2021 |
| 12669DUS5 | 70,881 | 65,929 | 4,952 | 65,929 | 69,011 | 12/31/2021 |
| Total | | | \$ 21,681 | | | |

Securities (primarily United States Treasury Notes) with a carrying value of approximately \$10.7 million and \$10.5 million at December 31, 2021 and 2020, respectively, were on deposit as required by the insurance departments of various states.

Net investment income consisted of the following for the years ended December 31 (in thousands):

| | 2021 | 2020 |
|--|------------|------------|
| Investment income: | | |
| Bonds | \$ 93,063 | \$ 103,058 |
| Equity securities (non-affiliated) | 374 | 398 |
| Cash, cash equivalents and short-term investments | 133 | 253 |
| Policy loans | 3,158 | 3,423 |
| Equity index call options | 9,133 | 6,597 |
| Other | 1,002 | 1,030 |
| Gross investment income | 106,863 | 114,759 |
| Investment expenses | (1,684) | (641) |
| Net investment income | \$ 105,179 | \$ 114,118 |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

D. INVESTMENTS (CONTINUED)

PRIOR YEAR INFORMATION

Bonds at December 31 consisted of the following (in thousands):

| | 2020 | | | |
|--|---------------------|---------------------|-------------------|-----------------|
| | Carrying Value | Fair Value | Gross Unrealized | |
| | | | Gains | Losses |
| U.S. Government and government agencies | \$ 2,553 | \$ 2,863 | \$ 310 | \$ - |
| States, municipalities, and political subdivisions | 300,141 | 334,170 | 34,280 | 251 |
| Foreign government | 3,991 | 4,220 | 229 | - |
| Residential MBS | 126,561 | 141,953 | 15,534 | 142 |
| Commercial MBS | 55,620 | 59,059 | 3,489 | 50 |
| Asset-backed securities | 504,446 | 510,888 | 8,604 | 2,162 |
| All other bonds | 1,365,160 | 1,521,151 | 156,730 | 739 |
| Total bonds | <u>\$ 2,358,472</u> | <u>\$ 2,574,304</u> | <u>\$ 219,176</u> | <u>\$ 3,344</u> |
| | | | 2019 | |
| | Carrying Value | Fair Value | Gross Unrealized | |
| | | | Gains | Losses |
| U.S. Government and government agencies | \$ 2,942 | \$ 3,149 | \$ 207 | \$ - |
| States, municipalities, and political subdivisions | 349,675 | 369,720 | 20,073 | 28 |
| Foreign government | 3,987 | 4,137 | 150 | - |
| Residential MBS | 126,509 | 144,148 | 17,815 | 176 |
| Commercial MBS | 68,720 | 71,352 | 2,632 | - |
| Asset-backed securities | 405,274 | 409,035 | 5,036 | 1,275 |
| All other bonds | 1,470,005 | 1,551,642 | 82,220 | 583 |
| Total bonds | <u>\$ 2,427,112</u> | <u>\$ 2,553,183</u> | <u>\$ 128,133</u> | <u>\$ 2,062</u> |

At December 31, 2020 and 2019, the Company held unrated or less-than-investment grade bonds of \$42.4 million and \$39.3 million, respectively, with an aggregate fair value of \$43.2 million and \$40.3 million, respectively. Those holdings amounted to 1.8% and 1.6% of the Company's investments in bonds and 1.3% and 1.2% of the Company's total admitted assets at December 31, 2020 and 2019, respectively. The Company performs periodic evaluations of the relative credit standing of the issuers of these bonds.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

D. INVESTMENTS (CONTINUED)

Unrealized gains and losses on investments in non-affiliated preferred and common stocks are reported directly in unassigned surplus and do not affect operations. The cost, gross unrealized gains and losses and fair value of those investments are summarized as follows (in thousands):

| | Cost | Fair Value | Gross Unrealized | |
|---------------------------------|------------------|------------------|------------------|-------------|
| | | | Gains | Losses |
| At December 31, 2020 | | | | |
| Non-affiliated preferred stocks | \$ 6,893 | \$ 7,678 | \$ 785 | \$ - |
| Non-affiliated common stocks | 1,132 | 1,471 | 339 | - |
| Total | <u>\$ 8,025</u> | <u>\$ 9,149</u> | <u>\$ 1,124</u> | <u>\$ -</u> |
| | | | | |
| | Cost | Fair Value | Gross Unrealized | |
| | | | Gains | Losses |
| At December 31, 2019 | | | | |
| Non-affiliated preferred stocks | \$ 4,982 | \$ 5,330 | \$ 348 | \$ - |
| Non-affiliated common stocks | 6,424 | 7,660 | 1,236 | - |
| Total | <u>\$ 11,406</u> | <u>\$ 12,990</u> | <u>\$ 1,584</u> | <u>\$ -</u> |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

D. INVESTMENTS (CONTINUED)

The following tables present gross unrealized losses and fair values on bonds and non-affiliated preferred and common stocks by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31 (in thousands):

| | 2020 | | | |
|---|-----------------------|--------------------|-------------------------|--------------------|
| | Twelve Months or Less | | More Than Twelve Months | |
| | Fair | Gross | Fair | Gross |
| | Value | Unrealized Loss | Value | Unrealized Loss |
| States, municipalities and political subdivisions | \$ 2,832 | \$ 8 | \$ 2,833 | \$ 243 |
| Residential MBS | 9,684 | 112 | 756 | 30 |
| Commercial MBS | 4,450 | 50 | - | - |
| Asset-backed securities | 78,068 | 1,396 | 86,566 | 766 |
| All other bonds | 26,963 | 532 | 1,788 | 207 |
| Total bonds | <u>\$ 121,997</u> | <u>\$ 2,098</u> | <u>\$ 91,943</u> | <u>\$ 1,246</u> |
| Non-affiliated preferred stocks | \$ - | \$ - | \$ - | \$ - |
| Non-affiliated common stocks | - | - | - | - |
| Total non-affiliated preferred and common stocks | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | 2019 | | | |
| | Twelve Months or Less | | More Than Twelve Months | |
| | Fair | Gross | Fair | Gross |
| | Value | Unrealized Loss | Value | Unrealized Loss |
| States, municipalities and political subdivisions | \$ 5,522 | \$ 6 | \$ 1,593 | \$ 22 |
| Residential MBS | 28,411 | 166 | 431 | 10 |
| Commercial MBS | - | - | - | - |
| Asset-backed securities | 76,973 | 333 | 84,088 | 942 |
| All other bonds | 25,300 | 164 | 13,999 | 419 |
| Total bonds | <u>\$ 136,206</u> | <u>\$ 669</u> | <u>\$ 100,111</u> | <u>\$ 1,393</u> |
| Non-affiliated preferred stocks | \$ - | \$ - | \$ - | \$ - |
| Non-affiliated common stocks | - | - | - | - |
| Total non-affiliated preferred and common stocks | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

D. INVESTMENTS (CONTINUED)

At December 31, 2020, the gross unrealized losses related to 150 bonds. At December 31, 2019 the gross unrealized losses related to 153 bonds.

Net realized gains (losses) on investments sold and charges for OTTI on investments held were as follows for the years ended December 31 (dollars in thousands):

| Year | Net Realized Gains (Losses) (Net of IMR Transfers and Taxes) | Charges for Impairment | Total | Number of Investments with Impairment Charges |
|------|---|---------------------------|------------|---|
| 2020 | \$ 140 | \$ (4,492) | \$ (4,352) | 15 |
| 2019 | \$ (526) | \$ (182) | \$ (708) | 4 |

The table below sets forth the scheduled maturities of AILIC's bonds as of December 31, 2020 (in thousands):

| | Carrying Value | Fair Value |
|------------------------------------|-------------------|---------------|
| Maturity: | | |
| One year or less | \$ 115,324 | \$ 117,318 |
| After one year through five years | 713,527 | 781,843 |
| After five years through ten years | 720,875 | 821,906 |
| After ten years | 122,119 | 141,337 |
| Subtotal | 1,671,845 | 1,862,404 |
| Mortgage-backed securities | 182,181 | 201,012 |
| Asset-backed securities | 504,446 | 510,888 |
| Total bonds by maturity | \$ 2,358,472 | \$ 2,574,304 |

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The aggregate amount of investment income generated as a result of prepayment penalties and accelerations fees was \$3.6 million and \$1.2 million during 2020 and 2019, respectively.

Mortgage-backed and asset-backed securities had an expected average life of approximately 3.3 and 3.7 years, respectively, at December 31, 2020.

Proceeds from sales of bonds were \$166.9 million and \$79.1 million for 2020 and 2019, respectively. Gross realized gains of \$4.9 million and \$0.5 million and gross realized losses of \$1.6 million and \$1.0 million were realized on bonds during 2020 and 2019, respectively.

AILIC's \$182.2 million investment in MBS represents approximately 7.7% of the carrying value of its bonds at December 31, 2020. The Company's indirect exposure to subprime mortgage risk as of December 31, 2020 included 18 residential MBS with total actual cost and book adjusted carrying values of approximately \$10.5 million, and a total fair value of approximately \$11.3 million.

