

Colorado Bankers Life Insurance Company

Durham, North Carolina

Report on Examination

As of December 31, 2015

Colorado Bankers Life Insurance Company

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March 13, 2017

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section 58-2-131 of the General Statutes of North Carolina ("G.S."), the North Carolina Department of Insurance ("Department") conducted an examination of the records, business affairs and financial condition of

Colorado Bankers Life Insurance Company

(hereinafter referred to as the "Company"), at its main administrative office located at 5990 Greenwood Plaza Boulevard, #325, Greenwood Village, Colorado 80111. The Company's statutory home office is located at 2327 Englert Drive, Durham, NC, 27713. The following report on examination is respectfully submitted.

SCOPE OF EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2014, to December 31, 2015, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The most recent prior examination of the Company was as of December 31, 2013, conducted by the State of Colorado.

This examination was conducted concurrently with an examination of its affiliate, Southland National Insurance Corporation. No other states participated on the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. This examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The key functional activities identified are Claims Handling, Financial Reporting, Investments, Premiums and Underwriting, Reinsurance, Related Parties, Reserves, and Surplus and Capital Management. The examination process includes assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with G.S. Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

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REPORT ACRONYMS

The following acronyms are used in this report:

| | |
|------|--|
| CBA | Colorado Benefits Administrators, LLC |
| DNL | Dearborn National Life Insurance Company |
| PFC | Preferred Financial Corporation, LLC |
| SNH | Southland National Holdings, Inc. |
| SNIC | Southland National Insurance Corporation |
| SNRC | Southland National Reinsurance Corporation |
| SSAP | Statement of Statutory Accounting Principles |

SUMMARY OF EXAMINATION FINDINGS

Comments, Recommendations and Directives

- a. The Company did not submit an Audit Committee Designation Letter by the required due date. The Department's Bulletin Number 15-B-05, a communication concerning certain reporting requirements of the Annual Financial Reporting Law, requires this filing to be submitted no later than May 21, 2016. The Company did not file the required report as of the due date; however, subsequently the Company submitted the filing on July 7, 2016. The Company is directed to comply with the Annual Financial Reporting Law and ensure future filings are submitted timely.
- b. The Company did not provide written notice with the Department as required by G.S. 58-7-46 for its appointment of the president and the chief executive officer in 2016. The Company is directed to comply with G.S. 58-7-46 and provide written notice of any change that occurs in the position of president or chief executive officer no later than 30 days after the change.
- c. The Company has moved certain accounting functions, including accounts payable, accounts receivable, and billing administrative processes, to an overseas affiliated entity in 2016. However, the Company did not provide a 30-day notification to the Department before the Company entered into a transaction with the affiliate. In addition, the Company did not enter into a service agreement with its affiliate. The Company is directed to comply with G.S. 58-19-30(b) by providing written notification to the Department 30 days prior to entering into a transaction with its affiliates. The Company is also directed to comply with G.S. 58-2-165(c) and SSAP No. 25 by entering into a written agreement for the transaction between related parties. The terms of the agreement shall comply with G.S. 58-19-30(b)(4).
- d. The Company was unable to provide a copy of executed conflict of interest forms. Pursuant to Title 11 of the North Carolina Administrative Code Chapter 11C Section .0117, conflict of interest forms shall be executed annually. The Company is directed to maintain complete records for all years under examination pursuant to the North Carolina Administrative Code.
- e. The Company entered into a Master General Agency Agreement and an Administrative Services Cost Sharing Agreement with PFC, an affiliate, prior to its re-domestication from Colorado to North Carolina in December 2015. However, the Company failed to provide a 30-day prior notification to the Department of its intention to continue the transactions with the affiliate. Subsequently, the Company submitted those agreements in September 2016. The Company is directed to comply with G.S. 58-19-30(b) to ensure that all affiliated agreements are submitted to the Department for approval at least 30 days prior to entering into a transaction.
- f. The Company had entered into a custodian agreement and an investment advisory agreement with unaffiliated parties prior to its re-domestication from Colorado to North Carolina in December 2015. However, the Company failed to file the agreements with the Department as required by G.S. 58-34-10(b)(4),

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which states that any domestic insurer that enters into a management contract or custodial agreement must file that contract or agreement with the Commissioner on or before its effective date. Subsequently, the Company submitted those agreements in April and August 2016, respectively. The Company is directed to comply with G.S. 58-34-10 to ensure that all management agreements and custodial agreements are submitted to the Department on or before the effective date. In the event of re-domestication, the effective date would be the date of re-domestication.

