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ANNUITY INVESTORS LIFE INSURANCE COMPANY

Financial Statements

Years ended December 31, 2020, 2019 and 2018
with Report of Independent Registered Public Accounting Firm

ANNUITY INVESTORS LIFE INSURANCE COMPANY
Financial Statements
Years ended December 31, 2020, 2019 and 2018

Contents

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholder
Annuity Investors Life Insurance Company

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Annuity Investors Life Insurance Company (the Company), an indirect wholly-owned subsidiary of American Financial Group, Inc., as of December 31, 2020 and 2019, the related statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

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

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

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

Ernst & Young LLP

We have served as the Company's auditor since 1961
April 26, 2021

ANNUITY INVESTORS LIFE INSURANCE COMPANY
BALANCE SHEET
(Dollars in Thousands, Except Share Data)

	December 31	
	2020	**2019**
Assets:		
Cash, cash equivalents and short-term securities	$ 85,750	$ 24,579
Investments:		
Fixed maturities, available for sale at fair value (amortized cost - $2,384,036 and $2,450,440; allowance for expected credit losses of $320 at December 31, 2020)	2,601,597	2,577,280
Equity securities - at fair value		
Common stocks	1,471	7,660
Perpetual preferred stocks	4,577	2,230
Policy loans	50,643	54,193
Total cash and investments	2,744,038	2,665,942
Deferred policy acquisition costs:		
(including the impact of unrealized gains on securities of $84,395 and $46,816)	8,170	64,477
Accrued investment income	22,804	25,419
Variable annuity assets (separate accounts)	663,545	627,680
Equity index call options	18,713	21,115
Funds held as collateral	40	40
Other assets	1,744	2,060
Total assets	$ 3,459,054	$ 3,406,733
Liabilities and Equity:		
Annuity benefits accumulated:		
(including the impact of unrealized gains on securities of $11,769 and $4,844)	$ 2,253,114	$ 2,271,857
Variable annuity liabilities (separate accounts)	663,545	627,680
Current federal income tax payable to affiliate	1,255	199
Liability for funds held as collateral	40	40
Net deferred tax liabilities	34,496	27,097
Other liabilities	7,357	4,926
Total liabilities	2,959,807	2,931,799
Shareholder's Equity:		
Common stock, par value - $125 per share:		
- 25,000 shares authorized		
- 20,000 shares issued and outstanding	2,500	2,500
Capital surplus	176,909	176,909
Retained earnings	223,934	236,132
Accumulated other comprehensive income, net of tax	95,904	59,393
Total shareholder's equity	499,247	474,934
Total liabilities and equity	$ 3,459,054	$ 3,406,733

See notes to financial statements.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
STATEMENT OF EARNINGS
(In Thousands)

	Year ended December 31		
	2020	**2019**	**2018**
Revenues:			
Net investment income	$ 104,114	$ 110,995	$ 109,584
Realized gains on securities	1,842	3,777	240
Policy charges	11,247	11,955	12,511
Other income	1,342	1,370	1,405
Total revenues	118,545	128,097	123,740
Costs and Expenses:			
Annuity benefits	55,454	68,372	54,527
Insurance acquisition expenses, net	26,123	18,262	22,164
Other expenses	9,809	10,362	12,514
Total costs and expenses	91,386	96,996	89,205
Earnings before income taxes	27,159	31,101	34,535
Provision for income taxes	5,357	6,135	6,239
Net Earnings Attributable to Shareholder	$ 21,802	$ 24,966	$ 28,296

See notes to financial statements.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)

	Year ended December 31		
	2020	**2019**	**2018**
Comprehensive Income (Loss):			
Net earnings	$ 21,802	$ 24,966	$ 28,296
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities:			
Unrealized holding gains (losses) on securities arising during the period	40,177	57,610	(37,959)
Reclassification adjustment for realized gains included in net earnings	(3,666)	(1,368)	(1,098)
Total net unrealized gains (losses) on securities	36,511	56,242	(39,057)
Total comprehensive income (loss), net of tax	$ 58,313	$ 81,208	$ (10,761)

See notes to financial statements.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
(Dollars in Thousands)

	Common Shares	Common Stock and Capital Surplus	Retained Earnings	Accumulated Other Comp Inc. (Loss)	Total Shareholder's Equity
Balance at December 31, 2017	20,000	$ 179,409	$ 182,268	$ 42,810	$ 404,487
Net earnings	-	-	28,296	-	28,296
Other comprehensive loss	-	-	-	(39,057)	(39,057)
Cumumlative effect of accounting changes	-	-	602	(602)	-
Balance at December 31, 2018	20,000	$ 179,409	$ 211,166	$ 3,151	$ 393,726
Net earnings	-	-	24,966	-	24,966
Other comprehensive income	-	-	-	56,242	56,242
Balance at December 31, 2019	20,000	$ 179,409	$ 236,132	$ 59,393	$ 474,934
Net earnings	-	-	21,802	-	21,802
Other comprehensive income	-	-	-	36,511	36,511
Dividends to parent	-	-	(34,000)	-	(34,000)
Balance at December 31, 2020	20,000	$ 179,409	$ 223,934	$ 95,904	$ 499,247

See notes to financial statements.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
STATEMENT OF CASH FLOWS
(In Thousands)

	Year ended December 31		
	2020	2019	2018
Operating Activities:			
Net earnings	$ 21,802	$ 24,966	$ 28,296
Adjustments:			
Depreciation and amortization	(4,153)	(2,510)	(1,453)
Annuity benefits	55,454	68,372	54,527
Realized gains on investments	(1,842)	(3,777)	(240)
Deferred annuity policy acquisition costs	(4,124)	(6,752)	(10,810)
Amortization of insurance acquisition costs	20,207	12,256	17,799
Change in:			
Accrued investment income	2,615	1,080	(1,221)
Payables to affiliates, net	(1,251)	(1,170)	230
Other assets	208	(285)	(298)
Other liabilities	(62)	705	1,225
Other operating activities, net	(53)	(100)	(154)
Net cash provided by operating activities	88,801	92,785	87,901
Investing Activities:			
Purchases of:			
Fixed maturities	(391,189)	(218,173)	(312,214)
Equity securities	(2,295)	(660)	(5,070)
Options related to fixed-indexed annuities ("FIA's")	(12,945)	(13,982)	(13,541)
Proceeds from:			
Maturities and redemptions of fixed maturities	331,094	204,961	191,823
Sales of fixed maturities	137,403	26,989	17,400
Sales of equity securities	3,338	1,153	2,552
Expiration of options related to FIA's	20,578	15,690	20,129
Other investing activities, net	3,550	1,354	1,501
Net cash provided by (used in) investing activities	89,534	17,332	(97,420)
Financing Activities:			
Fixed Annuity Receipts	121,123	160,784	195,370
Annuity surrenders, benefits and withdrawals	(265,561)	(321,397)	(291,956)
Net transfers from variable annuity assets	61,274	59,591	46,697
Cash dividends paid to parent	(34,000)	-	-
Net cash used in financing activities	(117,164)	(101,022)	(49,889)
Net Change in Cash and Cash Equivalents	61,171	9,095	(59,408)
Cash and cash equivalents at beginning of year	24,579	15,484	74,892
Cash and cash equivalents at end of year	$ 85,750	$ 24,579	$ 15,484

See notes to financial statements.

A. Accounting Policies

Basis of Presentation Annuity Investors Life Insurance Company ("AILIC" or the "Company"), is a stock life insurance company domiciled in the State of Ohio. The Company is a subsidiary of Great American Life Insurance Company ("GALIC") and is an indirect wholly-owned subsidiary of Great American Financial Resources, Inc., ("GAFRI"). GAFRI is a financial services holding company wholly-owned by American Financial Group, Inc. ("AFG").

AILIC's products include fixed, fixed-indexed and variable annuities. The products are marketed in 48 states and the District of Columbia to educational institutions, hospitals, and other qualified and non-qualified markets, through independent agents, payroll deduction plans and financial institutions. The Company operates in a single segment called Annuity.

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Changes in circumstances could cause actual results to differ materially from those estimates. Events or transactions occurring subsequent to December 31, 2020, and prior to April 26, 2021, have been evaluated for potential recognition or disclosure herein.

Fair Value Measurements Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The standards establish a hierarchy of valuation techniques based on whether the assumptions that market participants would use in pricing the asset or liability ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect AILIC's assumptions about the assumptions market participants would use in pricing the asset or liability. AILIC did not have any material nonrecurring fair value measurements in 2020 or 2019.

Credit Losses on Financial Instruments On January 1, 2020, the Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*, which provides a new loss model for determining credit related impairments for financial instruments measured at amortized cost (mortgage loans and premiums receivable) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses considers historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. Expected credit losses, and subsequent increases or decreases in such expected losses, are recorded immediately through net earnings as an allowance that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the balance sheet at the amount expected to be collected. The new guidance did not have an impact on AILIC's results of operations or financial position.

The updated guidance also amended the current other-than-temporary impairment model for available for sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. Subsequent increases or decreases in expected credit losses will be recorded immediately in net earnings through realized gains (losses).

Investments On January 1, 2018, AILIC adopted ASU 2016-01, which requires all equity securities other than those accounted for under the equity method to be reported at fair value with holding gains and losses recognized in net earnings. At December 31, 2017**,** AILIC had $7.0 million in equity securities classified as "available for sale" under the prior guidance with holding gains and losses included in accumulated other comprehensive income ("AOCI") instead of net earnings. At the date of adoption, the $0.6 million net unrealized gain on equity securities included in AOCI was reclassified to retained earnings as the cumulative effect of an accounting change.

Fixed maturity securities classified as "available for sale" are reported at fair value with unrealized gains and losses included in AOCI in AILIC's Balance Sheet. Policy loans are carried primarily at the aggregate unpaid balance.

Premiums and discounts on fixed maturity securities are amortized using the effective interest method. Mortgage-backed securities ("MBS") are amortized over a period based on estimated future principal payments, including prepayments. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations.

Realized gains or losses on the disposal of fixed maturity securities are determined on the specific identification basis. When a decline in the value of an available for sale fixed maturity is considered to be other-than-temporary at the balance sheet date, an allowance for credit losses (impairment), including any write-off of accrued interest, is charged to earnings (included in realized gains (losses) on securities). If management can assert that it does not intend to sell the security and it is not more likely than not that it will have to sell it before recovery of its amortized cost basis (net of allowance), then the impairment allowance is separated into two components: (i) the amount related to credit losses (recorded in earnings) and (ii) the amount related to all other factors (recorded in other comprehensive income). The credit-related portion is measured by comparing a security's amortized cost to the present value of its current expected cash flows discounted at its effective yield prior to the charge. If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment is recorded in earnings to reduce the amortized cost (net of allowance) of that security to fair value. See *"Credit Losses on Financial Instruments"* above for a discussion of new guidance adopted on January 1, 2020.

Derivatives Derivatives included in AILIC's Balance Sheet are recorded at fair value. Changes in fair value of derivatives are included in earnings, unless the derivatives are designated and qualify as highly effective cash flow hedges. Derivatives that do not qualify for hedge accounting under GAAP consist primarily of (i) components of certain fixed maturity securities (primarily interest-only and principal only MBS) and (ii) the equity-based component of certain annuity products (included in annuity benefits accumulated) and related equity index options designed to be consistent with the characteristics of the liabilities and used to mitigate the risk embedded in those annuity products.

To qualify for hedge accounting, at the inception of a derivative contract, AILIC formally documents the relationship between the terms of the hedge and the hedged items and its risk management objective. This documentation includes defining how hedge effectiveness and ineffectiveness will be measured on a retrospective and prospective basis.

Changes in the fair value of derivatives that are designated and qualify as highly effective cash flow hedges are recorded in AOCI and are reclassified into earnings when the variability of the cash flows from the hedged items impacts earnings. When the change in the fair value of a qualifying cash flow hedge is included in earnings, it is included in the same line item in the Statement of Earnings as the cash flows from the hedged item.

Deferred Policy Acquisition Costs ("DPAC") Policy acquisition costs (principally commissions, premium taxes and certain underwriting and policy issuance costs) directly related to the successful acquisition or renewal of an insurance contract are deferred. DPAC also includes capitalized costs associated with sales inducements offered to fixed annuity policyholders such as enhanced interest rates and premium and persistency bonuses.

DPAC related to annuities is deferred to the extent deemed recoverable and amortized, with interest, in relation to the present value of actual and expected gross profits on the policies. Expected gross profits consist principally of estimated future investment margin (estimated future net investment income less interest credited on policyholder funds) and surrender, mortality, and other annuity policy charges, less death, annuitization and guaranteed withdrawal benefits in excess of account balances and estimated future policy administration expenses. To the extent that realized gains and losses result in adjustments to the amortization of DPAC related to annuities, such adjustments are reflected as components of realized gains (losses) on securities.

DPAC and certain other balance sheet amounts related to the annuity business are also adjusted, net of tax, for the change in expense that would have been recorded if the unrealized gains (losses) from securities had actually been realized. These adjustments are included in unrealized gains (losses) on marketable securities, a component of AOCI in AILIC's Balance Sheet.

Funds Held as Collateral AILIC 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.

Annuity Benefits Accumulated Annuity receipts and benefit payments are recorded as increases or decreases in annuity benefits accumulated rather than as revenue and expense. Increases in this liability for interest credited are charged to annuity benefits expense and decreases for annuity policy charges are recorded in other income. For traditional fixed annuities, the liability for annuity benefits accumulated represents the account value that has accrued to the benefit of the policyholder as of the balance sheet date. For FIA's the liability or annuity benefits accumulated includes an embedded derivative that represents the estimated fair value of the index participation with the remaining component representing the discounted value of the guaranteed minimum contract benefits.

For certain products, annuity benefits accumulated also includes reserves for accrued persistency and premium bonuses, guaranteed withdrawals and excess benefits expected to be paid on future deaths and annuitizations ("EDAR"). The liabilities for EDAR and guaranteed withdrawals are accrued for and modified using assumptions consistent with those used in determining DPAC and DPAC amortization, except that amounts are determined in relation to the present value of total expected assessments. Total expected assessments consist principally of estimated future investment margin, surrender, mortality, and other life and annuity policy charges, and unearned revenues once they are recognized as income.

Variable Annuity Assets and Liabilities Separate accounts related to variable annuities represent the fair value of deposits invested in underlying investment funds on which AILIC earns a fee. Investment funds are selected and may be changed only by the policyholder, who retains all investment risk.

The Company'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. A GMDB liability is established for future excess death benefits using assumptions together with a range of reasonably possible scenarios for investment fund performance that are consistent with DPAC capitalization and amortization assumptions.

Income Taxes The Company has an intercompany tax allocation agreement with AFG. Pursuant to the agreement, the Company's tax expense is determined based upon its inclusion in the consolidated tax return of AFG and its includable subsidiaries. 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. The method of allocation among the companies under the agreement is based upon separate return calculations with current credit for losses to the extent the losses provide a benefit in the consolidated return.

Deferred income taxes are calculated using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases and are measured using enacted tax rates. A valuation allowance is established to reduce total deferred tax assets to an amount that will more likely than not be realized. The effect of a change in tax rates on deferred tax assets and liabilities is recorded in net earnings in the period that includes the enactment date.

AILIC recognizes the tax benefits of uncertain tax positions only when the position is more likely than not to be sustained under examination by the appropriate taxing authority. Interest and penalties on AILIC's reserve for uncertain tax positions are recognized as a component of tax expense.

Benefit Plans 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.

Statement of Cash Flows For cash flow purposes, "investing activities" are defined as making and collecting loans and acquiring and disposing of debt or equity instruments and property and equipment. "Financing activities" include obtaining resources from owners and providing them with a return on their investments. Annuity receipts, surrenders, benefits and withdrawals are also reflected as financing activities. All other activities are considered "operating." Short-term investments having original maturities of three months or less when purchased are considered to be cash equivalents for purposes of the financial statements.

B. 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 of publicly traded equity securities and highly liquid government bonds for which quoted market prices in active markets are available.

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 separate account assets, corporate and municipal fixed maturity securities, asset-backed securities, MBS, certain non-affiliated common stocks and equity index 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 values 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 at the valuation date. 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 are classified as Level 3.

AILIC's 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. The Company's internal investment professionals are a group of approximately 20 investment professionals whose primary responsibility is to manage AFG's investment portfolio. These professionals monitor individual investments as well as overall industries and are active in the financial markets on a daily basis. The group is led by AFG's chief investment officer, who reports directly to one of AFG's Co-CEOs. Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by AFG's 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, these investment managers consider widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. In addition, the Company communicates directly with the pricing services regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the service to value specific securities.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS – CONTINUED

Assets and liabilities measured and carried at fair value in the financial statements are summarized below (in thousands):

December 31, 2020	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale ("AFS") fixed maturities:				
U.S. Government and government agencies	$ 444	$ 2,419	$ -	$ 2,863
States, municipalities and political subdivisions	-	334,170	-	334,170
Foreign government	-	4,220	-	4,220
Residential MBS	-	138,938	3,015	141,953
Commercial MBS	-	59,059	-	59,059
Collateralized loan obligations	-	203,773	-	203,773
Other asset-backed securities	-	301,396	8,719	310,115
Corporate and other	-	1,534,144	11,300	1,545,444
Total AFS fixed maturities	444	2,578,119	23,034	2,601,597
Equity securities:				
Common stocks	1,471	-	-	1,471
Perpetual preferred stocks	4,577	-	-	4,577
Variable annuity assets (separate accounts) (*)	-	663,545	-	663,545
Equity options - fixed indexed annuities	-	18,713	-	18,713
Total assets accounted for at fair value	$ 6,492	$ 3,260,377	$ 23,034	$ 3,289,903
Liabilities:				
Derivatives in annuity benefits accumulated	$ -	$ -	$ 110,704	$ 110,704
Total liabilities accounted for at fair value	$ -	$ -	$ 110,704	$ 110,704

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale fixed maturities:				
U.S. Government and government agencies	$ 425	$ 2,724	$ -	$ 3,149
States, municipalities and political subdivisions	-	369,720	-	369,720
Foreign government	-	4,137	-	4,137
Residential MBS	-	137,724	6,424	144,148
Commercial MBS	-	71,352	-	71,352
Collateralized loan obligations	-	188,398	-	188,398
Other asset-backed securities	-	216,602	4,035	220,637
Corporate and other	-	1,565,607	10,132	1,575,739
Total AFS fixed maturities	425	2,556,264	20,591	2,577,280
Equity securities:				
Common stocks	7,660	-	-	7,660
Perpetual preferred stocks	2,230	-	-	2,230
Variable annuity assets (separate accounts) (*)	-	627,680	-	627,680
Equity options - fixed indexed annuities	-	21,115	-	21,115
Total assets accounted for at fair value	$ 10,315	$ 3,205,059	$ 20,591	$ 3,235,965
Liabilities:				
Derivatives in annuity benefits accumulated	$ -	$ -	$ 113,547	$ 113,547
Total liabilities accounted for at fair value	$ -	$ -	$ 113,547	$ 113,547

(*) Variable annuity liabilities equal the fair value of variable annuity assets.

Less than 1% of the total assets carried at fair value on December 31, 2020 were Level 3 assets. Approximately 39% ($8.9 million) of the Level 3 assets were priced using non-binding broker quotes, for which there is a lack of transparency as to the inputs used to determine fair value. Details as to the quantitative inputs are neither provided by the brokers nor otherwise reasonably obtainable by AILIC. Approximately $8.8 million (38%) of the Level 3 assets were priced by pricing services where either a single price was not corroborated, prices varied enough among the providers, or other market factors led management to determine these securities should be classified as Level 3 assets.

Internally developed Level 3 asset fair values represent approximately $5.3 million (23%) of the total fair value of Level 3 assets at December 31, 2020. The fixed maturities are priced using a variety of inputs, including appropriate credit spreads over the treasury yield (of a similar duration), trade information and prices of comparable securities and other security specific features (such as optional early redemption). Internally developed prices for equity securities are based primarily on financial information of the entities invested in and sales of comparable companies. Management believes that any justifiable changes in unobservable inputs used to determine internally developed fair values would not have resulted in a material change in AILIC's financial position.

The derivatives embedded in AILIC's fixed-indexed annuity liabilities are measured using a discounted cash flow approach and had a fair value of $110.7 million at December 31, 2020. The following table presents information about the unobservable inputs used by management in determining fair value of these embedded derivatives. See *Note E — "Derivatives."*

Unobservable Input	Range
Adjustment for insurance subsidiary's credit risk	0.2% - 2.2% over the risk free rate
Risk margin for uncertainty in cash flows	0.99% reduction in the discount rate
Surrenders	5% - 15% of indexed account value
Partial surrenders	2% - 7% of indexed account value
Annuitizations	0.25% - 1.0% of indexed account value
Deaths	0.5% - 13.0% of indexed account value
Budgeted option costs	1.7% - 2.1% of indexed account value

The range of adjustments for credit risk is based on the Moody's corporate A2 bond index and reflects credit spread variations across the yield curve. The range of projected surrender rates reflects the specific surrender charges and other features of AILIC's individual fixed-indexed annuity products with an expected range of 8% to 14% in the majority of future calendar years (5% to 15% over all periods). Increasing the budgeted option cost or risk margin for uncertainty in cash flow assumptions in the table above would increase the fair value of the fixed-indexed annuity embedded derivatives, while increasing any of the other unobservable inputs in the table above would decrease the fair value of the embedded derivatives.

Changes in balances of Level 3 financial assets and liabilities carried at fair value during 2020, 2019, and 2018 are presented below (in thousands). The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

	Balance at December 31, 2019	Total realized/unrealized gains (losses) included in: Net earnings (loss)	Total realized/unrealized gains (losses) included in: Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31, 2020
AFS fixed maturities:								
State and municipal	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential MBS	6,424	(24)	(373)	-	(701)	1,103	(3,414)	3,015
Commercial MBS	-	-	-	-	-	-	-	-
Other asset-backed securities	4,035	28	339	-	(56)	4,373	-	8,719
Corporate and other	10,132	(86)	318	4,000	(117)	2,244	(5,191)	11,300
Embedded derivatives (*)	(113,547)	(955)	-	(3,440)	7,238	-	-	(110,704)

(*) Total realized/unrealized gains (losses) included in net earnings for the embedded derivatives includes a favorable adjustment related to the unlocking of actuarial assumptions of $14.6 million in 2020.

	Balance at December 31, 2018	Total realized/unrealized gains (losses) included in: Net earnings (loss)	Total realized/unrealized gains (losses) included in: Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31, 2019
AFS fixed maturities:								
State and municipal	$ -	$ -	$ (72)	$ -	$ (2)	$ 609	$ (535)	$ -
Residential MBS	9,044	363	(730)	-	(1,056)	3,084	(4,281)	6,424
Commercial MBS	437	(73)	(1)	-	(363)	-	-	-
Other asset-backed securities	758	26	116	-	(367)	3,502	-	4,035
Corporate and other	6,745	(85)	248	3,066	(253)	2,083	(1,672)	10,132
Embedded derivatives (*)	(85,526)	(28,517)	-	(6,461)	6,957	-	-	(113,547)

(*) Total realized/unrealized gains (losses) included in net earnings for the embedded derivatives includes a favorable adjustment related to the unlocking of actuarial assumptions of $1.0 million in 2019.

	Balance at December 31, 2017	Total realized/unrealized gains (losses) included in: Net earnings (loss)	Total realized/unrealized gains (losses) included in: Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31, 2018
AFS fixed maturities:								
Residential MBS	$ 5,282	$ 135	$ (44)	$ -	$ (857)	$ 5,217	$ (689)	$ 9,044
Commercial MBS	450	(14)	1	-	-	-	-	437
Other asset-backed securities	823	34	29	-	(128)	-	-	758
Corporate and other	11,115	(3)	(61)	-	(645)	-	(3,661)	6,745
Embedded derivatives (*)	(89,002)	9,240	-	(11,900)	6,136	-	-	(85,526)

(*) Total realized/unrealized gains (losses) included in net earnings for the embedded derivatives reflects losses related to the unlocking of actuarial assumptions of $2.5 million in 2018.

Fair Value of Financial Instruments The carrying value and fair value of financial instruments that are not carried at fair value in the financial statements at December 31 are summarized below (in thousands):

	Carrying Value	Fair Value			
		Total	Level 1	Level 2	Level 3
2020					
Financial assets:					
Cash, cash equivalents and short-term investments	$ 85,750	$ 85,750	$ 85,750	$ -	$ -
Policy loans	50,643	50,643	-	-	50,643
Total financial assets not accounted for at fair value	$ 136,393	$ 136,393	$ 85,750	$ -	$ 50,643
Financial liabilities:					
Annuity benefits accumulated (*)	$ 2,244,631	$ 2,214,191	$ -	$ -	$ 2,214,191
Total financial liabilities not accounted for at fair value	$ 2,244,631	$ 2,214,191	$ -	$ -	$ 2,214,191
2019					
Financial assets:					
Cash and cash equivalents	$ 24,579	$ 24,579	$ 24,579	$ -	$ -
Policy loans	54,193	54,193	-	-	54,193
Total financial assets not accounted for at fair value	$ 78,772	$ 78,772	$ 24,579	$ -	$ 54,193
Financial liabilities:					
Annuity benefits accumulated (*)	$ 2,262,999	$ 2,219,467	$ -	$ -	$ 2,219,467
Total financial liabilities not accounted for at fair value	$ 2,262,999	$ 2,219,467	$ -	$ -	$ 2,219,467

(*) Excludes $8,483 and $8,858 of life contingent annuities in the payout phase at December 31, 2020 and 2019, respectively.

C. Balance Sheet Impact of Net Unrealized Gains on Securities

In addition to adjusting fixed maturity securities classified as "available for sale" to fair value, GAAP requires that deferred policy acquisition costs and certain other balance sheet amounts related to the annuity business be adjusted to the extent that unrealized gains and losses from securities would result in adjustment to those balances had the unrealized gains or losses actually been realized. The following table shows (in thousands) the components of the net unrealized gain on securities is included in AOCI in AILIC's Balance Sheet:

	Asset (Liability) before Unrealized	Impact of Unrealized Gains	Carrying Value of Asset (Liability)
December 31, 2020			
Fixed maturities	$ 2,384,036	$ 217,561	$ 2,601,597
Deferred policy acquisition costs	92,565	(84,395)	8,170
Annuity benefits accumulated	(2,241,345)	(11,769)	(2,253,114)
Unrealized gain, pretax		121,397	
Deferred tax on unrealized gain		(25,493)	
Unrealized gain, after tax (included in AOCI)		$ 95,904	
December 31, 2019			
Fixed maturities	$ 2,450,440	$ 126,840	$ 2,577,280
Deferred policy acquisition costs	111,293	(46,816)	64,477
Annuity benefits accumulated	(2,267,013)	(4,844)	(2,271,857)
Unrealized gain, pretax		75,180	
Deferred tax on unrealized gain		(15,787)	
Unrealized gain, after tax (included in AOCI)		$ 59,393	

D. Investments

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

	Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized	Fair Value
December 31, 2020						
Fixed Maturities:						
U.S. Government and government agencies	$ 2,553	$ -	$ 310	$ -	$ 310	$ 2,863
States, municipalities and political subdivisions	300,141	-	34,280	(251)	34,029	334,170
Foreign Government	3,991	-	229	-	229	4,220
Residential MBS	127,849	320	14,555	(131)	14,424	141,953
Commercial MBS	55,620	-	3,489	(50)	3,439	59,059
Collateralized loan obligations	203,070	-	1,119	(416)	703	203,773
Other asset-backed securities	304,376	-	7,484	(1,745)	5,739	310,115
Corporate and other	1,386,756	-	159,427	(739)	158,688	1,545,444
Total fixed maturities	$ 2,384,356	$ 320	$ 220,893	$ (3,332)	$ 217,561	$ 2,601,597
December 31, 2019						
Fixed Maturities:						
U.S. Government and government agencies	$ 2,942	$ -	$ 207	$ -	$ 207	$ 3,149
States, municipalities and political subdivisions	349,675	-	20,073	(28)	20,045	369,720
Foreign Government	3,987	-	150	-	150	4,137
Residential MBS	127,803	-	16,538	(193)	16,345	144,148
Commercial MBS	68,720	-	2,632	-	2,632	71,352
Collateralized loan obligations	188,736	-	552	(890)	(338)	188,398
Other asset-backed securities	216,538	-	4,484	(385)	4,099	220,637
Corporate and other	1,492,039	-	84,283	(583)	83,700	1,575,739
Total fixed maturities	$ 2,450,440	$ -	$ 128,919	$ (2,079)	$ 126,840	$ 2,577,280

Equity securities, which are reported at fair value with holding gains and losses recognized in net earnings, consisted of the following at December 31, 2020 (in thousands):

	2020			2019		
	Actual Cost	Fair Value	Fair Value over (under) Cost	Actual Cost	Fair Value	Fair Value over (under) Cost
Common stocks	$ 2,797	$ 1,471	$ (1,326)	$ 6,973	$ 7,660	$ 687
Perpetual preferred stocks	4,000	4,577	577	2,000	2,230	230
Total equity securities carried at fair value	$ 6,797	$ 6,048	$ (749)	$ 8,973	$ 9,890	$ 917

The following tables show gross unrealized losses (in thousands) on fixed maturities by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019.

	Less Than Twelve Months			Twelve Months or More		
2020	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
Fixed Maturities:						
States, municipalities and political subdivisions	$ (251)	$ 5,665	96%	$ -	$ -	0%
Residential MBS	(104)	9,056	99%	(27)	647	96%
Commercial MBS	(50)	1,950	98%	-	-	0%
Collateralized loan obligations	(105)	31,945	100%	(311)	61,641	99%
Other asset-backed securities	(1,415)	56,578	98%	(330)	9,947	97%
Corporate and other	(739)	26,751	97%	-	-	0%
Total fixed maturities	$ (2,664)	$ 131,945	98%	$ (668)	$ 72,235	99%

	Less Than Twelve Months			Twelve Months or More		
2019	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
Fixed Maturities:						
States, municipalities and political subdivisions	$ (11)	$ 6,247	100%	$ (17)	$ 868	98%
Residential MBS	(180)	28,383	99%	(13)	431	97%
Collateralized loan obligations	(205)	47,285	100%	(685)	73,960	99%
Other asset-backed securities	(167)	26,550	99%	(218)	3,267	94%
Corporate and other	(164)	24,734	99%	(419)	13,999	97%
Total fixed maturities	$ (727)	$ 133,199	99%	$ (1,352)	$ 92,525	99%

At December 31, 2020, the gross unrealized losses on fixed maturities of $3.3 million relate to 141 securities. Investment grade securities (as determined by nationally recognized rating agencies) represented approximately 75% of the gross unrealized loss and 93% of the fair value.

To evaluate fixed maturities for expected credit losses (impairment), management considers whether the unrealized loss is credit-driven or a result of changes in market interest rates, the extent to which fair value is less than cost basis, historical operating, balance sheet and cash flow data from the issuer, third party research and communications with industry specialists and discussions with issuer management.

AILIC analyzes its MBS securities for expected credit losses (impairment) each quarter based upon expected future cash flows. Management estimates expected future cash flows based upon its knowledge of the MBS market, cash flow projections (which reflect loan to collateral values, subordination, vintage and geographic concentration) received from independent sources, implied cash flows inherent in security ratings and analysis of historical payment data.

Management believes AILIC will recover its cost basis (net of any allowance) in the securities with unrealized losses and that AILIC has the ability to hold the securities until they recover in value and had no intent to sell them at December 31, 2020.

See Note A — "Accounting Policies — Credit Losses on Financial Instruments," for a discussion of new guidance effective January 1, 2020, which impacts the accounting for expected credit losses (impairments) of fixed maturity securities. Under the new guidance, credit losses on available for sale fixed maturities continue to be measured based on the present value of expected future cash flows compared to amortized cost; however, impairment losses are now recognized through an allowance instead of directly writing down the amortized cost. Under the new guidance, recoveries of previously impaired amounts are recorded as an immediate reversal of all or a portion of the allowance instead of accreted as investment income through a yield adjustment. In addition, the allowance on available for sale fixed maturities cannot cause the amortized cost net of the allowance to be below fair value. Accordingly, future changes in the fair value of an impaired security (when the allowance was limited by the fair value) due to reasons other than issuer credit (e.g. changes in market interest rates) result in increases or decreases in the allowance, which are recorded through realized gains (losses) on securities. A progression of the allowance for expected credit losses on fixed maturity securities is shown below (in thousands):

	Structured Securities	Corporate & Other	Total
Balance at January 1, 2020	$ -	$ -	$ -
Impact of adoption of new accounting policy	4	-	4
Initial allowance for purchases securities with credit deterioration	-	-	-
Provision for expected credit losses on securities with no previous allowance	469	1,614	2,083
Reductions to previously recognized expected credit losses	(92)	(1,256)	(1,348)
Reductions due to sales or redemptions	(61)	(358)	(419)
Balance at December 31, 2020	$ 320	$ -	$ 320

The table below sets forth the schedules maturities of available for sale fixed maturities as of December 31, 2020 (dollars in thousands). Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Amortized Cost (*)	Fair Value	
		Amount	%
Maturity			
One year or less	$ 115,340	$ 117,338	4%
After one year through five years	715,849	784,436	30%
After five years through ten years	724,327	825,599	32%
After ten years	137,925	159,324	6%
	1,693,441	1,886,697	72%
MBS (average life of approximately 3.5 years)	183,149	201,012	8%
Asset-backed securities (average life of approximately 3.5 years)	507,446	513,888	20%
Total	$ 2,384,036	$ 2,601,597	100%

(*) Amortized cost, net of allowance for expected credit losses

Certain risks are inherent in fixed maturity securities, including loss upon default, price volatility in reaction to changes in interest rates, and general market factors and risks associated with reinvestment of proceeds due to prepayments or redemptions in a period of declining interest rates.

There were no investments in individual issuers that exceeded 10% of shareholders' equity at December 31, 2020 or 2019.

The following table shows (in thousands) investment income earned and investment expenses incurred.

	2020	2019	2018
Investment income:			
Fixed maturities	$ 100,754	$ 106,723	$ 105,040
Equity securities (*)	265	563	652
Policy loans	3,422	3,478	3,763
Other	314	1,096	756
Gross investment income	104,755	111,860	110,211
Investment expenses	(641)	(865)	(627)
Net investment income	$ 104,114	$ 110,995	$ 109,584

(*) As discussed in Note A – "Accounting Policies – Investments," AILIC adopted guidance in January 2018 that requires all equity securities other than those accounted for under the equity method to be reported at fair value with holding gains and losses recognized in earnings.

AILIC's investment portfolio is managed by a subsidiary of AFG. Investment expenses included investment management fees charged by this subsidiary of $0.6 million in 2020, $0.8 million in 2019 and $0.5 million in 2018.

Realized gains (losses) and changes in unrealized appreciation (depreciation) related to fixed maturity and equity security investments are summarized as follows (in thousands):

	Fixed Maturities	Equity Securities	Other*	Tax Effects	Total
Year ended December 31, 2020					
Realized before impairments	$ 4,885	$ (2,799)	$ 170	$ (474)	$ 1,782
Realized - impairments	(735)	-	321	87	(327)
Change in unrealized	90,721	-	(44,504)	(9,706)	36,511
Year ended December 31, 2019					
Realized before impairments	$ 844	$ 2,045	$ 899	$ (795)	$ 2,993
Realized - impairments	(19)	-	8	2	(9)
Change in unrealized	120,184	-	(48,991)	(14,951)	56,242
Year ended December 31, 2018					
Realized before impairments	$ 791	$ (1,150)	$ 701	$ (72)	$ 270
Realized - impairments	(417)	-	315	22	(80)
Change in unrealized	(85,371)	-	35,931	10,383	(39,057)

*Primarily adjustments to deferred policy acquisition costs related to annuities.

Gross realized gains and losses (excluding impairment write-downs and mark-to-market of derivatives) on available for sale fixed maturity and equity security investment transactions included in the statement of cash flows consisted of the following (in thousands):

	2020	2019	2018
Fixed maturities:			
Gross gains	$ 6,897	$ 1,805	$ 1,372
Gross losses	(2,012)	(887)	(570)

E. Derivatives

As discussed under "Derivatives" in *Note A – "Accounting Policies"* to the financial statements, AILIC uses derivatives in certain areas of its operations.

Derivatives That Do Not Qualify for Hedge Accounting The following derivatives that do not qualify for hedge accounting under GAAP are included in AILIC's Balance Sheet at fair value (in thousands):

		December 31, 2020		December 31, 2019	
Derivative	Balance Sheet Line	Asset	Liability	Asset	Liability
MBS with embedded derivatives	Fixed maturities	$ -	$ -	$ -	$ -
Fixed-indexed annuities					
(embedded derivatives)	Annuity benefits accumulated	-	110,704	-	113,547
Equity index call options	Equity index call options	18,713	-	21,115	-
		$ 18,713	$ 110,704	$ 21,115	$ 113,547

The MBS with embedded derivatives consist of interest-only and principal-only MBS. AILIC records the entire change in the fair value of these securities in earnings. These investments are part of AILIC's overall investment strategy and represent a small component of AILIC's overall investment portfolio.

AILIC's fixed-indexed annuities provide policyholders with a crediting rate tied, in part, to the performance of an existing stock market or other financial index. AILIC attempts to mitigate the risk in the index-based component of these products through the purchase and sale of call options on the appropriate index. 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 in AILIC's Balance Sheet with an offsetting liability to return the collateral. AILIC's strategy is designed so that an increase in the liabilities, due to an increase in the market index, will be generally offset by unrealized and realized gains on the call options purchased by AILIC. Both the index-based component of the annuities (an embedded derivative) and the related call options are considered derivatives that must be adjusted for changes in fair value through earnings each period. The fair values of these derivatives are impacted by actual and expected stock market performance and interest rates as well as other factors. Fluctuations in certain of these factors, such as changes in interest rates and the performance of the stock market, are not economic in nature for the current reporting period, but rather impact the timing of reported results.

The following table summarizes the gains (losses) included in the Statement of Earnings for changes in the fair value of derivatives that do not qualify for hedge accounting for 2020, 2019 and 2018 (in thousands):

Derivative	Statement of Earnings Line	2020	2019	2018
MBS with embedded derivatives	Realized gains (losses) on securities	$ -	$ 25	$ (11)
Fixed-indexed annuities				
(embedded derivatives) (*)	Annuity benefits	(955)	(28,518)	(9,240)
Equity index call options	Annuity benefits	5,232	18,715	7,002
		$ 4,277	$ (9,778)	$ (2,249)

(*) The change in fair value of the embedded derivative includes a favorable adjustment related to unlocking of actuarial assumptions of $14.6 million in 2020, $1.0 million in 2019 and $2.5 million in 2018.

F. Deferred Policy Acquisition Costs

A progression of deferred policy acquisition costs is presented below (in thousands):

	Deferred Costs	Sales Inducements	Unrealized	Total
Balance at December 31, 2017	$ 105,292	$ 19,913	$ (36,567)	$ 88,638
Additions	10,810	1,371	-	12,181
Amortization:				
Periodic amortization	(18,183)	(2,693)	-	(20,876)
Annuity unlocking	384	150	-	534
Included in realized gains	843	151	-	994
Change in unrealized	-	-	34,078	34,078
Balance at December 31, 2018	99,146	18,892	(2,489)	115,549
Additions	6,752	1,279	-	8,031
Amortization:				
Periodic amortization	(9,377)	(1,997)	-	(11,374)
Annuity unlocking	(2,879)	(1,416)	-	(4,295)
Included in realized gains	751	142	-	893
Change in unrealized	-	-	(44,327)	(44,327)
Balance at December 31, 2019	94,393	16,900	(46,816)	64,477
Additions	4,124	865	-	4,989
Amortization:				
Periodic amortization	(8,664)	(1,763)	-	(10,427)
Annuity unlocking	(11,543)	(2,260)	-	(13,803)
Included in realized gains	412	101	-	513
Change in unrealized	-	-	(37,579)	(37,579)
Balance at December 31, 2020	$ 78,722	$ 13,843	$ (84,395)	$ 8,170

G. Shareholder's Equity

Accumulated Other Comprehensive Income, Net of Tax Comprehensive income is defined as all changes in Shareholder's Equity except those arising from transactions with shareholders. Comprehensive income includes net earnings and other comprehensive income, which consists of changes in net unrealized gains or losses on available for sale securities.

The progression of the components of accumulated other comprehensive income follows (in thousands):

	AOCI Beginning Balance	Other Comprehensive Income Pretax	Other Comprehensive Income Tax	Other Comprehensive Income Net of tax	Other (b)	AOCI Ending Balance
Year ended December 31, 2020						
Net unrealized gains on securities:						
Unrealized holding gains (losses) on securities arising during the period		$ 50,858	$ (10,681)	$ 40,177		
Reclassification adjustment for realized (gains) losses included in net earnings (a)		(4,641)	975	(3,666)		
Total net unrealized gains on securities	$ 59,393	$ 46,217	$ (9,706)	$ 36,511	$ -	$ 95,904
Year ended December 31, 2019						
Net unrealized gains on securities:						
Unrealized holding gains (losses) on securities arising during the period		$ 72,925	$ (15,315)	$ 57,610		
Reclassification adjustment for realized (gains) losses included in net earnings (a)		(1,732)	364	(1,368)		
Total net unrealized gains on securities	$ 3,151	$ 71,193	$ (14,951)	$ 56,242	$ -	$ 59,393
Year ended December 31, 2018						
Net unrealized gains on securities:						
Unrealized holding gains (losses) on securities arising during the period		$ (48,050)	$ 10,091	$ (37,959)		
Reclassification adjustment for realized (gains) losses included in net earnings (a)		(1,390)	292	(1,098)		
Total net unrealized gains on securities	$ 42,810	$ (49,440)	$ 10,383	$ (39,057)	$ (602)	$ 3,151

(a) The reclassification adjustment out of net unrealized gains (losses) on securities affected the following lines in AILIC's Statement of Earnings

OCI component	Affected line in the Statement of Earnings
Pretax	Realized gains on securities
Tax	Provision for income taxes

(b) On January 1, 2018, AILIC adopted new guidance that requires all equity securities other than those accounted for under the equity method to be reported at fair value with holding gains and losses recognized in net earnings. At the date of adoption, the $0.6 million net unrealized gain on equity securities classified as available for sale (with unrealized holding gains and losses reported in AOCI) under the prior guidance was reclassified from AOCI to retained earnings as the cumulative effect of an accounting change.

H. Income Taxes

The following is a reconciliation of income taxes at the statutory rate of 21% to the provision for income taxes as shown in the Statement of Earnings (dollars in thousands):

	2020		2019		2018	
	Amount	% of EBT	Amount	% of EBT	Amount	% of EBT
Earnings before income taxes ("EBT")	$ 27,159		$ 31,101		$ 34,535	
Income taxes at statutory rate	$ 5,703	21%	$ 6,531	21%	$ 7,252	21%
Effect of permanent items	(346)	(1%)	(396)	(1%)	(1,013)	(3%)
Provision for income taxes as shown in the Statement of Earnings	$ 5,357	20%	$ 6,135	20%	$ 6,239	18%

AILIC’s 2013- 2020 tax years remain subject to examination by the Internal Revenue Service.

AILIC did not have any earnings or losses subject to tax in a foreign jurisdiction for the years ended December 31, 2020, 2019 and 2018.

The total income tax provision consists of (in thousands):

	2020	2019	2018
Current taxes:			
Federal	$ 7,528	$ 10,712	$ 3,177
State	136	214	204
Deferred taxes:			
Federal	(2,307)	(4,791)	2,858
Provision for income taxes	$ 5,357	$ 6,135	$ 6,239

Deferred income tax assets and liabilities reflect temporary differences between the carrying amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes. The significant components of deferred tax assets and liabilities included in the Balance Sheet at December 31 were as follows (in thousands):

	2020			2019		
	Excluding Unrealized Gains	Impact of Unrealized Gains	Total	Excluding Unrealized Gains	Impact of Unrealized Gains	Total
Deferred tax assets:						
Insurance claims and reserves	$ 11,767	$ 2,472	$ 14,239	$ 14,293	$ 1,018	$ 15,311
Other, net	419	-	419	298	-	298
Total deferred tax assets	12,186	2,472	14,658	14,591	1,018	15,609
Deferred tax liabilities:						
Investment securities	(375)	(45,688)	(46,063)	(931)	(26,637)	(27,568)
Insurance claims and reserves transition liability	(1,593)	-	(1,593)	(1,911)	-	(1,911)
Deferred policy acquisition costs	(19,221)	17,723	(1,498)	(23,059)	9,832	(13,227)
Total deferred tax liabilities	(21,189)	(27,965)	(49,154)	(25,901)	(16,805)	(42,706)
Net deferred tax liabilities	$ (9,003)	$ (25,493)	$ (34,496)	$ (11,310)	$ (15,787)	$ (27,097)

The increase in AILIC’s net deferred tax liability at December 31, 2020 compared to December 31, 2019 reflects higher pretax unrealized gains.

The likelihood of realizing deferred tax assets is reviewed periodically; any adjustments required to the valuation allowance are made in the period during which developments requiring an adjustment become known.

AILIC did not have a liability for uncertain tax positions during 2020, 2019 or 2018.

Cash payments for income taxes, net of refunds, were $6.5 million, $7.1 million and $6.0 million in 2020, 2019 and 2018, respectively.

I. Contingencies

AILIC is involved in litigation from time to time, generally arising in the ordinary course of business. This litigation may include, but is not limited to, general commercial disputes, lawsuits brought by policyholders, employment matters, reinsurance collection matters and actions challenging certain business practices of insurance subsidiaries. None of these matters are expected to have a material adverse impact on AILIC's results of operations or financial condition.

J. Insurance

At December 31, 2020, U.S. Treasury Notes with a fair value of $8.7 million were on deposit as required by the insurance departments of various states.

Statutory Information AILIC is required to file financial statements with state insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis). Net earnings and capital surplus on a statutory basis for the Company were as follows (in thousands):

Net Earnings			Capital and Surplus	
2020	2019	2018	2020	2019
$ 28,971	$ 20,250	$ 35,764	$ 343,272	$ 349,312

The National Association of Insurance Commissioners' ("NAIC") model law for risk based capital ("RBC") applies to life insurance companies. RBC formulas determine the amount of capital that an insurance company needs so that is has an acceptable expectation of not becoming financially impaired. Companies below specific trigger points or ratios are subject to regulatory action. At December 31, 2020 and 2019, AILIC's capital ratio substantially exceeded the RBC requirements. The Company did not use any prescribed or permitted statutory accounting practices that differed from the NAIC statutory accounting practices at December 31, 2020 or 2019.

The maximum amount of dividends that can be paid to stockholders in 2021 by life insurance companies domiciled in the State of Ohio without prior approval of the Insurance Commissioner is the greater of 10% of statutory surplus as regards policyholders or statutory net income as of the preceding December 31, but only to the extent of statutory 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.

Fixed Annuities For certain products, the liability for "annuity benefits accumulated" includes reserves for excess benefits expected to be paid on future deaths and annuitizations and guaranteed withdrawal benefits. The liabilities included in AILIC's Balance Sheet for these benefits, excluding the impact of unrealized gains on securities, were as follows at December 31 (in thousands):

	2020	2019
Excess death and annuitization	$ 579	$ 598
Guaranteed withdrawal benefits	17,331	10,684

Variable Annuities At December 31, 2020, the aggregate guaranteed minimum death benefit value (assuming every variable annuity policyholder died on that date) on AILIC's variable annuity policies exceeded the fair value of the underlying variable annuities by $11.0 million, compared to $12.7 million at December 31, 2019. Death benefits paid in excess of the variable annuity account balances were $0.1 million in 2020, $0.4 million in 2019 and $0.1 million in 2018.

K. Additional Information

Related Parties Certain administrative, management, accounting, actuarial, data processing, collection and investment services are provided under agreements between AILIC and affiliates based on actual costs incurred. In 2020, 2019 and 2018, AILIC paid $9.7 million, $10.3 million and $12.8 million, respectively, for services to affiliates.

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, $2.9 million in 2019 and $3.0 million in 2018 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.

Benefit Plans AILIC expensed approximately $0.2 million in 2020 and $0.3 million in both 2019 and 2018 for its retirement and employee savings plans.

L. Subsequent Event

Management of AILIC has evaluated all other events occurring after December 31, 2020 through April 26, 2021, the date the financial statements were available to be issued, to determine whether any event required either recognition or disclosure in the financial statements. On January 27, 2021, AFG announced that it entered into a definitive agreement to sell the Company's parent (GALIC) to Massachusetts Mutual Life Insurance Company for $3.5 billion in cash, subject to final closing adjustments. The agreement is expected to close in the second quarter of 2021. No other material subsequent events were noted other than those already disclosed. It was determined there were no events that require recognition or disclosure in the financial statements through the report date.

GAIG.com

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About Us

Great American Insurance Group's roots go back to 1872 with the founding of its flagship company, Great American Insurance Company. The operations of Great American Insurance Group are engaged primarily in property and casualty insurance, focusing on specialty commercial products for businesses, and in the sale of traditional fixed and fixed-indexed annuities in the education, bank, and individual markets.

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