

North Carolina Mutual Life Insurance Company

Durham, North Carolina

Report on Examination

As of December 31, 2015

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
REPORT ACRONYMS	3
SUMMARY OF SIGNIFICANT FINDINGS	3
COMPANY HISTORY	5
MANAGEMENT AND CONTROL	6
Corporate Governance	6
Code of Conduct and Conflict of Interest.....	8
Corporate Records	8
Corporate Organization.....	8
Organizational Chart.....	9
Statutory Deposits.....	9
Accounts and Records	9
Fidelity Bonds.....	10
Employee Benefits and Pension Plans.....	10
Related Party Agreements	10
TERRITORY AND PLAN OF OPERATION	11
Trends of the Company.....	11
Actuarial Opinion	11
REINSURANCE PROGRAM OVERVIEW	12
Agreements For Reinsurance Ceded.....	12
Agreements For Reinsurance Assumed	12
FINANCIAL STATEMENTS	13
SUBSEQUENT EVENTS	25
DISTRIBUTION OF REPORT ON EXAMINATION	27
CONCLUSION	28

May 30, 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 North Carolina General Statutes (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

North Carolina Mutual Life Insurance Company

(hereinafter referred to as the “Company”), at its main administrative and home office located at 411 West Chapel Hill Street, Durham, North Carolina, 27701. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2011 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 Department’s most recent prior full-scope examination of the Company was as of December 31, 2010.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by 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. An 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 and the following key functional activities were identified:

**Underwriting
Reserving/Claims Handling
Reinsurance Assumed
Reinsurance Ceding
Related Parties
Investments
Surplus**

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS 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.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of the Company's assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Dixon Hughes Goodman, LLP of High Point, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for years 2013 through 2015. The books and records of the Company were audited by Johnson Lambert, LLP of Raleigh, North Carolina for years ended 2011 and 2012.

The statutory reserves and related items for 2015 were reviewed and certified by the Company's Appointed Actuary, John T. Condo, MAAA, FSA of Actuarial Resources Corporation of Georgia.

REPORT ACRONYMS

“Company”	North Carolina Mutual Life Insurance Company
“SGF”	Signature Group Financial, LLC
“NCMF”	North Carolina Mutual Financial, LLC
“Xseed”	Xseed Financial, LLC
“NCMIA”	North Carolina Mutual Insurance Agency
“Board”	Board of Directors
“TPA”	Third Party Administrator
“ERM”	Enterprise Risk Management
“SSAP”	Statements of Statutory Accounting Principles
“GAAP”	Generally Accepted Accounting Principles
“GS”	General Statutes of North Carolina
“Port Royal”	Port Royal Reassurance Company SPC, Limited
“Southland”	Southland National Insurance Company
“AS”	Annual Statement
“NCAC”	North Carolina Administrative Code
“NAIC”	National Association of Insurance Commissioners
“FEGLI”	Federal Employees Group Life Insurance
“Summit Trust”	Summit Trust Company

SUMMARY OF SIGNIFICANT FINDINGS

1. Analysis of Examination Adjustments

	December 31, 2015
Surplus as originally reported to the Department	\$9,262,928
a. Funds held by or deposited with reinsured companies	(102,385)
b. Aggregate reserves for life contracts	(29,556,998)
c. Funds held under coinsurance	<u>898,523</u>
Adjusted surplus	(\$19,497,932)

- a. To decrease the funds held by or deposited with reinsured companies for amounts not recoverable pursuant to GS 58-7-162(9). (Refer to Note 2.a.)
- b. To increase the aggregate reserves for life contracts by the net reinsurance credit taken but not allowed pursuant to GS 58-7-26. (Refer to Note 2.b.)
- c. To decrease the funds held under coinsurance for an overstatement in the amount accrued for assumed reinsurance taken. (Refer to Note 2.c.)

2. Comments, Recommendations and Directives

- a. The Company improperly admitted funds held by reinsurers totaling \$102,385, which are not recoverable. Pursuant to GS § 58-7-162(9), an examination adjustment is proposed to not admit the asset and reduce surplus by \$102,385 at December 31, 2015. The Company is directed to comply with GS § 58-7-162(9) in all future financial statements filed with the Department.
- b. The Company reduced its aggregate reserves for life contracts at December 31, 2015, by a net reserve credit for reinsurance totaling \$29,556,998 for business ceded to Port Royal Reassurance Company SPC, Limited (“Port Royal”) under a reinsurance novation agreement effective on April 24, 2015. Port Royal does not meet the requirements of GS § 58-7-21; therefore, a reduction from liability for the reinsurance ceded by the Company to Port Royal shall be in the amount of acceptable forms of securities held by or on behalf of the Company, including funds held in trust as collateral for Port Royal for the payment of obligations pursuant to GS § 58-7-26. The Company provided a listing of the securities reported as held in the Port Royal Trust at December 31, 2015, and during our examination, it was discovered that none of the trust assets are acceptable forms of securities as defined in GS § 58-7-26; therefore, the reserve credit taken for the reinsurance ceded to Port Royal shall not be allowed. An examination adjustment was made to increase the Company’s aggregate reserves for life contracts by \$29,556,998 at December 31, 2015, for the reinsurance credit taken but disallowed related to its agreement with Port Royal. The Company is directed to comply with GS § 58-7-75(10) regarding the elimination of the impairment to its adjusted surplus and comply with the minimum surplus requirements. (Refer to Subsequent Events Note)
- c. The Company overstated its estimated liability for anticipated losses on assumed reinsurance contracts by \$898,523 at December 31, 2015. Based on our review of the subsequent settlement statements, experience refunds actually resulted in various amounts due to the Company. An examination adjustment was made to reduce the liability reported at year end for the experience refunds received. We recommend that the Company implement procedures to review its accrual for anticipated losses on assumed reinsurance contracts at year end and make adjustments, as necessary, based on monthly settlement statements received prior to Quarterly and Annual Statement reporting.
- d. The Company’s Reinsurance Trust Agreement with Port Royal and Summit Trust effective April 24, 2015, requires the Company’s prior written consent for all withdrawals, changes and substitutions of trust assets and requires that Summit Trust notify the Company in writing within five business days of any withdrawals or deposits. Based on our review, Summit Trust did not obtain the Company’s prior written consent to change the trust assets from cash to other investments on April 30, 2015 through May 7, 2015 and no subsequent written notifications were issued to the Company, which is in violation of the trust agreement. In order to address this trust agreement violation, the Company subsequently amended its Reinsurance Trust Agreement to add new provisions which require that 1) all investments held in the Port Royal North Carolina Mutual Reassurance Trust account must be allowed to mature; 2) no investment shall be extended or rolled over beyond its maturity date; 3) all proceeds from maturation, sale of assets and investment income earned shall be reinvested in cash or cash equivalents; and 4) written direction of the investment manager must be acceptable to both the trustee and the Company, with written approval from the Company. (Refer to Subsequent Events Note)
- e. The Company could not provide conflict of interest forms signed by all of its officers and directors for the years 2011 through 2015. Pursuant to Title 11 of the North Carolina Administrative Code (“NCAC”) Chapter 11C.0117, the Company is directed to require conflict of interest forms to be