The Company has no aggregate loan-backed securities with an OTTI in which the Company has the intent to sell or the inability or lack of intent to retain the investment in the security for a period of time to recover the amortized cost basis.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

D. INVESTMENTS (CONTINUED)

The following table shows each loan-backed security with an OTTI recognized in 2020, as the present value of cash flows expected to be collected is less than the amortized cost basis of the security (in whole dollars):

| CUSIP | Amortized Cost Before OTTI | Present Value of Projected Cash Flows | OTTI Charge Recognized in Income Statement | Amortized Cost After OTTI | Fair Value at Time of OTTI | Date Reported |
|-----------|-------------------------------|---|---|------------------------------|-------------------------------|---------------|
| 46627MCY1 | \$ 1,407,201 | \$ 1,354,585 | \$ 37,094 | \$ 1,370,107 | \$ 1,399,043 | 3/31/2020 |
| 65539CAK2 | 564,963 | 554,792 | 6,368 | 558,596 | 548,148 | 3/31/2020 |
| 855541AC2 | 210,071 | 195,522 | 15,194 | 194,877 | 184,563 | 3/31/2020 |
| 059522AU6 | 568,133 | 547,738 | 5,354 | 562,779 | 550,816 | 3/31/2020 |
| 74951PDQ8 | 349,918 | 39,102 | 114,997 | 234,921 | 234,921 | 3/31/2020 |
| 12669GR45 | 514,358 | 494,806 | 21,725 | 492,633 | 465,918 | 3/31/2020 |
| 40432BAA7 | 16,248 | 8,482 | 3,410 | 12,838 | 12,838 | 3/31/2020 |
| 76112BNM8 | 1,543,512 | 1,431,540 | 30,462 | 1,513,050 | 1,352,043 | 3/31/2020 |
| 05949CHM1 | 588,209 | 510,389 | 17,298 | 570,911 | 570,911 | 6/30/2020 |
| 65539CAK2 | 537,913 | 526,556 | 9,856 | 528,057 | 526,579 | 6/30/2020 |
| 74951PDQ8 | 219,185 | 10,659 | 208,526 | 10,659 | 10,659 | 6/30/2020 |
| Total | | | <u>\$ 470,284</u> | | | |

Securities (primarily United States Treasury Notes) with a carrying value of approximately \$10.5 million and \$7.5 million at December 31, 2020 and 2019, respectively, were on deposit as required by the insurance departments of various states.

Net investment income consisted of the following for the years ended December 31 (in thousands):

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Investment income: | | |
| Bonds | \$ 103,058 | \$ 107,165 |
| Equity securities (non-affiliated) | 398 | 694 |
| Cash, cash equivalents and short-term investments | 253 | 888 |
| Policy loans | 3,423 | 3,478 |
| Equity index call options | 6,597 | 2,149 |
| Other | 1,030 | 1,068 |
| Gross investment income | <u>114,759</u> | <u>115,442</u> |
| Investment expenses | <u>(641)</u> | <u>(864)</u> |
| Net investment income | <u>\$ 114,118</u> | <u>\$ 114,578</u> |

E. EQUITY INDEX CALL OPTIONS

AILIC utilizes equity index call options as part of its efforts to economically hedge and manage fluctuations in the fair value of its investment portfolio attributable to changes in general interest rate levels and to manage duration mismatch of assets and liabilities. The equity index call options purchased in either the over-the-counter market or on the Chicago Board Options Exchange. Those instruments involve elements of credit and market risks in excess of the amounts recognized in the accompanying financial statements at a given point of time. The contract or notional amounts of those instruments reflect the extent of involvement in those financial instruments.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

E. EQUITY INDEX CALL OPTIONS (CONTINUED)

At December 31, 2021 and 2020, the Company's notional or contract amounts and fair value of financial instruments and related reserves for fixed-indexed annuities (shown as liabilities below) are summarized as follows (in thousands):

| | <u>Equity Index Call Options</u> | | |
|------|----------------------------------|-------------------|--------------------|
| | Contract or | | |
| | <u>Notional</u> | | |
| | <u>Amount</u> | <u>Fair Value</u> | <u>Liabilities</u> |
| 2021 | \$ 597,301 | \$ 16,529 | \$ 938,730 |
| 2020 | \$ 620,326 | \$ 18,713 | \$ 957,444 |

Equity index call options are contracts that give the purchaser the right, but not the obligation, to buy or sell securities at a specified price during a specified period. AILIC's equity index call options are based on the S&P 500 Index with a notional value of \$597.3 million and expire ratably in 2022. As a purchaser of options, AILIC pays, at the beginning of the contract, a premium for transferring the risk of an unfavorable change in the price of the underlying financial instrument. Under the fixed indexed annuity products, the crediting rate is linked to changes in the equity indices or Exchanged Traded Funds (ETF) for specified and participation rates. The prices of the options purchased are calculated with reference to the underlying index or ETF, participation rates, caps, durations and notional amounts of the underlying contracts. The liabilities summarized above represent the reserves for AILIC's fixed-indexed annuities.

The Company's equity index options, fair value hedges that are not accounted for using hedge accounting, are accounted for at fair value with the change in fair value recorded as unrealized capital gains (losses) reported in surplus. The change in net unrealized capital (losses) gains on contracts that do not qualify for hedge accounting, the equity index call options above, were (\$0.4) million in 2021 and (\$1.4) million in 2020.

AILIC receives collateral from certain counterparties to support its purchased call option assets. This collateral (\$2.0 million at December 31, 2021 and \$40 thousand at December 31, 2020) is included on AILIC's Balance Sheet with an offsetting liability to return the collateral.

PRIOR YEAR INFORMATION

AILIC utilizes equity index call options as part of its efforts to economically hedge and manage fluctuations in the fair value of its investment portfolio attributable to changes in general interest rate levels and to manage duration mismatch of assets and liabilities. The equity index call options purchased in either the over-the-counter market or on the Chicago Board Options Exchange. Those instruments involve elements of credit and market risks in excess of the amounts recognized in the accompanying financial statements at a given point of time. The contract or notional amounts of those instruments reflect the extent of involvement in those financial instruments.

At December 31, 2020 and 2019, the Company's notional or contract amounts and fair value of financial instruments and related reserves for fixed-indexed annuities (shown as liabilities below) are summarized as follows (in thousands):

| | <u>Equity Index Call Options</u> | | |
|------|----------------------------------|-------------------|--------------------|
| | Contract or | | |
| | <u>Notional</u> | | |
| | <u>Amount</u> | <u>Fair Value</u> | <u>Liabilities</u> |
| 2020 | \$ 620,326 | \$ 18,713 | \$ 957,444 |
| 2019 | \$ 615,970 | \$ 21,115 | \$ 954,144 |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

E. EQUITY INDEX CALL OPTIONS (CONTINUED)

Equity index call options are contracts that give the purchaser the right, but not the obligation, to buy or sell securities at a specified price during a specified period. AILIC's equity index call options are based on the S&P 500 Index with a notional value of \$620.3 million and expire ratably in 2020. As a purchaser of options, AILIC pays, at the beginning of the contract, a premium for transferring the risk of an unfavorable change in the price of the underlying financial instrument. Under the fixed indexed annuity products, the crediting rate is linked to changes in the equity indices or Exchanged Traded Funds (ETF) for specified and participation rates. The prices of the options purchased are calculated with reference to the underlying index or ETF, participation rates, caps, durations and notional amounts of the underlying contracts. The liabilities summarized above represent the reserves for AILIC's fixed-indexed annuities.

The Company's equity index options, fair value hedges that are not accounted for using hedge accounting, are accounted for at fair value with the change in fair value recorded as unrealized capital gains (losses) reported in surplus. The change in net unrealized capital (losses) gains on contracts that do not qualify for hedge accounting, the equity index call options above, were (\$1.4) million in 2020 and \$16.6 million in 2019.

AILIC receives collateral from certain counterparties to support its purchased call option assets. This collateral (\$40 thousand at both December 31, 2020 and December 31, 2019) is included on AILIC's Balance Sheet with an offsetting liability to return the collateral.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

F. FEDERAL INCOME TAXES

The components of the net deferred tax assets at December 31 are as follows (in thousands):

| | <u>2021</u> | <u>2020</u> | <u>Change</u> |
|--|-----------------|-----------------|----------------|
| DTAs resulting in book/tax differences in: | | | |
| Ordinary: | | | |
| Deferred acquisition costs | \$ 192 | \$ 217 | \$ (25) |
| Reserves | 2,557 | 2,789 | (232) |
| Nonadmitted assets | 28 | 59 | (31) |
| Other | 516 | 441 | 75 |
| Total ordinary DTAs | <u>3,293</u> | <u>3,506</u> | <u>(213)</u> |
| Capital: | | | |
| Security-related adjustments | 44 | 41 | 3 |
| Total capital DTAs | <u>44</u> | <u>41</u> | <u>3</u> |
| Total DTAs | 3,337 | 3,547 | (210) |
| Deferred tax assets nonadmitted | <u>(727)</u> | <u>(631)</u> | <u>(96)</u> |
| Admitted DTAs | <u>2,610</u> | <u>2,916</u> | <u>(306)</u> |
| DTLs resulting in book/tax differences in: | | | |
| Ordinary: | | | |
| Reserve transition adjustment | 1,274 | 1,593 | (319) |
| Other | 40 | 37 | 3 |
| Total ordinary DTLs | <u>1,314</u> | <u>1,630</u> | <u>(316)</u> |
| Capital: | | | |
| Security-related adjustments | 95 | 71 | 24 |
| Total capital DTLs | <u>95</u> | <u>71</u> | <u>24</u> |
| Total DTLs | 1,409 | 1,701 | (292) |
| Total net deferred admitted tax assets | <u>\$ 1,201</u> | <u>\$ 1,215</u> | <u>\$ (14)</u> |
| Change in deferred tax assets nonadmitted | <u>\$ (96)</u> | <u>\$ (38)</u> | |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

F. FEDERAL INCOME TAXES (CONTINUED)

The results of the admissibility calculations at December 31 are as follows (in thousands):

| | 2021 | | | 2020 | | | Change | | |
|---|-----------------|---------------|-----------------|-----------------|---------------|-----------------|-----------------|--------------|-----------------|
| | Ordinary | Capital | Total | Ordinary | Capital | Total | Ordinary | Capital | Total |
| a. Federal income taxes paid in prior years recoverable through loss carrybacks | \$ - | \$ 44 | \$ 44 | \$ - | \$ 41 | \$ 41 | \$ - | \$ 3 | \$ 3 |
| b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from (a) above) after application of the threshold limitation. (The lesser of (b)1 and (b)2 below) | 1,157 | - | 1,157 | 1,174 | - | 1,174 | (17) | - | (17) |
| 1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date | 1,157 | - | 1,157 | 1,174 | - | 1,174 | (17) | - | (17) |
| 2. Adjusted gross deferred tax assets allowed per limitation | XXX | XXX | 54,172 | XXX | XXX | 51,309 | XXX | XXX | 2,863 |
| c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from (a) and (b) above) offset by gross deferred tax liabilities | 1,314 | 95 | 1,409 | 1,630 | 71 | 1,701 | (316) | 24 | (292) |
| d. Deferred tax assets admitted as the result of application of SSAP No. 101 | <u>\$ 2,471</u> | <u>\$ 139</u> | <u>\$ 2,610</u> | <u>\$ 2,804</u> | <u>\$ 112</u> | <u>\$ 2,916</u> | <u>\$ (333)</u> | <u>\$ 27</u> | <u>\$ (306)</u> |

The other admissibility criteria for the Company are as follows (dollars in thousands):

| | 2021 | 2020 |
|---|------------|------------|
| a. Ratio percentage used to determine recovery period and threshold limitation amount | 1935% | 1906% |
| b. Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in the table above | \$ 361,144 | \$ 342,057 |

The impact of the Company's tax planning strategy, which does not include the use of reinsurance, on the adjusted gross DTAs and net admitted adjusted gross DTAs by tax character is as follows:

| | 2021 | | 2020 | | Change | |
|--|----------|---------|----------|---------|----------|---------|
| | Ordinary | Capital | Ordinary | Capital | Ordinary | Capital |
| a. Adjusted gross DTAs (% of total adjusted gross DTAs) | 0.0% | 0.9% | 0.0% | 0.7% | 0.0% | 0.2% |
| b. Net admitted adjusted gross DTAs (% of total net admitted adjusted gross DTAs) | 0.0% | 1.1% | 0.0% | 0.9% | 0.0% | 0.2% |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

F. FEDERAL INCOME TAXES (CONTINUED)

The provision for incurred taxes on operating earnings and capital gains for the years ended December 31 are as follows (in thousands):

| | <u>2021</u> | <u>2020</u> |
|---|-----------------|-----------------|
| Current federal income tax expense on operations | \$ 5,321 | \$ 6,204 |
| Federal income tax expense on net realized capital gains (losses) | <u>2,059</u> | <u>1,323</u> |
| Total federal income tax expense | <u>\$ 7,380</u> | <u>\$ 7,527</u> |
| Change in DTAs | \$ (210) | \$ (283) |
| Change in DTLs | <u>292</u> | <u>805</u> |
| Change in net deferred federal income tax asset | \$ 82 | \$ 522 |

The Company's income tax expense and change in DTA/DTL for the year ended December 31 differs from the amount obtained by applying the federal statutory rate of 21% to income from operations before federal income taxes for the following reasons (in thousands):

| | <u>2021</u> | <u>2020</u> |
|--|-----------------|-----------------|
| Provision computed at statutory rate (operations and realized gains/losses, excluding amortization of IMR) | \$ 8,145 | \$ 7,899 |
| Permanent differences: | | |
| Dividend received deduction | (375) | (11) |
| Provision to return adjustments | (334) | (318) |
| Other | <u>(47)</u> | <u>(55)</u> |
| Total permanent differences | (756) | (384) |
| Timing adjustments: | | |
| Investment differences | 10 | 352 |
| Reserves | 136 | 91 |
| DAC tax adjustment | (26) | (32) |
| Provision to return adjustments | (95) | 6 |
| Other | <u>113</u> | <u>(35)</u> |
| Total timing adjustments | 138 | 382 |
| Other adjustments: | | |
| Unrealized (loss) gain on equity index call options | (89) | (287) |
| Miscellaneous items | <u>(58)</u> | <u>(83)</u> |
| Total other adjustments | (147) | (370) |
| Federal income tax expense on operations and realized losses | <u>\$ 7,380</u> | <u>\$ 7,527</u> |
| Federal income tax expense on operations and realized losses | \$ 7,380 | \$ 7,527 |
| Change in net deferred tax asset (excluding unrealized) | <u>(107)</u> | <u>(335)</u> |
| Total statutory income tax expense (excluding unrealized) | <u>\$ 7,273</u> | <u>\$ 7,192</u> |

As of December 31, 2021 and 2020, the Company does not have any operating loss carryforwards available to offset future net income subject to federal Income taxes. As of December 31, 2021, the Company does not have a pretax capital loss carryforward.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

F. FEDERAL INCOME TAXES (CONTINUED)

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses (in thousands):

| Year | Operations | Realized Gains | Total |
|---------|------------|----------------|----------|
| 12-2021 | \$ - | \$ 1,777 | \$ 1,777 |
| 05-2021 | - | 282 | 282 |
| 2020 | - | 590 | 590 |

As of December 31, 2021, AILIC's consolidated federal income tax returns for the 2013 through 2021 tax years remain subject to examination by the IRS.

PRIOR YEAR INFORMATION

The components of the net deferred tax assets at December 31 are as follows (in thousands):

| | 2020 | 2019 | Change |
|--|-----------------|-----------------|---------------|
| DTAs resulting in book/tax differences in: | | | |
| Ordinary: | | | |
| DAC premium tax | \$ 217 | \$ 249 | \$ (32) |
| Reserves | 2,789 | 3,093 | (304) |
| Nonadmitted assets | 59 | 92 | (33) |
| Other | 441 | 396 | 45 |
| Total ordinary DTAs | <u>3,506</u> | <u>3,830</u> | <u>(324)</u> |
| Capital: | | | |
| Security-related adjustments | 41 | - | 41 |
| Unrealized gains | - | - | - |
| Total capital DTAs | <u>41</u> | <u>-</u> | <u>41</u> |
| Total DTAs | 3,547 | 3,830 | (283) |
| Deferred tax assets nonadmitted | <u>(631)</u> | <u>(593)</u> | <u>(38)</u> |
| Admitted DTAs | <u>2,916</u> | <u>3,237</u> | <u>(321)</u> |
| DTLs resulting in book/tax differences in: | | | |
| Ordinary: | | | |
| Reserve transition adjustment | 1,593 | 1,911 | (318) |
| Other | 37 | 31 | 6 |
| Total ordinary DTLs | <u>1,630</u> | <u>1,942</u> | <u>(312)</u> |
| Capital: | | | |
| Unrealized gains | - | - | - |
| Security-related adjustments | 71 | 564 | (493) |
| Total capital DTLs | <u>71</u> | <u>564</u> | <u>(493)</u> |
| Total DTLs | <u>1,701</u> | <u>2,506</u> | <u>(805)</u> |
| Total net deferred admitted tax assets | <u>\$ 1,215</u> | <u>\$ 731</u> | <u>\$ 484</u> |
| Change in deferred tax assets nonadmitted | <u>\$ (38)</u> | <u>\$ (593)</u> | |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

F. FEDERAL INCOME TAXES (CONTINUED)

The results of the admissibility calculations at December 31 are as follows (in thousands):

| | 2020 | | | 2019 | | | Change | | |
|---|-----------------|---------------|-----------------|-----------------|---------------|-----------------|---------------|-----------------|-----------------|
| | Ordinary | Capital | Total | Ordinary | Capital | Total | Ordinary | Capital | Total |
| a. Federal income taxes paid in prior years recoverable through loss carrybacks | \$ - | \$ 41 | \$ 41 | \$ - | \$ - | \$ - | \$ - | \$ 41 | \$ 41 |
| b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from (a) above) after application of the threshold limitation. (The lesser of (b)1 and (b)2 below) | 1,174 | - | 1,174 | 731 | - | 731 | 443 | - | 443 |
| 1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date | 1,174 | - | 1,174 | 731 | - | 731 | 443 | - | 443 |
| 2. Adjusted gross deferred tax assets allowed per limitation | XXX | XXX | 51,309 | XXX | XXX | 50,882 | XXX | XXX | 427 |
| c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from (a) and (b) above) offset by gross deferred tax liabilities | <u>1,630</u> | <u>71</u> | <u>1,701</u> | <u>1,942</u> | <u>564</u> | <u>2,506</u> | <u>(312)</u> | <u>(493)</u> | <u>(805)</u> |
| d. Deferred tax assets admitted as the result of application of SSAP No. 101 | <u>\$ 2,804</u> | <u>\$ 112</u> | <u>\$ 2,916</u> | <u>\$ 2,673</u> | <u>\$ 564</u> | <u>\$ 3,237</u> | <u>\$ 131</u> | <u>\$ (452)</u> | <u>\$ (321)</u> |

The other admissibility criteria for the Company are as follows (dollars in thousands):

| | 2020 | 2019 |
|---|------------|------------|
| a. Ratio percentage used to determine recovery period and threshold limitation amount | 1906% | 1925% |
| b. Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in the table above | \$ 342,057 | \$ 339,211 |

The impact of the Company's tax planning strategy, which does not include the use of reinsurance, on the adjusted gross DTAs and net admitted adjusted gross DTAs by tax character is as follows:

| | 2020 | | 2019 | | Change | |
|--|----------|---------|----------|---------|----------|---------|
| | Ordinary | Capital | Ordinary | Capital | Ordinary | Capital |
| a. Adjusted gross DTAs (% of total adjusted gross DTAs) | 0.0% | 0.7% | 0.0% | 0.0% | 0.0% | 0.7% |
| b. Net admitted adjusted gross DTAs (% of total net admitted adjusted gross DTAs) | 0.0% | 0.9% | 0.0% | 0.0% | 0.0% | 0.9% |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

F. FEDERAL INCOME TAXES (CONTINUED)

The provision for incurred taxes on operating earnings and capital gains for the years ended December 31 are as follows (in thousands):

| | <u>2020</u> | <u>2019</u> |
|---|-----------------|------------------|
| Current federal income tax expense on operations | \$ 6,204 | \$ 10,242 |
| Federal income tax expense on net realized capital losses | <u>1,323</u> | <u>470</u> |
| Total federal income tax expense | <u>\$ 7,527</u> | <u>\$ 10,712</u> |
| Change in DTAs | \$ (283) | \$ 992 |
| Change in DTLs | <u>805</u> | <u>154</u> |
| Change in net deferred federal income tax asset | 522 | 1,146 |

The Company's income tax expense and change in DTA/DTL for the year ended December 31 differs from the amount obtained by applying the federal statutory rate of 21% to income from operations before federal income taxes for the following reasons (in thousands):

| | <u>2020</u> | <u>2019</u> |
|--|-----------------|------------------|
| Provision computed at statutory rate (operations and realized gains/losses, excluding amortization of IMR) | \$ 7,899 | \$ 6,357 |
| Permanent differences: | | |
| Dividend received deduction | (329) | (428) |
| Other | <u>(138)</u> | <u>(131)</u> |
| Total permanent differences | (467) | (559) |
| Timing adjustments: | | |
| Investment differences | 358 | 93 |
| Reserves | 91 | 1,327 |
| DAC tax adjustment | (32) | (29) |
| Other | <u>(35)</u> | <u>44</u> |
| Total timing adjustments | 382 | 1,435 |
| Other adjustments: | | |
| Unrealized (loss) gain on equity index call options | <u>(287)</u> | <u>3,479</u> |
| Total other adjustments | (287) | 3,479 |
| Federal income tax expense on operations and realized losses | <u>\$ 7,527</u> | <u>\$ 10,712</u> |
| Federal income tax expense on operations and realized losses | \$ 7,527 | \$ 10,712 |
| Change in net deferred tax asset (excluding unrealized) | <u>(335)</u> | <u>(1,454)</u> |
| Total statutory income tax expense (excluding unrealized) | <u>\$ 7,192</u> | <u>\$ 9,258</u> |

As of December 31, 2020 and 2019, the Company does not have any operating loss carryforwards available to offset future net income subject to federal income taxes. As of December 31, 2020, the Company does not have a pretax capital loss carryforward.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

F. FEDERAL INCOME TAXES (CONTINUED)

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses (in thousands):

| Year | Operations | Realized Gains | Total |
|------|------------|----------------|--------|
| 2020 | \$ - | \$ 841 | \$ 841 |
| 2019 | - | 379 | 379 |
| 2018 | - | 223 | 223 |

As of December 31, 2020, AFG's consolidated federal income tax returns for the 2013 through 2020 tax years remain subject to examination by the IRS.

G. RELATED PARTY TRANSACTIONS

Certain administrative, management, accounting, actuarial, data processing, collection and investment services are provided under agreements between AILIC and affiliates at charges not unfavorable to AILIC or the insurance affiliates. The net amount paid to affiliates was \$12.8 million and \$9.7 million in 2021 and 2020, respectively, included in general insurance expenses in the Statement of Operations.

As of May 28, 2021, the Company has an agreement with Barings, LLC, an affiliate, which provides investment advisory services to the Company. Prior to that agreement and to the sale of the Company to MassMutual, the Company and affiliated insurance companies had contracts with American Money Management Corporation, which, subject to the direction of the Finance Committees, provided for management and accounting services related to the investment portfolios. AILIC expensed investment management charges of \$1.6 million and \$0.6 million in 2021 and 2020, respectively, included in net investment income in the Statement of Operations.

For the first five months of 2021, AFG provided retirement benefits to qualified employees of participating companies through the AFG 401(k) Retirement and Savings Plan, a defined contribution plan. AFG made all contributions to the retirement fund portion of the plan and matched a percentage of employee contributions to the savings fund. Company contributions were expensed in the year for which they were declared. AFG and certain of its subsidiaries provided health care and life insurance benefits to eligible retirees. Beginning in June of 2021, the Company participates in the retirement plans of GALIC. GALIC sponsors funded (qualified 401(k) thrift savings) and unfunded (nonqualified deferred compensation thrift savings) defined contribution plans for its employees and retirees. The qualified 401(k) thrift savings plan's net assets available for benefits were \$34.8 million as of December 31, 2021. The Company matches a percentage of employee contributions to the qualified 401(k) thrift savings plan. AILIC expensed approximately \$0.3 million and \$0.2 million in 2021 and 2020, respectively, for its retirement and employee savings plan.

AILIC has an agreement with Great American Advisors, Inc. ("GAA"), a wholly-owned subsidiary of GALIC, whereby GAA is the principal underwriter and distributor of AILIC's variable contracts. AILIC pays GAA for acting as underwriter under a distribution agreement. AILIC paid \$2.7 million in 2021 and \$2.8 million in 2020 to GAA, 100% of which was paid to other broker/dealers as commissions. GAA exited the retail brokerage business on August 3, 2010 after GALIC announced a definitive agreement with Lincoln Investment Planning, Inc., an independent broker dealer.

PRIOR YEAR INFORMATION

The Company and affiliated insurance companies have contracts with American Money Management Corporation, which, subject to the direction of the Finance Committees, provide for management and accounting services related to the investment portfolios. AILIC expensed investment management charges of \$0.6 million and \$0.8 million in 2020 and 2019, respectively, included in net investment income in the Statement of Operations.

Certain administrative, management, accounting, actuarial, data processing, collection and investment services are provided under agreements between AILIC and affiliates at charges not unfavorable to AILIC or the insurance affiliates. The net amount paid to affiliates was \$9.7 million and \$10.3 million in 2020 and 2019, respectively, included in general insurance expenses in the Statement of Operations.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

G. RELATED PARTY TRANSACTIONS (CONTINUED)

AFG provides retirement benefits to qualified employees of participating companies through the AFG 401(k) Retirement and Savings Plan, a defined contribution plan. AFG makes all contributions to the retirement fund portion of the plan and matches a percentage of employee contributions to the savings fund. Company contributions are expensed in the year for which they are declared. AFG and certain of its subsidiaries provide health care and life insurance benefits to eligible retirees. The projected future cost of providing these benefits is expensed over the period employees earn such benefits. AILIC expensed approximately \$0.2 million and \$0.3 million in 2020 and 2019, respectively, for its retirement and employee savings plan.

AILIC has an agreement with Great American Advisors, Inc. (“GAA”), a wholly-owned subsidiary of GAFRI, whereby GAA is the principal underwriter and distributor of AILIC’s variable contracts. AILIC pays GAA for acting as underwriter under a distribution agreement. AILIC paid \$2.8 million in 2020 and \$2.9 million in 2019 to GAA, 100% of which was paid to other broker/dealers as commissions. GAA exited the retail brokerage business on August 3, 2010 after GAFRI announced a definitive agreement with Lincoln Investment Planning, Inc., an independent broker dealer.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

H. ANNUITY RESERVES AND DEPOSIT-TYPE FUNDS

At December 31, 2021 AILIC's annuity (individual and group) reserves and deposit-type funds that are subject to discretionary withdrawal (with adjustment), subject to discretionary withdrawal (without adjustment), and not subject to discretionary withdrawal are summarized as follows (in thousands):

A. Individual Annuities:

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|--|--------------------|--|--------------------------------------|------------------|---------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ 60,197 | \$ - | \$ - | \$ 60,197 | 2.3% |
| b. At book value less current surrender charge of 5% or more | 302,736 | - | - | 302,736 | 11.7% |
| c. At fair value | - | - | 576,874 | 576,874 | 22.4% |
| d. Total with market value adjustment or at fair value (total of a through c) | 362,933 | - | 576,874 | 939,807 | 36.4% |
| e. At book value without adjustment (minimal or no charge or adjustment) | 1,616,839 | - | - | 1,616,839 | 62.7% |
| 2. Not subject to discretionary withdrawal | 23,169 | - | - | 23,169 | 0.9% |
| 3. Total (gross: direct + assumed) | 2,002,941 | - | 576,874 | 2,579,815 | <u>100.0%</u> |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | <u>2,002,941</u> | <u>-</u> | <u>576,874</u> | <u>2,579,815</u> | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ 86,323 | \$ - | \$ - | \$ 86,323 | |

B. Group Annuities:

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|--|--------------------|--|--------------------------------------|----------------|---------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ - | \$ - | \$ - | \$ - | 0.0% |
| b. At book value less current surrender charge of 5% or more | 313 | - | - | 313 | 0.1% |
| c. At fair value | - | - | 113,897 | 113,897 | 51.5% |
| d. Total with market value adjustment or at fair value (total of a through c) | 313 | - | 113,897 | 114,210 | 51.6% |
| e. At book value without adjustment (minimal or no charge or adjustment) | 106,934 | - | - | 106,934 | 48.4% |
| 2. Not subject to discretionary withdrawal | - | - | - | - | 0.0% |
| 3. Total (gross: direct + assumed) | 107,247 | - | 113,897 | 221,144 | <u>100.0%</u> |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | <u>107,247</u> | <u>-</u> | <u>113,897</u> | <u>221,144</u> | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ - | \$ - | \$ - | \$ - | |

**ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)**

H. ANNUITY RESERVES AND DEPOSIT-TYPE FUNDS (CONTINUED)

C. Deposit-Type Funds
(no life contingencies):

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|---|--------------------|--|--------------------------------------|--------|------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ - | \$ - | \$ - | \$ - | 0.0% |
| b. At book value less current surrender charge of 5% or more | - | - | - | - | 0.0% |
| c. At fair value | - | - | - | - | 0.0% |
| d. Total with market value adjustment or at fair value (total of a through c) | - | - | - | - | 0.0% |
| e. At book value without adjustment (minimal or no charge or adjustment) | - | - | - | - | 0.0% |
| 2. Not subject to discretionary withdrawal | 18,066 | - | - | 18,066 | 100.0% |
| 3. Total (gross: direct + assumed) | 18,066 | - | - | 18,066 | 100.0% |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | 18,066 | - | - | 18,066 | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ - | \$ - | \$ - | \$ - | |