- g. On June 29, 2015, Southland National Holdings, LLC filed Articles of Conversion with the North Carolina Secretary of State to change its name to "Southland National Holdings, Inc." and change its entity type from limited liability company to corporation. The Company improperly reported the name of the company as "Southland National Holdings, LLC" on the Schedule Y, Part 1A of the 2015 Annual Statement. The Company is directed to include accurate information in the Annual Statement pursuant to G.S. 58-2-165(c) and the Annual Statement Instructions.

COMPANY HISTORY

The Company was incorporated in the State of Colorado as a life insurance company in 1974. In December 2015, Greg Lindberg, a resident of North Carolina, acquired 100% of the common stock of the Company through a series of transactions and redomesticated the Company from Colorado to North Carolina. The Colorado Department of Regulatory Agencies, Division of Insurance, conducted its last statutory examination as of December 31, 2013. There were no regulatory actions placed on the Company since the last examination.

MANAGEMENT AND CONTROL

Board of Directors

The business of the Company is managed by its management team and subject to review by the Board of Directors ("Board"). The bylaws specify that the number of directors shall be not less than one, but not more than ten. Directors are elected annually at the annual meeting of shareholders.

The following individuals were serving as directors at December 31, 2015:

| <u>Name</u> | <u>Address</u> | <u>Principal Business Affiliation</u> |
|--------------------|---------------------|--|
| Greg Lindberg | Durham, NC | Chief Executive Officer, Chairman |
| Thomas Crawford | Gainesville, GA | Board Member |
| Bruce Cromartie | Raleigh, NC | Board Member |
| Christopher Herwig | Raleigh, NC | Chief Investment Officer, Board Member |
| Joseph Wieser | Highlands Ranch, CO | Board Member |
| Jeremy Ragsdale | Charlotte, NC | Board Member |

Committees

The Board has the authority to establish committees including, but not limited to, the Audit Committee and Investment Committee. The established committees and the individuals elected and serving as of December 31, 2015, were as follows:

Audit Committee
Greg Lindberg, Chairman
Thomas Crawford
Bruce Cromartie
Christopher Herwig

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Jeremy Ragsdale
Joseph Wieser

Investment Committee

Greg Lindberg, Chairman
Thomas Crawford
Bruce Cromartie
Christopher Herwig
Jeremy Ragsdale
Joseph Wieser

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices, not inconsistent with each other, may be held by the same person.

The following individuals served as officers as of December 31, 2015:

Joseph Wieser, President
Steven Fry, Vice President
Patricia Wells, Corporate Secretary

Accounts and Records

The Company's books and records are maintained at 5990 Greenwood Plaza Boulevard, Suite 325, Greenwood Village, Colorado 80111.

Independent Auditor

The books and records of the Company are audited annually by independent certified public accountants in accordance with G.S. 58-10-185. Rives & Associates, LLP of Lexington, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for the year ended December 31, 2015.

Information System

The Company's core insurance system, Policy Administration System, is an internally developed application running on IBM mainframe operating systems. The Company's core financial reporting system, SunGard, is a purchased customizable application that runs on a Windows Server operating system.

Corporate Records

We reviewed the minutes of the Board and committee meetings for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events and that the directors approved these transactions and events.

We reviewed the Company's Articles of Incorporation and Bylaws for changes during the period under examination. In 2015, the Company amended its Bylaws and Articles of Incorporation as a result of the change of ownership. The Company has filed the documents with the Department.

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AFFILIATED COMPANIES

Corporate Organization

The Company is part of an insurance holding company system as defined in GS § 58-19. In 2015, SNH, a Delaware corporation, acquired the Company through a stock purchase agreement. SNH is a wholly-owned subsidiary of SNA Capital, LLC, a North Carolina company, which is wholly-owned by Greg Lindberg. Greg Lindberg, a North Carolina resident, is the ultimate controlling person. The chart below outlines the organizational structure of the holding company system as of December 31, 2015:

Greg E. Lindberg

---SNA Capital, LLC

---Southland National Holdings, Inc.