executed annually by “the officers, directors, trustees, attorneys-in-fact, and administrative personnel” and to retain such records pursuant to 11 NCAC 11C.0105(a), which states, “All records of domestic insurance companies shall be maintained by the company for the years for which a statutory examination has not yet been completed. All books of original entry and corporate records shall be retained by the company or its successor for a period of 25 years after the company ceases to exist.”

- f. The Company could not locate the records for certain policies requested for data accuracy testing procedures in relation to the Department’s actuarial review of the Company’s reserves for life contracts reported at December 31, 2015. The Company is directed to comply with 11 NCAC 11C.0104 regarding the record of business to be kept by insurance companies domiciled in this state and 11 NCAC 11C.0105 regarding the length of time insurance company records are to be maintained.
- g. The Company improperly netted related party payables and receivables without a legal right of offset in the amount reported as receivable from parent, subsidiaries and affiliates at December 31, 2015. No examination reclassification was made, as the amount is deemed to be immaterial. The Company is directed to comply with the NAIC AS Instructions by reporting amounts due to and from affiliates separately unless a legal right of offset exists.
- h. The Company improperly admitted property held for sale totaling \$18,840 for which there was no recent appraisal. According to SSAP No. 40R, paragraph 14, “for all properties held for sale, an appraisal shall be obtained at the time such property is classified as held for sale, and subsequently an appraisal shall be maintained that is no more than 5 years old as of the reporting date.” No examination adjustment was made, as the amount was deemed to be immaterial. The Company is directed to comply with SSAP No. 40R.

COMPANY HISTORY

The Company was originally chartered under the laws of the State of North Carolina as a mutual assessment company on February 28, 1899, with the name North Carolina Mutual and Provident Association. An amendment to the charter filed at the Office of the Secretary of State of North Carolina on August 6, 1913, established the Association as a legal reserve company. In 1919, the Company’s name was changed to North Carolina Mutual Life Insurance Company and it now has its home office located at 411 West Chapel Hill Street in Durham, North Carolina.

The Company is licensed to provide life insurance and accident and health products to both individuals and group markets on a direct basis and through reinsurance of other primary carriers. The Company’s products include traditional life, supplemental life, individual annuities, accidental death and dismemberment, long-term and short-term disability, and group accident and health. The Company is not currently underwriting new business and focuses on servicing the business of other carriers as well as various fronting arrangements.

On November 23, 2010, the Company formed a wholly owned, non-insurance subsidiary, Signature Group Financial, LLC (“SGF”), a single member North Carolina limited liability company, capitalized with \$250,000 in member equity. The Company loaned SGF \$2 million pursuant to a term credit facility loan agreement and on December 20, 2010, SGF acquired The Signature Group, LLC, an Alabama limited liability company, and paid \$1,979,264 pursuant to an Asset Purchase Agreement. In January 2013, the

Company changed the name of SGF to North Carolina Mutual Financial, LLC (“NCMF”). NCMF is a funeral home factoring business that provides advance funding to funeral homes in the southeastern United States by advancing funds against assigned life insurance policies of deceased insureds. The offices of NCMF are located in Gadsden, Alabama.

On June 9, 2011, the Company formed a wholly owned subsidiary, Xseed Financial, LLC (“Xseed”), a single member North Carolina limited liability company, capitalized with \$1,000 in member equity. In January 2013, the Company changed the name of Xseed to North Carolina Mutual Insurance Agency, LLC (“NCMIA”). NCMIA is engaged in the insurance agency business.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Policyholders

The bylaws of the Company provide for the election of a board of directors at the annual meeting of the policyholders. Each director is elected to serve for four years, unless a shorter term is specified at the time of election, and until a successor is elected. The Board may call a special meeting of the policyholders.

Board of Directors

The Board is charged with managing the business of the Company and consists of a number that is determined from time to time by a majority of the authorized directors, but not less than that required by the insurance laws of the State of North Carolina. Special meetings of the Board may be called by the chair, president or any five directors and shall be held at a place designated in the notice of the meeting. A majority of directors constitutes a quorum.

The following individuals served as directors at December 31, 2015:

Name	Location	Principal Occupation
Elliott Sawyer Hall	Detroit, MI	Dykema Gossett Law Firm, Attorney
James Herbert Speed, Jr.	Durham, NC	North Carolina Mutual Life Insurance Company, former President & Chief Executive Officer (Retired)
Phail Wynn, Jr.	Hillsborough, NC	Duke University, Vice President
Richard H. Moore	Raleigh, NC	First Bankcorp, Chief Executive Officer
Don M. Royster, Sr.	Denver, NC	Mutual Savings Life Insurance Company, former President (Retired)
Carol Moseley Braun	Chicago, IL	Good Food Organics, President
Theodore W. Long, Jr.	Shaker Heights, OH	Ernst & Young, LLP, former Partner (Retired)

Name	Location	Principal Occupation
Willie T. Closs, Jr.	Durham, NC	North Carolina Mutual Life Insurance Company, former Vice President & Chief Marketing Officer (Retired)
Sandra Miller Jones	Winston-Salem, NC	Segmented Marketing Service, Inc. Founder, Chief Executive Officer
Gregory B. Levett, Sr.	Scottsdale, GA	Gregory B. Levett & Sons Funeral Home Owner and Chief Executive Officer

The Board established several committees to act on behalf of the Company including the following: Audit, Executive, Operations and Finance, Benefits and Compensation, Nominating and Corporate Governance, and Marketing and Public Relations.

The following individuals served on committees at December 31, 2015:

(C) Denotes the Chairman

Audit Committee

Richard Moore
Willie Closs
Carol M. Braun
Theodore Long, Jr. (C)
Elliott Hall

Executive Committee

Theodore Long, Jr.
Dr. Phail Wynn
Elliott Hall (C)
Willie Closs, Jr.
James Speed, Jr.

Operations and Finance Committee

Richard Moore
Carol M. Braun
Theodore Long, Jr.
Dr. Phail Wynn (C)
Willie Closs, Jr.
Gregory Levett, Sr.
Don Royster, Sr.

Benefits and Compensation

James Speed, Jr. (C)
Dr. Phail Wynn
Sandra M. Jones
Willie Closs, Jr.

Nominating/Corporate Governance Committee

James Speed, Jr. (C)
Dr. Phail Wynn
Elliott Hall

Marketing/Public Relations Committee

Elliott Hall (C)
Carol M. Braun
Willie Closs, Jr.
Don Royster, Sr.
Gregory Levett, Sr.
Sandra M. Jones

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company may consist of a president, at least one vice president and other officers as deemed necessary. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified.

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

Name	Title
Michael L. Lawrence	President, Chief Executive Officer
Jacqueline R. Britt	Vice President, Controller and Treasurer
Arthell D. Davis	Vice President, Group Marketing
Richard Barnes	Corporate Secretary
Kimberly Moore	Vice President, Marketing

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, Company policy requires a signed statement from each director and officer disclosing any conflicts of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company did not maintain records of the executed conflict of interest forms for all required personnel each year from 2011 to 2015. (Refer to Comments, Recommendations and Directives Note 2.e.)

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committees 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.

The Company's bylaws and articles of incorporation were reviewed for any changes during the period under examination. Based on our review, there were no changes since the last examination.

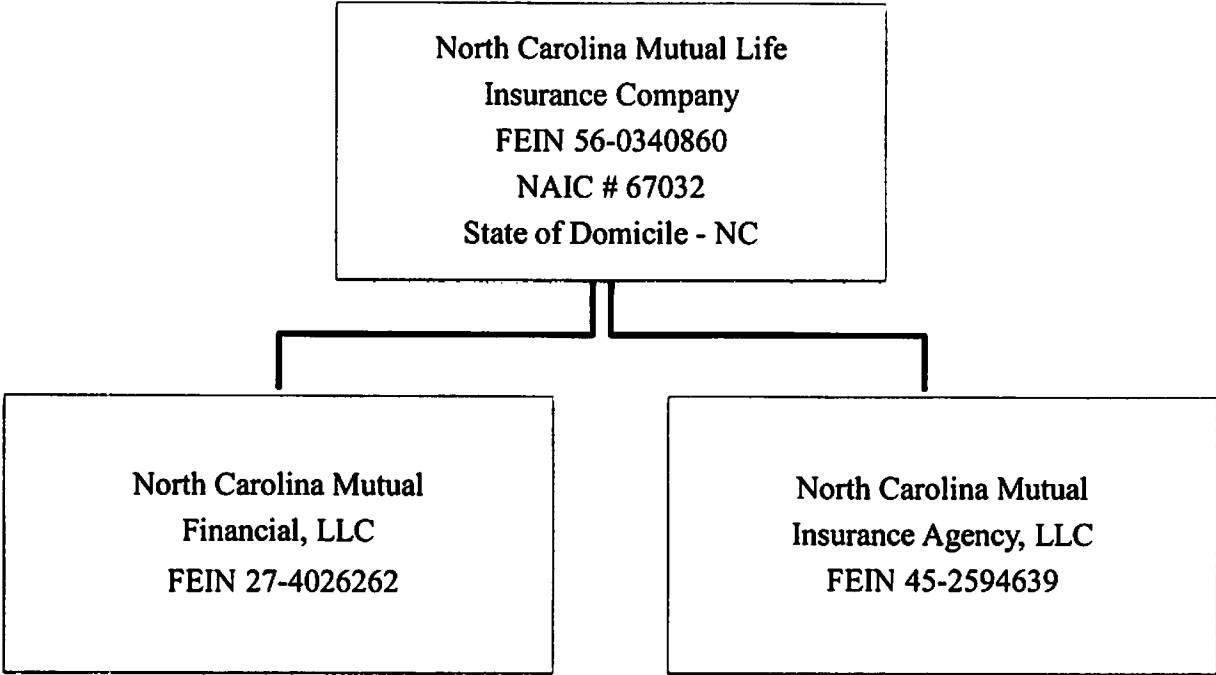
CORPORATE ORGANIZATION

The Company is part of an insurance holding company system as defined in GS § 58-19-5(11). The Company is a mutual insurance company and the ultimate controlling party in the insurance holding company system. The Company has two wholly owned subsidiaries: NCMIA and NCMF.

NCMF is engaged in the funeral home funding business. The Company accepts the assignment of life insurance policies at a discounted rate in order to provide working capital to funeral homes. The Company carries NCMF at GAAP equity in accordance with SSAP 97.

NCMIA is engaged in the insurance agency business. The Company carries NCMIA at GAAP equity and the investment is fully non-admitted in accordance with SSAP 97.

ORGANIZATIONAL CHART



STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company’s 2015 AS Schedule E, Part 3 contains a complete description and listing of the Company’s statutory deposits by state.

ACCOUNTS AND RECORDS

The Company’s books and records are maintained at the main administrative office at 411 West Chapel Hill Street, Durham, North Carolina.

The Company’s significant software applications are hosted on Sunguard and QLAdmin at the Company’s main administrative office in Durham, North Carolina. The majority of the Company’s financially significant software applications are hosted in-house. The Company’s payroll processing function is outsourced to PlanSource.

FIDELITY BONDS

The Company has fidelity bond coverage totaling \$1,000,000 in aggregate, which exceeds the minimum amount recommended by the NAIC.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has a frozen defined benefit pension plan which covers substantially all of its eligible employees and former captive agents and provides benefits based on years of service and the employee's final highest 5-year average compensation. The fair value of the Company's defined pension plan assets totaled approximately \$6.4 million and \$6.9 million at December 31, 2015 and 2014, respectively. The assets of the plan are maintained in a separate trust.

The Company sponsors a defined contribution plan which covers most of its employees. All employees of the Company are eligible to participate in the plan upon completing one-half year of service with the Company and reaching the age of 20. Plan participants may contribute up to 25% of their eligible earnings on a pre-tax basis. The Company matches 100% of employee deferrals up to 3% of compensation and 50% of employee deferrals up to the next 2% of compensation. The Company's matching contributions totaled \$99,305 and \$90,677 in 2015 and 2014, respectively.

The Company has an Executive Salary Continuation Plan and a Retirement Restoration Plan which were established on February 1, 1987 to provide additional retirement benefits for key executives as determined by the Board. In 2013, the Company made the decision to curtail further accumulation of retirement benefits to the participants in each of these plans effective December 31, 2013.

RELATED PARTY AGREEMENTS

The Company has a management and administrative services agreement with NCMF to provide general and administrative support, including executive and administrative personnel, employment taxes and benefits, information technology, and treasury services. NCMF reimburses the Company for actual payroll costs or designated personnel plus a charge of 25% of payroll for burden or overhead.

The Company provides advances to NCMF under a term credit facility loan agreement to fund the operations of NCMF's insurance benefit factoring business. The Company's advances to NCMF are short term in nature, have fixed maturity, and bear interest in the amount of 7% per annum. Advances other than those pursuant to the term credit facility are settled monthly pursuant to the management agreement.

The Company has a management and administrative service agreement with NCMIA whereby the Company provides routine services to manage NCMIA's day-to-day operations. NCMIA reimburses the Company within 30 days after the invoice is issued on the last business day of each month.

TERRITORY AND PLAN OF OPERATION

At December 31, 2015, the Company was licensed in 22 states and the District of Columbia; however, the Company's license has been restricted in a number of states which limits its ability to write new business in those states. In 2015, direct written premium in all states totaled approximately \$13.2 million. The Company's direct business is primarily written in Alabama, North Carolina, California and Georgia.

The Company is licensed to provide life insurance and accident and health products to both individuals and group markets on a direct basis and through reinsurance agreements with other primary carriers. The Company's products include traditional life, supplemental life, individual annuities, accidental death and dismemberment, long-term and short-term disability and group accident and health.

The Company is not underwriting new business and focuses on servicing the business of other carriers as well as various fronting arrangements.

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 2015:

Year	Net Admitted Assets	Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2011	\$149,609,189	\$7,433,322	\$37,455,816	\$20,345,503	\$626,534
2012	\$148,260,633	\$6,441,949	\$36,983,057	\$14,090,730	\$158,861
2013	\$145,238,664	\$3,263,727	\$38,480,048	\$19,879,965	\$(2,359,374)
2014	\$43,830,925	\$17,979,147	\$40,511,921	\$(89,353,846)	\$357,707
2015	\$37,592,755	\$9,262,928	\$49,673,938	\$13,113,308	\$(4,451,477)

ACTUARIAL OPINION

Every life insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of a qualified actuary in accordance with GS § 58-58-50.

The statutory reserves and related items for 2015 were reviewed and certified by the Company's Appointed Actuary, John T. Condo, FSA, MAAA of Actuarial Resources Corporation of Georgia. Actuarial opinions regarding the Company's policies reserves were issued by a qualified actuary for all years in the examination period. The qualified actuary evaluated the data provided by the Company for reasonableness and consistency of the policy reserves. According to the actuarial opinions, the Company's aggregate reserves 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 actuarial reserves and related items that ought to be established. It was noted that the actuarial opinion did not take into account the regulatory compliance issues discovered regarding the Port Royal North Carolina Mutual Reassurance Trust account assets at December 31, 2015. (Refer to Summary of Significant Findings Note 2.b.)

REINSURANCE PROGRAM OVERVIEW

AGREEMENTS FOR REINSURANCE CEDED

The Company has a reinsurance contract with Southland National Insurance Company (“Southland”) effective December 31, 2014, which provides 100% indemnity reinsurance on individual industrial, and ordinary life policies that the Company cedes to Southland on a coinsurance basis. The contract will expire when all subject policies listed in the contract are settled.

The Company has a reinsurance novation contract with Port Royal, which provides indemnity coinsurance on its industrial life policies. The effective date of the original reinsurance contract with Max Re Limited was December 19, 2003. Subsequent to December 19, 2003, Max Re assigned the contract to Alterra Bermuda, Limited, which then assigned the contract to Markel Bermuda Limited. On April 24, 2015, Markel Bermuda Limited assigned all of its rights and obligations to Port Royal in a reinsurance novation contract. The contract is 100% quota share and will expire when all subject policies listed in the contract are discharged or extinguished.

The Company has an automatic coinsurance indemnity reinsurance contract with Wilton Reassurance Company which covers whole life and final expense policies issued by the Company. The original contract was effective January 1, 2007, with no expiration date, and there have been three amendments to this contract.

The contract with Wilton Reassurance Company will automatically terminate for new business without notice with respect to the whole life, if the aggregate subject policy face value exceeds \$400,000 in any 12 month period, and with respect to the final expense policies, if the aggregate subject policy face value exceeds \$75 million in any 12 month period. Depending on the underlying policy period, the Company retains between 10% and 25% and the reinsurer’s maximum limit is \$337,500 for the whole life policies. For final expense policies, the Company retains between 10% and 50% and the reinsurer’s maximum limit is \$16,875.

AGREEMENTS FOR REINSURANCE ASSUMED

The Company has various facultative indemnity contracts with Minnesota Life Insurance Company covering group life policies. In 2015, the assumed amount in force from Minnesota Life Insurance Company totaled approximately \$5.4 billion and the reinsurance premium income totaled approximately \$13.8 million. The Company uses reinsurance accounting for all employer groups under these contracts. These contracts are retroceded to Securian Life Insurance Company.

The Company has various facultative indemnity contracts with Securian Life Insurance Company covering group life policies. In 2015, the assumed amount in force from Securian Life Insurance Company totaled approximately \$4.9 billion and the reinsurance premium income totaled approximately \$13.0 million. The Company uses reinsurance accounting for all employer groups under these contracts. These contracts are retroceded to Minnesota Life Insurance Company.

The Company has an automatic indemnity reinsurance contract with a yearly renewal term for Federal Employees Group Life Insurance (“FEGLI”) group life policies with Metropolitan Life Insurance

Company. In 2015, the assumed amount in force and reinsurance premium income under the Metropolitan Life Insurance Company FEGLI program totaled approximately \$2.3 billion and \$10 million, respectively.

The Company also has various employer group contracts with Metropolitan Life Insurance Company that it accounts for as deposit accounting contracts.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2015, prior to the recommended examination adjustments described in the Summary of Significant Findings (Refer to page 3). The supporting exhibits 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.

North Carolina Mutual Life Insurance Company
Statutory Statement of Admitted Assets
December 31, 2015

	2015 <i>(unadjusted)</i>	2014 <i>(unexamined)</i>
Bonds	\$10,007,755	\$12,914,840
Common stocks	1,058,246	891,199
Mortgage loans on real estate – First liens	7,038,818	7,335,331
Properties held for sale	78,840	217,840
Cash and short-term investments	3,043,103	3,312,260
Contract loans	2,074,434	1,798,651
Other invested assets	5,330,425	5,751,213
Total cash and invested assets	28,631,621	32,221,334
Investment income due and accrued	13,479	99,147
Premiums and agents' balances in course of collection	614,360	368,181
Premiums and agents' balances booked but deferred and not yet due	168,093	184,780
Reinsurance recoverable	854,387	588,435
Funds held by or deposited with reinsurers	102,385	102,385
Other amounts receivable under reinsurance	4,043,496	4,500,923
Net deferred tax asset		1,196,826
Electronic data processing equipment and software	16,680	13,168
Receivable from parent, subsidiary and affiliates	1,379,237	161,533
Cash surrender value of officers insurance	1,695,386	4,362,862
Other amounts receivable	73,631	31,351
Total admitted assets	\$37,592,755	\$43,830,925

North Carolina Mutual Life Insurance Company
Statutory Statement of Liabilities and Surplus
December 31, 2015

	2015 <i>(unadjusted)</i>	2014 <i>(unexamined)</i>
Reserve for life contracts	\$12,594,388	\$11,129,181
Reserve for accident and health contracts	68,697	56,692
Liability for deposit-type contracts	2,168,532	2,205,277
Contract claims - Life	1,607,457	2,579,822
Contract claims - Accident & Health	61,392	62,715
Premium and annuity considerations for A&H contracts received in advance	7,988	12,866
Interest maintenance reserve	144,783	174,730
Commissions and expense allowances payable on reinsurance assumed	633,123	304,698
General expenses due or accrued	779,754	208,956
Taxes, licenses and fees due or accrued	4,389	80,754
Current federal income taxes		238,086
Unearned investment income	429,270	585,350
Amounts withheld or retained by company as agent or trustee	42,634	199,375
Amounts held for agents' account	4,372	9,615
Remittances and items not allocated	137,509	130,217
Liability for benefits for employees and agents not included above	5,690,883	4,650,271
Asset valuation reserve	224,022	259,344
Reinsurance in unauthorized companies	68,555	
Funds held under reinsurance treaties - unauthorized	4,620	86,773
Miscellaneous liabilities – drafts outstanding	44,556	85,734
Funds held under coinsurance	1,705,573	865,094
Group Life Funds held on Deposit	1,907,331	1,926,227
Total Liabilities	28,329,828	25,851,778
Appropriation of De-strengthened Reserves	84,713	84,713
Surplus from Reinsurance	19,376,772	19,923,010
Unassigned funds	(10,198,557)	(2,028,576)
Total Surplus	9,262,928	17,979,147
Total Liabilities and Surplus	\$37,592,755	\$43,830,925

North Carolina Mutual Life Insurance Company
Statutory Statement of Operations
December 31, 2015

	2015 <i>(unadjusted)</i>	2014 <i>(unexamined)</i>
Premiums and annuity considerations for life and A&H contracts	\$13,113,308	\$(89,353,846)
Net investment income	852,338	5,444,554
Amortization of interest maintenance reserve	16,618	191,183
Commission and expense allowance on reinsurance ceded	7,067,703	3,524,565
Reserve adjustments on reinsurance ceded		(185,019)
Miscellaneous income	(1,164,328)	1,358,864
Totals	19,885,639	(79,019,699)
Death benefits	11,338,098	17,719,940
Matured endowments	(22,281)	129,806
Disability benefits and benefits under A&H contracts	192,901	155,025
Surrender benefits and withdrawals for life contracts	661,361	2,750,693
Group conversions	12,610	4,728
Interest and adjustments on deposit-type contract funds	78,895	66,065
Payments on supplementary contracts with life contingencies	363	363
Increase in aggregate reserves for life and A&H	13,197	(109,122,073)
Totals	12,275,145	(88,295,454)
Commissions on premiums, annuity considerations and deposit type contracts	366,913	704,700
Commissions and expense allowance on reinsurance assumed	1,982,785	981,073
General insurance expenses	8,808,253	9,056,669
Insurance taxes, licenses and fees	480,461	822,830
Increase in loading on deferred and uncollected premiums	(93,845)	(1,722,383)
Deferred Comp	317,350	297,664
Decrease in group funds on deposit	(18,896)	(53,334)
Legal Settlement	62,500	
Totals	24,180,665	(78,208,236)
Net loss from operations before dividends to policyholders	(4,295,026)	(811,462)
Dividends to policyholders	18,093	17,477
Net loss from operations after dividends to policyholders	(4,313,119)	(828,939)
Federal and foreign income taxes incurred		210,768
Net gain from operations before realized capital losses	(4,313,119)	(1,039,707)
Net realized capital loss	(138,358)	1,397,414
Net (Loss) Income	\$(4,451,477)	\$357,707

North Carolina Mutual Life Insurance Company
Statutory Statement of Surplus
December 31, 2015

	2015 <i>(unadjusted)</i>	2014 <i>(unexamined)</i>
Surplus, beginning of year	\$17,979,147	\$3,263,727
Net (Loss) Income	(4,451,477)	357,707
Change in net unrealized capital (losses) gains	(205,222)	271,982
Change in net deferred income tax	(250,000)	
Change in non-admitted assets	(388,353)	260,394
Change in liability for reinsurance in unauthorized companies	(68,555)	
Change in reserve on account of change in valuation basis		268,728
Change in asset valuation reserve	35,322	417,758
Change in surplus as a result of reinsurance	(546,239)	13,629,624
Other prior period adjustments	71,499	(694,958)
Other surplus adjustments	(1,083,407)	(561,636)
Prior period adjustments-2014 audit adjustments	(1,829,789)	
Prior period adjustment for deferred tax asset		782,675
Prior period adjustment for 2013 audit adjustments		(16,854)
Net change in surplus for the year	(8,716,221)	14,715,420
Surplus, end of year	\$9,262,928	\$17,979,147

North Carolina Mutual Life Insurance Company
Statutory Statement of Cash Flow
December 31, 2015

	2015 <i>(unadjusted)</i>	2014 <i>(unexamined)</i>
Cash From Operations		
Premiums collected net of reinsurance	\$ 19,033,440	\$10,766,965
Net investment income	1,332,830	5,897,448
Miscellaneous income	3,043,742	16,868,729
Total	23,410,012	33,533,142
Benefit and loss related payments	3,687,099	10,883,643
Commissions, expenses paid and aggregate write-ins	12,021,972	12,251,487
Dividends paid to policyholders	20,053	17,477
Federal income taxes paid	109,058	
Total	15,838,182	23,152,607
Net cash from operations	7,571,830	10,380,535
Cash From (Used By) Investments		
Cash from investments	5,832,575	9,671,743
Total investments acquired	3,032,745	21,948,331
Net (decrease) increase in contract loans and premium notes	(26,643)	217,273
Net cash from (used by) investments	2,826,473	(12,493,862)
Cash from Financing and Miscellaneous Sources		
Net deposits on deposit-type contracts and other ins. liabilities	(55,001)	(82,261)
Other cash (applied) provided	(10,612,459)	1,570,465
Net cash from financing and miscellaneous sources	(10,667,460)	1,488,204
Reconciliation of Cash, Cash Equivalents and Short-term investments		
Net change in cash, cash equivalent and short-term investments	(269,156)	(625,123)
Cash and short-term investments, beginning of year	3,312,260	3,937,382
Cash and short-term investments, end of year	\$ 3,043,103	\$3,312,260

COMMENTS ON FINANCIAL STATEMENTS

Department examiners recommended adjustments resulting in a decrease in the Company's surplus as reported in its 2015 financial statements. The examination adjustments, which are not reflected in the financial statements and related tables presented in this report, relate to funds held by or deposited with reinsured companies which are not recoverable, a reinsurance credit taken but not allowed against the Company's aggregate reserves for life contracts and an overstatement in the liability reported for the funds held under coinsurance. (Refer to the Summary of Significant Findings on page 3)

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Bonds: Stated at amortized cost.

Common stocks: Common stocks are stated at market except investments in subsidiaries that are carried at a value using the equity method.

Cash and Short-term investments: Short-term investments are carried at amortized cost.

Electronic data processing equipment: Stated at cost, less accumulated depreciation calculated on a straight-line basis.

Mortgage loans on real estate and policy loans: Stated at the aggregate unpaid principal balance.

Loan-backed/Structured Securities: Loan-backed and structured securities are stated at amortized cost using the interest method including anticipated prepayments at the date of purchase.

Investment Income: Investment income was not used as a factor in the premium deficiency calculation.

Claims liability/Claims expenses: The triangle development method was used to estimate the claims liabilities including claims expenses for accident and health contracts.

Properties held for Sale: Properties held for sale are reported at lower of depreciated cost or fair value. Fair value is determined based on the most recent property appraisal in accordance with statutory guidance.

Premiums: Life insurance premiums are recognized as income over the premium paying period. Annuity considerations are recognized as revenue when received. Accident and Health premiums are earned ratably over the terms of the policies.

Universal Life policies: Revenues for universal life policies consist of the premium received and benefits represent the death benefits paid and the change in policy reserves.

Asset valuation reserve: Maintained as prescribed by the NAIC.

Interest Maintenance Reserve: Maintained as prescribed by the NAIC.

Analysis of Assets:

The following represents an analysis of the Company's net admitted assets at December 31, 2015:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$10,007,755		10,007,755
Common stocks	1,058,246		1,058,246
Mortgages on Real Estate – First liens	7,038,818		7,038,818
Properties held for sale	78,845	5	78,840
Cash and short-term investments	3,043,103		3,043,103
Contract loans	2,084,154	9,720	2,074,434
Other invested assets	6,275,607	945,182	5,330,425
Total cash and invested assets	29,586,528	954,907	28,631,621
Investment income due and accrued	13,479		13,479
Premiums and agents' balances in course of collection	614,360		614,360
Deferred Premiums, agents' balances booked but deferred and not yet due.	168,093		168,093
Reinsurance recoverable	854,387		854,387
Funds held by or deposited with reinsurers	102,385		102,385
Other amounts receivable under reinsurance	4,043,496		4,043,496
Electronic data processing equipment and software	25,523	8,843	16,680
Furniture and equipment	1,250	1,250	
Receivable from parent, subsidiaries and affiliates	1,379,237		1,379,237
Cash surrender value of officers insurance	1,695,386		1,695,386
Advances to agents	132	132	
Prepaid rent/expenses	278,491	278,491	
Other amounts receivable	180,570	106,939	73,631
Total admitted assets	\$38,943,317	1,350,562	\$37,592,755

Aggregate Reserve for Life Contracts:

The Company's aggregate reserves for life contracts 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 GS requirements.

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

The Company waives the deduction of deferred fractional premiums upon the death of the insured. Any portion of the final premiums beyond the death is returned. Surrender values are not promised in excess of the legally computed reserves and additional reserves are established when the results of cash flow testing under various interest rate scenarios indicate the need for additional reserves or when the net premiums exceed the gross premiums on any insurance in force.

As of December 31, 2015, the Company had no insurance in force for which the gross premiums were less than the net premiums according to the standard valuation set by the State of North Carolina.

Reserves are reported net of the amounts that are recoverable under the Company's reinsurance contracts prior to the recommended examination adjustments described in the Summary of Significant Findings (Refer to page 3). At December 31, 2015 and 2014, the Company's aggregate reserve for life contracts was reduced by \$146,301,800 and \$148,628,775, respectively, for amounts to be recovered from reinsurers.

The following provides a reconciliation of the Company's aggregate reserve for life contracts:

	2015 <i>(unadjusted)</i>	2014 <i>(unexamined)</i>
Life:		
Individual (industrial and ordinary)	\$153,382,565	\$155,266,216
Group (ordinary)	148,861	160,274
Less reinsurance ceded	<u>(145,172,658)</u>	<u>(147,482,082)</u>
Total Net Life	8,358,768	7,944,408
Annuities and Supplemental Contracts:		
Annuities (ordinary)	\$3,016,370	\$2,998,398
Supplemental contracts with life contingencies (ordinary)	1,684	1,794
Total annuities and supplemental contracts	\$11,376,822	10,944,600
Accidental Death Benefits:		
Accidental death benefits (ordinary)	179,051	191,791
Less reinsurance ceded	<u>(116,488)</u>	<u>(114,947)</u>
Net accidental death benefits	62,563	76,844
Disability:		
Disability - active lives (ordinary)	117,948	129,118
Less reinsurance ceded	<u>(115,792)</u>	<u>(127,022)</u>
Net disability - active lives	2,156	2,096
Disability – disabled lives (ordinary)	227,252	231,287
Disability – disabled lives (group)	134,864	88,763
Total disability – disabled lives	362,116	320,050
Less reinsurance ceded	<u>(285,152)</u>	<u>(268,526)</u>
Net disability – disabled lives	76,964	51,524
Miscellaneous reserves	1,687,593	690,315
Less reinsurance ceded	<u>(611,710)</u>	<u>(636,198)</u>
Net miscellaneous reserves	1,075,883	54,117
Total aggregate reserve for life contracts	\$12,594,388	\$11,129,181

Claims for Life, and Accident and Health Contracts:

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

The following provides a reconciliation of the Company's claims reserves for life, and accident and health contracts:

Contract claims - Accident & Health	2015	2014
Balance at January 1	\$62,715	\$77,892
Reinsurance recoverable at December 31, current year	11,470	277,335
Incurred during the year	192,901	155,024
Reinsurance recoverable at December 31, prior year	(277,335)	(271,245)
Paid during the year	(71,641)	(176,291)
Balance at December 31	\$ 61,392	\$62,715

Contract claims - Life	2015	2014
Balance at January 1	\$2,579,822	\$2,274,862
Reinsurance recoverable at December 31, current year	842,917	311,101
Incurred during the year	11,315,816	17,849,746
Reinsurance recoverable at December 31, prior year	(311,101)	(283,949)
Paid during the year	(12,819,997)	(17,571,938)
Balance at December 31	\$ 1,607,457	\$2,579,822

Claims and Claims Adjustment Expenses:

Unpaid claims and claims 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.

Surplus:

The following, in conjunction with the Statutory Statement of Surplus (Refer to page 17), represents the changes in the Company's surplus since the Department's last examination as of December 31, 2010:

	2013	2012	2011
Surplus, beginning of year	\$ 6,441,949	\$7,433,322	\$7,923,019
Surplus increases (decreases):			
Net income(loss)	(2,359,374)	158,861	626,534
Change in net unrealized capital loss	(216,912)	(446,825)	(435,800)
Change in net deferred income tax	(371,509)	(285,157)	281,819
Change in non-admitted assets	(105,093)	136,999	304,545
Change in reserve on account of change in valuation basis	114,926		
Change in asset valuation reserve	(54,261)	(159,487)	(82,088)
Cumulative effect of changes in accounting principles	311,048		
Change in surplus as a result of reinsurance	(207,903)	(204,107)	(238,487)
Aggregate write-ins for losses in surplus	(289,144)	(191,657)	(946,220)
Net change in surplus of the year	(3,178,222)	(991,373)	(489,697)
Surplus December 31, end of year	\$ 3,263,727	\$6,441,949	\$7,433,322

Transactions with Affiliates

The Company charged NCMF \$713,480 and \$623,369 in 2015 and 2014, respectively, for general and administrative expenses. The Company received expense reimbursements totaling \$727,961 and \$574,174 in 2015 and 2014, respectively, from NCMF.

The Company advanced loans to NCMF totaling \$2,950,000 and \$1,750,000 in 2015 and 2014, respectively. In 2015, the Company received payments from NCMF totaling \$1,650,000 and \$63,121 for loan repayments and interest, respectively. In 2014, the Company received payments from NCMF totaling \$1,835,000 and \$231,180 for loan repayments and interest, respectively.

The Company charged NCMLA \$715,192 and \$704,493 in 2015 and 2014, respectively, for general and administrative services provided to NCMLA pursuant to its management agreement. The Company received payments totaling \$722,460 and \$1,022,114 in 2015 and 2014, respectively, from NCMLA for the services provided.

The Company made additional capital contributions to NCMLA in 2015 and 2014 in the amount of \$467,000 and \$210,000, respectively. The Company contributed \$4,300,000 in member equity to NCMF in 2014.

SUBSEQUENT EVENTS

On August 12, 2016, the Company issued a directive to Summit Trust pursuant to terms specified in the original Reinsurance Trust Agreement effective April 24, 2015, that no monies should leave the Port Royal North Carolina Mutual Reassurance Trust account without the Company's prior written consent.

On August 16, 2016, the Department directed the Company to amend the Reinsurance Trust Agreement with Port Royal and Summit Trust immediately to remove any language that could imply that the trust assets are not under the exclusive control of and subject to withdrawal solely by the Company.

On August 24, 2016, the Company provided a draft of the first amendment to the Reinsurance Trust Agreement with Port Royal and Summit Trust, which added further language to clarify and strengthen certain provisions within the original agreement. The new provisions added to the agreement require that 1) all investments held in the Port Royal North Carolina Mutual Reassurance Trust account must be allowed to mature, 2) no investment shall be extended or rolled over beyond its maturity date; 3) all proceeds from maturation, sale of assets and investment income earned shall be reinvested in cash or cash equivalents; and 4) written direction of the investment manager must be acceptable to both the trustee and the Company, with written approval from the Company. On August 30, 2016, the Company provided the Department an executed copy of the first amendment to Reinsurance Trust Agreement effective on August 24, 2016, which included signatures from Port Royal, the Company and Summit Trust. (Refer to the Summary of Significant Findings Note 2.d.)

On September 15, 2016, Forefront Capital Holdings, LLC provided the Company a new listing of securities held in the Port Royal North Carolina Mutual Reassurance Trust account which differed from the securities listing provided during the examination as of December 31, 2015; however, neither listing contained acceptable forms of securities as defined in the investment laws of North Carolina provided in GS Chapter 58 Article 7.

On September 20, 2016, the Company informed the Department that there had been no significant increase in cash in the Port Royal North Carolina Mutual Reassurance Trust account as expected from the maturation of the investments held in the trust since December 31, 2015.

On September 23, 2016, the Company filed a civil lawsuit in the United States District Court for the Middle District of North Carolina against Stamford Brook Capital LLC, Forefront Capital Holdings LLC, Forefront Capital LLC, Port Royal, Summit Trust, Bradley Reifler and Michael Flatley (Principals of Forefront Capital Holdings LLC), which asserts, among other things, that the Port Royal North Carolina Mutual Reassurance Trust assets were not properly invested under North Carolina law or the Reinsurance Trust Agreement. (Refer to the Summary of Significant Findings Note 2.b.)

The Company requested and was granted a 30-day extension by the Department to file its Annual Statement as of December 31, 2016. The Annual Statement was filed on March 24, 2017.

The Company entered into a Settlement Agreement effective March 3, 2017, with Forefront Partners, LLC and Port Royal which provides specific and agreed upon terms for converting the Port Royal North Carolina Mutual Reassurance Trust account assets to cash and other eligible assets in order to comply with the investment laws of North Carolina provided in GS Chapter 58 Article 7. Based upon the terms of the Settlement Agreement, the Company reported the nature and an estimate of this loss contingency in its 2016

Annual Statement Notes to Financial Statements pursuant to SSAP No. 5R. (Refer to Current Examination Note 2.b.) However, as a condition for the Company's continued treatment of the situation as a loss contingency pursuant to SSAP No. 5R, the Company was to provide the Department monthly confirmation for each scheduled installment payment as outlined in the Settlement Agreement. The first installment payment was not received into the Port Royal North Carolina Mutual Reassurance Trust by the established due date of April 3, 2017; however, on May 23, 2017, the trust account received cash payments of \$50,000 from Forefront Partners and \$1.9 million from Forefront Income Trust. The Company may not currently treat this situation as a loss contingency pursuant to SSAP No. 5R in future financial statements filed with the Department. Therefore, no reinsurance credit is allowed to be taken for the business ceded to Port Royal in excess of the cash amounts held in trust.

North Carolina Mutual Life Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2015

Michael L. Lawrence
President and Chief Executive Officer
North Carolina Mutual Life Insurance Company
411 West Chapel Hill Street
Durham, North Carolina 27701-3616

Jacqueline R. Britt
Vice President and Controller/Treasurer
North Carolina Mutual Life Insurance Company
411 West Chapel Hill Street
Durham, North Carolina 27701-3616

Theodore Long, Jr.
Audit Committee Chairman
North Carolina Mutual Life Insurance Company
411 West Chapel Hill Street
Durham, North Carolina 27701-3616

CONCLUSION

The examination procedures, described, herein, revealed substantial material adverse findings and adjustments to surplus.

We conclude that the Company is not in compliance with the minimum surplus requirements of GS §58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$300,000. In addition, the Company's adjusted surplus at December 31, 2015, indicates a significant impairment pursuant to GS §58-7-75(10).

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

Respectfully submitted,



Monique D. Smith, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

May 30, 2017

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Bill Keely, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Bill Keely Date: May 25, 2017
Bill Keely

Sworn and subscribed before me this 25 day of May, 2017.

Notary Public Signature: [Signature] Notary Public Seal:

