NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

NATIONAL SECURITY LIFE AND ANNUITY COMPANY

CONDITION:	DECEMBER 31, 2015
DATE OF REPORT:	JUNE 27, 2017

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AS OF

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EXAMINER:	ELKIN WOODS

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

May 2, 2017

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31502, dated July 6, 2016 and annexed hereto, an examination has been made into the condition and affairs of National Security Life and Annuity Company, hereinafter referred to as “the Company,” at its home office located at 415 Madison Avenue, New York, NY 10017.

Wherever “Department” appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The material violation and recommendations contained in this report are summarized below.

- Eighty-seven and one half percent (87.5%) of the Company's admitted assets as of December 31, 2015, were derived from separate accounts. This separate account activity is mainly generated from the variable annuity guarantee block of business, which has been increasing each year, and exposes the Company to additional risks. In light of the amount of this business in relation to the total business and the size of the Company, the examiner recommends that the Company consider limiting its exposure to these risks. (See item 6B of this report)
- The examiner recommends that the Company continue to incorporate certain refinements to its reserves methodologies as agreed upon with the Department. (See item 6F of this report)
- The Company violated Section 4228(h) of the New York Insurance Law by failing to demonstrate that pricing was performed prior to the date the various statements of self-support were signed. (See item 7D of this report)

2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2016 Edition* (the "Handbook"). The examination covers the five-year period from January 1, 2011 to December 31, 2015. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2015 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

In the course of the examination, a review was also made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The results of this review are contained in item 7 of this report.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners ("NAIC"). The Handbook guidance provides for the establishment of an examination plan based on the examiner's assessment of risk in the insurer's operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management's compliance with New York statutes and Department guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

The financial portion of the examination was called by the Ohio Department of Insurance ("Ohio") in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System ("FEETS"). Ohio served as the lead state with New York and Vermont participating. Since the lead and participating states are all accredited by the NAIC, all the states deemed it appropriate to rely on each other's work.

Information about the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The Company's risks and management activities were evaluated incorporating the NAIC’s nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2011 through 2015, by the accounting firm of KPMG, LLP (“KPMG”). The Company received an unqualified opinion in all years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company’s parent, Ohio National Life Insurance Company (“ONLIC”), has its internal audit department and a separate internal control department which was given the task of assessing the internal control structure and compliance with the Model Audit Rule (MAR) for the Company and its affiliates. Where applicable, MAR workpapers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the violations contained in the prior report on examination. The results of the examiner’s review are contained in item 8 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as Urbaine Insurance Company on February 7, 1973 and licensed as a property insurer on March 31, 1973. The Company was initially owned by subsidiaries of Societe Centrale L'Union des Assurances de Paris, France ("UAP"). On May 14, 1973, the Company became a licensed life insurer and changed its name to The Urbaine Life Insurance Company. The Company commenced business on July 25, 1975. Initial resources of $4,061,574, consisting of common capital stock of $1,000,000 and paid in and contributed surplus of $3,061,574, were provided through the sale of 10,000 shares of common stock for $406.15 per share. On June 27, 1977, the Company changed its name to The Urbaine Life Reinsurance Company. Ultimate control of the Company passed from UAP to SCOR S.A. in November of 1989. All of the shares of the Company's capital stock were repurchased by UAP in February 1990 and sold on March 31, 1993 to Security Life of Denver Insurance Company. On June 21, 1994 the Company changed its name to First ING Life Insurance Company of New York.

In 1997, the Company increased the par value of its capital stock to $250 by transferring $1,400,000 from paid in capital to capital stock. This increased capital stock to $2,500,000 and decreased paid in and contributed surplus to $21,929,976.

On May 3, 2001, Security Life of Denver Insurance Company, the former parent of the Company, entered into a stock purchase agreement with Security Mutual Life Insurance Company of New York ("SML"), Ohio National Financial Services ("ONFS") and SMON Holdings, Inc. ("SMON") to sell the Company, formerly known as First ING Life Insurance Company of New York, to SMON. After receiving regulatory approval for the sale on January 3, 2002, the transaction was closed on January 4, 2002. As a result of the sale, the Company changed its name from First ING Life Insurance Company of New York to National Security Life and Annuity Company effective January 4, 2002.

At December 31, 2003, SMON was jointly owned by ONFS and SML holding 51.2% and 48.8% of the outstanding shares, respectively. The ownership continued through November 28, 2004. On November 29, 2004, ONFS contributed its entire ownership in SMON to ONLIC, a wholly owned subsidiary.

On February 17, 2007, the board of directors and stockholders (ONLIC and SML) of SMON authorized the dissolution of SMON and the transfer of the Company's shares to the former stockholders of SMON in proportion to the stockholders interest in SMON at the time of SMON's dissolution. Specifically, ONLIC received 5,122 shares and SML received 4,878 shares of the Company's then issued and outstanding stock.

On March 30, 2007, ONLIC and SML entered into a stock purchase agreement for ONLIC to purchase additional shares of the Company from SML. ONLIC purchased 2,927 shares of SML for $6,000 thereby increasing ONLIC's holdings in NSLAC to 80.5% and decreasing SML's holding to 19.5%.

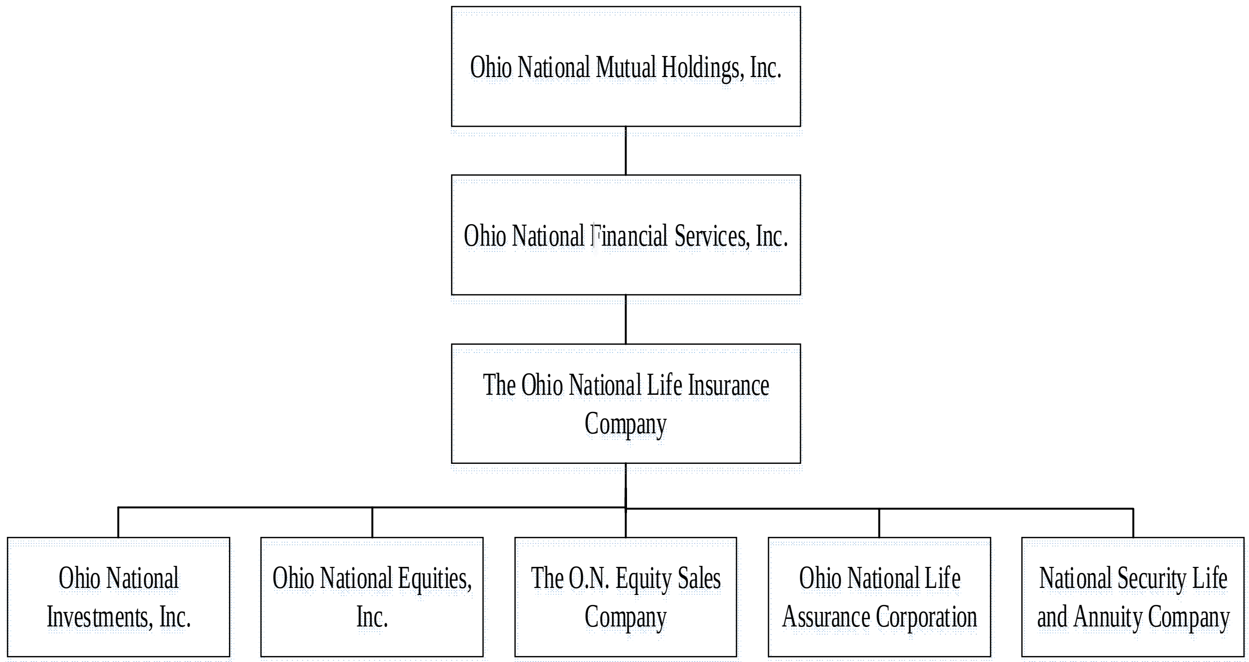
Subsequently, on December 15, 2011, ONLIC purchased all shares owned by SML and became the sole stockholder of the Company.

B. Holding Company

The Company is a wholly owned subsidiary of ONLIC, an Ohio insurance company. The ultimate parent of the Company is Ohio National Mutual Holdings, Inc.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2015 follows:



D. Service Agreements

The Company had seven service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Services	Recipient of Services	Specific Services Covered	Income/ (Expense)* For Each Year of the Examination
Administrative Services Agreement File No. 30523	1/04/2002 Amended 7/31/2002	ONLIC	The Company	plan of operation, product development, underwriting/ claims/ product administration, advertising and sales materials, accounting/ audit functions, and investments	2011 - $ (474,645) 2012 - $ (733,438) 2013 - $ (534,486) 2014 - $(1,214,623) 2015 - $(1,315,004)
Administrative Services Agreement File No. 29524A	1/04/2002	ONLIC	The Company	Reinsurance administration services	2011 - $ (14,961) 2012 - $ (1,500) 2013 - $ (1,500) 2014 - $ (1,500) 2015 - $ (1,500)
Investment Management Services Agreement File No. 29524A	1/04/2002	Ohio National Investments, Inc. & ONLIC	The Company	Investment advisory services	2011 - $ (33,077) 2012 - $ (23,266) 2013 - $ (24,633) 2014 - $ (17,000) 2015 - $ (12,055)
Principal Underwriting Agreement File No. 30475	8/01/2002	Ohio National Equities, Inc.	The Company	Underwriting services	2011 - $ (4,390) 2012 - $ (10,005) 2013 - $ (7,935) 2014 - $ (9,555) 2015 - $ (9,255)
Administrative Services Agreement File No. 30524	1/04/2002 Amended 7/31/2002	ONLIC	The Company	Reinsurance administration services	2011 - $(2,084,543) 2012 - $(4,000,973) 2013 - $(5,128,320) 2014 - $(2,081,357) 2015 - $ (387,560)
Administrative Services Agreement File No. 29524A	5/07/2002	Ohio National Equities, Inc.	The Company	Principal underwriting and distribution services	2011 - $ (554,972) 2012 - $ (434,659) 2013 - $ (720,257) 2014 - $ (831,271) 2015 - $ (747,170)
Distribution Agreement File No. 30476	8/01/2002	Ohio National Equities, Inc. and The O.N. Equity Sales Company	The Company	General distribution services	2011 - $ (550,582) 2012 - $ (424,654) 2013 - $ (712,322) 2014 - $ (821,716) 2015 - $ (741,570)

* Amount of Income or (Expense) Incurred by the Company

The Company participates in a federal income tax allocation agreement with its parent and affiliates.

Section 1505(c) of the New York Insurance Law states, in part:

> "The superintendent's prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system: . . . investments, involving five percent or more of the insurer's admitted assets at last year-end."

In December 2011, the Company's parent, ONLIC, made an investment in the Company through a cash contribution in the amount of $10 million. The Company did not obtain the approval of the Superintendent prior to entering into this transaction which involved approximately 5.05% of the Company's 2010 admitted assets.

The examiner recommends that the Company obtain the superintendent's approval prior to accepting future surplus contributions from its parent involving five percent or more of its admitted assets at last year end.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than seven and not more than 21 directors, provided, however, that the number of directors shall be increased to not less than 13 directors within one year following the end of the calendar year in which the Company's admitted assets exceed $1,500,000,000. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2015, the board of directors consisted of eight members. Meetings of the board are held quarterly.

The eight board members and their principal business affiliation, as of December 31, 2015, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Thomas A. Barefield Cincinnati, OH	Executive Vice President and Chief Marketing Officer National Security Life and Annuity Company Ohio National Financial Services, Inc.	2007
George E. Castrucci* Boca Grande, FL	Retired, Chairman and Chief Executive Officer, Great American Broadcasting Company	2002
Raymond R. Clark* Cincinnati, OH	Retired, President and Chief Executive Officer Cincinnati Bell Telephone	2002
Ronald J. Dolan Cincinnati, OH	Vice Chairman and Chief Risk Officer National Security Life and Annuity Company Ohio National Life Insurance Company Ohio National Financial Services, Inc. Ohio National Mutual Holdings, Inc.	2002
Kristal E. Hambrick Cincinnati, OH	Executive Vice President and Chief Product Officer National Security Life and Annuity Company Ohio National Life Insurance Company Ohio National Financial Services, Inc. Ohio National Mutual Holdings, Inc.	2012
Gary T. Huffman Cincinnati, OH	President, Chairman and Chief Executive Officer National Security Life and Annuity Company Ohio National Life Insurance Company Ohio National Financial Services, Inc. Ohio National Mutual Holdings, Inc.	2010
John W. Mulhall New York, NY	Divisional Vice President, Sales Ohio National Life Insurance Company	2012
John J. Palmer* Tucson, AZ	Retired, Vice Chairman Ohio National Life Insurance Company Ohio National Financial Services, Inc. Ohio National Mutual Holdings, Inc.	2002

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2015:

Name	Title
Gary T. Huffman	President, Chairman and Chief Executive Officer
Rocky Coppola	Vice President, Treasurer and Chief Financial Officer
Ronald J. Dolan	Vice President and Chief Risk Officer
Christopher A. Carlson	Chief Information Officer
Paul J. Gerard	Chief Investment Officer
Kush V. Kotecha	Valuation Actuary
Peter E. Whipple	Product Development Actuary, Life Illustration Actuary
Joseph M. Fischer*	Assistant Counsel and Assistant Secretary

* Designated consumer services officer per Insurance Regulation No. 64, 11 NYCRR Section 216.4(c)

In May 2016, Michael J. DeWeirdt replaced Gary T. Huffman as President and Chief Executive Officer.

4. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in 17 states, and the District of Columbia. In 2015, the Company received premiums and annuity considerations totaling $47.6 million of which, 98.8% were annuity considerations received from New York. Of these premiums, approximately 8.8% was ceded to ONLIC. All policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2015, the Company had $1,618,865 (Par Value) of United States Treasury Bonds on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company. As per confirmations received from the following states which were reported in Schedule E of the 2015 filed annual statement an additional, $121,297 was being held by the states of Arkansas and Oklahoma.

B. Direct Operations

In 2003, the Company began offering variable annuities through its affiliated broker-dealer, Ohio National Equities, Inc.

During the examination period, the Company primarily marketed variable annuities in the New York marketplace. To date, the business production of the Company has been relatively modest; however, ONLIC has established selling agreements with broker-dealers and banks to sell variable annuities on behalf of the Company. With the addition of various accounts such as Morgan Stanley, Smith Barney, Wells Fargo, and UBS, the Company now has over 90 distribution agreements with independent broker-dealers, security brokerage firms/wirehouses and banks with over 4,000 registered representatives distributing its products in New York. The Company's product portfolio has been expanded to include new offerings and living benefits riders.

The Company's agency operations are conducted through wirehouses, regional banks and independent broker dealers.

C. Reinsurance

As of December 31, 2015, the Company had reinsurance treaties in effect with 5 non-affiliated companies, of which 2 were authorized or accredited. There is no credit taken under one of the non-affiliated treaties. The Company has a variable annuity living benefit treaty with its parent the ONLIC that was closed for new business January 1, 2015. It also has a closed life treaty with ONLIC for a very small block of variable universal life. ONLIC is an unauthorized reinsurer.

The variable annuity living benefit treaty with ONLIC covers guaranteed minimum income benefit (GMIB), guaranteed minimum accumulation benefit (GMAB), and guaranteed minimum withdrawal benefit (GMWB), through a 100% coinsurance agreement with ONLIC effective in July, 2007. The Company discontinued the sale of its GMIB rider in August 2012 at which time the Company began offering a guaranteed lifetime withdrawal benefit (GLWB), which are also reinsured under the treaty with ONLIC. In 2014, the Company introduced a new version of the GLWB rider, which is not reinsured with ONLIC through the coinsurance agreement.

The Company cedes 100% quota share of its variable annuity contract guaranteed death benefits to Ace Tempest under a deferred stop-loss arrangement. The treaty was closed to new policies effective June 30, 2005.

The Company cedes 98.4% of its individual life business. The total face amount of life insurance ceded as of December 31, 2015, was $63,063,347, which represents 98.4% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $8,656,319, was supported by letters of credit and trust agreements.

5. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, 2010	December 31, 2015	Increase
Admitted assets	$197,852,046	$435,541,541	$237,689,495
Liabilities	$181,770,270	$403,361,501	$221,591,231
Common capital stock	$ 2,500,000	$ 2,500,000	$ 0
Gross paid in and contributed surplus	23,271,590	33,271,590	10,000,000
Unassigned funds (surplus)	(9,689,826)	(3,591,550)	6,098,276
Total capital and surplus	$ 16,081,764	$ 32,180,040	$ 16,098,276
Total liabilities, capital and surplus	$197,852,034	$435,541,541	$237,689,507

The majority (87.5%) of the Company's admitted assets, as of December 31, 2015, was derived from Separate Accounts.

The Company's invested assets as of December 31, 2015, exclusive of separate accounts, were mainly comprised of bonds (93.3%), and cash and short-term investments (6.7%).

The majority (97.6%) of the Company's bond portfolio, as of December 31, 2015, was comprised of investment grade obligations.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	Ordinary Annuities				
	2011	2012	2013	2014	2015
Outstanding, end of previous year	1,444	1,536	1,707	2,107	2,452
Issued during the year	135	227	456	434	218
Other net changes during the year	(43)	(56)	(56)	(89)	(74)
Outstanding, end of current year	1,536	1,707	2,107	2,452	2,596

The Company attributes the increases in new issues from 2012 to 2014 to the competitiveness of its withdrawal benefit rider. The decrease in 2015 is attributed to the de-risking of the withdrawal benefit rider.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2011	2012	2013	2014	2015
Ordinary:					
Life insurance	$ 391,334	$ 266,673	$ 438,861	$ 210,636	$ 156,284
Individual annuities	(6,533,196)	826,544	5,608,180	1,326,687	1,244,808
Supplementary contracts	(2,504)	(1,771)	(3,804)	16,983	0
Total	$(6,144,366)	$1,091,446	$6,043,237	$1,554,305	$1,401,093

The decrease in income from ordinary life in 2012 is primarily due to an increase in general insurance expenses. The increase in income from ordinary life in 2013 is primarily due to an increase in net investment income along with a decrease in general insurance expenses. The decrease in income from ordinary life in 2014 is primarily due to an increase in general insurance expenses which was offset by an increase in net investment income. The decrease in net income from operations from ordinary life in 2015 is primarily due to an increase in general insurance expenses.

The increase in income from individual annuity in 2012 and 2014 was due to the competitiveness of the withdrawal benefit. The decrease in 2015 for annuities was due to the de-risked living benefit launch.

The $0 amount reported in 2015 in Supplementary Contracts is due to the reclassification of the contracts to individual annuities. The supplemental contracts in the prior years were misclassified and is now reported as $0 in 2015. Supplemental contracts represent the option for a beneficiary to annuitize the death benefit normally received in a cash lump sum. Instead of receiving the cash, the policyholder annuitized to an Immediate Annuity and so the policy value is reported as Individual Annuities instead of Supplemental Contracts.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2015, as contained in the Company's 2015 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2015 filed annual statement.

A. Independent Accountants

The firm of KPMG was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

KPMG concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	$ 46,407,590
Cash, cash equivalents and short term investments	3,317,617
Contract loans	4,973
Investment income due and accrued	388,399
Reinsurance:	
Amounts recoverable from reinsurers	1,181,842
Other amounts receivable under reinsurance contracts	32,500
Current federal and foreign income tax recoverable and interest thereon	114,972
Net deferred tax asset	656,366
Guaranty funds receivable or on deposit	190,500
Annuity rider charges receivable	1,862,811
Fund revenue receivable	133,037
State taxes recoverable	32,239
NSCC deposit	20,000
From separate accounts, segregated accounts and protected cell accounts	381,198,695
Total admitted assets	$435,541,541

Eighty-seven and one half percent (87.5%) of the Company's admitted assets as of December 31, 2015, were derived from separate accounts. This separate account activity is mainly generated from the variable annuity guarantee block of business, which has been increasing each year, and exposes the Company to additional risks. In light of the amount of this business in relation to the total business and the size of the Company, the examiner recommends that the Company consider limiting its exposure to these risks.

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 27,171,876
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	431,627
Interest maintenance reserve	452,786
Commissions to agents due or accrued	10,279
General expenses due or accrued	165,528
Transfers to separate accounts due or accrued	(7,052,621)
Taxes, licenses and fees due or accrued, excluding federal income taxes	275,527
Remittances and items not allocated	366,402
Miscellaneous liabilities:	
Asset valuation reserve	264,074
Payable to parent, subsidiaries and affiliates	77,328
From Separate Accounts statement	381,198,695
Total liabilities	$403,361,501
Common capital stock	$ 2,500,000
Gross paid in and contributed surplus	33,271,590
Unassigned funds (surplus)	(3,591,550)
Surplus	29,680,040
Total capital and surplus	$ 32,180,040
Total liabilities, capital and surplus	$435,541,541

D. Condensed Summary of Operations

	2011	2012	2013	2014	2015
Premiums and considerations	$10,211,680	$31,584,435	$71,937,697	$74,544,191	$44,734,973
Investment income	2,137,128	2,211,025	2,313,569	2,324,797	1,989,147
Commissions and reserve adjustments on reinsurance ceded	4,068,660	30,417	26,372	16,453	(51,170)
Miscellaneous income	1,700,886	4,681,105	6,223,737	8,775,647	10,053,502
Total income	$18,118,354	$38,506,982	$80,501,375	$85,661,088	$56,726,452
Benefit payments	$ 4,498,631	$ 9,154,002	$11,816,675	$23,004,537	$16,655,324
Increase in reserves	617,941	2,601,389	1,854,922	(4,856,749)	(3,163,260)
Commissions	1,560,723	2,364,133	4,881,683	5,534,465	4,406,778
General expenses and taxes	1,511,783	1,648,828	1,741,390	2,284,514	2,321,114
Net transfers to (from) Separate Accounts	16,099,901	21,664,356	58,402,018	57,282,973	35,135,993
Miscellaneous deductions	(26,259)	(19,825)	(15,775)	(25,724)	(85,601)
Total deductions	$24,262,720	$37,412,883	$78,680,913	$83,224,016	$55,270,348
Net gain (loss)	$ (6,144,366)	$ 1,094,099	$ 1,820,462	$ 2,437,072	$ 1,456,104
Federal and foreign income taxes incurred	0	2,653	(4,222,773)	882,767	55,011
Net gain (loss) from operations before net realized capital gains	$ (6,144,366)	$ 1,091,446	$ 6,043,235	$ 1,554,305	$ 1,401,093
Net realized capital gains (losses)	17,396	(3,800)	160,593	(68,724)	(46,972)
Net income	$ (6,126,970)	$ 1,087,647	$ 6,203,829	$ 1,485,581	$ 1,354,121

E. Capital and Surplus Account

	2011	2012	2013	2014	2015
Capital and surplus, December 31, prior year	$16,081,764	$19,848,219	$24,965,583	$28,593,155	$30,620,153
Net income	$(6,126,970)	$ 1,087,647	$ 6,203,829	$ 1,485,581	$ 1,354,121
Change in net unrealized capital gains (losses)	(17,941)	0	0	0	0
Change in net deferred income tax	2,269,303	(695,843)	(4,487,183)	523,825	59,651
Change in non-admitted assets and related items	(2,282,040)	3,215,961	1,973,200	24,871	22,578
Change in liability for reinsurance in unauthorized companies	(3,470)	3,470	0	0	0
Change in asset valuation reserve	(72,428)	(52,185)	(44,433)	(7,278)	35,176
Surplus adjustments:					
Paid in	10,000,000	0	0	0	0
Prior period adjustment	0	1,558,312	(17,840)	0	88,360
Net change in capital and surplus for the year	3,766,454	5,117,362	3,627,573	2,026,999	1,559,886
Capital and surplus, December 31, current year	$19,848,219	$24,965,583	$28,593,155	$30,620,153	$32,180,040

F. Reserves

The Department conducted a review of reserves as of December 31, 2015. This review included an examination of the asset adequacy analysis in accordance with Insurance Regulation No. 126. During the review, concerns were raised with the methodology used within the Company's asset adequacy analysis pursuant to Insurance Regulation No. 126 for the variable annuity business. In particular, the methodology used to determine the gross reserves, the reinsurance reserve credit and associated reinsurance collateral for the variable annuities with living benefits reinsured with Ohio National Life Insurance Company were of concern. In response, the Company incorporated various refinements in a manner acceptable to the Department and committed to strengthen reserves by $54 million on a direct basis and $14 million on a net basis.

The examiner recommends that the Company continue to incorporate these refinements as agreed upon with the Department.

7. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

D. Actuarial Statement of Self-Support

Section 4228(h) of the New York Insurance Law states, in part:

> "No company shall offer for sale any life insurance policy form or annuity contract form covered by this section or any debit life insurance policy form which shall not appear to be self-supporting on reasonable assumptions as to interest, mortality, persistency, taxes, agents' and brokers' survival and expenses resulting from the sale of the policy or contract form. For all such forms offered for sale in this state, and for all forms filed for use outside this state by domestic life insurance companies, a statement that the requirements of this subsection have been met, signed by an actuary who is a member in good standing of the American Academy of Actuaries and meets the requirements prescribed by the superintendent by regulation shall be submitted with each such life insurance policy or annuity contract form filed pursuant to paragraph one or six of subsection (b) of section

> three thousand two hundred one of this chapter. A demonstration supporting each such statement, signed by an actuary meeting such qualifications, shall be retained in the company's home office, while such form is being offered in this state and for a period of six years thereafter and be available for inspection. . . ."

The examiner conducted a review of the pricing adequacy for various products subject to Section 4228(h) of the New York Insurance Law. This review included an examination of the required actuarial statements of self-support and the supporting demonstrations. The examiner requested statements and corresponding demonstrations for the Company's policy forms subject to Section 4228(h) of the New York Insurance Law. For nine policy forms, with 861 policies issued, the statement was dated prior to the demonstration; for four policy forms, with 1,256 policies issued, the demonstration was not signed or dated; and for 23 policy forms, with 3,200 policies issued, no demonstration was ever created.

The Company violated Section 4228(h) of the New York Insurance Law by failing to demonstrate that pricing was performed prior to the date these various statements of self-support were signed.

In response to the Department's concerns, the Company agreed that all future demonstrations will be signed, dated and finalized prior to the date of the statement of self-support. The Company also agreed that such demonstrations will be well organized, containing detailed narrative descriptions of the methodologies and material assumptions used such that another actuary can make a reasonable assessment of the analyses performed.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the violation contained in the prior report on examination and the subsequent action taken by the Company in response to the citation:

Item	Description
A	The Company violated Section 4228(f)(1)(A) of the New York Insurance Law by paying agent compensation during the examination period according to schedules of agent compensation on products that were never filed with the Department. The Company subsequently filed the agent compensation schedules with the Department.

9. SUMMARY AND CONCLUSIONS

Following are the violation and recommendations contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that the Company obtain the superintendent's approval prior to accepting future surplus contributions from its parent involving five percent or more of its admitted assets at last year end.	9
B	Eighty-seven and one half percent (87.5%) of the Company's admitted assets as of December 31, 2015, were derived from separate accounts. This separate account activity is mainly generated from the variable annuity guarantee block of business, which has been increasing each year, and exposes the Company to additional risks. In light of the amount of this business in relation to the total business and the size of the Company, the examiner recommends that the Company consider limiting its exposure to these risks.	18
C	The examiner recommends that the Company continue to incorporate certain refinements to its reserves methodologies as agreed upon with the Department.	22
D	The Company violated Section 4228(h) of the New York Insurance Law by failing to demonstrate that pricing was performed prior to the date the various statements of self-support were signed.	24

Respectfully submitted,

____________/s/___________
Elkin Woods
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Elkin Woods, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

____________/s/___________
Elkin Woods

Subscribed and sworn to before me

this__________ day of ___________________

APPOINTMENT NO. 31502

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

ELKIN WOODS

as a proper person to examine the affairs of the

NATIONAL SECURITY LIFE AND ANNUITY COMPANY

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York

this 6th day of July, 2016

MARIA T. VULLO
Superintendent of Financial Services

By:

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU