

OCT 25 2024

FILED

CERTIFICATION

October 25, 2024

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

ABILITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2022

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

ABILITY INSURANCE COMPANY
650 MADISON AVENUE, 23RD FLOOR
NEW YORK, NY 10022

dated as of December 31, 2022, verified under oath by the examiner-in-charge on August 5, 2024, and received by the company on October 24, 2024, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 25th day of October 2024.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink that reads "Tadd R. Wegner". The signature is written in a cursive style with a large initial 'T' and 'W'.

Tadd Wegner, CFE
Chief Financial Regulator

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

ABILITY INSURANCE COMPANY

as of

December 31, 2022

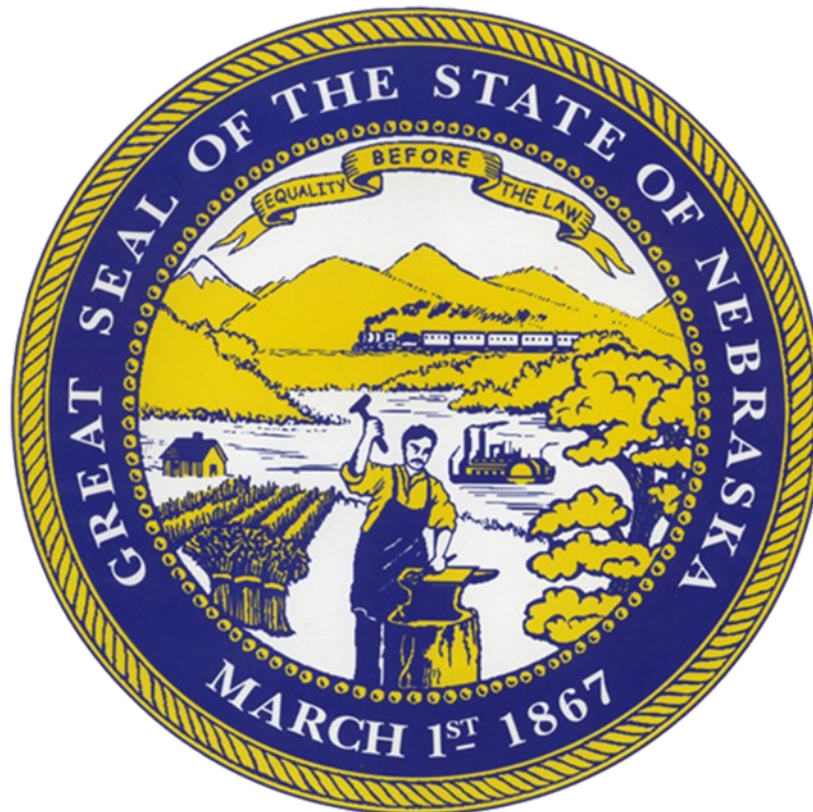


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New York, New York
June 26, 2024

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:

ABILITY INSURANCE COMPANY

which has its Statutory Home Office located at

5601 South 59th Street
Lincoln, NE 68516

with its Principal Executive Office located at

650 Madison Avenue, 23rd Floor
New York, NY 10022

(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, 2019. The current financial condition examination covers the intervening period to, and includes the close of business on December 31, 2022 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 (the 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 (the Department) 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 (the Board) 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 Shareholders, Board, 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 as well as 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 Deloitte & Touche, LLP (D&T), the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2021, and 2022. 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 incorporated under the laws of the State of Nebraska on October 6, 1967, and commenced business on June 10, 1968, as a capital stock life insurance company. Under the provisions of its charter and in conformity with Nebraska Statutes, the Company is presently authorized to write life and sickness and accident insurance.

The Company was wholly owned by Medico Insurance Company (Medico), formerly Mutual Protective Insurance Company, until September 28, 2007. On this date, the Company was purchased by Ability Resources, Inc. (ARI). This purchase was approved by the Department on September 26, 2007. On February 10, 2009, the Company changed its name from Medico Life Insurance Company to Ability Insurance Company.

On December 8, 2010, ARI transferred ownership of the Company via a dividend to a newly created holding company, Ability Resources Holdings, Inc. (ARHI). The ownership transfer was part of a corporate restructuring to increase operational efficiencies, centralize personnel and facilities used for administrative services, and to arrange for cost sharing among the affiliated companies.

On August 10, 2012, ARHI entered into a stock purchase agreement to sell the Company to Advantage Capital Holdings, LLC, (A-CAP) a Delaware limited liability company. A-CAP was 87.3% owned by Advantage Capital Partners, LLC and was formed in July 2012 to serve as an insurance holding company. This stock purchase agreement was amended and restated on January 29, 2013, with the transaction approved by the Department on January 31, 2013. The sale closed on February 25, 2013.

On October 29, 2021, the Company was sold to Mount Logan Capital, Inc. (MLC). MLC is incorporated under the laws of the Province of Ontario, Canada and its common shares are publicly traded on the Canadian Neo Exchange under the symbol “MLC”. MLC is an alternative asset management and insurance solutions company, an affiliate under effective common control of BC Partners. Mount Logan Management, LLC (MLM), a wholly owned subsidiary of MLC, is registered as an investment advisor with the United States Securities and Exchange Commission and is registered to act in an investment advisory role for clients in the United States. MLM underwrites and sources investment opportunities for the Company.

In 2022, ownership of the Company was transferred to Lind Bridge LP (Lind Bridge) a Cayman-based holding company. Lind Bridge GP Inc., an Ontario, Canada-based holding company, wholly-owns the Cayman-based holding company. MLC wholly owns Lind Bridge GP Inc. and retains ultimate control of the Company.

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 2022 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Mount Logan Capital, Inc.
 - Great Lakes Senior MLC I LLC
 - MLC US Holdings LLC
 - Mount Logan Management LLC
 - Cornhusker Feeder LLC
 - MLCSC Holdings Finance LLC
 - MLCSC Holdings LLC
 - Sierra Crest Investment Management LLC (24.1%)

Lind Bridge GP Inc.
Lind Bridge LP
Ability Insurance Company

Shareholder

Article VI of the Articles of Incorporation states that, “the aggregate number of shares which the Corporation shall have the authority to issue is three million shares of common stock, and the par value of each said share is to be one dollar”. As of December 31, 2022, Company records indicated that 2,500,000 shares were issued and outstanding, and all shares were owned by Lind Bridge.

Article II of the Company’s By-Laws states that, “annual meetings of the Shareholders of the Corporation for the purpose of electing Directors and for the transaction of such other proper business as may come before such meetings may be held at such time, date and place as the Board shall determine by resolution on or before June 10 of each calendar year”. Through review of the meeting minutes, it was noted that a meeting of the Shareholder was not held for the years ended December 31, 2022, and 2023. It is recommended an annual meeting of Shareholders be held in compliance with Article II of the Company’s By-Laws.

Surplus Notes

On December 31, 2012, a surplus note in the amount of \$2,250,000 was issued to Alpha Re Limited (Alpha Re), a Cayman Island reinsurer, in exchange for cash. The surplus note has a 5% interest rate and was to mature on December 31, 2017. All payments of principal or interest may be made only from the Company’s available surplus when the amount of the Company’s surplus over all liabilities is double that of the amount of principal and interest. The principal or interest may only be paid with the prior approval of the Director of the Department pursuant to Nebraska Revised Statute Section 44-221. As of March 30, 2017, Atlantic Coast Life Insurance

Company (ACL), and SQN Fund IV (SQN) purchased the note jointly from Alpha Re. None of the terms changed as a result of ACL and SQN’s acquisition of the note from Alpha Re.

On July 21, 2017, ACL purchased SQN’s participation in the surplus note. None of the note terms enumerated above changed as a result of ACL’s full acquisition of the note.

On June 12, 2018, the Company was permitted by the Department the authority to amend its surplus note to extend the maturity date to June 2023. With the exception of the maturity date, all conditions and repayments remained the same.

On September 30, 2019, Sentinel Security Life Insurance Company (SSL) purchased the note from ACL. None of the terms of the note changed because of SSL’s full acquisition of the note.

Board of Directors

Article III, Section 2 of the Company’s By-Laws states that, “the number of Directors of the Corporation shall be not less than five or more than nine. The first Board of Directors shall be elected by the Shareholders, and thereafter the Board of Directors shall be elected by the Shareholders at the annual meeting of Shareholders of the Corporation. Each Director shall hold office until the next annual meeting of Shareholders and until his successor shall have been elected and qualified. Directors need not be Shareholders of the Corporation. One Director shall be resident of the State of Nebraska.”

The following persons were serving as Directors at December 31, 2022:

Name and Residence

Principal Occupation

Matthias Ederer
New York, New York

Partner
BC Partners Credit

Daniel Bret Cathcart
Fort Lauderdale, Florida

Chief Executive Officer
Atlantic Coast Life Insurance Company

Name and Residence

Principal Occupation

Dayl Pearson
Charlottesville, Virginia

Senior Advisor
BC Partners Credit

Peter Sack
Chicago, Illinois

Managing Director
Chicago Atlantic Group, LP

Greer McCurley
Lincoln, Nebraska

Head of Capital Markets
Nelnet, Inc.

Officers

Article IV, Section 1, of the By-Laws states that, “the Officers of the Corporation shall be a Chairman of the Board, a Chief Executive Officer, a President, a Chief Operating Officer, one or more Vice Presidents, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors.” As of December 31, 2022, the Company had appointed only a President and a Treasurer.

The following is a listing of Officers elected and serving the Company at December 31, 2022:

<u>Name</u>	<u>Office</u>
Anna Elliott	President
Christopher Andrew Fonseca	Treasurer

Effective May 2024, Christopher Fonseca resigned as the Treasurer of the Company. As of the date of this report, the Treasurer position remains open.

As of December 31, 2022, the Company had appointed only a President and a Treasurer. It is recommended that the Company either comply with Article IV, Section 1, of the By-Laws and appoint the roles required or amend the By-Laws to clarify what Officer roles are required and what Officer roles are up to the discretion of the Board based on the needs of the Company.

TRANSACTIONS WITH AFFILIATES

Investment Management Agreement

Effective October 29, 2021, the Company and MLM entered into an Investment Management Agreement whereby MLM will manage certain assets for the Company.

Management and Consulting Agreement

Effective October 29, 2021, the Company and MLC entered into a Management and Consulting Agreement whereby MLC will provide services related to the overall management and leadership to the Company. Expenses are based on the Company's proportionate share of the cost directly allocable to the Company.

Risk Based Capital (RBC) Agreement

Effective October 29, 2021, the Company and MLC entered into an RBC Agreement whereby MLC will provide up to \$3.5 Million to the Company to ensure that the Company will maintain an RBC ratio of 305%. Should the Company's ratio at the end of any quarter fall below 305%, MLC will provide sufficient capital to raise the Company's RBC to raise the ratio to 305% or above within 45 days of the filing of the statement upon which the measurement has been made. No payments were made under this agreement in 2022.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in all states and the District of Columbia, with the exception of Connecticut, Florida, Maine, New Hampshire, New Jersey, New York, Rhode Island, and Vermont.

The Company's business consists of a closed block of long-term care (LTC) policies and multi-year guaranteed annuity (MYGA) contracts assumed from the previous owner, Advantage

Capital Partners LLC affiliates, ACL and SSL. The Company is heavily reliant upon reinsurance for surplus relief and protection against adverse development within the LTC block. The Company ceded all of the Medico block LTC morbidity risk to an offshore reinsurer on a funds withheld basis and 40% of the Medico LTC block active life reserves to an unaffiliated Vermont protected-cell captive.

Additionally, the Company assumes blocks of LTC business. There were two blocks of business purchased from Guardian Life Insurance Company in 2011 through a reinsurance novation – one from Employers Reassurance Corp and the other from American Long Term Care Reinsurance Group and a block from National Insurance Company of Wisconsin. The Company also has a small amount of podiatry, vision and dental business, known as SeniorSure.

REINSURANCE

Assumed

The Company's assumed business primarily consists of two closed blocks of LTC policies. The first of these two blocks were acquired pursuant to an agreement dated September 28, 2007, to buy 100% of the LTC business from Medico. This block of business accounts for assumed reserves of \$33.6 million as of December 31, 2022.

The second block of business was acquired through a July 2011 reinsurance arrangement whereby the Company entered into a quota share reinsurance agreement with The Guardian Life Insurance Company of America. This agreement also covers business on a block of LTC business retroactive to January 1, 2011, and accounts for the remaining \$81.0 million of assumed reserves as of December 31, 2022.

The Company has also entered into two coinsurance agreements. Effective July 1, 2022, the Company closed a reinsurance agreement with SSL pursuant to which the Company will assume a

20% coinsurance of up to \$100.0 million on MYGA policies. This block of business accounts for assumed reserves of \$33.1 million as of December 31, 2022.

Effective April 1, 2022, the Company closed a reinsurance agreement with ACL pursuant to which the Company will assume a 20% coinsurance of up to \$150 million on MYGA policies. This block of business accounts for assumed reserves of \$103.2 million as of December 31, 2022.

Ceded

The Company is heavily reliant upon reinsurance for surplus relief and protection against adverse development within its LTC blocks. As of December 31, 2022, reinsurance is placed with two unaffiliated counterparties.

As part of a series of transactions initiated concurrent with the closing of the sale of the Company to A-CAP, the Company entered into a commutation of a 74.9% quota share reinsurance agreement with Ability Bermuda (AB), which, at that time, was an affiliate of the Company's former parent. Under the terms of this agreement, the Company ceded 100% of its LTC claims liability related to the block of former Medico policies on a funds withheld basis. Then, on November 3, 2012, AB was purchased by Front Street Re (Cayman), Ltd. (Front Street). Front Street assumed the Company's reinsurance agreement with AB through its merger with AB. As of December 31, 2022, this arrangement remains in effect and accounts for approximately \$78 million and \$229 million respectively in ceded premiums and reserve credits.

Effective December 31, 2016, the Company entered into a quota share reinsurance agreement with Vista Life and Casualty Reinsurance Company, a Vermont domiciled protected-cell captive. Under the terms of this agreement the Company cedes 40% of the policy reserves pertaining to Medico policies. In 2020, the reinsurance contract was converted to a modified

coinsurance contract and the LTC reserves and invested assets were returned to the Company's balance sheet.

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>2022</u>	<u>2021</u>	<u>2020</u>
Bonds	\$ 789,763,674	\$715,238,488	\$712,364,100
Admitted assets	1,032,676,072	915,061,451	924,489,444
Loss reserves:			
Aggregate reserves for life contracts	45,959,154		
Aggregate reserves for accident and health contracts	566,046,985	582,724,899	594,411,505
Total liabilities	1,008,184,287	893,908,150	911,211,084
Capital and surplus	24,491,785	21,153,301	13,278,360
Premiums and annuity considerations for life and accident and health contracts	30,734,788	(12,191,239)	(9,998,450)
Net investment income	54,880,857	42,496,498	39,498,748
Annuity benefits	683,404		
Disability benefits and benefits under accident and health contracts	8,754,875	8,687,518	8,423,142
Net income	(6,854,529)	(5,462,291)	(3,944,554)
Life insurance in-force (in thousands)	836	960	1105

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, 2022. 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, 2022

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 770,141,461		\$ 770,141,461
Preferred stocks	5,833,704		5,833,704
Common stocks	1,568,351		1,568,351
Mortgage loans on real estate:			
first liens	134,805,493		134,805,493
Real estate:			
properties held for sale	3,867,500		3,867,500
Cash, cash equivalents, short-term investments	38,822,952		38,822,952
Other invested assets	52,382,023		52,382,023
Receivables for securities	<u>1,309,647</u>	<u>\$ 0</u>	<u>1,309,647</u>
Subtotal, cash and invested assets	\$1,008,731,132	\$ 0	\$1,008,731,132
Investment income due and accrued	15,642,779		15,642,779
Uncollected premiums	(224,062)		(224,062)
Amounts recoverable from reinsurers	8,129,658		8,129,658
Guaranty funds receivable or on deposit	396,565		396,565
Prepaid insurance	<u>325,008</u>	<u>\$325,008</u>	<u>\$0</u>
Totals	<u>\$1,033,001,080</u>	<u>\$325,008</u>	<u>\$1,032,676,072</u>

Liabilities, Surplus, and Other Funds

Aggregate reserve for life contracts	\$ 45,959,154
Aggregate reserve for accident and health contracts	566,046,985
Liability for deposit-type contracts	90,367,127
Accident and health contract claims	2,403,220
Premiums and annuity considerations	753,948
Other amounts payable on reinsurance	4,162,366
Interest maintenance reserve	3,485,916
Commissions to agents due or accrued	124,726
Commissions and expense allowances payable on reinsurance assumed	138,018
General expenses due or accrued	5,456,082
Taxes, licenses, and fees due or accrued	777,083
Amounts withheld or retained by reporting entity as agent or trustee	14,364
Amounts held for agents' account	940
Asset valuation reserve	12,690,270
Funds held under reinsurance treaties with unauthorized reinsurers	275,172,356
Payable to parent, subsidiaries and affiliates	507,896
Payable for securities	<u>123,836</u>
 Total liabilities	 <u>\$1,008,184,287</u>
 Common capital stock	 \$ 2,500,000
Surplus notes	2,250,000
Gross paid in and contributed surplus	72,796,445
Unassigned funds (surplus)	<u>(53,054,660)</u>
 Total capital and surplus	 <u>\$ 24,491,785</u>
 Totals	 <u>\$1,032,676,072</u>

SUMMARY OF OPERATIONS

December 31, 2022

Premiums and annuity considerations for life and accident and health contracts	\$30,734,788
Net investment income	54,880,857
Amortization of interest maintenance reserve	(113,557)
Commissions and expense allowances on reinsurance ceded	5,111,355
Reserve adjustments on reinsurance ceded	(23,621,299)
Miscellaneous income	<u>19,105</u>
 Total	 \$67,011,249
 Annuity benefits	 \$ 683,404
Disability benefits and benefits under accident and health contracts	8,754,875
Surrender benefits and withdrawals for life contracts	19,106
Interest and adjustments on contract or deposit-type contract funds	2,443,262
Increase in aggregate reserves for life and accident and health contracts	<u>29,281,238</u>
 Totals	 \$41,181,885
 Commissions on premiums, annuity considerations, and deposit-type contract funds	 \$ 1,837,924
Commissions and expense allowances on reinsurance assumed	5,132,160
General insurance expenses and fraternal expenses	10,783,947
Insurance taxes, licenses and fees, excluding federal income taxes	1,231,244
Funds withheld adjustment income & cap gains	<u>13,311,379</u>
 Totals	 \$73,478,539
 Net gain from operations refund to members and before federal income taxes	 (6,467,290)
Federal income taxes incurred	0
Net realized capital loss	<u>(387,239)</u>
 Net Income	 <u>\$ (6,854,529)</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Capital and Surplus, December 31, prior year	\$21,153,303	\$13,278,360	\$17,643,589
Net income	\$ (6,854,529)	\$ (5,462,291)	\$ (3,944,554)
Change in net unrealized capital gains (losses)	(588,175)	129,282	(1,322,811)
Change in net unrealized foreign exchange capital gain (loss)	48,501	145,745	57,986
Change in net deferred income tax	(18,828,817)	724,005	1,357,278
Change in nonadmitted assets	18,503,809	1,892,487	(2,210,720)
Change in asset valuation reserve	(2,270,002)	1,302,003	2,575,397
Surplus adjustment:			
Paid in	14,110,729	10,000,000	
Change in surplus as a result of reinsurance	(783,034)	(856,288)	(877,807)
Aggregate write-ins for gains and losses in surplus	_____	_____	_____ 3
Net change in Capital and Surplus for the year	<u>\$ 3,338,482</u>	<u>\$ 7,874,943</u>	<u>\$ (4,365,228)</u>
Capital and Surplus, December 31, current year*	<u>\$24,491,785</u>	<u>\$21,153,303</u>	<u>\$13,278,360</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(53,054,660), as reported in the Company's 2022 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

Change in Auditor

When the Company was acquired by MLC in 2021, its prior auditor was dismissed, and D&T (MLC's auditor) was appointed for the year ended December 31, 2021. The Department was not notified of the Company's dismissal of its prior auditor in accordance with Nebraska Administrative Code Title 210, Chapter 56, Section 006.03. It is recommended the Company

notify the Department of any future changes in the auditor as required under Nebraska Administrative Code Title 210, Chapter 56, Section 006.03.

Board Approval of Investment Activity

Per Nebraska Revised Statute (Neb. Rev. Stat.) Section 44-5105(1), "an insurer shall not make any investment, sale, loan, or exchange, except loans on its own policies or contracts, unless authorized, approved, or ratified by a majority of the members of the Board of Directors or by a committee of its members charged by the Board of Directors or By-Laws with the duty of making such investment, sale, loan, or exchange. The Board of Directors shall further determine by formal resolution at least annually whether all investments have been made in accordance with the delegations, standards, limitations, and investment objectives prescribed by the Board of Directors or a committee of the Board of Directors charged with the responsibility to direct its investments." Further, Neb. Rev. Stat. Section 44-5105(3) states, "on no less than a quarterly basis, and more often if deemed appropriate, the Board of Directors or a committee of the Board of Directors shall receive and review a summary report on the insurer's investment portfolio, investment activities, and investment practices engaged in under delegate authority, in order to determine whether the investment activity of the insurer is consistent with its written plan." The Board of Directors received investment reports at each quarterly meeting held in 2022, but did not formally authorize, approve or ratify the quarterly investment activity at each meeting. In 2022, the Board did not formally resolve whether all investments had been "made in accordance with the delegations, standards, limitations, and investment objectives prescribed by the board of directors". It is recommended that the Company comply with Neb. Rev. Stat. Section 44-5105(1) and 44-5105(3), including approval of investment activity by the Board on a quarterly basis.

Custodial Agreement

During review of the Company's custodial agreements, it was noted that not all sections of Nebraska Administrative Code Title 210, Chapter 81, Section 003.02 were included as required. It is recommended that the Company comply with Nebraska Administrative Code Title 210, Chapter 81, Section 003.02.

SUBSEQUENT EVENTS

SURPLUS NOTES

On June 12, 2023, the Department permitted the Company the authority to amend its surplus note with SSL to extend the maturity date to June 2028.

On August 30, 2023, the Company issued a \$12,000,000 surplus note to Pavonia Life Insurance Company of Michigan. The surplus note has an interest rate of 10.0% and matures on December 31, 2032. The principal or interest may only be paid with the prior approval of the Director of the Department.

CAPITAL CONTRIBUTION

MLC issued a term promissory note (Note) in the amount of \$5 Million. The gross proceeds of which went to Lind Bridge. Lind Bridge then contributed the \$5 Million Note amount to its wholly owned subsidiary, Ability. The contributed amount will be used by Ability to support the reinsurance of additional annuities in order to grow Ability's assets, and further diversify the business of Ability away from its long-term care business.

DERIVATIVES USE COMMITTEE

At the December 11, 2023, meeting, the Board approved the formation of the Derivatives Use Committee, the purpose of which is to oversee the day-to-day derivatives activities of the

Company. The committee will advise and report to the Board and management team with respect to the Company's use of derivatives instruments and related activities.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Annual Shareholder Meeting – It is recommended an annual meeting of Shareholders be held in compliance with Article II of the Company's By-Laws.

Officers – It is recommended that the Company either comply with Article IV, Section 1, of the By-Laws and appoint the roles required or amend the By-Laws to clarify what Officer roles are required and what Officer roles are up to the discretion of the Board based on the needs of the Company.

Change in Auditor – It is recommended the Company notify the Department of any future changes in the auditor as required under Nebraska Administrative Code Title 210, Chapter 56, Section 006.03.

Board Approval of Investment Activity – It is recommended that the Company comply with Neb. Rev. Stat. Section 44-5105(1) and 44-5105(3), including approval of investment activity by the Board on a quarterly basis.

Custodial Agreements – It is recommended that the Company comply with Nebraska Administrative Code Title 210, Chapter 81, Section 003.02.

ACKNOWLEDGMENT

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

In addition to the undersigned, Brent Bostic, AAI, CISR; Matthew Milford, CFE; and William A. O'Connell, CPA, CFE, CFE (Fraud), all from Noble Consulting Services, Inc. (Noble); Stefan Obereichholz-Bangert, AES, CISA, CISM, and Brad Myers CISA, CISM, CISSP Information Systems Specialists from Noble; Marvin Smith Jr. CPA, CGMA and Eric Del Monaco, Investment Specialists from Noble and EDM Research, LLC, respectively, and Michael Mayberry, FSA, MAA and Brian Rankin, FSA, MAAA, Examination Actuaries from Lewis and Ellis, Inc.; participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

Mark Murphy

Mark Murphy, CFE
Examiner-in Charge
Noble Consulting Services, Inc.
Representing the Department of Insurance
State of Nebraska

Andrea Johnson

Andrea Johnson, CFE
Deputy Chief Financial Regulator
Department of Insurance
State of Nebraska

State of Connecticut,

County of Hartford,


Mark Murphy, 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 the Ability Insurance Company.
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 the Ability Insurance Company 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.

Mark Murphy
Examiner-in-Charge's Signature

Subscribed and sworn before me by Mark Murphy on this 5th day of August, 2024.


Lynn Houlahan
Notary Public

My commission expires 03/31/2025 [date].