---Southland National Insurance Corporation

---American Funeral & Cremation Plans, LLC

---Mothe Life Holdings, LLC

---Southland National Reinsurance Corporation

---SN Group Development, LLC

---Preferred Financial Corporation, LLC

---Colorado Bankers Life Insurance Company

---Southland Management Group, LLC

---Southland Insurance Management, LLC

---CBX, LLC

---Colorado Benefits Administrators, LLC

Affiliated Transactions

The Company is party to an Administrative Services Cost Sharing Agreement with PFC, an insurance agency. Under the agreement, the Company agrees to provide personnel, supplies, equipment, services and facilities to PFC. The agreement remains active after the acquisition and change of ownership. In 2015, the Company received service fees totaling \$503,817 under the agreement.

The Company maintains a Master General Agency Agreement with PFC. Under the agreement, PFC provides marketing services to the Company through its general agents. The agreement remains active after the acquisition and change of ownership. In 2015, the Company paid commissions totaling \$21,166,343.

The Company is included in the consolidated federal tax return with its ultimate parent, SNH, in accordance with a tax sharing agreement effective December 31, 2015. The provisions for federal income tax are computed as if the Company were filing a separate income tax return. Benefits, which arise from tax credits and net operating losses, are allocated to the company producing such results to the extent they are utilized in the consolidated income tax return. Under this agreement, the Company incurred federal income tax totaling \$6,892,863 in 2015.

For detailed information regarding affiliated reinsurance contracts with SNRC, refer to the Reinsurance section.

FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2015, the Company had fidelity bond coverage totaling \$5,000,000, which exceeds the minimum amount recommended by the NAIC.

TERRITORY AND PLAN OF OPERATION

At December 31, 2015, the Company was licensed in all states except New York, and is also licensed in the District of Columbia, Guam and Puerto Rico. The Company's 2015 Annual Statement Schedule E, Part 3 contains a complete

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description and listing of the Company's statutory deposits by state. The Company reported statutory deposits for the state of North Carolina in the amount of \$1,535,230 as of December 31, 2015.

The Company writes life and annuity insurance products with accident and health riders. The Company utilizes independent agents for the distribution of its products and solicitation of its business. The states where the Company writes the most business are California and Maryland, which represent 19% and 15% of total direct written business in 2015, respectively.

Trends of the Company

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five year period ended December 31, 2015.

| | Net Admitted | Capital and | Gross | Net Earned | Net |
|-------------|---------------------|--------------------|-----------------|-------------------|---------------|
| Year | Assets | Surplus | Premiums | Premiums | Income |
| | \$ | \$ | \$ | \$ | \$ |
| 2011 | 202,282,496 | 16,921,635 | 89,818,325 | 86,442,345 | 1,538,099 |
| 2012 | 232,476,528 | 27,469,262 | 91,469,471 | 87,811,743 | (9,145,973) |
| 2013 | 256,893,413 | 28,862,907 | 92,981,399 | 89,434,390 | 3,186,457 |
| 2014 | 284,191,759 | 33,894,691 | 93,873,525 | 90,189,256 | 3,867,526 |
| 2015 | 324,421,807 | 55,442,603 | 93,381,807 | (72,175,609) | 9,579,167 |

Actuarial Opinion

In accordance with Title 11 of the North Carolina Administrative Code Chapter 11F Section .0300, the statutory reserves and related items for 2015 were reviewed and certified by the Company's Appointed Actuary, Leon L. Langlitz, Senior Vice President of Lewis & Ellis, Inc., Actuaries and Consultants. Actuarial opinions regarding the Company's policy reserves and related actuarial items were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency. According to the actuarial opinion, the Company's reserves and related actuarial items met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Company.

REINSURANCE

Reinsurance Assumed

The Company entered into a retrocession agreement with Security Life of Denver Insurance Company ("Security Life"), effective January 1, 1982. Under the agreement, Security Life retroceded a portion of the life policies and 100% of the annuity riders assumed from a third party to the Company. In 1985, the Company agreed to purchase the entire block of the business. In 2015, the assumed amount in force and reinsurance premium income totaled \$61,608 and \$3,108, respectively.

In 1984, the Company entered into two separate coinsurance agreements with Allianz Life Insurance Company of North America ("Allianz Life"), also known as North American Life and Casualty Company. Under the agreements, the Company assumed a percentage of modified whole life policies, a percentage of optional benefit riders, and 100% of flexible premium supplementary annuity riders from Allianz Life. In 2015, the assumed amount in force and reinsurance premium income totaled \$2,739,948 and \$116,510, respectively.

The Company entered into a coinsurance agreement with Monumental Life Insurance Company ("Monumental Life"), effective April 1, 1988. Under the agreement, the Company assumed 100% of a block of business, which includes modified whole life policies, optional benefit riders, flexible premium supplementary annuity riders and accident only

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policies, from Monumental Life. In 2015, the assumed amount in force and reinsurance premium income totaled \$458,466 and \$15,208, respectively.

Reinsurance Ceded

The Company entered into a Funds-Withheld Reinsurance Agreement with SNRC, effective December 31, 2015. Under the agreement, the Company ceded 100% of a block of annuity riders and policies on a funds-withheld basis. In 2015, the Company ceded initial premium totaling \$161,914,132 to SNRC. The Company claimed a reserve credit totaling \$161,914,132. The reserve credit is maintained in the funds-withheld account.

The Company entered into an Automatic Reinsurance Agreement with Optimum Re Insurance Company ("Optimum Re"), effective March 2, 2007. Under the agreement, the Company ceded a block of life policies and accelerated benefit riders to Optimum Re. In 2015, the ceded premium and ceded reserve totaled \$2,895,648 and \$2,066,931, respectively.

The Company entered into three Automatic Yearly Renewable Term ("YRT") Reinsurance Agreements with Scottish Re Life Corporation ("Scottish Re") in 1985, 1987 and 1988. Policies ceded to Scottish Re include a block of modified premium whole life policies, 10-year renewable term life policies and applicable riders. In 2015, the ceded premium and ceded reserve totaled \$72,471 and \$33,530, respectively. The Company terminated all three agreements in 2016.

The Company entered into an Automatic Non-Bulk YRT Non-Refund Agreement with Allianz Life, effective May 1, 1995. Under the agreement, the Company ceded a block of individual term life policies on an annual renewable plan to Allianz Life. In 2004, Allianz Life assigned all rights and obligations under the agreement to RGA Reinsurance Company ("RGA") upon acquisition by RGA. In 2015, the ceded premium and ceded reserve totaled \$854 and \$1,804, respectively.

The Company entered into a Critical Illness Reinsurance Agreement with General Re Life Corporation ("General Re"), effective March 1, 2004. Under the agreement, the Company ceded a block of life policies with critical illness riders and the whole life policies converted into the life policies covered by the agreement to General Re. In 2015, the ceded premium and ceded reserve totaled \$561,920 and \$299,154, respectively.

The Company entered into an Automatic Coinsurance Life Reinsurance Agreement with Employers Reassurance Corporation ("Employers"), effective June 1, 1998. Under the agreement, the Company ceded a block of 10-year level term life policies with critical condition accelerated benefit riders or guaranteed to issue critical illness riders to Employers. In 2015, the ceded premiums and ceded reserve totaled \$109,609 and \$290,675, respectively.

The Company entered into an Automatic YRT Reinsurance Agreement with Fort Dearborn Life Insurance Company ("Dearborn Life"), effective March 31, 2009. Under the agreement, the Company agreed to cede certain plans to Dearborn Life including the modified premium whole life, 10-year renewal term with 10-year renewable and convertible term riders, and term life insurance to Age 95. In 2015, the ceded premium totaled \$2,784.

FINANCIAL STATEMENTS

The following financial statements are based on the annual statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2015. The supporting notes present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2014, are unexamined and are presented for comparative purposes only.

Colorado Bankers Life Insurance Company
Statutory Statement of Admitted Assets

| | December 31, | |
|---|-----------------------|-----------------------|
| | 2015 | 2014 |
| | | <i>(unexamined)</i> |
| <u>Admitted Assets</u> | | |
| Bonds | \$ 158,594,852 | \$ 252,844,705 |
| Cash and short-term investments | 144,324,854 | 7,841,240 |
| Contract loans | 5,112,715 | 4,387,481 |
| Total cash and invested assets | 308,032,421 | 265,073,426 |
| Investment income due and accrued | 1,429,619 | 2,414,527 |
| Uncollected premiums and agents' balances in the course of collection | 451,718 | 427,928 |
| Deferred premiums | 9,889,897 | 11,134,727 |
| Amounts recoverable from reinsurers | 132,542 | 107,262 |
| Other amounts receivable under reinsurance contracts | 26,472 | 175,702 |
| Net deferred tax asset | 4,424,961 | 4,394,956 |
| Electronic data processing equipment and software | - | 200,037 |
| Miscellaneous Receivables | 34,177 | 263,194 |
| Total admitted assets | \$ 324,421,807 | \$ 284,191,759 |

See accompanying notes to the financial statements.

Colorado Bankers Life Insurance Company
Statutory Statement of Liabilities, Capital and Surplus

| | December 31, | |
|--|-----------------------|-----------------------|
| | 2015 | 2014 |
| | | <i>(unexamined)</i> |
| <u>Liabilities</u> | | |
| Aggregate reserve for life contracts | \$ 90,120,496 | \$ 229,442,146 |
| Aggregate reserve for accident and health contracts | 1,223,444 | 1,686,134 |
| Liability for deposit-type contracts | 5,969,549 | 5,718,266 |
| Life contract claims | 4,831,574 | 6,556,660 |
| Accident and health contract claims | 361,854 | 424,749 |
| Premiums and annuity considerations received in advance | 195,230 | 164,237 |
| Amounts payable on reinsurance | 308,030 | 355,481 |
| Interest maintenance reserve | 319,531 | 749,901 |
| Commissions to agents due or accrued | 14,602 | 14,461 |
| General expenses due or accrued | 644,592 | 1,924,200 |
| Taxes, licenses and fees due or accrued, excluding federal income taxes | 249,074 | 289,603 |
| Current federal and foreign income taxes | 134,383 | 1,060,629 |
| Remittances and items not allocated | 451,228 | 262,002 |
| Asset valuation reserve | 920,245 | 1,227,994 |
| Funds held under reinsurance treaties with unauthorized and certified reinsurers | 161,914,132 | - |
| Payable to parent; subsidiaries and affiliates | 1,241,424 | 333,667 |
| Miscellaneous liabilities | 79,816 | 86,938 |
| | 268,979,204 | 250,297,068 |
| <u>Capital and Surplus</u> | | |
| Common capital stock | 1,500,000 | 2,500,000 |
| Preferred capital stock | 1,000,000 | - |
| Surplus notes | 9,000,000 | - |
| Gross paid in and contributed surplus | 26,026,087 | 20,487,531 |
| Unassigned funds | 17,916,516 | 10,907,160 |
| | 55,442,603 | 33,894,691 |
| Total liabilities, capital and surplus | \$ 324,421,807 | \$ 284,191,759 |

See accompanying notes to the financial statements.

Colorado Bankers Life Insurance Company
Statutory Statement of Operations

| | Year Ended December 31, | |
|--|-------------------------|---------------|
| | 2015 | 2014 |
| | <i>(unexamined)</i> | |
| Revenues | | |
| Premiums and annuity considerations for life, accident and health contracts | \$ (72,175,609) | \$ 90,189,256 |
| Net investment income | 10,973,627 | 10,512,126 |
| Amortization of Interest Maintenance Reserve | 544,494 | 177,701 |
| Commissions, Service & Issue Fees and Other | 10,699,468 | 589,309 |
| Total revenues | (49,958,020) | 101,468,392 |
| Deductions | | |
| Death benefits | 8,582,117 | 10,429,239 |
| Annuity benefits | 20,869,701 | 19,655,166 |
| Disability benefits and benefits under accident and health contracts | 2,180,826 | 2,748,672 |
| Surrender benefits and withdrawals for life contracts | 2,584,497 | 2,466,118 |
| Interest and adjustments on contract or deposit-type contract funds | 199,733 | 188,989 |
| Increase (decrease) in aggregate reserves for life and accident and health contracts | (138,802,945) | 23,322,054 |
| Totals deductions | (104,386,071) | 58,810,238 |
| Expenses and Other Deductions | | |
| Commissions incurred | 21,417,043 | 20,949,531 |
| Commissions and expense allowances on reinsurance assumed | (260,271) | 553,761 |
| General insurance expenses | 13,906,313 | 14,160,059 |
| Insurance taxes, licenses and fees, excluding federal income taxes | 2,529,797 | 2,646,836 |
| Increase in loading on deferred and uncollected premiums | 791,964 | 93,786 |
| Modified Coinsurance Expense | (35,332) | (142,204) |
| Total expenses and other deductions | (66,036,557) | 97,072,007 |
| Net gain from operations after dividends and before taxes | 16,078,537 | 4,396,385 |
| Federal income taxes incurred, excluding tax on capital gains | (3,696,810) | (839,856) |
| Net gain from operations after dividends and federal taxes | 12,381,727 | 3,556,529 |
| Net realized capital gains (losses) | (2,802,560) | 310,997 |
| Net Income | \$ 9,579,167 | \$ 3,867,526 |

See accompanying notes to the financial statements.

Colorado Bankers Life Insurance Company
Statutory Statement of Capital and Surplus

| | December 31, | |
|---|----------------------|----------------------|
| | 2015 | 2014 |
| | <i>(unexamined)</i> | |
| Capital and surplus, beginning of year | <u>\$ 33,894,691</u> | <u>\$ 28,862,909</u> |
| Capital and surplus increases (decreases): | | |
| Net income | 9,579,167 | 3,867,526 |
| Change in net unrealized capital gains (losses) | 942 | (965) |
| Change in net deferred income tax | 1,404,521 | 490,263 |
| Change in nonadmitted assets | (1,048,276) | 1,067,096 |
| Change in reserve on account | (1,410,307) | 70,129 |
| Change in asset valuation reserve | 307,749 | (462,267) |
| Change in surplus notes | 9,000,000 | - |
| Adjustments to gross paid in contributed surplus | 5,538,556 | - |
| Change in surplus as a result of reinsurance | 8,175,560 | - |
| Dividends to stockholders | (10,000,000) | - |
| Change in surplus as regards policyholders for the year | <u>21,547,912</u> | <u>5,031,782</u> |
| Capital and surplus, end of year | <u>\$ 55,442,603</u> | <u>\$ 33,894,691</u> |

See accompanying notes to the financial statements.

Colorado Bankers Life Insurance Company

Statutory Statement of Cash Flow

| | Year ended December 31, | |
|--|-------------------------|---------------------|
| | 2015 | 2014 |
| <u>Cash from (used by) Operations</u> | | <i>(unexamined)</i> |
| Premiums collected net of reinsurance | \$ (70,924,477) | \$ 90,473,951 |
| Net investment income | 11,891,886 | 10,131,900 |
| Miscellaneous income | 10,699,468 | 589,308 |
| Total | (48,333,123) | 101,195,159 |
| Benefit and loss related payments | 37,186,250 | 36,092,225 |
| Commissions; expenses paid and aggregate write-ins for deductions | 40,506,180 | 37,817,206 |
| Federal and foreign income taxes paid | 7,425,617 | 2,323,821 |
| Total | 85,118,047 | 76,233,252 |
| Net cash from (used by) operations | (133,451,170) | 24,961,907 |
| <u>Cash from (used by) Investments</u> | | |
| Proceeds from investments sold | 136,334,467 | 20,214,561 |
| Cost of investments acquired | 33,842,379 | 53,678,514 |
| Net increase in contract loans and premium notes | 725,234 | 576,042 |
| Net Cash from (used by) Investments | 101,766,854 | (34,039,995) |
| <u>Cash from Financing and Miscellaneous Sources</u> | | |
| Surplus notes | 9,000,000 | - |
| Paid in surplus | 5,538,556 | - |
| Net deposits on contracts and other insurance liabilities | 251,285 | 333,659 |
| Dividends to stockholders | 10,000,000 | - |
| Other cash provided | 163,378,089 | 1,568,606 |
| Net cash from financing and miscellaneous sources | 168,167,930 | 1,902,265 |
| <u>Reconciliation of Cash and Short-Term Investment</u> | | |
| Net change in cash and short-term investments | 136,483,614 | (7,175,823) |
| Cash and short-term investments, beginning of year | 7,841,240 | 15,017,063 |
| Cash and short-term investments, end of year | \$ 144,324,854 | \$ 7,841,240 |

See accompanying notes to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with the accounting practices prescribed by the GS. The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost or fair value based on their NAIC rating.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Asset valuation reserve: Maintained as prescribed by the NAIC.

Interest maintenance reserve: Maintained as prescribed by the NAIC.

Contract loans: Carried at unpaid balance of the loans. The unpaid balance of the loans includes unpaid principal plus accrued interest.

Premiums: Earned over the policy period and reduced for reinsurance ceded.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Benefit reimbursements are reported as reductions of benefit payments. Funds withheld accounts are established for reinsurance with unauthorized reinsurers. Changes to the funds withheld balances are credited or charged directly to surplus.

Colorado Bankers Life Insurance Company
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2. Analysis of Assets

The following represents an analysis of the Company's net admitted assets:

| | December 31, 2015 | | |
|---|--------------------------|--------------------------------|--------------------------------|
| | Assets | Assets not Admitted | Net Admitted Assets |
| Bonds | \$ 158,594,852 | | 158,594,852 |
| Cash and short-term investments | 144,324,854 | | 144,324,854 |
| Contract loans | 5,112,715 | | 5,112,715 |
| Total cash and invested assets | 308,032,421 | | 308,032,421 |
| Investment income due and accrued | 1,429,619 | | 1,429,619 |
| Premiums and agents' balances in course of collection | 456,531 | 4,813 | 451,718 |
| Premiums and agents' balances booked but not yet due | 9,889,897 | | 9,889,897 |
| Reinsurance recoverable | 141,122 | 8,580 | 132,542 |
| Other amounts receivable under reinsurance contracts | 26,472 | | 26,472 |
| Net deferred tax assets | 12,228,098 | 7,803,137 | 4,424,961 |
| Miscellaneous Receivables | 59,256 | 25,079 | 34,177 |
| Total admitted assets | \$ 332,263,416 | 7,841,609 | 324,421,807 |

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3. Policy Reserves

Life, annuity, and accident and health benefit reserves are developed by actuarial methods and are determined based on published tables using statutorily specified interest rates and valuation methods that provide, in the aggregate, reserves that meet the G.S. requirements.

Substandard reserves are based on appropriate multiples of standard rates of mortality. The liabilities for future policy benefits are based on mortality or morbidity and interest rates permitted by the G.S.

Reserves are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2015 and 2014, the reserve credit taken from ceded life insurance and annuities was \$164,606,224 and \$2,573,961, respectively.

The composition of policy reserves is as follows:

| <i>(In thousands)</i> | Year Ended December 31, | |
|---|--------------------------------|---------------------|
| | 2015 | 2014 |
| <u>Life, annuities and miscellaneous</u> | | <i>(unexamined)</i> |
| Life: | | |
| Ordinary | \$ 83,030 | \$ 77,217 |
| Group | 204 | 21 |
| Annuities and miscellaneous: | | |
| Ordinary | 6,886 | 151,972 |
| Group | | 232 |
| Total life and annuities | 90,120 | 229,442 |
| <u>Accident and health</u> | | |
| Group | 17 | 441 |
| Guaranteed Renewable | 1,206 | 1,245 |
| Total accident and health | 1,223 | 1,686 |
| Total policy reserves | \$ 91,343 | \$ 231,128 |

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4. Claims Reserves

The Company uses historical claims experience to estimate claims for life and accident and health claims. Changes in payment patterns and claims trends can result in adjustments to prior years' claims estimates.

