

SEP 30 2021

FILED

CERTIFICATION

September 30, 2021

I, Eric Dunning, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

AMERICAN LIFE & SECURITY CORP.

AS OF

DECEMBER 31, 2019

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.





DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

AMERICAN LIFE & SECURITY CORP.

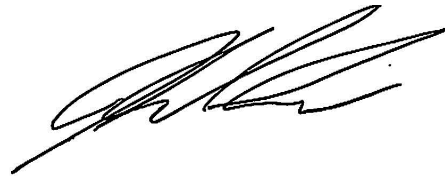
2900 SOUTH 70TH STREET, SUITE 400

LINCOLN, NEBRASKA 68506

dated as of December 31, 2019 verified under oath by the examiner-in-charge on September 2, 2021, and received by the company on September 3, 2021, has been adopted with modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 20th day of September 2021.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

AMERICAN LIFE & SECURITY CORP.

as of

DECEMBER 31, 2019

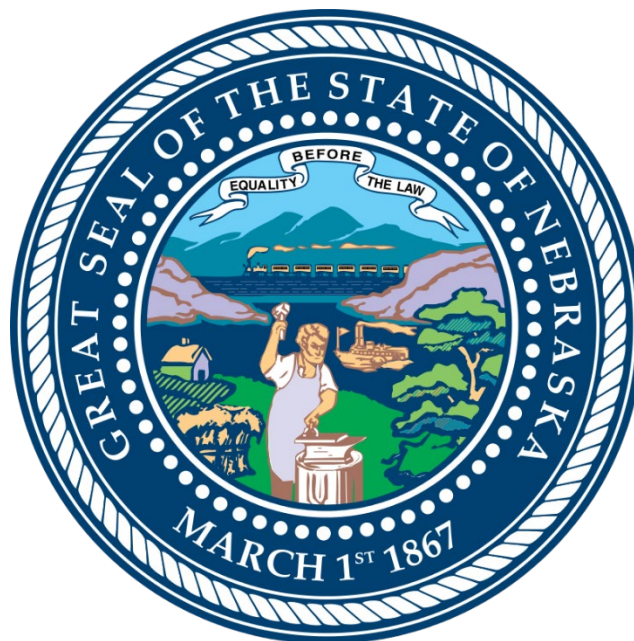


Table of Contents

<u>Item</u>	<u>Page</u>
Salutation	1
Introduction.....	1
Scope of Examination.....	1
Description of Company.....	3
History.....	3
Management and Control.....	4
Holding Company.....	4
Shareholder.....	5
Surplus Notes.....	6
Board of Directors.....	6
Officers.....	7
Committees.....	8
Transactions with Affiliates.....	8
Cost Sharing Agreement.....	8
Promissory Notes.....	9
Investment Advisory Agreements.....	9
Territory and Plan of Operation.....	10
Reinsurance.....	11
Ceded - Legacy.....	11
Ceded - New Program.....	13
General.....	14
Body of Report.....	15
Growth.....	15
Financial Statements.....	15
Examination Changes in Financial Statements.....	19
Compliance with Previous Recommendations.....	19
Commentary on Current Examination Findings.....	19
Investment Transaction Approval.....	19
Actuarial Opinion.....	20
General Interrogatories.....	20
Schedule Y Part 2.....	21
Summary of Comments and Recommendations.....	21
Acknowledgment.....	23

Lincoln, Nebraska
August 31, 2021

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

AMERICAN LIFE & SECURITY CORP.
2900 South 70th Street, Suite 400
Lincoln, Nebraska 68506

(hereinafter also referred to as the “Company”), and the report of such examination is respectfully presented herein.

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2016. The current financial condition examination covers the intervening period to, and includes the close of business on December 31, 2019 and such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

SCOPE OF EXAMINATION

The examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to

evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

The Nebraska Department of Insurance made a general review of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Shareholder, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, and approval of investment transactions, were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. Certificates of Authority to conduct the business of insurance in the various states were inspected, and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

The Company's reinsurance facilities were ascertained and noted and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Mazars USA LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2019. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was organized and incorporated under the name Old Reliance Insurance Company (Old Reliance) as a domestic limited capital stock life and disability insurer under the laws of the State of Arizona on September 15, 1960 and received its first Certificate of Authority on October 16, 1961.

On July 28, 2011, the Arizona Department of Insurance (ADOI) approved the acquisition of Old Reliance by Midwest Holding, Inc. (25%) and the Company (75%), which is wholly-owned by Midwest Holding, Inc. (MHI). Also, on July 28, 2011, the ADOI approved the merger of Old Reliance and the Company with Old Reliance being the surviving corporation. The Nebraska Department of Insurance (NDOI) approved the merger on August 3, 2011. On August 4, 2011, Old Reliance amended its Articles of Incorporation and By-Laws to change its corporate name to American Life & Security Corp.

On June 14, 2016, the NDOI approved the redomestication of the Company from Arizona. First Wyoming Life Insurance Company (First Wyoming) and Great Plains Assurance Company (Great Plains), both affiliates, were merged into the Company effective September 1, 2016 and December 1, 2016, respectively.

On June 28, 2018, MHI was acquired by Xenith Holdings LLC (Xenith), a Delaware limited liability company, which was wholly owned by Vespoint LLC, also a Delaware limited liability company. As part of the agreement \$20,500,000 was contributed to the Company, and \$100,000 was paid to MHI to cover a portion of the expenses. As of the examination date, Xenith owned 97.8% of MHI, and public shareholders owned the remaining 2.2%.

On December 21, 2020, MHI completed a public offering of 1,000,000 shares of its voting common stock to the public. MHI used the net proceeds of the offering to support the growth of the Company with a \$50,000,000 contribution.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the “Ultimate Controlling Person,” as

reported in the 2019 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Vestpoint LLC
Xenith Holdings LLC
Midwest Holding, Inc.
1505 Capital LLC (51%)
American Life & Security Corp.
Pacific Northwest Capital Corp. (24.7%)
New Mexico Capital Corp. (11.5%)

Shareholder

The Company is 100% wholly-owned by its sole shareholder and parent, MHI. Article I, Section 2 of the Company's By-Laws provides that, "the annual meeting of the Shareholders of the Corporation shall be held at its principal place of business in Lincoln, Nebraska, or at such other place or places within or without the State of Nebraska which its Board of Directors may designate, at 10:00 a.m. on the first Tuesday in June of each year, unless such day falls on a holiday, in which event the regular annual meeting shall be held on the next succeeding business day, at which time there shall be elected a Board of Directors for the ensuing year and any other business properly coming before said meeting transacted."

Article III of the Company's Articles of Incorporation states that, "the aggregate number of shares which this corporation shall have authority to issue is ten thousand (10,000) shares of common stock of a par value of One Hundred and Five dollars (\$105.00) per share." As of the examination date 10,000 shares were issued and outstanding.

During the exam period, no dividends were issued by the Company. In 2018, as part of the purchase of MHI by Xenith, the Company received surplus contributions totaling

\$20,500,000, bringing the total paid in and contributed surplus for the Company, as of the examination date, to \$39,575,587.

Surplus Notes

The Company entered into two surplus note agreements with its then parent, First American Capital Corporation in 2006. These notes are in the amounts of \$100,000, and \$150,000. The Company also has a surplus note due to David G. Elmore in the amount of \$400,000. All notes matured in 2016, but the Company did not receive regulatory approval to pay. In late 2018, the Company reached an agreement to retire its surplus notes in full, including any accrued interest, through the transfer of 10 condominiums in Hawaii owned by the Company. This transaction received regulatory approval in December 2018.

Board of Directors

Article II, Section 1 of the Company’s By-Laws provides that, “the number of Directors which shall constitute the whole Board shall be not fewer than five (5) nor more than fifteen (15), with at least one of the Directors being a Nebraska resident. The Directors shall be elected at the annual meeting of the Shareholders, except as provided in Section 3 of this Article, and each Director elected shall hold office until his or her successor is elected and qualified.”

The following persons were serving as Directors at December 31, 2019:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Holly Lynn Blanchard Ceresco, Nebraska	President, Regulatory Insurance Advisors, LLC
Michael Wayne Minnich New York, New York	President, American Life & Security Corp.
Mark Adrian Oliver Lincoln, Nebraska	Vice President and Secretary, American Life & Security Corp.

<u>Name and Residence</u>	<u>Principal Occupation</u>
Anthony Michael Salem Bedford, New York	Executive Chairman, American Life & Security Corp.
Jack Steven Theeler Mitchell, South Dakota	Partner, Morgan Theeler LLP

Effective June 16, 2020, Mr. Douglas Bratton was elected to the Board of Directors.

Also, Todd Boeve was elected to the Board of Directors in replacement of Mark Oliver effective April 6, 2021.

Officers

Article III, Section 1 of the Company’s By-Laws provides that, “the Officers of the Corporation shall consist of a Chief Executive Officer, a President, an Executive Chairman, one or more Vice Presidents (as the Board of Directors shall determine), a Secretary, a Treasurer, and such other Officers and agents as may be deemed necessary by the Board of Directors.”

The following is a listing of Officers elected and serving the Company at December 31, 2019:

<u>Name</u>	<u>Office</u>
A. Michael Salem	Executive Chairman
Michael W. Minnich	President
Mark A. Oliver	Vice President and Secretary
Debra K. Havranek	Treasurer

As of the examination date, no Chief Executive Officer was appointed by the Board of Directors. Review of subsequent Board of Director minutes noted that Officers were elected at the July 14, 2020 meeting, but again, no Chief Executive Officer was appointed. On May 26, 2021, the Company amended its By-Laws to change the required elected Officer positions to President, Vice President, Secretary, and Treasurer, which were appropriately filled.

Committees

Article II, Section 12 of the Company's By-Laws provides that, "the Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members an Executive Committee and one or more other committees each of which, to the extent provided in such resolution or in the Articles of Incorporation or the By-Laws of the Corporation, shall have and may exercise all the authority of the Board of Directors, but no such committee shall possess any authority of the Board of Directors prohibited by law." As of the examination date, the Company did not designate an Executive Committee but has designated an Audit Committee and Investment Committee. The Company shares an Enterprise Risk Management Committee, and a Future Planning Committee with its parent, MHI.

The following persons were serving on the Audit Committee at December 31, 2019:

Jack S. Theeler, Chair
Michael W. Minnich

Holly L. Blanchard

The following persons were serving on the Investment Committee at December 31, 2019:

A. Michael Salem, Chair
Mark A. Oliver

Debra K. Havranek

TRANSACTIONS WITH AFFILIATES

Cost Sharing Agreement

The Company executed a Cost Sharing Agreement, effective January 3, 2017 with MHI, whereby MHI provides office space, office equipment, and other specified services. The Company, in return, makes an advance payment towards its fees and expenses for the month. The advance payment is 90% of a rolling-average of previous 90 days' average total fees due to MHI and due by the 5th day of the month. The parties agree to settle any fees or reimbursements within thirty days following the end of the calendar month in which they are earned. The

agreement carried an initial five-year term but shall automatically renew for additional five-year terms unless terminated by either party.

The exam team noted that the Company was settling the Cost Sharing Agreement balances within the required time but not consistently adhering to the advance payment due date. It is recommended that the Company comply with all settlement provisions of the Cost Sharing Agreement with MHI.

Promissory Notes

Effective May 15, 2019, the Company issued a five-year Promissory Note to its parent, MHI. This Promissory Note was issued for \$125,000 plus interest on the unpaid principal balance at a rate of 6.5% annually. Annual installments of interest shall be due on each anniversary, and principal shall be due at maturity on May 15, 2024. The first interest installment was due on May 15, 2020 and was to be made within ten days of its due date. An additional Promissory Note was issued to MHI on July 8, 2019 with the same five-year duration and 6.5% interest rate. The amount of the July Promissory Note was for \$375,000 with principal due at maturity on July 8, 2024 and annual interest installments beginning on July 8, 2020.

The exam team noted that the Company did not collect its initial interest payments in accordance with the agreements. The first interest payments were combined by MHI and received by the Company on January 5, 2021. It is recommended that the Company work with its parent to comply with the settlement provisions of the Promissory Notes.

Investment Advisory Agreements

Effective June 30, 2019, the Company entered into an Investment Advisory Agreement with 1505 Capital LLC (1505 Capital), whereby 1505 Capital manages certain Funds Withheld and Modco Deposit assets held by the Company. The assets are subject to investment guidelines

adopted by the Company's Board of Directors and additional maximum allocations to secure a specific reinsurance agreement with Ironbound Reinsurance Company Limited (Ironbound). A similar Investment Advisory Agreement was executed November 7, 2019 between the Company and 1505 Capital to manage Funds Withheld and Modco Deposits, securing a reinsurance agreement with SDA Annuity & Life Re (SDA).

Effective August 1, 2019, the Company entered into an Investment Management Agreement with 1505 Capital for the management of the Company's general account. The assets are subject to the investment guidelines adopted by the Company's Board of Directors and additional maximum parameters included within the agreement.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in Arizona, Colorado, Hawaii, Idaho, Illinois, Indiana, Iowa, Michigan, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, South Dakota, Texas, and Utah. Subsequent to the examination date, the Company gained licenses in the District of Columbia, Kansas, Louisiana, Montana, North Dakota, Ohio and Oregon.

During the exam period, the Company has implemented a new business plan to leverage technology to develop, sell, and administer competitive life and annuity products through independent marketing organizations. The Company reinsures substantially all its insurance policies written with third-party reinsurers. The third-party reinsurers assume the financial risk of the insurance and annuity policies, and the Company earns up front ceding commissions from the reinsurer as well as policy administration fees. As of the exam date, the Company offers a multi-year guaranteed annuity (MYGA) and a fixed index annuity (FIA) product through three

independent marketing organizations. Since the examination date, the Company has increased its utilization to nine independent marketing organizations.

REINSURANCE

Ceded - Legacy

As part of the merger with Old Reliance, the Company maintains various reinsurance contracts with Optimum Re Insurance Company (Optimum Re), Security Life of Denver Insurance Company, Scottish Re (U.S.) Inc., and Swiss Re Life & Health America, Inc. with effective dates ranging between 1976 and 2003, whereby the Company cedes closed blocks of Yearly Renewable Term (YRT) life and Accidental Death Benefit (ADB) business.

The Company is party to two Master Reinsurance Agreements with Sagicor Life Insurance Company (Sagicor), formerly known as American Founders Life Insurance Company, an authorized insurer domiciled in Texas. Under the combined 75% and 25% coinsurance agreements effective December 30, 1999, and April 1, 2000, respectively, Sagicor agreed to assume 100% of the Company's life insurance risks on a closed block of Old Reliance business written prior to its merger with the Company.

Effective August 1, 2009, the Company entered into an automatic and facultative excess of loss contract with Optimum Re, whereby the Company cedes YRT life in excess of \$40,000.

The Company entered into an excess of loss reinsurance agreement with Optimum Re, effective January 1, 2010, whereby Great Plains cedes YRT life in excess of \$55,000 on an automatic and facultative basis. Effective August 1, 2012, the Company assumes YRT business from Great Plains on an automatic and facultative basis in excess of \$30,000 up to the \$55,000 retention of the Optimum Re agreement. Since Great Plains merged into the Company, an

amendment, effective December 6, 2016, removed Great Plains and changed Optimum Re's attachment point to \$30,000.

First Wyoming entered an automatic and facultative excess of loss contract with Optimum Re, effective May 1, 2012, whereby First Wyoming cedes YRT life in excess of \$40,000. Since First Wyoming merged into the Company, the agreement was amended on September 1, 2016 to continue the agreement with the Company as the cedent.

Effective September 30, 2017, the Company entered into a quota share coinsurance agreement with US Alliance Life and Security Company (US Alliance), whereby the Company ceded 100% of all risks and liabilities associated with the reinsured policies. The reinsured policies consisted of all policies, riders, amendments, or endorsements in force as of the effective date that were originally issued by First Wyoming and Great Plains, which became contracts of the Company through mergers. Subsequently, US Alliance and the Company (the US Parties) entered into a series of amendments, including a second amendment effective as of December 31, 2020 whereby the USA Parties partially terminated the coinsurance agreement with regard to the policies originally issued by Great Plains. Concurrently, on December 31, 2020, the Company executed an assumption reinsurance agreement with Dakota Capital Life Insurance Company (Dakota Capital) with regard to the Great Plains policies, as well as a related guaranty by US Alliance Corporation, of which US Alliance and Dakota Capital are wholly owned subsidiaries. Finally, also on December 31, 2020, the USA Parties entered into a settlement agreement.

Effective July 1, 2018, the Company entered into a quota share agreement with Unified Life Insurance Company (Unified), whereby the Company cedes 100% of the liabilities

associated with various life, annuity, and health insurance policies included in an exhibit to the agreement.

Ceded - New Program

The Company entered into an automatic funds withheld and modified coinsurance agreement with Ironbound, effective July 25, 2019, whereby the Company ceded 95% of all inforce and new MYGA policies. Initially, the business was ceded on a 60% funds withheld and 40% modified coinsurance basis. 1505 Capital performed the investment management services, and Ironbound also maintained a separate trust to support the reinsured business.

The Company entered into an automatic funds withheld and modified coinsurance agreement with SDA, effective September 30, 2019, whereby the Company ceded 5% of all inforce and new MYGA policies, and 95% of all FIA policies. Initially, the business was ceded on a 60% funds withheld and 40% modified coinsurance basis. 1505 Capital performed the investment management services, and SDA maintained a separate trust to support the reinsured business.

The Company entered into a funds withheld and funds paid coinsurance agreement with US Alliance, effective January 1, 2020, whereby the Company cedes 100% of the liabilities associated with MYGA and FIA annuity policies based on a quota share schedule included in an exhibit to the agreement. 1505 Capital performs the investment management services and US Alliance also maintains a separate trust to support the reinsured business.

Effective January 1, 2020, the Company entered into an automatic funds withheld and modified coinsurance agreement with Seneca Reinsurance Company, LLC (Seneca) on behalf of, and for the exclusive benefit of, Protected Cell 2020-01 (SRC1), whereby the Company cedes 100% of the liabilities associated with MYGA and FIA annuity policies based on a quota share

schedule included in an exhibit to the agreement. SRC1 was subsequently converted to an incorporated cell named Seneca Incorporate Cell, LLC 2020-01. 1505 Capital performs the investment management services, and SRC1 maintains a separate trust to support the reinsured business.

Effective April 24, 2020, the Company entered into an automatic funds withheld and modified coinsurance agreement with Crestline Re SPC (Crestline), as successor by novation to Seneca Incorporate Cell, LLC 2020-02. The Company initially agreed to a quota share of 25% of all MYGA policies, and 40% of all FIA policies, and the business was ceded on a 40% funds withheld and 60% modified coinsurance basis. Crestline also maintains a separate trust to support the reinsured business.

The Company entered into an automatic modified coinsurance agreement with American Republic Insurance Company (American Republic), effective January 1, 2021, whereby the Company cedes 100% of the liabilities associated with MYGA and FIA annuity policies based on a quota share schedule included in an exhibit to the agreement. 1505 Capital performs the investment management services.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Bonds	\$21,593,784	\$19,242,986	\$116,689,061
Admitted assets	23,937,439	22,262,902	186,110,112
Aggregate reserves for life contracts	20,083,157	27,500	64,738,875
Total liabilities	20,971,408	1,283,617	166,602,787
Capital and surplus	2,966,031	20,979,285	19,507,325
Premium income	5,176,225	1,519,290	870,689
Net investment income	935,885	220,557	2,765,434
Death benefits	557,175	300,660	(3,120)
Annuity benefits	64,948	25,187	107,971
Net income	(2,081,544)	(4,283,351)	1,317,885

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2019

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$116,689,061		\$116,689,061
Mortgage loans – first liens	10,392,016		10,392,016
Cash	17,325,683		17,325,683
Cash equivalents	26,278,707		26,278,707
Short-term investments	3,418,024		3,418,024
Derivatives	575,294		575,294
Other invested assets	2,968,947	\$500,000	2,468,947
Funds in escrow - mortgage	<u>3,899,986</u>		<u>3,899,986</u>
Subtotal, cash and invested assets	<u>\$181,547,718</u>	<u>\$500,000</u>	<u>\$181,047,718</u>
Investment income due and accrued	1,511,200		1,511,200
Other amounts receivable under reinsurance contracts	3,515,964		3,515,964
Electronic data processing equipment	29,065		29,065
Furniture and equipment	22,701	22,701	
Miscellaneous receivable	6,165		6,165
Prepaid expenses	<u>191,793</u>	<u>191,793</u>	
Total assets	<u>\$186,824,606</u>	<u>\$714,494</u>	<u>\$186,110,112</u>

