

**Southland National Insurance Corporation**

Durham, North Carolina

**Report on Examination**

As of December 31, 2015

# Southland National Insurance Corporation

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**Southland National Insurance Corporation**  
Report on Examination  
December 31, 2015

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

**Southland National Insurance Corporation**

(hereinafter referred to as the "Company"), at its main administrative office located at 2200 Jack Warner Parkway, Suite 150, Tuscaloosa, Alabama 35401. The Company's statutory home office is located at 2327 Englert Drive, Durham, North Carolina 27713. 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 most recent prior examination of the Company was as of December 31, 2010, conducted by the State of Alabama.

This examination was conducted concurrently with an examination of its affiliate, Colorado Bankers Life Insurance Company. 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
CBL	Colorado Bankers Life Insurance Company
IMR	Interest Maintenance Reserve
NCML	North Carolina Mutual Life Insurance Company
PFC	Preferred Financial Corporation, LLC
SBS	Southland Benefit Solutions, LLC
SFL	Southern Financial Life Insurance Company
SNH	Southland National Holdings, Inc.
SNG	SNG Holdings & Reinsurance Company Inc.
SNIC	Southland National Insurance Corporation
SNRC	Southland National Reinsurance Corporation
SSAP	Statement of Statutory Accounting Principles
TPA	Third Party Administrator

## SUMMARY OF EXAMINATION FINDINGS

### Comments, Recommendations and Directives

- a. In 2015, the Company paid fees to Eli Research, LLC totaling \$183,970 and Academy Association, Inc. totaling \$301,975. The Company was unable to identify the nature of services provided by the two affiliates nor provide a service agreement between the Company and the two affiliates. An examination adjustment was recorded to decrease general insurance expenses and increase receivables from affiliates. The Company is directed to comply with G.S. 58-19-30(b) by providing written notification to the Department thirty days prior to entering into transactions with its affiliates in the future. The Company is also directed to comply with G.S. 58-2-165 (c) and SSAP No. 25 paragraph 7 by entering into a written agreement for transactions between related parties in the future.
- b. The Company improperly offset the funds held under reinsurance treaties with the ceding allowance totaling \$4,791,120 related to a reinsurance treaty with its affiliate, Southland National Reinsurance Corporation. SSAP No. 61R paragraph 24 states that "while the premiums, commissions, expense allowances, reserves, claims, etc. will result in a net amount, the proper way to report them is in their separate classifications on the balance sheet." SSAP No. 61R paragraph 30 states that "for entities reporting on the Life, Accident and Health Annual Statement, commissions and expense allowances on reinsurance ceded are reported as income in the summary of operations and the balance sheet provision for due and accrued amounts is reported as an asset." An exam adjustment is recorded to increase the funds held under reinsurance treaties and other amount receivable under reinsurance contracts. The Company is directed to provide accurate financial reporting in all future filings with the Department pursuant to G.S. 58-2-165(c) and SSAP 61R.
- c. The Company failed to disclose a material transaction and included inaccurate information in Note 10 of the 2015 Annual Statement concerning subsidiaries, affiliates and related parties. The Company recorded a capital contribution of \$10,000,000 to CBA but improperly omitted it in the Note 10 disclosure. In addition, the Company disclosed a dividend of \$24,000,000 received from PFC and a capital contribution of \$36,000,000 from SNH but could not provide accounting records to support the disclosure. Moreover, the Company disclosed the service fees of \$3,274,854 paid and accrued under an asset management agreement with SNH. However, actual management fees incurred and paid in 2015 were \$5,243,573 under the agreement with SNH. The Company is directed to comply with the NAIC Annual Statement Instructions in accordance with G.S. 58-2-165(c) and SSAP No. 25 paragraph 19 to ensure proper disclosure of related party transactions.

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## COMPANY HISTORY

The Company was originally formed in 1950 as an Alabama mutual aid association under the name of Southland National Insurance Company, also known as Old Southland. In January 1969, the Company was incorporated in Alabama under the name of New Southland National Insurance Company. In 1988, the Company adopted its current name Southland National Insurance Corporation. In 2014, SNH acquired the Company and its insurance related subsidiaries through a stock purchase agreement. In December 2014, the Company re-domesticated from Alabama to North Carolina.

In 2015, the Company was involved in the following acquisitions and dispositions with its affiliates: acquired PFC and its subsidiary CBL for \$60,000,000; transferred PFC to SNH for \$1 subsequent to PFC's disposition of CBL to SNH for \$60,000,000; received CBX, LLC and its subsidiary CBA as a contribution from SNH valued at \$100,000 and subsequently disposed CBX, LLC and CBA to Mr. Lindberg for \$10,000,000. The Company funded a surplus note issued by CBL in the amount of \$9,000,000 and purchased preferred stock of CBL for \$24,000,000. At December 31, 2015, the Company owned 100% interest of American Funeral & Cremation Plans, LLC and Mothe Life Holdings, LLC. American Funeral & Cremation Plans, LLC is an insurance agency licensed in Colorado. Mothe Life Holdings, LLC was organized in 2015 with an intention to complete an acquisition of an insurance entity in 2016. Refer to the section Affiliated Companies for more discussion of related party transactions.

The Company is a for-profit, stock life and health insurer that is licensed to write life and health insurance in 18 states. In 2015, the Company's revenues were primarily derived from assumed life reinsurance and group dental insurance.

## 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 seven. Directors are elected annually, at the annual meeting of shareholders, for a term of one year.

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
Bruce Cromartie	Raleigh, NC	Board Member
Tom Crawford	Gainesville, GA	Board Member

### Committees

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

#### Investment Committee

Greg Lindberg, Chairman  
Bruce Cromartie  
Tom Crawford

#### Audit Committee

Greg Lindberg, Chairman  
Tom Crawford

# Southland National Insurance Corporation

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Bruce Cromartie

## 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:

Greg Lindberg, President  
Christopher Herwig, Treasurer  
Sandra White, Secretary  
James Leitner, Sr., Vice President

## Accounts and Records

The Company's books and records are maintained at the office of its TPA, which is located at 2200 Jack Warner Parkway, Suite 150, Tuscaloosa, Alabama 35401.

## 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(a). 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 Systems

The majority of the Company's business and data processing services are performed by third party service organizations. The Company uses Southland Benefit Solutions ("SBS") as their TPA and Clearwater Analytics for their investment accounting function. The Company's significant applications for premiums, claims and accounting are hosted on servers at its TPA's office in Tuscaloosa, Alabama. The applications for investment are hosted by Clearwater Analytics in Boise, Idaho.

## 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 2014, 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.

## AFFILIATED COMPANIES

### Corporate Organization

The Company is part of an insurance holding company system as defined in G.S. 58-19. In 2014, 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

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- SNA Capital, LLC
  - Southland National Holdings, Inc. /SNG Holdings & Reinsurance Company 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
- CBX, LLC
  - Colorado Benefits Administrators, LLC

## Affiliated Transactions

The Company has a service agreement with SNH effective January 1, 2015. The agreement states that SNH will provide asset management services as well as general managerial, financial, operational and administrative support services. Under the agreement, the Company paid management fees totaling \$5,243,573 in 2015.

The Company is included in the consolidated federal tax return with its 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 to the extent they are utilized in the consolidated income tax provisions. Under these agreements, the Company incurred federal income taxes totaling \$3,853,811 and \$1,900,961 in 2015 and 2014, respectively.

For detailed information of affiliated reinsurance contracts with SNRC and SNG, please refer to the Reinsurance section.

## TERRITORY AND PLAN OF OPERATION

At December 31, 2015, the Company was licensed to write new business in the following states:

Alabama	Arizona	Arkansas	Colorado
Florida	Georgia	Indiana	Kentucky
Louisiana	Mississippi	New Mexico	North Carolina
Ohio	Oklahoma	South Carolina	Tennessee
Texas	Virginia		

The Company's 2015 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state. The Company reported the statutory deposits for the state of North Carolina in the amount of \$1,601,602 as of December 31, 2015.

The Company writes group dental business on a direct basis. The Company discontinued the issuance of pre-need life insurance policies that were sold in the individual and group markets. The Company utilizes independent agents for the distribution of its product and solicitation of business. All policies are issued annually. Policyholders may elect to pay premiums on an installment basis.

## 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.

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	<b>Net Admitted</b>	<b>Capital and</b>	<b>Gross</b>	<b>Net Earned</b>	<b>Net</b>
<b>Year</b>	<b>Assets</b>	<b>Surplus</b>	<b>Premiums</b>	<b>Premiums</b>	<b>Income</b>
	\$	\$	\$	\$	\$
2011	187,610,032	10,846,626	29,957,287	27,426,422	878,671
2012	176,557,658	9,691,837	9,706,743	7,763,594	234,986
2013	167,092,060	9,469,305	8,066,237	6,524,717	220,552
2014	318,144,227	22,886,841	121,417,917	145,173,722	(7,219,120)
2015	307,359,260	33,982,926	14,341,834	(152,436,104)	16,437,783

### 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 a Reinsurance and Administration Agreement with NCML, effective December 31, 2014. Under the agreement, the Company assumed 100% of NCML's ordinary and industrial life business, which is a closed block of business in run off. In 2015 and 2014, the Company assumed premium totaling \$7,019,154 and \$114,187,555, respectively, from NCML.

### Reinsurance Ceded

The Company entered a Funds Withheld Retrocession Agreement with SNRC, effective January 1, 2015. Under this agreement, the Company retroceded, on a coinsurance basis, 100% of the rights and obligations on the closed block of business assumed from NCML to SNRC. In addition, the Company ceded the related IMR for the block of business.

The Company entered into a Recapture Agreement with SNRC, effective October 1, 2015, in which the Company recaptured a small block of business that had been previously ceded to SNRC under the Funds Withheld Retrocession Agreement. The business includes 66.7% of all policies issued and outstanding on the effective date that are part of the Thrift 20-pay Whole Life Plan with a specific plan code and a specific policy form number.

The Company enter into a Funds Withheld Reinsurance Agreement with SNRC, effective January 1, 2015. Under this agreement, the Company ceded, on a coinsurance basis, 100% of the rights and obligations on an existing closed block of pre-need business to SNRC. The business was directly written by the Company. In addition, the Company ceded the related IMR for the block of business.

In 2015, the Company ceded premiums totaling \$163,498,457 to SNRC under the above reinsurance agreements with SNRC.

The Company entered a Funds Withheld Retrocession Agreement with SNG, effective October 1, 2015. The Company retroceded 66.7% of all policies issued and outstanding on the effective date that are part of the Thrift 20-pay Whole Life Plan with a specific plan code and the specific policy form number. In 2015, the Company ceded premium totaling \$3,414,630 to SNG.



# **Southland National Insurance Corporation**

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The Company has a Reinsurance Agreement with SFL, effective September 30, 2005. Under this agreement, the Company ceded 100% of the future liability and the servicing of the policies and riders to SFL as of the effective date. In 2015 and 2014, the Company ceded premiums totaling \$436,245 and \$470,871, respectively, to SFL.

## **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 accompanying notes to financial statements reflect examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. The analysis of examination adjustments and supporting notes and 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.

**Southland National Insurance Corporation**  
**Statutory Statement of Admitted Assets**

	December 31,	
	2015	2014
		<i>(unexamined)</i>
<b><u>Admitted Assets</u></b>		
Bonds	\$ 175,611,615	\$ 207,833,327
Preferred stocks	24,000,000	375,000
Common stocks	3,789,583	2,286,386
First liens mortgage loans on real estate	712,041	
Cash and short-term investments	82,839,812	94,836,871
Contract loans	109,840	5,673,320
Other invested assets	9,000,000	
Receivable for securities	3,371	
Total cash and invested assets	296,066,262	311,004,904
Investment income due and accrued	8,155,759	2,109,481
Premiums and agents' balances in course of collection	730,717	130,277
Premiums and agents' balances booked but deferred and not yet due	261,017	2,475,635
Reinsurance recoverable	868,301	
Other amounts receivable under reinsurance contracts	5,263,272	2,293
Net deferred tax asset	525,511	2,129,586
Guaranty funds receivable or on deposit	114,927	218,613
Receivable from parent, subsidiaries and affiliates	485,945	
Health care and other amount receivable	9,173	6,078
Premium tax offset	55,441	67,360
Initial escrow for new acquisitions	100,000	
Total admitted assets	\$ 312,636,325	\$ 318,144,227

See accompanying notes to the financial statements and the analysis of the examination adjustments.

**Southland National Insurance Corporation**  
**Statutory Statement of Liabilities, Capital and Surplus**

	December 31,	
	2015	2014
	(unexamined)	
<b><u>Liabilities</u></b>		
Aggregate reserve for life contracts	\$ 114,535,391	\$ 278,745,427
Aggregate reserve for accident and health contracts	74,540	110,793
Life contract claims	980,705	1,315,580
Accident and health contract claims	200,465	137,547
Policyholders' dividends and coupons due and unpaid	9	-
Premiums and annuity considerations received in advance	60,943	387,914
Amounts payable on reinsurance	1,769,942	301,368
Interest maintenance reserve	3,719,007	8,700,177
Commissions to agents due or accrued for life and annuity contracts	611	820
Commissions and expense allowances payable on reinsurance assumed	419,033	-
General expenses due or accrued	434,516	306,533
Taxes, licenses and fees due or accrued, excluding federal income taxes	115,619	220,379
Current federal and foreign income taxes	4,023,891	1,900,961
Unearned investment income	-	35,433
Amounts withheld or retained by company as agent or trustee	(5,822)	2,224
Remittances and items not allocated	(10,200)	(7,837)
Asset valuation reserve	5,662,669	2,576,442
Reinsurance in unauthorized companies	525,545	-
Funds held under reinsurance treaties with unauthorized reinsurers	144,854,072	-
Payable to parent; subsidiaries and affiliates	554,117	84,719
Deferred compensation liability	422,481	438,906
Total liabilities	278,337,534	295,257,386
<b><u>Capital and Surplus</u></b>		
Common capital stock	1,502,718	1,502,718
Gross paid in and contributed surplus	31,348,042	31,238,042
Unassigned funds	1,448,031	(9,853,919)
Total capital and surplus	34,298,791	22,886,841
Total liabilities, capital and surplus	\$ 312,636,325	\$ 318,144,227

See accompanying notes to the financial statements and analysis of the examination adjustments.

**Southland National Insurance Corporation**  
Statutory Statement of Operations

	Year Ended December 31,	
	2015	2014
		<i>(unexamined)</i>
<b>Revenues</b>		
Premiums and annuity considerations for life, accident and health contracts	\$ (152,436,105)	\$ 145,173,721
Net investment income	10,359,343	7,386,449
Amortization of Interest Maintenance Reserve	741,634	1,170,146
Commissions and expense allowances on reinsurance ceded	25,979,165	13,882
Rental and other income	6,860	45,975
Totals revenues	(115,349,103)	153,790,173
<b>Deductions</b>		
Death benefits	13,305,123	16,330,993
Matured endowments excluding guaranteed annual pure endowments	15,905	32,739
Annuity benefits	14,752	39,849
Disability benefits and benefits under accident and health contracts	3,271,272	2,429,674
Surrender benefits and withdrawals for life contracts	118,272	207,534
Increase (decrease) in aggregate reserves for life, accident and health contracts	(164,246,289)	129,040,693
Totals deductions	(147,520,965)	148,081,482
<b>Expenses and Other Deductions</b>		
Commissions on premiums for direct business only	465,221	359,970
Commissions and expense allowances on reinsurance assumed	5,152,317	6,187,000
General insurance expenses	7,818,634	3,429,118
Insurance taxes, licenses and fees, excluding federal income taxes	250,663	221,747
Increase (decrease) in loading on deferred and uncollected premiums	(1,788,302)	1,583,963
Totals expenses and other deductions	(135,622,432)	159,863,280
Net gain (loss) from operations before federal income taxes	20,273,329	(6,073,107)
Federal and foreign income taxes incurred	4,019,224	1,900,961
Net gain (loss) from operations after federal income tax	16,254,105	(7,974,068)
Net realized capital gains	499,542	754,948
Net income (loss)	\$ 16,753,647	\$ (7,219,120)

See accompanying notes to the financial statements and analysis of the examination adjustments.

**Southland National Insurance Corporation**  
Statutory Statement of Capital and Surplus

	December 31,	
	2015	2014
	<i>(unexamined)</i>	
Capital and surplus, beginning of year	<b>\$ 22,886,841</b>	<b>\$ 9,469,305</b>
Capital and surplus increases (decreases):		
Net income (loss)	16,753,647	(7,219,120)
Change in net unrealized capital gains	1,800,427	185,011
Change in net deferred income tax	(6,492,358)	2,107,641
Change in non-admitted assets	5,652,788	(7,846)
Change in liability for reinsurance in unauthorized companies	(525,545)	1,286
Change in asset valuation reserve	(3,055,027)	(1,322,256)
Change in surplus notes	-	(3,000,000)
Adjustments to gross paid in and contributed surplus	110,000	23,400,000
Dividends to stockholders	-	(727,180)
Unamortized ceding commission and expense allowance	4,991,119	-
Adjustment to surplus for reinsurance assumed	(7,823,101)	-
Change in surplus as regards policyholders for the year	<b>11,411,950</b>	<b>13,417,536</b>
Capital and surplus, end of year	<b>\$ 34,298,791</b>	<b>\$ 22,886,841</b>

See accompanying notes to the financial statements and analysis of examination adjustments.

## Southland National Insurance Corporation

### Statutory Statement of Cash Flow

	Year ended December 31,	
	2015	2014
<b><u>Cash From (Used by) Operations</u></b>		<i>(unexamined)</i>
Premiums collected net of reinsurance	\$ 5,925,495	\$ 141,695,255
Net investment income	2,676,446	7,712,456
Miscellaneous income	6,860	45,975
Total	8,608,801	149,453,686
Benefit and loss related payments	17,347,031	18,700,905
Commissions, expenses paid and aggregate write-ins for deductions	5,675,487	10,141,248
Federal and foreign income taxes paid	65,167	-
Total	23,087,685	28,842,153
<b>Net cash from (used by) operations</b>	<b>(14,478,884)</b>	<b>120,611,533</b>
 <b><u>Cash From (Used by) Investments</u></b>		
Total investment proceeds	193,396,129	97,527,844
Total investment acquired	189,064,842	151,819,806
Net increase in contract loans and premium notes	1,244	5,560,405
<b>Cash from (used by) investments</b>	<b>4,330,043</b>	<b>(59,852,367)</b>
 <b><u>Cash From (Used by) Financing and Miscellaneous Sources</u></b>		
Cash (used by) surplus notes contribution	-	(3,000,000)
Cash from paid in and contributed surplus	10,000	23,400,000
Other cash (used)	(1,858,218)	(524,084)
<b>Net cash from (used by) financing and miscellaneous sources</b>	<b>(1,848,218)</b>	<b>19,875,916</b>
 <b>Reconciliation of Cash and Short-Term Investments</b>		
Net change in cash and short-term investments	(11,997,059)	80,635,082
Cash and short-term investments, Beginning of year	94,836,871	14,201,789
<b>Cash and short-term investments, End of year</b>	<b>\$ 82,839,812</b>	<b>\$ 94,836,871</b>

See accompanying notes to the financial statements and analysis of the examination adjustments.

# Southland National Insurance Corporation

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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 G.S. The significant accounting policies followed by the Company are as follows:

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

**Preferred stocks:** Where permitted are carried at cost, all others are carried at values provided by the NAIC Securities Valuation Office.

**Common stocks:** Carried at fair value except investments in stock of subsidiaries that are carried at a value determined under equity method.

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

**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.

**Other invested assets:** Carried at the outstanding face value of the surplus note.

**Asset valuation reserve:** Maintained as prescribed by the NAIC.

**Interest maintenance reserve:** Maintained as prescribed by the NAIC.

**Premiums:** Life insurance and annuity premiums are recognized as revenue when due. Accident and Health premiums are earned pro rata over the terms of the policy.

**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 reinsurances with unauthorized reinsurers. Changes to the funds withheld balances are credited or charged directly to surplus.

**Southland National Insurance Corporation**  
**Report on Examination**  
**December 31, 2015**

**2. Analysis of Examination Adjustments**

	As of December 31, 2015		
Net Admitted	Assets	Liabilities	Surplus
	<i>Dr/(Cr)</i>		
<u>As originally reported to the Department</u>	\$ 307,359,260	(273,376,333)	(33,982,927)
a. Receivable from affiliates	485,945		
b. General insurance expenses			(485,945)
c. Fund held under reinsurance treaties with unauthorized reinsurers		(4,791,120)	
d. Other amounts receivable under reinsurance contracts	4,791,120		
e. Federal income tax incurred			170,081
f. Current federal income taxes		(170,081)	
Total	5,277,065	(4,961,201)	(315,864)
<u>As adjusted</u>	\$ 312,636,325	(278,337,534)	(34,298,791)

a/b. To increase receivables from affiliates and decrease general insurance expenses. Refer to item b included in the Summary of Examination Findings.

c/d. To increase funds withheld under reinsurance treaties with unauthorized reinsurers and increase other amounts receivable under reinsurance contracts. Refer to examination comment item c included in the Summary of Examination Findings.

e/f. To record the tax impact of the above adjustments.



## Southland National Insurance Corporation

Report on Examination

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### 3. 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	\$ 175,611,615		175,611,615
Common stocks	24,000,000		24,000,000
Preferred stocks	3,789,854	271	3,789,583
First liens mortgage loans on real estate	712,041		712,041
Cash and short-term investments	82,839,812		82,839,812
Contract loans	109,840		109,840
Other invested assets	9,000,000		9,000,000
Receivables for securities	3,371		3,371
Total cash and invested assets	296,066,533	271	296,066,262
Investment income due and accrued	8,155,759		8,155,759
Premiums and agents' balances in course of collection	730,717		730,717
Premiums and agents' balances booked but not yet due	261,017		261,017
Reinsurance recoverable	868,301		868,301
Other amounts receivable under reinsurance contracts	5,263,272		5,263,272
Net deferred tax assets	1,910,900	1,385,389	525,511
Guaranty funds receivable or on deposit	114,927		114,927
Electronic data processing equipment and software	12,153	12,153	-
Receivables from parent, subsidiaries and affiliates	485,945		485,945
Healthcare and other amounts receivable	12,506	3,333	9,173
Prepaid expense deposit & returned checks	234,097	234,097	-
Premium tax offset	55,441		55,441
Initial escrow for new acquisitions	100,000		100,000
<b>Total admitted assets</b>	<b>\$ 314,271,568</b>	<b>1,635,243</b>	<b>312,636,325</b>

# Southland National Insurance Corporation

Report on Examination

December 31, 2015

## 4. 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, annuities, deposit-funds and other liability was \$157,526,400 and \$5,534,856, respectively.

The composition of policy reserves is as follows:

<i>(In thousands)</i>	Year Ended December 31,	
	2015	2014
<b><u>Life, annuities and miscellaneous</u></b>		<i>(unexamined)</i>
Life:		
Individual and industrial	\$ 80,376	226,512
Group	32,750	49,824
Annuities and miscellaneous:		
Individual and industrial	1,101	2,092
Group	308	317
Total life and annuities	<u>114,535</u>	<u>278,745</u>
<b><u>Accident and health</u></b>		
Group	75	111
Total accident and health	<u>75</u>	<u>111</u>
Total policy reserves	<u>\$ 114,610</u>	<u>278,856</u>

**Southland National Insurance Corporation**

Report on Examination

December 31, 2015

**5. 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>	<b>Year Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
		<i>(unexamined)</i>
Balance at January 1	\$ 138	94
Incurred during the year	3,271	2,430
Paid during the year	3,209	2,386
Balance at December 31	\$ 200	138

**Liability for Unpaid Life and Annuity Benefits**

<i>(In Thousands)</i>	<b>Year Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
		<i>(unexamined)</i>
Balance at January 1	\$ 1,316	1,261
Reinsurance recoverables		
Reinsurance recoverable at December 31, current year	738	
Incurred during the year:		
Life benefits	13,335	16,364
Annuity benefits		39
Total incurred during the year	13,335	16,403
Reinsurance recoverable at December 31, prior year		238
Paid during the year	14,408	16,110
Balance at December 31	\$ 981	1,316

# Southland National Insurance Corporation

Report on Examination

December 31, 2015

## 6. 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.

## 7. 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.

	2013	2012	2011
	<i>(unexamined)</i>	<i>(unexamined)</i>	<i>(unexamined)</i>
Capital and surplus, beginning of year	\$ 9,691,837	10,846,626	9,793,457
Capital and surplus increases (decreases):			
Net income	220,552	234,986	878,671
Change in net unrealized capital gain (loss)	(628,402)	(134,449)	28,744
Change in net deferred income tax	756,180	262,082	(159,441)
Change in nonadmitted assets	(666,831)	(995,056)	697,214
Change in liability for reinsurance in unauthorized and certified companies	86,502	(50,591)	(37,197)
Change in asset valuation reserve	9,467	(471,761)	(346,781)
Dividends to stockholders			(8,041)
Change in surplus as regards policyholders for the year	(222,532)	(1,154,789)	1,053,169
Capital and surplus, end of year	\$ 9,469,305	9,691,837	10,846,626

## **Southland National Insurance Corporation**

Report on Examination

December 31, 2015

### **8. Subsequent Events**

As of January 1, 2016, the Company entered into a funds-withheld reinsurance agreement with its affiliate, Standard Re (Malta) Limited. Under the agreement, the Company cedes 70% of its dental policies issued or renewed on or after January 1, 2016, to Standard Re (Malta) Limited. The agreement will not transfer any policy in force that was first issued prior to the effective date of the agreement.

Effective March 18, 2016, the Company, through its subsidiary Mothe Life Holdings, LLC, acquired 100% of the common stock of Mothe Life Insurance Company and its wholly-owned subsidiary DLE Life Insurance Company for \$12,000,000.

The Company reported investments in affiliated securities totaling \$186,226,769 as of December 31, 2015. As of December 31, 2016, the Company reported investments in affiliated securities totaling \$52,313,168.

As of December 31, 2016, the Company reported investments in other loan backed and structured securities totaling \$135,800,136, which were acquired during 2016.

On January 23, 2017, the Florida Office of Insurance Regulation executed a Consent Order, under which the Company surrendered its Certificate of Authority to conduct business in Florida. In accordance with the Consent Order, the Company was required to enter into an Indemnity Reinsurance Agreement with an affiliate for all of the Company's in-force business in Florida and execute an Assignment and Assumption Agreement.

In 2016, the Company entered into an indemnity coinsured reinsurance agreement with Investors Heritage Life Insurance Company, under which it assumed approximately \$43,000,000 in assets.

### **9. 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.

**Southland National Insurance Corporation**  
**Appendix A – Report Distribution**  
December 31, 2015

**Greg Lindberg, Chairman**  
2327 Englert Dr., Durham, NC 27713

**Lou Hensley, CEO**  
2327 Englert Dr., Durham, NC 27713

**Brian Stewart, CFO**  
2327 Englert Dr., Durham, NC 27713

**Chris Herwig, Treasurer & CIO**  
2327 Englert Dr., Durham, NC 27713

**George Luecke, Co-CEO**  
2327 Englert Dr., Durham, NC 27713

**Tamre Edwards, 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.

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

Respectfully submitted,



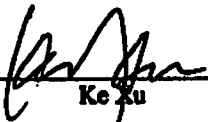
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Ke Xu, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

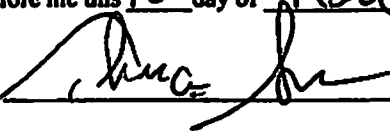
March 13, 2017

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:

