

REPORT OF EXAMINATION
OF THE
TRANS WORLD ASSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Insurance Commissioner

A handwritten signature in blue ink, appearing to read "P. DeLoe", is positioned to the right of the text "Insurance Commissioner".

FILED ON June 17, 2021

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Los Angeles, California
April 30, 2021

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

TRANS WORLD ASSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office is located at 885 South El Camino Real, San Mateo, California 94402.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2019.

This examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Company'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. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during the course of the

examination, the impact of such adjustment would be documented separately following the Company's financial statements.

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

This was a coordinated examination with Florida serving as the lead state. The Company and its affiliate, American Fidelity Life Insurance Company, were examined concurrently.

SUMMARY OF SIGNIFICANT FINDINGS

Insurance Holding Company System Annual Registration Statement

Pursuant to California Insurance Code (CIC) Section 1215.4(b)(1), every insurer subject to Insurance Holding Company System Regulatory Act shall file a registration statement (also known as the Form B) with the Commissioner which shall contain current information about the capital structure, general financial condition, ownership, and management of the insurer and any person controlling the insurer. Pursuant to CIC Section 1215.4(b)(2), the Form B shall contain the identity and relationship of every member of the insurance holding company system. During the course of this examination, the total percentage of ownership for TWA Corporation could not be established. It is recommended that the Company accurately complete "The Ultimate Controlling Person" section of Form B to comply with CIC Section 1215.4(b)(1) and report the identity and relationship of every member of the insurance holding company system to comply with CIC Section 1215.4(b)(2).

Annual Statement Instructions

Pursuant to the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners (NAIC), the Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The minutes of the Board of Directors shall indicate that the Appointed Actuary has presented such information to the Board or the Audit Committee. During the course of the examination, it was noted that there was no indication in the Board minutes that such presentation was made by the Appointed Actuary. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions. This is a repeat finding from the previous examination.

Pursuant to the NAIC Annual Statement Instructions, Notes to Financial Statements, Number 10, Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties, the Company is required to include disclosures of all material related party transactions. The Company's Notes to the Financial Statements, Number 10, Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties was not completed in 2015, and was incomplete for the years 2016, 2017, 2018, and 2019. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions. This is a repeat finding from the previous examination.

Pursuant to the NAIC Annual Statement Instructions, the total management and service fees incurred attributable to affiliates and non-affiliates shall be reported in the footnote to Exhibit 2, General Expenses and the method(s) for allocation shall be use on a consistent basis. The Company failed to disclose affiliated management fees incurred in the footnote to Annual Statement Exhibit 2, General Expenses. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Pursuant to the NAIC Annual Statement Instructions the Company failed to appropriately recognize Five Flags Banks, Inc. (FFB), as an affiliate in the Annual Statement,

Schedule D, Part 2, Section 2, and reported FFB as unaffiliated. The Company also failed to report such affiliation in the Notes to the Financial Statements, Number 10. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions. This is a repeat finding from the last examination.

Pursuant to the NAIC Annual Statement Instructions, Schedule D, Part 6, Section 1, Valuation of Shares of Subsidiary, Controlled or Affiliated Companies, the Company should report details regarding preferred and common stocks for each subsidiary, controlled, or affiliated company. The Company failed to include FFB in the Annual Statement Schedule D, Part 6, Section 1. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions. This is a repeat finding from the last examination.

Pursuant to the NAIC Annual Statement Instructions, Schedule D, Part 6, Section 2, the Company should report transactions with the lower-tier company of its affiliates, insurers and non-insurers, within the holding company system. The Company did not report stock or other investments with the lower-tier company of its affiliates in Annual Statement Schedule D, Part 6, Section 2. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Pursuant to the NAIC Annual Statement Instructions, Schedule Y, Part 2, the Company should report transactions with any affiliates, insurers, and non-insurers, within the holding company system. The Company did not report mortgage loans or other investments with affiliates within its Annual Statement, Schedule Y, Part 2. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions. This is a repeat finding from the last examination.

COMPANY HISTORY

The Company was formed in California on October 3, 1962 and commenced business on December 19, 1963. TWA Corporation (TWA Corp.), a Delaware domiciled insurance holding company owns all outstanding shares of the Company's common stock.

Capitalization

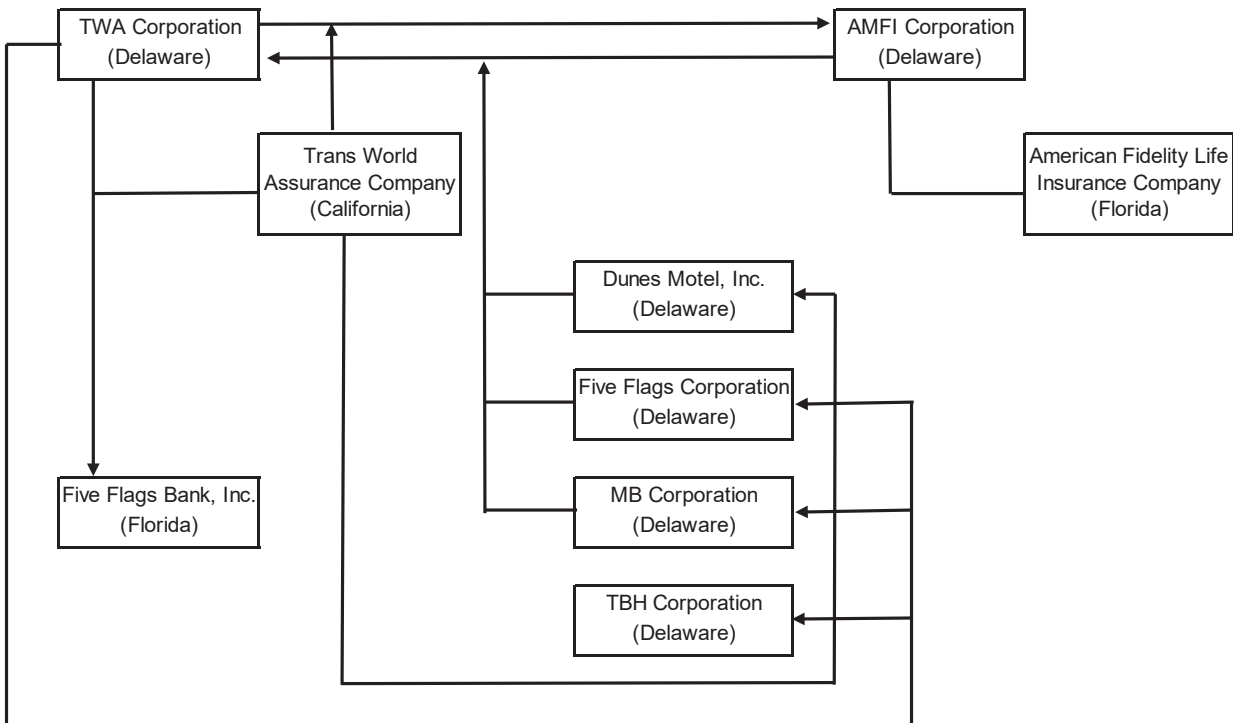
The Company is authorized to issue 2 million shares of Class A voting common stock with a par value of \$6 per share. As of December 31, 2019, there were 416,667 shares issued and outstanding and held by TWA Corp.

Dividends

The Company paid ordinary cash dividends to its parent, TWA Corp., in the amount of \$1,250,000 in 2019, \$1,700,000 in 2018, \$1,450,000 in 2017, and \$1,700,000 in 2015. In 2016, the Company did not declare nor pay any dividends. Subsequent to the examination period, and in 2020, the Company paid a \$1,500,000 ordinary cash dividend to TWA Corp.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system, of which TWA Corporation (TWA Corp.) is the controlling entity. The following abridged organizational chart depicts the inter-relationship of the companies as of December 31, 2019:



As of December 31, 2019, TWA Corp.'s largest identifiable shareholders were AMFI Corporation (AMFI Corp.) and its subsidiary, American Fidelity Life Insurance Company (AFLIC), with a combined ownership of 14.3%. Five Flagg Corporation, MB Corporation, and TBH Corporation owns 3.2%, 1.5% and 2.3% of TWA Corp., respectively. As noted in page 2 above, the majority of the shareholders of TWA Corp. could not be established and were not disclosed to the examination team.

Five Flagg Bank, Inc. (FFB) is a bank holding company which owns the Bank of Pensacola, The Warrington Bank, and Bank of the South. As depicted in the abridged organizational chart above, the Company and TWA Corp own a percentage of FFB. The Company transacts business with all three banks that are owned by FFB. It is

recommended that the Company recognize FFB as an affiliate and its subsidiary and make the required disclosures in its Form B filings.

The five members of the Board of Directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2019:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Earl Bartlett ^(a) Tucson, Arizona	Chairman of the Board Trans World Assurance Company
Marilyn W. Hess Pensacola, Florida	Secretary Trans World Assurance Company
Charles B. Royals San Mateo, California	President Trans World Assurance Company
Barbara J. Woodbury La Jolla, California	Vice President Trans World Assurance Company
William P. Woodbury Pensacola, Florida	President Bank of Pensacola

Principal Officers

<u>Name</u>	<u>Title</u>
Charles B. Royals	President
Marilyn W. Hess	Secretary
Jennifer D. Pierce ^(b)	Treasurer

The following changes in directors and principal officers occurred subsequent to the examination date:

- (a) Subsequent to the examination date, and on March 2020 Earl Bartlett passed away and Eleanor L. Taylor was voted in as member of the Board of Directors.
- (b) Subsequent to the examination date, and on June 2020, Jennifer D. Pierce resigned and was replaced by Paula Coster as Treasurer.

Following the passing of Mr. Bartlett, the Company's President, Mr. Charles Royals took over the role of the Chairman of the Board. During the course of this examination it was noted that there was no formal election of Mr. Royals to be the Chairman of the Board, which was a provision of the Company's By-Laws. Upon notification of the deficiency, the Company remedied the deficiency by formally electing Mr. Charles Royals as Chairman of the Board and entering this fact within its minutes on January 28, 2021. It is recommended that the Company implement procedures to ensure compliance with all the provisions listed within its By-Laws.

Management Agreements

Policy Issuance/Maintenance Agreement: Effective March 1, 1997, with amendments dated August 23, 2002 and February 9, 2007, the Company entered into a Policy Issuance/Maintenance Agreement (Agreement) with its affiliate, American Fidelity Life Insurance Company (AFLIC). Under the terms of the Agreement, AFLIC, provides the Company services including policy issuance, claims administration, accounting, investments, premium collection, data processing, and financial reporting. In return, the Company pays a fee of \$5 per in-force policy to AFLIC. The Agreement was approved for use by the California Department of Insurance (CDI) on March 30, 2009. For services provided, the Company paid AFLIC fees of \$105,047, \$176,971, \$163,417, \$151,798, and \$166,924 in years 2015, 2016, 2017, 2018, and 2019, respectively.

On April 1, 2019, an amendment was made to extend the Agreement to an additional five years and to increase the fee from \$9 to \$11 per paying in-force policy. Prior to this amendment, the fee was increased from the original \$5 to \$7 and then to \$9. California Insurance Code (CIC) Section 1215.5(b)(4) requires that management agreements, service contracts, tax sharing agreements, and cost-sharing arrangements involving a domestic insurer and any person in its holding company system, may be entered into only if the insurer has notified the commissioner in writing of its intention to enter into the transaction at least 30 days prior thereto, or a shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period. The request for prior approval is filed using the Form D. It was noted that the Company did not submit

prior approval for this amendment pursuant to CIC Section 1215.5(b)(4). On March 17, 2021, and during the course of the examination, the Company filed the Form D for approval and it is currently under review by the CDI. It is recommended the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4).

A review of the Company's records to support payments under this Agreement noted that quarterly payments of service fee by the Company to AFLIC are calculated annually based on the in-force inventory run at the end of each quarter. The total amount due was then divided by four. This calculation of payment does not support the provision of the Agreement which states in part that, "based on historical cost study averages... Trans World agrees to pay American Fidelity for such services a fee of eleven dollars (\$11.00), unless current analysis justified its modification, for each paying policy in force at the end of each quarter as recorded on the Trans World in force inventory run." It is recommended the Company amend the Agreement to accurately define the calculation of the fee and perform annual historical cost analysis to ensure timely adjustment of the amount of service fee.

Federal Income Tax Agreement: Effective December 1, 2004, the Company entered into a Federal Income Tax Agreement (FIT Agreement) to file federal income taxes on a consolidated basis with its holding company, TWA Corporation (TWA Corp), and TransAm Assurance Company (TransAm). Under the terms of the FIT Agreement, the Company's regular income tax liability shall not be greater nor less than the regular income tax liability would be if the Company had filed a separate tax return for all years in the consolidated period. This Agreement was approved for use by the CDI on March 10, 2004. During 2015, 2016, 2017, and 2019, the Company paid federal income taxes of \$2.5 million, \$2.2 million, \$1.5 million, and \$573 thousand, respectively. In 2018, the Company recovered \$1.5 million in federal income taxes.

On February 2, 2021 an amendment was made to extend the FIT Agreement to an additional five years until December 1, 2024. This amendment also removed TransAm Assurance Company as a party to the Agreement, an entity that was dissolved in 2015.

As in the case of the Policy Issuance/Maintenance Agreement and during the course of the examination it was noted that the Company did not submit for prior approval of this amendment to the Federal Income Tax Agreement pursuant to CIC Section 1215.5(b)(4). On March 17, 2021, and during the course of the examination, the Company filed the Form D for approval and it is currently under review by the CDI. It is recommended the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4).

Reimbursement Agreement: Effective April 4, 1982, the Company entered into a Reimbursement Agreement with its ultimate parent, TWA Corporation (TWA Corp). Under the terms of the Agreement, the Company provides TWA Corp certain general administrative services which includes facilities, stock ledger maintenance, and preparation of tax filings. The Agreement pre-dates prior notice requirements. The Agreement provides for an annual fee of \$350.

Non-affiliated Service Agreements

Third Party Administrative Service Agreement: Effective January 1, 2010 with the implementation date beginning April 15, 2009, the Actuarial Management Resources, Inc. (AMR) and American Fidelity Life Insurance Company (AFLIC) entered into the Third-Party Administrative Service Agreement (Agreement). On March 28, 2012, the Company was added as a participant to this Agreement. Under the terms of the Agreement, AMR performs customer service, policy administration, system support, claims handling, and document maintenance for all Universal Life policies issued and/or reinsured by the Company. In return for these services, the Company pays a fee of \$10 per policy for new business issued, and a policy maintenance fee of \$1.30 (\$1.15 if policies are issued by the Company) per policy in force, subject to a minimum of \$5,000.

Insurance Administration System Sales and Services Agreement: Effective August 1, 2010 with the implementation period beginning April 15, 2009, AMR and AFLIC entered into the Insurance Administration System Sales and Services Agreement (Agreement). On August 19, 2010, the Company was added as participant to this

Agreement. Under the terms of the Agreement, the Company and AFLIC agree that AMR will sell, customize, implement, and service each company's life insurance policy management system known as the Insurance Administration System (IAS). IAS provides the Company with the ongoing administrative capabilities necessary to service their current policy owners, process claims, perform accounting processes, perform reinsurance processes, and perform information technology processes. In return for these services, the Company and AFLIC remit a payment of \$0.50 per active policy, subject to a \$25,000 minimum, on the first business day of each month through the term of the agreement.

Related Party Transactions

The following material related party transactions were noted during the examination and as stated in page 3 above, these transactions should be included in the Notes to the Financial Statements Number 10:

- On January 15, 1993, the Company provided a \$3 million mortgage loan to an affiliate, TBH Corp. On December 31, 2010, the mortgage loan was transferred to another affiliate, Holi Corp. In 2007 and 2018, the mortgage loan increased by \$3.7 million and \$605,000, respectively. These mortgage loan transactions were not subject to prior approvals since it's below the minimum threshold per California Insurance Code (CIC) Section 1215.5(b)(1)(B). As of December 31, 2019, the current balance of this loan was \$4.2 million.
- Effective October 31, 2014, the Company entered into a Loan Participation Agreement with its affiliates, AFLIC, Bank of Pensacola, Bank of the South, and The Warrington Bank, to provide a mortgage loan to an affiliate, Via De Luna Corp. The total mortgage loan was \$15.2 million of which \$3.4 million was the Company's participation. The Loan Participation Agreement was not subject to a prior approval since it's below the minimum threshold per CIC Section 1215.5(b)(1)(B). As of 12/31/2019 the Company's participation for this mortgage loan has a balance of \$2.15 million.
- Effective October 1, 2015 the Company entered into a Loan Agreement with Holi Corp.

Under the terms of the Loan Agreement the Company agrees to lend \$8.2 million to Holi Corp. to be use for its general operations. This Loan Agreement was collateralized by a Mortgage and Security Agreement between the Company and Holi Corp. These transactions were not subject to prior approvals since it's below the minimum threshold per CIC Section 1215.5(b)(1)(B). As of December 31, 2019, the \$8.2 million mortgage loan to Holi Corp has a balance of \$100.

- TWA Corp. has a \$1 million line of credit with Wells Fargo Bank. The Company is contingently liable for this line of credit which has an outstanding balance of \$500 thousand as of December 31, 2019. This transaction was not subject to a prior approval since it's below the minimum threshold per CIC Section 1215.5(b)(5).
- On August 3, 2016 the CDI approved the Second Amended and Restated Agreement for Extension of the Loan Participation Agreement (Agreement) with its affiliates, AFLIC, AMFI Corp., Bank of the South, and The Warrington Bank, to provide mortgage loan to an affiliate, Little Sabine, Inc. The Agreement was extended to an additional five years at the interest rate of 5% per year, commencing on June 30, 2015. As of December 31, 2019, the original \$16.7 million participation by the Company to this mortgage loan has a balance of \$13.66 million. Subsequent to the examination date and on March 23, 2021, the CDI granted two approvals to this Agreement pursuant to CIC Section 1215.5(a). First, to extend the loan term from June 30, 2020 to September 3, 2020 without the need of any payment prior to maturity and then for an additional five years up to September 3, 2025. Second, to reduce the interest rate from 5% to 4.5% per year commencing on September 3, 2020 based upon a thirty-year amortization with a five-year balloon payment of all principal and interest, due and payable on September 3, 2025.

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed to write life and disability insurance in all states except New Hampshire, New York, and Vermont. It is also licensed in the District of Columbia, Guam, Japan, Mariana Island, Philippine Islands, and South Korea.

Approximately 48.17% of the \$12.38 million direct premiums written in 2019 were written in the states of California, Texas, and Florida. Direct premiums written in California totaled \$3.2 million, Texas with \$2.1 million, and Florida with \$0.6 million.

The Company primarily offers ordinary life coverage, including whole life, and universal life, as well as fixed deferred annuities to small groups, government employees, and active duty militaries. The products are distributed through independent contractors and general agents.

REINSURANCE

Coinsurance

The Company and American Fidelity Life Insurance Company (AFLIC) are parties to four reciprocal coinsurance agreements under which certain life policies and riders issued by the parties are automatically coinsured fifty percent in excess of each company's retention.

The coinsurance agreement that was effective December 19, 1963, and December 27, 1972 both cover ordinary life and limited payment life or endowment policies. The Company's retention under these two agreements was originally \$20,000 and then increased to \$35,000 on March 1, 1982 through December 31, 1997. The third coinsurance agreement that was effective August 1, 1986 covers Annual Renewable Term and Guaranteed Insurability Option Riders. Retention under this treaty was \$50,000 through December 31, 1997. Effective January 1, 1998, the retention for the three aforementioned coinsurance agreement was increased to \$75,000.

Effective September 1, 2009, the Company entered into a Yearly Renewable Term Coinsurance Agreement with AFLIC whereby the Company and AFLIC agree to cede and accept universal life policies. This is the fourth active coinsurance agreement. The amount reinsured is 50% of the net amount at risk not to exceed \$75,000.

Other than the coinsurance agreement above, the Company does not cede any reinsurance business. The Company assumed a minimal amount of reinsurance as a participant in the Servicemen's Group Life Insurance Program.

ACCOUNTS AND RECORDS

Unclaimed Property

A review was made of the Company's unclaimed property filings with the California State Controller's Office (SCO). California Code of Civil Procedure Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532 – Unclaimed Property Law requires that all tangible personal property located in the State of California that is held or owing in the ordinary course of business and has remained unclaimed by the owner for more than three years after it became payable or distributable, is escheated to the SCO. Detail document to support this filing should be maintained and available to the regulators.

The Company is unable to provide detail documents to support its 2017 Unclaimed Property Filings (UCP). As a result, the completeness and accuracy of the 2017 UCP was not performed. It is recommended that the Company maintain copies and detail documents to support its UCP.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2019

Summary of Operations and Capital and Surplus for the Year Ended
December 31, 2019

Reconciliation of Capital and Surplus from December 31, 2014 through
December 31, 2019

Statement of Financial Condition
as of December 31, 2019

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 271,973,907	\$	\$ 271,973,907	
Common stocks	24,705,680	1,624,747	23,080,933	(1)
Mortgage Loans on real estate: First Liens	20,039,300		20,039,300	
Real Estate:				
Properties held for the production of income	10,066,227		10,066,227	
Properties held for sale	151,502		151,502	
Cash and short-term investments	7,929,764		7,929,764	
Contract loans	1,605,832	99	1,605,733	
Other invested assets	2,282,797		2,282,797	
Investment income due and accrued	4,057,294		4,057,294	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	10,945		10,945	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,035,698		1,035,698	
Electronic data processing equipment and software	7,288	7,288	0	
Furniture and equipment	13,345	13,345	0	
Health care and other amounts receivable	2,261,415	2,261,415	0	
Aggregate write-ins for other than invested assets	12,215	12,215	0	
Total assets	<u>\$ 346,153,209</u>	<u>\$ 3,919,109</u>	<u>\$ 342,234,100</u>	

Liabilities, Surplus and Other Funds

			<u>Notes</u>
Aggregate reserves for life contracts		\$ 76,708,320	(2)
Liability for deposit type contracts		170,076,689	(2)
Contract claims: Life		646,073	
Provision for policyholders' dividends and coupons payable:			
Dividends not yet apportioned		3,732	
Premiums and annuity considerations received in advance		5,243	
General expenses due or accrued		115,793	
Taxes, licenses and fees due or accrued		50,719	
Net deferred tax liability		1,756,022	
Amounts withheld or retained by reporting entity as agent or trustee		829,036	
Remittances and items not allocated		1,227,619	
Asset valuation reserve		5,045,591	
Aggregate write-ins for liabilities		65	
Total liabilities		256,464,902	
Common capital stock	\$ 2,500,002		
Gross paid-in and contributed surplus	500,00		
Unassigned funds (surplus)	82,769,196		
Capital and surplus		<u>\$ 85,769,198</u>	
Total liabilities, capital and surplus		<u>\$ 342,234,100</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2019

Summary of Operations

Premiums and annuity considerations	\$ 13,584,243
Net investment income	12,531,063
Amortization of interest maintenance reserve	164,006
Commissions and expense allowances on reinsurance ceded	569
Charges and fees for deposit-type contracts	14,390
	<hr/>
Total	26,294,271
Death benefits	2,467,307
Annuity benefits	1,307,380
Surrender benefits and withdrawals for life contracts	2,101,598
Group conversions	(837)
Interest and adjustments on contract or deposit type contract funds	6,473,841
Increase in aggregate reserves for life contracts	4,922,251
	<hr/>
Total	17,271,540
Commissions on premiums, annuity considerations and deposit-type contract funds	2,869,571
Commissions and expense allowances on reinsurance assumed	3,702
General insurance expenses and fraternal expenses	2,941,705
Insurance taxes, licenses and fees, excluding federal income taxes	652,252
Increase in loading on deferred and uncollected premiums	(56,620)
	<hr/>
Total	23,682,151
Net gain from operations before dividends to policyholders and federal income tax	2,612,120
Dividends to policyholders	3,593
Federal and foreign income taxes incurred	620,888
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Net income	<u>\$ 1,987,639</u>

Capital and Surplus Account

Capital and surplus, December 31, 2018	\$ 86,255,579
Net income	\$ 1,987,639
Change in net unrealized capital losses	(1,118,425)
Change in net unrealized foreign exchange capital gain	697
Change in net deferred income tax	704,362
Change in nonadmitted assets	(441,334)
Change in asset valuation reserve	(369,319)
Dividends to stockholders	(1,250,000)
Aggregate write-ins for losses in surplus	(1)
	<hr/>
Change in capital and surplus for the year	<u>(486,381)</u>
Capital and surplus, December 31, 2019	<u>\$ 85,769,198</u>

Reconciliation of Capital and Surplus
from December 31, 2014 through December 31, 2019

Capital and surplus, December 31, 2014			\$ 81,388,163
	Gain in Surplus	Loss in Surplus	
Net income	\$ 19,575,819	\$	
Change in net unrealized capital losses less capital gains tax		8,843,442	
Change in net unrealized foreign exchange capital loss		6,698	
Change in net deferred income tax	610,156		
Change in nonadmitted assets	197,193		
Change in asset valuation reserve	303,789		
Dividends to stockholders		6,100,000	
Aggregate write-ins for losses in surplus		1,355,782	
Total gains and losses	\$ 20,686,957	\$ 16,305,922	
Net increase in surplus as regards policyholders			4,381,035
Capital and surplus, December 31, 2019			<u>\$ 85,769,198</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks

The Statement of Statutory Accounting Principles (SSAP) No. 97, 8b(iii), states in part that, "Investment in both U.S. and foreign noninsurance SCA entities that do not qualify under paragraph 8.b.ii, shall be recorded based on the audited U.S. GAAP equity of the investee." The Company failed to provide annual audited reports and verification of common ownership of their investments in Subsidiary, Controlled and Affiliated Entities (SCA). As a result, the SCA investments reported by the Company as of 12/31/2019 were overstated by approximately \$5.5 million when compared to the value approved by the NAIC. However, no adjustment was made in this Report of Examination to decrease the common stocks because the calculated overstated amount will fluctuate in subsequent periods. SSAP No. 97, Paragraph 51 states in part that, "if the Company has reported a value for the SCA investment that differs from the value approved by the NAIC, the Company is required to adjust the reported value in its next quarterly financial statement." It is recommended that the Company correct the overstated common stock balance in its next quarterly financial statement.

(2) Aggregate Reserve for Life Contracts and Liability for Deposit-Type Contracts

The California Department of Insurance (CDI) Life Actuary reviewed the Company's December 31, 2019 aggregate reserve for life contracts and liability for deposit-type contracts and disclosed that they are reasonable and accepted for the purpose of this examination.

SUBSEQUENT EVENTS

On February 25, 2019, the California Department of Insurance (CDI) disapproved a disclaimer of affiliation application filed by the Company. The disapproval letter listed the following entities: AMFI Corporation, American Fidelity Life Insurance Company, Little Sabine, Inc., MB Corporation, TBH Corporation, Dunes Motel, Inc., and Five Flags Corporation. On March 20, 2019, the Company filed a Petition for Writ of Mandate in response to the disapproval from the CDI. The writ petition listed the following as "Alleged

Affiliates:” AMFI Investments, Inc., Dunes Motel, Inc., TBH Corporation, Five Flags Corporation, Five Flags Bank, Inc., Bank of the South, First Navy Bank and Warrington Bank. The writ petition also referenced “Investment Entities.” The writ petition is pending and the final outcome, may or may not have an effect on some of the examination findings listed within this Report of Examination.

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the U.S. and global financial markets, in particular, U.S. publicly traded equity securities, and impacts on yields and interest rates in the U.S. bond market. During the exam we reviewed COVID-19’s impact on the Company’s business operations with no immediate solvency concerns noted. As of the date of this report, significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. As the pandemic still unfolds, it is too early to draw any definite conclusions as to its overall impact to the Company at this time. The CDI continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Summary of Significant Findings – Insurance Holding Company System Annual Registration Statement (Page 2): It is recommended that the Company accurately complete “The Ultimate Controlling Person” section of Form B to comply with CIC Section 1215.4(b)(1) and report the identity and relationship of every member of the insurance holding company system to comply with CIC Section 1215.4(b)(2). This is a repeat finding from the previous examination.

Summary of Significant Findings – Annual Statement Instructions (Page 3 and 4): It is recommended that the Company implement procedures to ensure compliance with the National Association of Insurance Commissioner (NAIC) Annual Statement Instructions,

as the noted compliance issues not only related to deficiencies in the current examination period, but also included repeat findings dating back to the prior examination period.

Management and Control (Page 6): It is recommended that the Company recognize Five Flags Bank, Inc. as an affiliate and its subsidiary and make the required disclosures in its Form B filings.

Management and Control (Page 8): It is recommended that the Company implement procedures to ensure compliance with all the provisions listed within its By-Laws.

Management and Control – Management Agreements (Page 9 and 10): It is recommended the Company implement procedures to ensure future compliance with CIC Section 1215.5(b)(4).

Management and Control – Management Agreements (Page 9): It is recommended the Company amend the Policy/Issuance Management Agreement to accurately define the calculation of the fee and perform annual historical cost analysis to ensure timely adjustment of the amount of service fee.

Accounts and Records – Unclaimed Property Filings (Page 14): It is recommended that the Company maintains copy and detail document to support its Unclaimed Property Filings.

Comments on Financial Statement Items - Common Stocks (Page 18) - It is recommended that the Company correct the overstated common stock balance in its next quarterly financial statement.

Previous Report of Examination

Summary of Significant Findings – Insurance Holding Company System Annual Registration Statement (Page 2): It was recommended that the Company accurately complete “The Ultimate Controlling Person” section of Form B to comply with California Insurance Code (CIC) Section 1215.4(b)(1) and report the identity and relationship of every member of the insurance holding company system to comply with CIC Section

1215.4(b)(2). The Company has not complied with this recommendation, therefore, within this Report of Examination, it is again recommended that the Company correct this deficiency.

Summary of Significant Findings – Insurance Holding Company System Annual Registration Statement (Page 3): It was recommended that the Company comply with CIC Section 1215.4(b)(6) and include the required corporate governance statements in its future Form B filings. The Company complied with this recommendation.

Summary of Significant Findings - Annual Financial Reporting (Page 3): It was recommended that the Company implement procedures to ensure compliance with CCR, Title 10, Chapter 5, Subchapter 3, Article 3.3, Sections 2309.14(a) and 2309.14(f)(1), as well as SAS 61. This is a repeat finding from the previous examination. The Company complied with this recommendation.

Summary of Significant Findings – Annual Statement Instructions (Page 4): It was recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions regarding the presentation by the Appointed Actuary of items within the scope of the Actuarial Opinion to the Board of Directors or the Audit Committee and document as such in the Board or Audit Committee minutes. The Company has not complied with this recommendation, therefore, within this Report of Examination, it is again recommended that the Company correct this deficiency.

Summary of Significant Findings – Annual Statement Instructions (Page 4): It was recommended that the Company implement procedures to ensure compliance with the Annual Statement Instructions regarding reporting of Schedule Y, Part 2. This is a repeat finding from the last examination. The Company has not complied with this recommendation, therefore, within this Report of Examination, it is again recommended that the Company correct this deficiency.

Summary of Significant Findings – Annual Statement Instructions (Page 4): It was recommended that the Company implement procedures to ensure compliance with the

Annual Statement Instructions regarding reporting of Schedule D, Part 6, Section 1. The Company has not complied with this recommendation, therefore, within this Report of Examination, it is again recommended that the Company correct this deficiency.

Summary of Significant Findings – Annual Statement Instructions, Notes to Financial Statements, Number 10 (Page 5): It was recommended that the Company implement procedures to ensure compliance with the Annual Statement Instructions regarding the presentation of the Notes to the Financial Statements. The Company has not complied with this recommendation, therefore, within this Report of Examination, it is again recommended that the Company correct this deficiency.


Summary of Significant Findings – Five Flags Bank, Inc. (Page 5): It was recommended that the Company recognize Five Flags Bank, Inc. as an affiliate and make the required disclosures in its Form B and Annual Statement. It was also recommended the Company report its ownership in Five Flags Banks, Inc. as affiliated common stock in the Annual Statement, Schedule D, Part 2, Section 2. The Company has not complied with this recommendation, therefore, within this Report of Examination, it is again recommended that the Company correct this deficiency.

Accounts and Records (page 11): As a result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its information systems controls. The Company complied with this recommendation.

ACKNOWLEDGMENT


Respectfully submitted,

Ison,
Ferdinand

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