Liabilities, Surplus, and Other Funds

Aggregate reserve for life contracts	\$ 64,738,875
Contract claims – life	71,690
Other amounts payable on reinsurance	10,648
Interest maintenance reserve	4,683
Commissions to agents	120,937
General expenses	507,833
Taxes, licenses and fees	15,559
Current federal and foreign income taxes	239,865
Remittances and items not allocated	932,391
Asset valuation reserve	488,938
Funds held under reinsurance treaties with unauthorized reinsurers	95,949,392
Payable to parent, subsidiaries and affiliates	21,976
Payable for securities	<u>3,500,000</u>
Total liabilities	\$166,602,787
Common capital stock	1,050,000
Gross paid in and contributed surplus	39,575,587
Surplus	<u>(21,118,262)</u>
Total capital and surplus	\$ 19,507,325
Total liabilities, capital and surplus	<u>\$186,110,112</u>

SUMMARY OF OPERATIONS – 2019

Premiums and annuity considerations	\$ 870,689
Net investment income	2,765,434
Amortization of interest maintenance reserve	(26,549)
Commissions and expense allowances on reinsurance ceded	14,555,810
Reserve adjustments on reinsurance ceded	62,920,651
Miscellaneous income	<u>3,456</u>
Total income	\$81,089,491
Death benefits	(3,120)
Matured endowments	20,571
Annuity benefits	107,971
Interest and adjustments on contracts	782
Increase in aggregate reserves	<u>64,711,375</u>
Total losses	\$64,837,579
Commissions on premiums and annuity considerations	5,902,516
General insurance expenses	7,211,200
Insurance taxes, licenses and fees, excluding federal income taxes	256,616
Funds withheld interest	1,490,611
Reinsurance option allowance	<u>80,468</u>
Total losses and expenses	\$79,778,990
Net gain from operations before federal income taxes and net realized capital gains	\$ 1,310,501
Federal income taxes incurred	(234,180)
Net realized capital gains	<u>241,564</u>
Net income	<u>\$ 1,317,885</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and surplus, beginning	\$ 3,817,844	\$ 2,966,031	\$20,979,285
Net income	\$(2,081,544)	\$ (4,283,351)	\$ 1,317,885
Change in net unrealized capital gains			84,463
Change in nonadmitted assets	(16,317)	(320,110)	(262,006)
Change in asset valuation reserve	40,310	31,890	(379,145)
Change in surplus notes		(550,000)	
Surplus adjustment		20,500,000	
Change in surplus as a result of reinsurance	<u>1,205,738</u>	<u>2,634,825</u>	<u>(2,233,157)</u>
Net change for the year	<u>\$ (851,813)</u>	<u>\$18,013,254</u>	<u>\$(1,471,960)</u>
Capital and surplus, ending	<u>\$ 2,966,031</u>	<u>\$20,979,285</u>	<u>\$19,507,325</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(21,118,262), as reported in the Company's 2019 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Investment Transaction Approval

Upon review of the Company's Board of Director meeting minutes, it was determined that the minutes failed to document the investment activity consistently and therefore violated Nebraska Insurance Statute §44-5015(3). It is recommended that the Company comply with Nebraska Insurance Statute §44-5015(3) and approve its investment activity at each quarterly Board meeting. It was noted that the Company began documenting this presentation subsequent to the examination date at the June 28, 2021 Board of Directors meeting.

Actuarial Opinion

The examination noted that the Appointed Actuary was not presenting to the Board of Directors or the Audit Committee annually. The Annual Statement instructions state that, “the Appointed Actuary must report to the Board of Directors or the Audit committee each year on the items within the scope of the Actuarial Opinion. The minutes of the Board of Directors shall indicate that the Appointed Actuary has presented such information to the Board of Directors or the Audit Committee.” It is recommended that the Company document the presentation of the Appointed Actuary in the appropriate meeting minutes. It was noted that the Company did document this presentation subsequent to the examination date at the March 11, 2021 Board of Directors meeting.

General Interrogatories

Within the General Interrogatories of the Company’s Annual Statement for the year ended December 31, 2019, the Company identified 1505 Capital as an “unaffiliated” investment manager. However, 1505 Capital is owned by MHI (51%) and Aurora Financial Services, Inc. (49%), and is therefore not considered unaffiliated. Additionally, 1505 Capital has sub-advisory agreements with MP Real Estate Capital, LLC and Fort Amsterdam Capital, but neither of these agreements are disclosed in the General Interrogatories. All investment managers, including sub-advisors, are required to be disclosed in the General Interrogatories as noted in the Annual Statement instructions. It is recommended that the Company disclose 1505 Capital as an affiliated investment manager in the General Interrogatories in the Annual Statement. Additionally, it is recommended that the Company disclose unaffiliated investment managers engaged through sub-advisory agreements with 1505 Capital in the General Interrogatories in the Annual Statement. Subsequent to the exam period, it was noted that the Company accurately

disclosed 1505 Capital in the 2020 Annual Statement, and its sub-advisors in the First Quarter 2021 filing.

Schedule Y Part 2

During review of Schedule Y Part 2, it was noted that the column “Management Agreements and Service Contracts” did not illustrate amounts paid between affiliated companies. It was also noted that the Company is party to a Cost Sharing Agreement, and there were transactions between affiliated parties during the year. The Annual Statement instructions state that Management Agreements and Service Contracts include, “all revenues/expenditures under management agreements, service contacts, etc.” It is recommended that the Company completes Schedule Y Part 2 in accordance with the Annual Statement instructions.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Cost Sharing Agreement – It is recommended that the Company comply with all settlement provisions of the Cost Sharing Agreement with MHI.

Promissory Notes – It is recommended that the Company work with its parent to comply with the settlement provisions of the Promissory Notes.

Investment Transaction Approval - It is recommended that the Company comply with Nebraska Insurance Statute §44-5015(3) and approve its investment activity at each quarterly Board meeting.

Actuarial Opinion - It is recommended that the Company document the presentation of the Appointed Actuary in the appropriate meeting minutes. It was noted that the Company did document this presentation subsequent to the examination date at the March 11, 2021 Board of Directors meeting.

General Interrogatories - It is recommended that the Company not disclose 1505 Capital as an unaffiliated investment manager in the General Interrogatories in the Annual Statement. Additionally, it is recommended that the Company disclose

unaffiliated investment managers engaged through sub-advisory agreements with 1505 Capital in the General Interrogatories in the Annual Statement.

Schedule Y Part 2 - It is recommended that the Company completes Schedule Y Part 2 in accordance with the Annual Statement instructions.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Linda Scholl, CFE, CISA, APIR, Santosh Ghimire, CFE, and Brian Davis, AFE, Financial Examiners; Gary Evans, CFE, CISA, AES, Information Systems Specialist; and Rhonda Ahrens, FSA, MAAA, and Derek Wallman, MAAA; all with the Nebraska Department of Insurance, and Edward Toy and Laura Clark, CFE, CPA, Investment Specialists with Risk & Regulatory Consulting, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



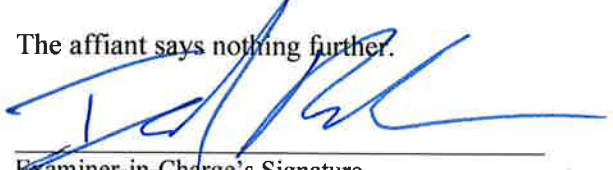
Isaak Russell, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

State of Nebraska,
County of Lancaster,

Isaak Russell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of American Life & Security Corp.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of American Life & Security Corp. was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.



Examiner-in-Charge's Signature

Subscribed and sworn before me by Isaak Russell on this 2nd day of September, 20 21.



(SEAL)


Notary Public

My commission expires Jan 16, 24 [date].