

CERTIFICATION

February 19, 2014

I, Bruce R. Ramage, 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

FIRST NATIONAL LIFE INSURANCE COMPANY OF THE U.S.A

as of

December 31, 2013

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.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

FEB 19 2015

FILED

39547
NEBRASKA

Bruce R. Ramage

DIRECTOR OF INSURANCE



CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

FIRST NATIONAL LIFE INSURANCE COMPANY OF THE U.S.A.

dated as of December 31, 2013, verified under oath by the examiner-in-charge on January 28, 2015 and received by the company on January 28, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 9 day of February, 2015.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE


Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

FIRST NATIONAL LIFE INSURANCE COMPANY OF THE U.S.A.

as of

December 31, 2013

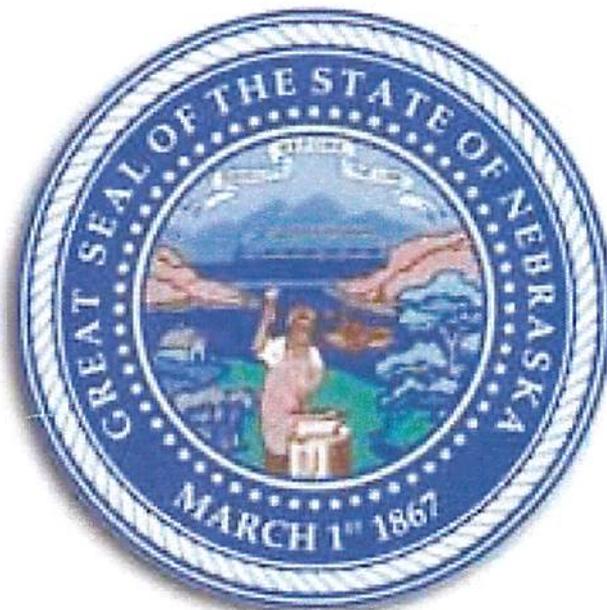


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Lincoln, Nebraska
December 22, 2014

Honorable Bruce R. Ramage
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
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:

**FIRST NATIONAL LIFE INSURANCE COMPANY OF THE U.S.A.
121 South 13th Street, Suite 204
Lincoln, Nebraska 68508**

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

INTRODUCTION

The Company was last examined as of December 31, 2009 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2013, and includes 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

This 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.

A general review was made 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, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. 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 did not include a review of workpapers prepared by the Company's external auditors because the Company has been granted an exemption from filing an audited financial report for each year under the exam.

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 on March 27, 1908, and commenced business on August 8, 1908 as a burial association. The Company was originally organized as the Western Indemnity Company. In 1937, the Company's name was changed to the First National Life Insurance Company (Limited) of the U.S.A. On August 8, 1956, the name of the Company was changed to its present form.

Effective as of January 1, 1957, the Company merged its business with that of Public Life Insurance Company, Lincoln, Nebraska, and became the surviving corporation.

In November 1978, 100% ownership of the Company was acquired by its current parent, Packers Service Group, Inc. (at that time, Packers Insurance Agency, Inc.). Effective January 1, 1979, Packers Reinsurance Company, an Arizona corporation owned by the Company's parent, was merged into the Company by means of a stock exchange.

Effective as of May 31, 2007, the Company's parent, Packers Service Group, Inc., merged its business into Nelnet Academic Services, LLC, a wholly owned subsidiary of Nelnet, Inc. (Nelnet).

Under the provisions of its current charter, and in conformity with Nebraska Statutes, the Company is authorized to conduct the business of a stock life insurance company. The Amended Articles of Incorporation provide that the Company shall have a perpetual existence.

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 2013 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Nelnet, Inc. (Michael Dunlap owns approximately 38.9% of outstanding shares and 69.4% of all votes)

 National Education Loan Network, Inc.

 Nelnet Academic Services, LLC

 First National Life Insurance Company of the USA (FNL)

Shareholder

Article VI of the Company's Amended Articles of Incorporation states, "the total number of shares of capital stock which the Corporation is authorized to issue is 50,000 shares with a par value of \$10.00 per share, representing an aggregate par value of \$500,000". At the date of this

examination, all of the Company’s issued and outstanding shares of stock (17,500) were owned and held by Nelnet. No changes have occurred in the capital stock and gross paid-in and contributed surplus of the Company during the period covered by this examination.

Cash dividends paid since organization of the Company have totaled \$4,611,716. There were no dividends paid to the Company’s shareholder during the examination period.

Regarding the annual meeting, the By-Laws state that, “the meeting time and site will be announced and the Stockholders notified at least ten (10) days prior to the meeting date.”

Board of Directors

Article IV, Section 1, of the By-Laws states, “the affairs of this Corporation shall be managed by a Board of not less than five (5) nor more than twenty-one (21) Directors, the majority of which shall be residents of the State of Nebraska, who shall be elected by the Stockholders at the regular annual meeting, and who shall hold varying terms of office ranging from two (2) to four (4) years.” Section 3 states, “regular meetings of the Board of Directors shall be quarterly or at the call of the President.”

The following persons were serving as Directors at December 31, 2013:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Todd M. Eicher Lincoln, Nebraska	Manager and Executive Director, Nelnet
Jeffrey L. Jobes Lincoln, Nebraska	Internal Auditor, Horizon Bank
James D. Kruger Lincoln, Nebraska	Controller and Executive Director, Nelnet
Thomas K. Massey Lincoln, Nebraska	President of the Company
Marsha K. McKinsey Lincoln, Nebraska	Accounting Manager of the Company

<u>Name and Residence</u>	<u>Principal Occupation</u>
Charles R. Norris Lincoln, Nebraska	Vice President, Nelnet Capital, LLC
Kenneth D. TenHulzen Lincoln, Nebraska	Chairman of the Company
Timothy A. Tewes Lincoln, Nebraska	CEO, Nelnet Business Solutions

Kenneth TenHulzen retired from the Board and Marsha McKinsey is no longer a Board member as of July 2014. Their absences on the Board have not been filled.

The only Director salary is for Jeffrey Jobes, as the only independent Director, who receives \$150 per Board meeting.

Officers

Per Article V, Section 1, of the By-Laws, “the principal Officers shall be a President, one or more Vice-Presidents, a Secretary, and a Treasurer, who shall be elected by the Board of Directors. Other Officers may be created by Board of Directors as the needs of the business may require. Any two offices may be held by one and the same person except the office of the President and Vice-President.”

The following is a listing of Officers elected and serving the Company at December 31, 2013:

<u>Name and Residence</u>	<u>Office</u>
Ken Tenhulzen	Chairman
Tom Massey	President
Marsha McKinsey	Secretary
Chuck Norris	Treasurer and Assistant Secretary
Jim Kruger	Vice President
Jim Wickham	Vice President

Ken Tenhulzen and Marsha McKinsey are no longer Officers of the Company due to retirement and a job change, respectively. The chairman is now Jeff Jobes and the Secretary is Tom Massey.

TERRITORY AND PLAN OF OPERATION

As evidenced by a current Certificate of Authority, the Company is licensed to transact business in Nebraska.

The production of business is supervised and directed by the Company's President. The primary thrust of marketing effort is the writing of credit life and disability insurance on loans to borrowers made by banks and financial institutions. This production is generated through home office employees working directly with approximately 1,144 licensed agents in 391 banks and branches.

TRANSACTIONS WITH AFFILIATES

Management Agreement

The Company and its parent, Nelnet, are not party to a standard management services agreement that clearly identifies the parties involved, cost basis of incurred expenses or fees, and timely settlement for amounts owed as well as stating the provided management services, including but not limited to the following: accounting, auditing, taxes, information technology, human resources, etc. It is recommended that the Company prepare a written management services agreement that provides and clearly identifies the entity providing services, the nature of the services provided and a listing of the entities that are party to the agreement. Furthermore, in order to be in compliance with SSAP No. 25, paragraph 7, the agreement should set forth appropriate methods to allocate costs between parties for services rendered and provide for timely settlements of amounts owed. Lastly, the agreement should be written in accordance with

Nebraska Revised Statute 44-2133 and submitted to the Nebraska Department of Insurance for approval in accordance with Nebraska Revised Statute 44-2133.

Agency Agreement

The Company entered into a custodial agreement with Union Bank, effective May 3, 2010. Union Bank opened and maintains an agency account in the name of the Company. The agreement was found to be in compliance with Nebraska Rules and Regulations, Chapter 81 of Title 210.

REINSURANCE

Ceded Credit Life and Accident & Health

An automatic reinsurance agreement is in place with Munich American Reassurance Company providing automatic excess coverage of new credit life and credit A&H business written directly by the Company on or after January 1, 2000, or existing credit life business written prior thereto. Plans covered include Level Term - Single or Joint Life, Decreasing Term - Single or Joint Life, Credit - A&H and Outstanding Balance - Credit Life. The maximum amount retained by the Company per individual is: life - \$20,000, A&H - \$300 per month and outstanding balance - \$15,000. On outstanding balance business, for amounts up to \$15,000 the Company retains 100% of the risk. For amounts in excess of \$15,000 but not more than \$30,000, the entire risk is shared equally. All amounts in excess of \$30,000 will be ceded to a binding limit of \$20,000. On level and decreasing term single and joint life plans, the reinsurer will accept up to \$105,000 in excess of retention through age 65 and up to \$1,200 per month on A&H. Reinsurance premiums under this agreement are subject to an experience refund computed at the end of each calendar year. Reinsurance premiums for credit life are based on

monthly renewable term, payable in advance. Credit A&H premiums are on a quota share coinsurance basis.

Ceded Ordinary Life

An automatic coinsurance agreement with Optimum Re Insurance Company provides coverage on Universal Life plans. The total amount of automatic life coverage ceded shall be up to four (4) times the Company's retention for age and classification, up to a maximum of \$60,000 on any one life. The Company's retention is \$15,000 per life all ages and ratings. The treaty contains an automatic jumbo limit that provides that the Company shall not automatically cede any risk where the amount in force would exceed \$2,000,000 on any one individual. The minimum amount of insurance ceded shall not be less than \$2,000. The treaty allows for facultative options. Life and accidental death benefits under this agreement are on a Yearly Renewable Term basis and rate. The treaty contains a production/persistency bonus on the in-force business. Coverage includes both standard and substandard lives, accidental death benefits, and waiver of premium disability benefits.

An automatic coinsurance agreement with Optimum Re Insurance Company provides coverage on business referred to as the Annual Renewable Term - "ART 100" Plan. The treaty provides for automatic cessions not to exceed four (4) times the Company's maximum retention of \$15,000 for all ages. The treaty contains an automatic jumbo limit that provides that the Company shall not automatically cede any risk where the amount in force would exceed \$2,000,000 on any one individual. The minimum amount of insurance ceded shall not be less than \$2,000. The treaty allows for facultative options. Life and accidental death benefits under this agreement are on a Yearly Renewable Term basis and rate. The treaty contains a

production/persistency bonus on the in-force business. Coverage includes both standard and substandard lives, accidental death benefits, and waiver of premium disability benefits.

An automatic bulk accidental death agreement, referred to as agreement No. 3412, with Swiss Re Life & Health America, Inc. covers all accidental death risks on either a standard or substandard basis when issued as a supplementary benefit to a life insurance policy. The maximum amount on any one life that may be ceded shall not exceed \$20,000. The treaty provides for facultative options. This agreement is in run-off status.

A Simplematic Individual Excess (SIE) agreement with Swiss Re Life & Health America, Inc. is in run-off with limited renewal business remaining. This is an automatic excess treaty on standard and substandard lives ceded on a YRT basis. Jumbo limits include \$3,500,000 ages 0 – 60, and \$2,000,000 ages 61 –65. The minimum risk reinsured was not less than \$5,000 or 10% of the initial face amount of any policy issued.

The Company has an agreement covering life, waiver of premium disability and accidental death and dismemberment benefits with Ameritas Life Insurance Corporation that is in run-off.

The Company has an agreement with Lincoln National Life Insurance Company covering life benefits in excess of \$10,000, waiver of premium disability and double indemnity. This agreement is in run-off status.

General

All contracts reviewed contained standard insolvency, arbitration, 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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Bonds and common stocks	\$4,355,056	\$5,045,663	\$5,297,027	\$5,697,197
Admitted assets	5,740,122	5,704,149	5,842,453	5,875,506
Aggregate reserves for life contracts	2,310,166	2,348,485	2,122,560	1,822,809
Aggregate reserves for accident & health contracts	1,283,289	1,299,331	1,216,423	1,108,969
Total liabilities	4,277,731	4,344,559	4,207,257	4,032,124
Capital and surplus	1,462,391	1,359,591	1,635,196	1,843,382
Premiums earned	1,327,569	1,564,348	1,238,606	1,080,297
Net investment income	104,786	101,922	75,986	82,666
Death benefits	186,672	319,450	263,578	293,109
Disability benefits	231,952	197,850	201,296	182,213
Net income	121,586	15,288	122,302	31,009
Life insurance in-force (in thousands)	72,631	73,032	69,470	61,935

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2013 and its transactions during the year 2013 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2013

Assets

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$3,615,960		\$3,615,960
Common stocks	2,081,237		2,081,237
Cash and short-term investments	48,411		48,411
Contract loans	<u>10,758</u>		<u>10,758</u>
Subtotal, cash and invested assets	\$5,756,366		\$5,756,366
Investment income due and accrued	7,048		7,048
Uncollected premiums	70,971		70,971
Deferred premiums	3,687		3,687
Amounts recoverable from reinsurers	9,966		9,966
Current federal income tax recoverable	26,757		26,757
Repayment in transit	<u>711</u>		<u>711</u>
Totals	<u>\$5,875,506</u>		<u>\$5,875,506</u>

Liabilities, Surplus, and Other Funds

Aggregate reserve for life contracts		\$1,822,809
Aggregate reserve for accident and health contracts		1,108,969
Contract claims:		
Life		57,800
Accident and health		22,700
Other amounts payable on reinsurance		18,658
Interest maintenance reserve		156,817
General expenses due or accrued		22,836
Taxes, licenses and fees due or accrued		1,649
Net deferred tax liability		474,683
Amounts held for agents' account		215
Asset valuation reserve		272,362
Payable to parent, subsidiaries and affiliates		<u>72,626</u>
Total liabilities		<u>\$4,032,124</u>
Common capital stock		\$ 175,000
Gross paid in and contributed surplus		114,863
Unassigned funds (surplus)		<u>1,553,519</u>
Total capital and surplus		<u>\$1,843,382</u>
Totals		<u>\$5,875,506</u>

SUMMARY OF OPERATIONS – 2013

Premiums and annuity considerations	\$1,080,297
Net investment income	82,666
Amortization of interest maintenance reserve	18,980
Commission and expense allowances on reinsurance ceded	152,268
Late fee income and misc.	<u>226</u>
Totals	\$1,334,437
Death benefits	\$ 293,109
Disability benefits and benefits under accident and health contracts	182,213
Surrender benefits and withdrawals for life contracts	5,350
Increase in aggregate reserves for life and accident and health contracts	<u>(407,205)</u>
Totals	\$ 73,467
Commissions on premiums, annuity considerations and deposit-type contract funds	\$ 443,182
General insurance expenses	757,958
Insurance taxes, licenses and fees, excluding federal income taxes	56,918
Increase in loading on deferred and uncollected premiums	<u>(152)</u>
Totals	\$1,331,373
Net gain from operations before federal income taxes	\$ 3,064
Federal income taxes incurred	<u>(27,945)</u>
Net income	<u>\$ 31,009</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus, beginning	<u>\$1,258,919</u>	<u>\$1,462,391</u>	<u>\$1,359,591</u>	<u>\$1,635,196</u>
Net income	\$ 121,586	\$ 15,288	\$ 122,302	\$ 31,009
Change in net unrealized capital gains	123,519	25,184	115,977	261,801
Change in net deferred income tax	(7,889)	(156,208)	55,076	(2,424)
Change in nonadmitted assets	564			
Change in asset valuation reserve	<u>(34,308)</u>	<u>12,366</u>	<u>(17,750)</u>	<u>(82,200)</u>
Net change for the year	<u>\$ 203,472</u>	<u>\$ (102,800)</u>	<u>\$ 275,605</u>	<u>\$ 208,186</u>
Capital and surplus, ending	<u>\$1,462,391</u>	<u>\$1,359,591</u>	<u>\$1,635,196</u>	<u>\$1,843,382</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$1,553,519, as reported in the Company's 2013 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

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

Annual Board Meeting – It is recommended that the Company amend its By-Laws to reflect holding the annual stockholder meeting in conjunction with the annual stockholder meeting of Nelnet Inc.

Action: The Company has complied with this recommendation.

Investment Expense Allocation – It is recommended that the Company comply with Neb. Rev. Stat. §44-322 (a)(ii) and the NAIC Annual Statement Instructions, Section E by using suitable and equitable distribution of investment expenses and maintain detailed records showing the system used for allocation of expenses and the actual base of allocation.

Action: The Company has complied with this recommendation.

Board of Directors – It is recommended that the Company comply with Neb. Rev. Stat §44-211 ensuring at least one-fifth of the Board of Directors are neither an Officer nor an employee of the Company or the Parent, Nelnet Inc.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Stockholder Minutes

The Company could not provide the 2012 and 2013 minutes of the Stockholder. According to the Nebraska Revised Statute 44-210, “every domestic stock and mutual company and assessment association shall hold an annual meeting of its shareholders, if a stock company,

or of its members, if a mutual company or an assessment association, on or before the 30th day of June in each and every calendar year, for the purpose of receiving the report of its Officers and Directors, to elect Directors whose terms expire, and to transact such other business as may be lawful for it to do.” In order to be in compliance with Nebraska Revised Statute 44-210, the Company would need to provide the minutes so that items such as the meeting date, election of Directors, reports of Officers and Directors, and that a quorum of stockholders could be verified. It is recommended that the Company record and retain the minutes of the Stockholder in order to be in compliance with Nebraska Revised Statute 44-210.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Management Services Agreement – It is recommended that the Company prepare a written management services agreement that provides and clearly identifies the entity providing services, the nature of the services provided and a listing of the entities that are party to the agreement. Furthermore, in order to be in compliance with SSAP No. 25, paragraph 7, the agreement should set forth appropriate methods to allocate costs between parties for services rendered and provide for timely settlements of amounts owed. Lastly, the agreement should be written in accordance with Nebraska Revised Statute 44-2133 and submitted to the Nebraska Department of Insurance for approval in accordance with Nebraska Revised Statute 44-2133.

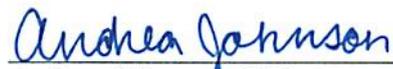
Stockholder Minutes – It is recommended that the Company record and retain the minutes of the Stockholder in order to be in compliance with Nebraska Revised Statute 44-210.

ACKNOWLEDGEMENT

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

In addition to the undersigned, Kim Hurst, CFE, and Ross Pedersen, Financial Examiners; Linda Scholl, CFE, Information Systems Specialist; and Rhonda Ahrens, FSA, MAAA, Actuarial Examiner, all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Andrea Johnson, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Andrea Johnson, 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 First National Life Insurance Company of the U.S.A.
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 First National Life Insurance Company of the U.S.A. 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.

Andrea Johnson
Examiner-in-Charge's Signature

Subscribed and sworn before me by Andrea Johnson on this 28 day of January, 2015.

(SEAL)
James A. Zeller
Notary Public

My commission expires 12-24-2017 [date].