D. Reconciliation to total annuity reserves and deposit-type funds:

| | |
|--|---------------------|
| Net annuity reserves | \$ 2,110,188 |
| Deposit-type funds | 18,066 |
| Commissioner's Annuity Reserve Valuation Method adjustment | - |
| Separate Account nonguaranteed liabilities | 690,771 |
| Total | <u>\$ 2,819,025</u> |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

H. ANNUITY RESERVES AND DEPOSIT-TYPE FUNDS (CONTINUED)

At December 31, 2020, AILIC's annuity reserves and deposit-type funds that are subject to discretionary withdrawal (with adjustment), subject to discretionary withdrawal (without adjustment), and not subject to discretionary withdrawal are summarized as follows (in thousands):

A. Individual Annuities:

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|--|--------------------|--|--------------------------------------|------------------|---------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ 67,762 | \$ - | \$ - | \$ 67,762 | 2.6% |
| b. At book value less current surrender charge of 5% or more | 357,402 | - | - | 357,402 | 13.6% |
| c. At fair value | - | - | 548,351 | 548,351 | 21.0% |
| d. Total with market value adjustment or at fair value (total of a through c) | 425,164 | - | 548,351 | 973,515 | 37.2% |
| e. At book value without adjustment (minimal or no charge or adjustment) | 1,628,436 | - | - | 1,628,436 | 62.1% |
| 2. Not subject to discretionary withdrawal | 18,378 | - | - | 18,378 | 0.7% |
| 3. Total (gross: direct + assumed) | 2,071,978 | - | 548,351 | 2,620,329 | <u>100.0%</u> |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | <u>2,071,978</u> | <u>-</u> | <u>548,351</u> | <u>2,620,329</u> | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ 70,483 | \$ - | \$ - | \$ 70,483 | |

B. Group Annuities:

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|--|--------------------|--|--------------------------------------|----------------|---------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ - | \$ - | \$ - | \$ - | 0.0% |
| b. At book value less current surrender charge of 5% or more | 326 | - | - | 326 | 0.2% |
| c. At fair value | - | - | 113,613 | 113,613 | 52.3% |
| d. Total with market value adjustment or at fair value (total of a through c) | 326 | - | 113,613 | 113,939 | 52.5% |
| e. At book value without adjustment (minimal or no charge or adjustment) | 103,174 | - | - | 103,174 | 47.5% |
| 2. Not subject to discretionary withdrawal | - | - | - | - | 0.0% |
| 3. Total (gross: direct + assumed) | 103,500 | - | 113,613 | 217,113 | <u>100.0%</u> |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | <u>103,500</u> | <u>-</u> | <u>113,613</u> | <u>217,113</u> | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ - | \$ - | \$ - | \$ - | |

**ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)**

H. ANNUITY RESERVES AND DEPOSIT-TYPE FUNDS (CONTINUED)

C. Deposit-Type Funds
(no life contingencies):

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|--|--------------------|--|--------------------------------------|--------|------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ - | \$ - | \$ - | \$ - | 0.0% |
| b. At book value less current surrender charge of 5% or more | - | - | - | - | 0.0% |
| c. At fair value | - | - | - | - | 0.0% |
| d. Total with market value adjustment or at fair value (total of a through c) | - | - | - | - | 0.0% |
| e. At book value without adjustment (minimal or no charge or adjustment) | - | - | - | - | 0.0% |
| 2. Not subject to discretionary withdrawal | 20,064 | - | - | 20,064 | 100.0% |
| 3. Total (gross: direct + assumed) | 20,064 | - | - | 20,064 | 100.0% |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | 20,064 | - | - | 20,064 | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ - | \$ - | \$ - | \$ - | |

D. Reconciliation to total annuity reserves and deposit-type funds:

| | |
|--|--------------|
| Net annuity reserves | \$ 2,175,478 |
| Deposit-type funds | 20,064 |
| Commissioner's Annuity Reserve Valuation Method adjustment | (1,581) |
| Separate Account nonguaranteed liabilities | 663,545 |
| Total | \$ 2,857,506 |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

H. ANNUITY RESERVES AND DEPOSIT-TYPE FUNDS (CONTINUED)

PRIOR YEAR INFORMATION

At December 31, 2020 AILIC's annuity (individual and group) reserves and deposit-type funds that are subject to discretionary withdrawal (with adjustment), subject to discretionary withdrawal (without adjustment), and not subject to discretionary withdrawal are summarized as follows (in thousands):

A. Individual Annuities:

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|--|--------------------|--|--------------------------------------|-----------|------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ 67,762 | \$ - | \$ - | \$ 67,762 | 2.6% |
| b. At book value less current surrender charge of 5% or more | 357,402 | - | - | 357,402 | 13.6% |
| c. At fair value | - | - | 548,351 | 548,351 | 21.0% |
| d. Total with market value adjustment or at fair value (total of a through c) | 425,164 | - | 548,351 | 973,515 | 37.2% |
| e. At book value without adjustment (minimal or no charge or adjustment) | 1,628,436 | - | - | 1,628,436 | 62.1% |
| 2. Not subject to discretionary withdrawal | 18,378 | - | - | 18,378 | 0.7% |
| 3. Total (gross: direct + assumed) | 2,071,978 | - | 548,351 | 2,620,329 | 100.0% |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | 2,071,978 | - | 548,351 | 2,620,329 | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ 70,483 | \$ - | \$ - | \$ 70,483 | |

B. Group Annuities:

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|--|--------------------|--|--------------------------------------|---------|------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ - | \$ - | \$ - | \$ - | 0.0% |
| b. At book value less current surrender charge of 5% or more | 326 | - | - | 326 | 0.2% |
| c. At fair value | - | - | 113,613 | 113,613 | 52.3% |
| d. Total with market value adjustment or at fair value (total of a through c) | 326 | - | 113,613 | 113,939 | 52.5% |
| e. At book value without adjustment (minimal or no charge or adjustment) | 103,174 | - | - | 103,174 | 47.5% |
| 2. Not subject to discretionary withdrawal | - | - | - | - | 0.0% |
| 3. Total (gross: direct + assumed) | 103,500 | - | 113,613 | 217,113 | 100.0% |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | 103,500 | - | 113,613 | 217,113 | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ - | \$ - | \$ - | \$ - | |

**ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)**

H. ANNUITY RESERVES AND DEPOSIT-TYPE FUNDS (CONTINUED)

C. Deposit-Type Funds
(no life contingencies):

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|---|--------------------|--|--------------------------------------|--------|------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ - | \$ - | \$ - | \$ - | 0.0% |
| b. At book value less current surrender charge of 5% or more | - | - | - | - | 0.0% |
| c. At fair value | - | - | - | - | 0.0% |
| d. Total with market value adjustment or at fair value (total of a through c) | - | - | - | - | 0.0% |
| e. At book value without adjustment (minimal or no charge or adjustment) | - | - | - | - | 0.0% |
| 2. Not subject to discretionary withdrawal | 20,064 | - | - | 20,064 | 100.0% |
| 3. Total (gross: direct + assumed) | 20,064 | - | - | 20,064 | 100.0% |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | 20,064 | - | - | 20,064 | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ - | \$ - | \$ - | \$ - | |

D. Reconciliation to total annuity reserves and deposit-type funds:

| | |
|--|---------------------|
| Net annuity reserves | \$ 2,175,478 |
| Deposit-type funds | 20,064 |
| Commissioner's Annuity Reserve Valuation Method adjustment | (1,581) |
| Separate Account nonguaranteed liabilities | 663,545 |
| Total | <u>\$ 2,857,506</u> |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

H. ANNUITY RESERVES AND DEPOSIT-TYPE FUNDS (CONTINUED)

At December 31, 2019, AILIC's annuity reserves and deposit-type funds that are subject to discretionary withdrawal (with adjustment), subject to discretionary withdrawal (without adjustment), and not subject to discretionary withdrawal are summarized as follows (in thousands):

A. Individual Annuities:

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|--|--------------------|--|--------------------------------------|-----------|------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ 71,629 | \$ - | \$ - | \$ 71,629 | 2.7% |
| b. At book value less current surrender charge of 5% or more | 376,643 | - | - | 376,643 | 14.5% |
| c. At fair value | - | - | 515,393 | 515,393 | 19.8% |
| d. Total with market value adjustment or at fair value (total of a through c) | 448,272 | - | 515,393 | 963,665 | 37.0% |
| e. At book value without adjustment (minimal or no charge or adjustment) | 1,627,164 | - | - | 1,627,164 | 62.4% |
| 2. Not subject to discretionary withdrawal | 15,192 | - | - | 15,192 | 0.6% |
| 3. Total (gross: direct + assumed) | 2,090,628 | - | 515,393 | 2,606,021 | 100.0% |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | 2,090,628 | - | 515,393 | 2,606,021 | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ 55,549 | \$ - | \$ - | \$ 55,549 | |

B. Group Annuities:

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|--|--------------------|--|--------------------------------------|---------|------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ - | \$ - | \$ - | \$ - | 0.0% |
| b. At book value less current surrender charge of 5% or more | 331 | - | - | 331 | 0.2% |
| c. At fair value | - | - | 110,092 | 110,092 | 52.2% |
| d. Total with market value adjustment or at fair value (total of a through c) | 331 | - | 110,092 | 110,423 | 52.4% |
| e. At book value without adjustment (minimal or no charge or adjustment) | 100,245 | - | - | 100,245 | 47.6% |
| 2. Not subject to discretionary withdrawal | - | - | - | - | 0.0% |
| 3. Total (gross: direct + assumed) | 100,576 | - | 110,092 | 210,668 | 100.0% |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | 100,576 | - | 110,092 | 210,668 | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ - | \$ - | \$ - | \$ - | |

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

H. ANNUITY RESERVES AND DEPOSIT-TYPE FUNDS (CONTINUED)

C. Deposit-Type Funds
(no life contingencies):

| | General Account | Separate Account with Guarantees | Separate Account Nonguaranteed | Total | % of Total |
|--|--------------------|--|--------------------------------------|--------|------------|
| 1. Subject to discretionary withdrawal: | | | | | |
| a. With market value adjustment | \$ - | \$ - | \$ - | \$ - | 0.0% |
| b. At book value less current surrender charge of 5% or more | - | - | - | - | 0.0% |
| c. At fair value | - | - | - | - | 0.0% |
| d. Total with market value adjustment or at fair value (total of a through c) | - | - | - | - | 0.0% |
| e. At book value without adjustment (minimal or no charge or adjustment) | - | - | - | - | 0.0% |
| 2. Not subject to discretionary withdrawal | 21,470 | - | - | 21,470 | 100.0% |
| 3. Total (gross: direct + assumed) | 21,470 | - | - | 21,470 | 100.0% |
| 4. Reinsurance ceded | - | - | - | - | |
| 5. Total (net) (3) - (4) | 21,470 | - | - | 21,470 | |
| 6. Amount included in A(1)b above that will move to A(1)e in the year after the statement date | \$ - | \$ - | \$ - | \$ - | |

D. Reconciliation to total annuity reserves and deposit-type funds:

| | |
|--|---------------------|
| Net annuity reserves | \$ 2,191,204 |
| Deposit-type funds | 21,470 |
| Commissioner's Annuity Reserve Valuation Method adjustment | (2,195) |
| Separate Account nonguaranteed liabilities | 627,680 |
| Total | <u>\$ 2,838,159</u> |

I. SEPARATE ACCOUNTS

The Company utilizes separate accounts to record and account for assets and liabilities for individual and group variable annuities. The separate accounts are registered under the Investment Company Act of 1940, as amended, as a unit investment trust. In accordance with the State of Ohio procedures for approving items within the separate accounts, the separate accounts classification of the individual and group variable annuities are supported by Section 3907.15 of the Ohio Revised Code.

In accordance with the products and transactions recorded within the separate accounts, all assets are considered legally insulated from the general account and are not chargeable with liabilities incurred in any other business operation of the Company. As of December 31, 2021 and 2020, the Company's separate account statement included legally insulated variable annuity assets of \$690.8 million and \$663.5 million, respectively. The separate accounts are treated the same for GAAP reporting requirements.

In accordance with the products and transactions recorded within the separate accounts, some separate account liabilities are guaranteed by the general account. To compensate the general account for the risk taken, the separate account has paid risk charges of \$0.3 million, \$0.3 million, \$0.3 million, \$0.3 million and \$0.3 million for the years ended December 31, 2021, 2020, 2019, 2018 and 2017, respectively, for guaranteed withdrawal benefits for variable annuity contracts.

As of December 31, 2021 and 2020, the general account of the Company had a maximum guarantee for separate account liabilities of \$9.9 million and \$11.0 million, respectively, for the guaranteed minimum death benefit of the variable annuity contracts. The total separate account guarantees paid by the general account for the years ended December 31, 2021, 2020, 2019, 2018 and 2017 were \$0.2 million, \$0.1 million, \$0.4 million, \$0.0 million and \$0.1 million, respectively.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

I. SEPARATE ACCOUNTS (CONTINUED)

Net transfers from the Separate Accounts for the years ended December 31 are summarized as follows (in thousands):

| | 2021 | 2020 |
|---|-------------|-------------|
| Transfers to Separate Accounts - deposit-type funds | \$ 11,913 | \$ 14,765 |
| Transfers from Separate Accounts - withdrawals and other transfers, net | (86,941) | (74,787) |
| Transfers from Separate Accounts - contingent deferred sales charges | (1,581) | (616) |
| Net transfers from Separate Accounts | \$ (76,609) | \$ (60,638) |

All Separate Account reserves are non-guaranteed and subject to discretionary withdrawal at fair value. Investments in the Separate Accounts at December 31 consisted of the following (in thousands):

| | 2021 | | | |
|-------------------------|------------|------------|------------------|----------|
| | Cost | Fair Value | Gross Unrealized | |
| | | | Gains | Losses |
| Separate Account A | \$ 75,430 | \$ 111,187 | \$ 35,842 | \$ 85 |
| Separate Account B | 208,079 | 309,041 | 101,518 | 556 |
| Separate Account C | 217,298 | 270,543 | 54,268 | 1,023 |
| Total Separate Accounts | \$ 500,807 | \$ 690,771 | \$ 191,628 | \$ 1,664 |

| | 2020 | | | |
|-------------------------|------------|------------|------------------|----------|
| | Cost | Fair Value | Gross Unrealized | |
| | | | Gains | Losses |
| Separate Account A | \$ 78,532 | \$ 107,426 | \$ 29,379 | \$ 485 |
| Separate Account B | 211,626 | 295,548 | 84,894 | 972 |
| Separate Account C | 223,435 | 260,571 | 39,878 | 2,742 |
| Total Separate Accounts | \$ 513,593 | \$ 663,545 | \$ 154,151 | \$ 4,199 |

The Separate Account holdings are made up of a diverse portfolio of managed mutual funds with investment objectives of growth, growth and income, capital appreciation, total and real return with preservation of capital.

PRIOR YEAR INFORMATION

In accordance with the products and transactions recorded within the separate accounts, all assets are considered legally insulated from the general account and are not chargeable with liabilities incurred in any other business operation of the Company. As of December 31, 2020 and 2019, the Company's separate account statement included legally insulated variable annuity assets of \$663.5 million and \$627.7 million, respectively. The separate accounts are treated the same for GAAP reporting requirements.

In accordance with the products and transactions recorded within the separate accounts, some separate account liabilities are guaranteed by the general account. To compensate the general account for the risk taken, the separate account has paid risk charges of \$0.3 million, \$0.3 million, \$0.3 million, \$0.3 million and \$0.4 million for the years ended December 31, 2020, 2019, 2018, 2017 and 2016, respectively, for guaranteed withdrawal benefits for variable annuity contracts.

As of December 31, 2020 and 2019, the general account of the Company had a maximum guarantee for separate account liabilities of \$11.0 million and \$12.7 million, respectively, for the guaranteed minimum death benefit of the variable annuity contracts. The total separate account guarantees paid by the general account for the years ended December 31, 2020, 2019, 2018, 2017 and 2016 were \$0.1 million, \$0.4 million, \$0.0 million, \$0.1 million and \$0.5 million, respectively.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

I. SEPARATE ACCOUNTS (CONTINUED)

Net transfers from the Separate Accounts for the years ended December 31 are summarized as follows (in thousands):

| | 2020 | 2019 |
|---|-------------|-------------|
| Transfers to Separate Accounts - deposit-type funds | \$ 14,765 | \$ 17,837 |
| Transfers from Separate Accounts - withdrawals and other transfers, net | (74,787) | (74,744) |
| Transfers from Separate Accounts - contingent deferred sales charges | (616) | (1,336) |
| Net transfers from Separate Accounts | \$ (60,638) | \$ (58,243) |

All Separate Account reserves are non-guaranteed and subject to discretionary withdrawal at fair value. Investments in the Separate Accounts at December 31 consisted of the following (in thousands):

| | 2020 | | | |
|-------------------------|------------|------------|------------------|----------|
| | Cost | Fair Value | Gross Unrealized | |
| | | | Gains | Losses |
| Separate Account A | \$ 78,532 | \$ 107,426 | \$ 29,379 | \$ 485 |
| Separate Account B | 211,626 | 295,548 | 84,894 | 972 |
| Separate Account C | 223,435 | 260,571 | 39,878 | 2,742 |
| Total Separate Accounts | \$ 513,593 | \$ 663,545 | \$ 154,151 | \$ 4,199 |

| | 2019 | | | |
|-------------------------|------------|------------|------------------|----------|
| | Cost | Fair Value | Gross Unrealized | |
| | | | Gains | Losses |
| Separate Account A | \$ 81,577 | \$ 101,323 | \$ 20,102 | \$ 356 |
| Separate Account B | 217,058 | 277,157 | 60,425 | 326 |
| Separate Account C | 230,562 | 249,200 | 22,253 | 3,615 |
| Total Separate Accounts | \$ 529,197 | \$ 627,680 | \$ 102,780 | \$ 4,297 |

The Separate Account holdings are made up of a diverse portfolio of managed mutual funds with investment objectives of growth, growth and income, capital appreciation, total and real return with preservation of capital.

J. CAPITAL AND SURPLUS

The portion of the Company's unassigned funds represented or reduced by each item below is as follows at December 31, 2021 (in thousands):

| | |
|-----------------------------|-------------|
| Unrealized gains and losses | \$ 5,296 |
| Nonadmitted asset values | \$ (862) |
| Separate account business | \$ - |
| Asset valuation reserve | \$ (16,218) |

Life/health insurance companies are subject to certain Risk-Based Capital ("RBC") requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life/health insurance company is to be determined based on the various risk factors related to it. At December 31, 2021, AILIC exceeds the RBC requirement.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS (CONTINUED)

J. CAPITAL AND SURPLUS (CONTINUED)

The maximum amount of dividends which can be paid to stockholders by life insurance companies domiciled in the State of Ohio without prior approval of the Insurance Commissioner is the greater of 10% of surplus as regards policyholders or net income as of the preceding December 31, but only to the extent of earned surplus as of the preceding December 31. The maximum amount of dividends payable in 2022 without prior approval is \$36.8 million, based on surplus as of the preceding December 31.

At December 31, 2021, surplus as regards policyholders was \$368.0 million, earned surplus was \$196.5 million, and 2021 net income was \$28.1 million.

The Company did not pay an ordinary dividend to its parent in 2021. The Company paid an ordinary dividend to its parent of \$34.0 million in 2020.

PRIOR YEAR INFORMATION

The portion of the Company's unassigned funds represented or reduced by each item below is as follows at December 31, 2020 (in thousands):

| | | |
|-----------------------------|----|----------|
| Unrealized gains and losses | \$ | 6,105 |
| Nonadmitted asset values | \$ | (875) |
| Separate account business | \$ | 1,581 |
| Asset valuation reserve | \$ | (15,547) |

Life/health insurance companies are subject to certain Risk-Based Capital ("RBC") requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life/health insurance company is to be determined based on the various risk factors related to it. At December 31, 2020, AILIC exceeds the RBC requirement.

The maximum amount of dividends which can be paid to stockholders by life insurance companies domiciled in the State of Ohio without prior approval of the Insurance Commissioner is the greater of 10% of surplus as regards policyholders or net income as of the preceding December 31, but only to the extent of earned surplus as of the preceding December 31. The maximum amount of dividends payable in 2021 without prior approval is \$34.1 million, based on surplus as of the preceding December 31. At December 31, 2020, surplus as regards policyholders was \$340.8 million, earned surplus was \$169.2 million, and 2020 net income was \$29.0 million.

The Company paid an ordinary dividend to its parent of \$34.0 million in 2020 and \$0.0 million in 2019.

SUPPLEMENTARY INFORMATION

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTE TO SUPPLEMENTAL SCHEDULE OF SELECETED STATUTORY-BASIS FINANCIAL DATA
AND SUPPLEMENTAL INVESTMENT DISCLOSURES
DECEMBER 31, 2021

Basis of Presentation

The accompanying supplemental schedules and interrogatories present selected statutory-basis financial data as of December 31, 2021 and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' ("NAIC") *Annual Statement Instructions* and the NAIC's *Accounting Practices and Procedures Manual* and agrees to or is included in the amounts reported in the Company's 2021 Statutory Annual Statement as filed with the Ohio Department of Insurance. Captions not presented were not applicable to the Company.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA
DECEMBER 31, 2021
(Dollars in thousands)

| | |
|---|-----------------------------|
| Investment income earned: | |
| U.S. Government bonds | \$ 91 |
| Bonds exempt from U.S. tax | - |
| Other bonds (unaffiliated) | 92,972 |
| Preferred stocks (unaffiliated) | 374 |
| Common stocks (unaffiliated) | - |
| Policy loans | 3,158 |
| Cash, cash equivalents and short-term investments | 133 |
| Derivative instruments | 9,133 |
| Other invested assets | 959 |
| Other | 43 |
| | <u> </u> |
| Gross investment income | <u>\$ 106,863</u> |
| | |
| Bonds (including short-term investments and cash equivalents) by maturity - statement value | |
| Due within one year or less | \$ 385,844 |
| Over 1 year through 5 years | 1,046,451 |
| Over 5 years through 10 years | 640,206 |
| Over 10 years through 20 years | 177,887 |
| Over 20 years | 87,486 |
| | <u> </u> |
| Total by maturity | <u>\$ 2,337,874</u> |
| | |
| Bonds (including short-term investments and cash equivalents) by NAIC designation - statement value | |
| NAIC 1 | \$ 1,414,465 |
| NAIC 2 | 881,263 |
| NAIC 3 | 30,234 |
| NAIC 4 | 9,911 |
| NAIC 5 | 1,119 |
| NAIC 6 | 882 |
| | <u> </u> |
| Total by NAIC designation | <u>\$ 2,337,874</u> |
| | |
| Total bonds publicly traded | <u>\$ 1,492,332</u> |
| | |
| Total bonds privately placed | <u>\$ 845,542</u> |
| | |
| Preferred stocks - statement value | <u>\$ 7,307</u> |
| | |
| Common stocks - market value | <u>\$ -</u> |
| | |
| Short-term investments - book value | <u>\$ 54,922</u> |
| | |
| Cash equivalents | <u>\$ 163,247</u> |
| | |
| Equity index call options - market value | <u>\$ 16,529</u> |
| | |
| Cash on deposit | <u>\$ 11,066</u> |

(Continued)

ANNUITY INVESTORS LIFE INSURANCE COMPANY
SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA
(CONTINUED)
DECEMBER 31, 2021
(Dollars in thousands)

Annuities:

Ordinary:

| | |
|---|---------------------|
| Immediate - amount of income payable | \$ 6,487 |
| Deferred - fully paid account balance | <u>\$ 179,412</u> |
| Deferred - not fully paid - account balance | <u>\$ 2,404,853</u> |

Group:

| | |
|----------------------------------|-------------------|
| Fully paid account balance | \$ - |
| Not fully paid - account balance | <u>\$ 221,127</u> |

See accompanying independent auditors' report.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
SUPPLEMENTAL INVESTMENT DISCLOSURES
DECEMBER 31, 2021
(Dollars in thousands)

- AILIC's total admitted assets as reported on page two of its Annual Statement excluding separate accounts assets is \$2,534,961 thousand.
- Following are the 10 largest exposures to a single issuer/borrower/investment, by investment category, excluding: (i) U.S. Government, U.S. Government agency securities and those U.S. Government money market funds listed in the appendix to the SVO Practices and Procedures Manual as exempt, (ii) property occupied by AILIC, and (iii) policy loans:

| Issuer | Amount | Percent of Total Admitted Assets |
|--|-----------|----------------------------------|
| Federal Home Loan Mortgage Corporation | \$ 17,227 | 0.7% |
| BFNS 2017-1 | 16,964 | 0.7% |
| Bacardi Limited | 16,223 | 0.6% |
| Federal National Mortgage Association | 15,670 | 0.6% |
| Dormitory Authority of the State of New York | 13,730 | 0.5% |
| Citigroup Inc. | 12,944 | 0.5% |
| AT&T Inc. | 12,176 | 0.5% |
| Emerson Electric Co. | 11,986 | 0.5% |
| Lloyds Banking Group PLC | 11,979 | 0.5% |
| Oracle Corporation | 11,966 | 0.5% |

- AILIC's total admitted assets held in bonds (including short-term investments and cash equivalents) and preferred stocks by NAIC rating are as follows:

| Bonds | | | Preferred Stocks | | |
|-------------|---------------------|-------------------------------------|------------------|-----------------|-------------------------------------|
| NAIC Rating | Amount | Percentage of Total Admitted Assets | NAIC Rating | Amount | Percentage of Total Admitted Assets |
| NAIC-1 | \$ 1,414,465 | 55.8% | P/RP-1 | \$ 2,805 | 0.1% |
| NAIC-2 | 881,263 | 34.8% | P/RP-2 | 4,502 | 0.2% |
| NAIC-3 | 30,234 | 1.2% | P/RP-3 | - | 0.0% |
| NAIC-4 | 9,911 | 0.4% | P/RP-4 | - | 0.0% |
| NAIC-5 | 1,119 | 0.0% | P/RP-5 | - | 0.0% |
| NAIC-6 | 882 | 0.0% | P/RP-6 | - | 0.0% |
| Total | <u>\$ 2,337,874</u> | <u>92.2%</u> | Total | <u>\$ 7,307</u> | <u>0.3%</u> |

- Assets held in foreign investments:

| | Amount | Percent of Total Admitted Assets |
|---|------------|----------------------------------|
| Total admitted assets held in foreign investments | \$ 322,363 | 12.7% |
| Foreign-currency-denominated investments | - | 0.0% |
| Insurance liabilities denominated in that same foreign currency | - | 0.0% |

(Continued)

ANNUITY INVESTORS LIFE INSURANCE COMPANY
SUPPLEMENTAL INVESTMENT DISCLOSURES (CONTINUED)
DECEMBER 31, 2021
(Dollar in thousands)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

| | <u>Amount</u> | <u>Percent of Total Admitted Assets</u> |
|---------------------------------|---------------|---|
| Countries rated NAIC-1 | \$ 317,384 | 12.5% |
| Countries rated NAIC-2 | 4,979 | 0.2% |
| Countries rated NAIC-3 or below | - | 0.0% |

6. Largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

| | <u>Amount</u> | <u>Percent of Total Admitted Assets</u> |
|---------------------------------|---------------|---|
| Countries rated NAIC-1: | | |
| Cayman Islands | \$ 136,889 | 5.4% |
| United Kingdom | 62,356 | 2.5% |
| Countries rated NAIC-2 | | |
| Italy | \$ 2,981 | 0.1% |
| Mexico | 1,998 | 0.1% |
| Countries rated NAIC-3 or below | | |
| | \$ - | 0.0% |
| | - | 0.0% |

7. The Company does not have any unhedged foreign currency exposure.

8. The Company does not have any unhedged foreign currency exposure.

9. The Company does not have any unhedged foreign currency exposure.

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

| <u>Issuer</u> | <u>NAIC Rating</u> | <u>Amount</u> | <u>Percent of Total Admitted Assets</u> |
|--|------------------------|---------------|---|
| BFNS 2017-1 | 1.B FE | \$ 16,964 | 0.7% |
| Bacardi Limited | 2.C FE | 16,223 | 0.6% |
| Lloyds Banking Group PLC | 1.F FE, 2.A FE | 11,979 | 0.5% |
| NatWest Group PLC | 2.A FE | 9,105 | 0.4% |
| BDS 2019-FI4 Ltd. | 1.A FE, 1.D FE | 8,963 | 0.4% |
| MF1 2020-FL4 Ltd. | 1.A FE | 8,500 | 0.3% |
| Arbor Realty Commercial Real Estate Notes 2020-FI1 Limited | 1.F PL | 6,004 | 0.2% |
| Standard Chartered PLC | 1.G FE, 2.B FE | 5,998 | 0.2% |
| National Australia Bank Limited | 1.D FE, 2.A FE | 5,997 | 0.2% |
| Ares XLVI CLO Ltd | 1.A FE | 5,532 | 0.2% |

(Continued)

ANNUITY INVESTORS LIFE INSURANCE COMPANY
SUPPLEMENTAL INVESTMENT DISCLOSURES (CONTINUED)
DECEMBER 31, 2021
(Dollars in thousands)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

| | Amount | Percent of Total Admitted Assets |
|--|-----------|----------------------------------|
| Total admitted assets held in Canadian investments | \$ 72,753 | 2.9% |
| Canadian-currency-denominated investments | - | 0.0% |
| Canadian-denominated insurance liabilities | - | 0.0% |
| Unhedged Canadian currency exposure | - | 0.0% |

12. Investments with contractual sales restrictions are less than 2.5% of the Company's total admitted assets.
13. Assets held in equity interests are less than 2.5% of the Company's total admitted assets.
14. Assets held in nonaffiliated, privately placed equities are less than 2.5% of the Company's total admitted assets.
15. Assets held in general partnership interests are less than 2.5% of the Company's total admitted assets.
16. Assets held in mortgage loans reported in Schedule B are less than 2.5% of the Company's total admitted assets.
17. Assets held in mortgage loans reported in Schedule B are less than 2.5% of the Company's total admitted assets.
18. Assets held in real estate reported are less than 2.5% of the Company's total admitted assets.
19. Investments held in mezzanine real estate loans are less than 2.5% of the Company's total admitted assets.
20. The Company has no admitted assets subject to securities lending, repurchase agreements, reverse repurchase agreements, dollar repurchase agreements, or dollar reverse repurchase agreements.
21. The Company owns \$16,529 thousand in hedging options.
22. The Company does not have any collars, swaps, or forwards.
23. The Company does not have any futures contracts.

See accompanying independent auditors' report.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
SUPPLEMENTAL INVESTMENT DISCLOSURES (CONTINUED)
DECEMBER 31, 2021
(Dollars in thousands)

| Investment Categories | Gross Investment Holdings* | | Admitted Assets as Reported in the Annual Statement | | | |
|---|----------------------------|-----------------------------------|---|---|-------------------------------|--------------------------------------|
| | Amount | Percentage of Column 1 Line 13 | Amount | Securities Lending Reinvested Collateral Amount | Total (Col 3 +4) Amount | Percentage of Column 5 Line 13 |
| 1. Long-Term Bonds: | | | | | | |
| 1.01 U.S. Governments | 2,329 | 0.1% | \$ 2,329 | \$ - | \$ 2,329 | 0.1% |
| 1.02 All Other Governments | 2,997 | 0.1% | 2,997 | - | 2,997 | 0.1% |
| 1.03 U.S. States, Territories and Possessions etc., Guaranteed | 32,703 | 1.3% | 32,703 | - | 32,703 | 1.3% |
| 1.04 U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed | 36,868 | 1.5% | 36,868 | - | 36,868 | 1.5% |
| 1.05 U.S. Special Revenue and Special Assessment Obligations, etc., Non-Guaranteed | 212,710 | 8.5% | 212,710 | - | 212,710 | 8.5% |
| 1.06 Industrial and Miscellaneous | 1,899,542 | 75.7% | 1,899,542 | - | 1,899,542 | 75.7% |
| 1.07 Hybrid Securities | 2,000 | 0.1% | 2,000 | - | 2,000 | 0.1% |
| 1.08 Parent, Subsidiaries and Affiliates | - | 0.0% | - | - | - | 0.0% |
| 1.09 SVO Identified Funds | - | 0.0% | - | - | - | 0.0% |
| 1.10 Unaffiliated Bank Loans | - | 0.0% | - | - | - | 0.0% |
| 1.11 Total Long-Term Bonds | 2,189,149 | 87.3% | 2,189,149 | - | 2,189,149 | 87.3% |
| 2. Preferred Stocks: | | | | | | |
| 2.01 Industrial and Misc. (Unaffiliated) | 7,307 | 0.3% | 7,307 | - | 7,307 | 0.3% |
| 2.02 Parent, Subsidiaries and Affiliates | - | 0.0% | - | - | - | 0.0% |
| 2.03 Total Preferred Stock | 7,307 | 0.3% | 7,307 | - | 7,307 | 0.3% |
| 3. Common Stocks: | | | | | | |
| 3.01 Industrial and Miscellaneous Publicly Traded (Unaffiliated) | - | 0.0% | - | - | - | 0.0% |
| 3.02 Industrial and Miscellaneous Other (Unaffiliated) | - | 0.0% | - | - | - | 0.0% |
| 3.03 Parent, Subsidiaries and Affiliates Publicly Traded | - | 0.0% | - | - | - | 0.0% |
| 3.04 Parent, Subsidiaries and Affiliates Other | - | 0.0% | - | - | - | 0.0% |
| 3.05 Mutual Funds | - | 0.0% | - | - | - | 0.0% |
| 3.06 Unit Investment Trusts | - | 0.0% | - | - | - | 0.0% |
| 3.07 Closed-End Funds. | - | 0.0% | - | - | - | 0.0% |
| 3.08 Total Common Stocks | - | 0.0% | - | - | - | 0.0% |
| 4. Mortgage Loans: | | | | | | |
| 4.01 Farm Mortgages | - | 0.0% | - | - | - | 0.0% |
| 4.02 Residential Mortgages | - | 0.0% | - | - | - | 0.0% |
| 4.03 Commercial Mortgages | - | 0.0% | - | - | - | 0.0% |
| 4.04 Mezzanine Real Estate Loans | - | 0.0% | - | - | - | 0.0% |
| 4.05 Total Mortgage Loans | - | 0.0% | - | - | - | 0.0% |
| 5. Real estate: | | | | | | |
| 5.01 Properties Occupied by Company | - | 0.0% | - | - | - | 0.0% |
| 5.02 Properties Held for Production of Income | - | 0.0% | - | - | - | 0.0% |
| 5.03 Properties Held for Sale | - | 0.0% | - | - | - | 0.0% |
| 5.04 Total Real Estate | - | 0.0% | - | - | - | 0.0% |
| 6. Cash, Cash Equivalents, and Short-Term Investments: | | | | | | |
| 6.01 Cash | 11,066 | 0.4% | 11,066 | - | 11,066 | 0.4% |
| 6.02 Cash Equivalents | 163,247 | 6.5% | 163,247 | - | 163,247 | 6.5% |
| 6.03 Short-Term Investments | 54,922 | 2.2% | 54,922 | - | 54,922 | 2.2% |
| 6.04 Total Cash, Cash Equivalents, and Short-Term Investments | 229,235 | 9.1% | 229,235 | - | 229,235 | 9.1% |
| 7. Contract Loans | 47,191 | 1.9% | 47,191 | - | 47,191 | 1.9% |
| 8. Derivatives | 16,529 | 0.7% | 16,529 | - | 16,529 | 0.7% |
| 9. Other Invested Assets | 18,374 | 0.7% | 18,374 | - | 18,374 | 0.7% |
| 10. Receivables for Securities | 27 | 0.0% | 27 | - | 27 | 0.0% |
| 11. Securities Lending | - | 0.0% | - | - | - | 0.0% |
| 12. Other Invested Assets | - | 0.0% | - | - | - | 0.0% |
| 13. Total Invested Assets | 2,507,812 | 100.0% | 2,507,812 | - | 2,507,812 | 100.0% |

* Gross investment holdings as valued in compliance with NAIC SAP.

See accompanying independent auditors' report.

**ANNUITY INVESTORS LIFE INSURANCE COMPANY
SUPPLEMENTAL SCHEDULE OF LIFE AND HEALTH REINSURANCE DISCLOSURES
FOR THE YEAR ENDED DECEMBER 31, 2021**

The following information regarding reinsurance contracts is presented to satisfy the disclosure requirements in SSAP No. 61R, *Life, Deposit-Type and Accident and Health Reinsurance*, which apply to reinsurance contracts entered into, renewed or amended on or after January 1, 1996.

1. Has Annuity Investors Life Insurance Company reinsured any risk with any other entity under a reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) that is subject to Appendix A-791, *Life and Health Reinsurance Agreements*, and includes a provision that limits the reinsurer's assumption of significant risks identified in Appendix A-791?

Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or other provisions that result in similar effects.

Yes No

If yes, indicate the number of reinsurance contracts to which such provisions apply: _____

If yes, indicate if deposit accounting was applied for all contracts subject to Appendix A-791 that limit significant risks.

Yes No N/A

2. Has Annuity Investors Life Insurance Company reinsured any risk with any other entity under a reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) that is not subject to Appendix A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk?

Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or other provisions that result in similar effects.

Yes No

If yes, indicate the number of reinsurance contracts to which such provisions apply: _____

If yes, indicate whether the reinsurance credit was reduced for the risk-limiting features.

Yes No N/A

3. Does Annuity Investors Life Insurance Company have any reinsurance contracts (other than reinsurance contracts with a federal or state facility) that contain one or more of the following features which may result in delays in payment in form or in fact:

- (a) Provisions that permit the reporting of losses to be made less frequently than quarterly;
- (b) Provisions that permit settlements to be made less frequently than quarterly;
- (c) Provisions that permit payments due from the reinsurer to not be made in cash within ninety (90) days of the settlement date (unless there is no activity during the period); or
- (d) The existence of payment schedules, accumulating retentions from multiple years, or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes No

(Continued)

**ANNUITY INVESTORS LIFE INSURANCE COMPANY
SUPPLEMENTAL SCHEDULE OF LIFE AND HEALTH REINSURANCE DISCLOSURES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021**

4. Has Annuity Investors Life Insurance Company reflected reinsurance accounting credit for any contracts that are not subject to Appendix A-791 and not yearly renewable term reinsurance, which meet the risk transfer requirements of SSAP No. 61R?

| Type of contract: | Response: | Identify reinsurance contract(s): | Has the insured event(s) triggering contract coverage been recognized? |
|---|---|--|--|
| Assumption reinsurance – new for the reporting period | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> | | N/A |
| Non-proportional reinsurance, which does not result in significant surplus relief | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/> |

5. Has Annuity Investors Life Insurance Company ceded any risk, which is not subject to Appendix A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statements, and either:

- (a) Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or

Yes No N/A

- (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes No N/A

If the answer to item (a) or item (b) is yes, include relevant information regarding GAAP to SAP differences from the accounting policy footnote to the audited statutory-basis financial statements to explain why the contract(s) is treated differently for GAAP and SAP below:

See accompanying independent auditors' report.