Liability for Unpaid Accident and Health Claims

| <i>(In Thousands)</i> | Year Ended December 31, | |
|--------------------------|-------------------------|---------------------|
| | 2015 | 2014 |
| | | <i>(unexamined)</i> |
| Balance at January 1 | \$ 425 | \$ 578 |
| Incurred during the year | 1,833 | 2,299 |
| Paid during the year | 1,896 | 2,452 |
| Balance at December 31 | \$ 362 | \$ 425 |

Liability for Unpaid Life and Annuity Benefits

| <i>(In Thousands)</i> | Year Ended December 31, | |
|--|-------------------------|---------------------|
| | 2015 | 2014 |
| | | <i>(unexamined)</i> |
| Balance at January 1 | \$ 6,557 | \$ 7,007 |
| Reinsurance recoverable at December 31, current year | 141 | 107 |
| Incurred during the year: | | |
| Life benefits | 8,930 | 10,879 |
| Annuity benefits | 20,870 | 19,655 |
| Total incurred during the year | 29,800 | 30,534 |
| Reinsurance recoverable at December 31, prior year | 107 | 109 |
| Paid during the year | 31,559 | 30,982 |
| Balance at December 31 | \$ 4,832 | \$ 6,557 |

5. Unpaid Claims and Claim Adjustment Expenses

Unpaid claims and claim adjustment expenses on accident and health policies represent the estimated ultimate net cost of all reported and unreported claims incurred through December 31, 2015.

Reserves for unpaid claims are estimated using individual case-basis valuations and statistical analysis. The estimates are subject to the effects of trends in claim severity and frequency. The estimates are continually reviewed and adjusted, as necessary, as experience develops or new information becomes known.

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6. Capital and Surplus

The following, in conjunction with the Statutory Statement of Surplus (see page 12), represents the changes in the Company's capital and surplus since the Company's last examination.

| | December 31, | |
|---|----------------------|----------------------|
| | 2014 | 2013 |
| | <i>(unexamined)</i> | <i>(examined)</i> |
| Capital and surplus, beginning of year | <u>\$ 28,862,909</u> | <u>\$ 27,469,262</u> |
| Capital and surplus increases (decreases): | | |
| Net income | 3,867,526 | 3,186,457 |
| Change in net unrealized capital (loss) | (965) | |
| Change in net deferred income tax | 490,263 | 1,017,977 |
| Change in nonadmitted assets | 1,067,096 | (2,672,460) |
| Change in reserve on account of change in valuation basis | 70,129 | |
| Change in asset valuation reserve | <u>(462,267)</u> | <u>(138,327)</u> |
| Change in surplus as regards policyholders for the year | <u>5,031,782</u> | <u>1,393,647</u> |
| Capital and surplus, end of year | <u>\$ 33,894,691</u> | <u>\$ 28,862,909</u> |

7. Subsequent Events

On December 7, 2016, the direct ownership of the Company was transferred from SNH to CBLI Holdings, Inc.

8. Contingencies and Commitments

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. The Company is of the opinion that these proceedings will not have a material effect on the financial position of the Company.

Colorado Bankers Life Insurance Company
Appendix A – Report Distribution

Greg Lindberg, Chairman
2327 Englert Drive, Durham, NC 27713

Lou Hensley, Global Bankers Co-CEO
2327 Englert Drive, Durham, NC 27713

David Burghard, President
5990 Greenwood Plaza Blvd #325, Greenwood Village, CO 80111

Brian Stewart, Global Bankers Vice President
2327 Englert Drive, Durham, NC 27713

Steven Fry, CFO
5990 Greenwood Plaza Blvd #325, Greenwood Village, CO 80111

George Luecke, Global Bankers Co-CEO
2327 Englert Dr, Durham, NC 27713

Tamre Edwards, Global Bankers General Counsel
2327 Englert Dr, Durham, NC 27713

Raymond Martinez, Regulatory and Strategic Affairs
2327 Englert Dr., Durham, NC 27713

CONCLUSION

We conclude that the Company complies with the minimum capital and surplus requirements of G.S. 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$1,500,000.

Respectfully submitted,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

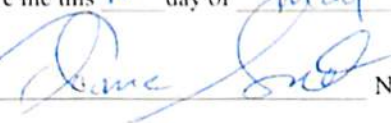
March 13, 2017

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Ke Xu, Chief Financial Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature:  Date: 5/10/2017
Ke Xu

Sworn and subscribed before me this 10 day of May, 2017.

Notary Public Signature:  Notary Public Seal:

