



**FINANCIAL CONDITION REPORT ON EXAMINATION  
OF THE  
NATIONAL SECURITY LIFE AND ANNUITY COMPANY**

**AS OF DECEMBER 31, 2020**

**EXAMINER:**

**DANIEL W. SCHNEPF, CFE**

**DATE OF REPORT:**

**JUNE 24, 2022**

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KATHY HOCHUL  
Governor



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ADRIENNE A. HARRIS  
Superintendent

June 27, 2022

Honorable Adrienne A. Harris  
Superintendent of Financial Services  
New York, New York 10004

Dear Adrienne A. Harris:

In accordance with instructions contained in Appointment No. 32298, dated August 18, 2021, 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”. The Company’s home office is located at 48 South Service Road, Suite 310, Melville, NY, 11747. Due to the COVID-19 pandemic, the examination was conducted remotely.

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 violations contained in this report are summarized below.

- The Company violated Section 91.5(b) of 11 NYCRR 91 (Insurance Regulation 33) by using a segmentation method to allocate net investment income to annual statement lines of business without filing the method with the Superintendent prior to its use. (See item 3D of this report.)
- The Company violated Section 91.4(f)(4) of 11 NYCRR 91 (Insurance Regulation 33) by not having estimates of time spent on activities reviewed by an executive responsible for expense allocations. (See item 3D of this report.)
- The Company violated Section 325(a) of the New York Insurance Law by failing to keep and maintain its books and records at its principal office in the State of New York. (See item 3F of this report.)

## 2. SCOPE OF EXAMINATION

The examination of the Company was a full-scope examination as defined in the National Association of Insurance Commissioners' ("NAIC") *Financial Condition Examiners Handbook, 2021 Edition* (the "Handbook"). The examination covers the five-year period from January 1, 2016 to December 31, 2020. 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, 2020 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

The examination was conducted on a risk-focused basis in accordance with the provisions of the Handbook published by the 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 examination of the Ohio National Financial Group was called by the Ohio Department of Insurance ("Ohio") in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. 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 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 2016 through 2020, by the accounting firm of KPMG, LLP (“KPMG”). The Company received an unqualified opinion in all years of the examination. 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 an internal audit department which was given the task of assessing the internal control structure and ensuring 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 violation, recommendations, and comment 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 20, 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 for \$6,000 thereby increasing ONLIC's holdings in the Company to 80.5% and decreasing SML's holding to 19.5%.

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

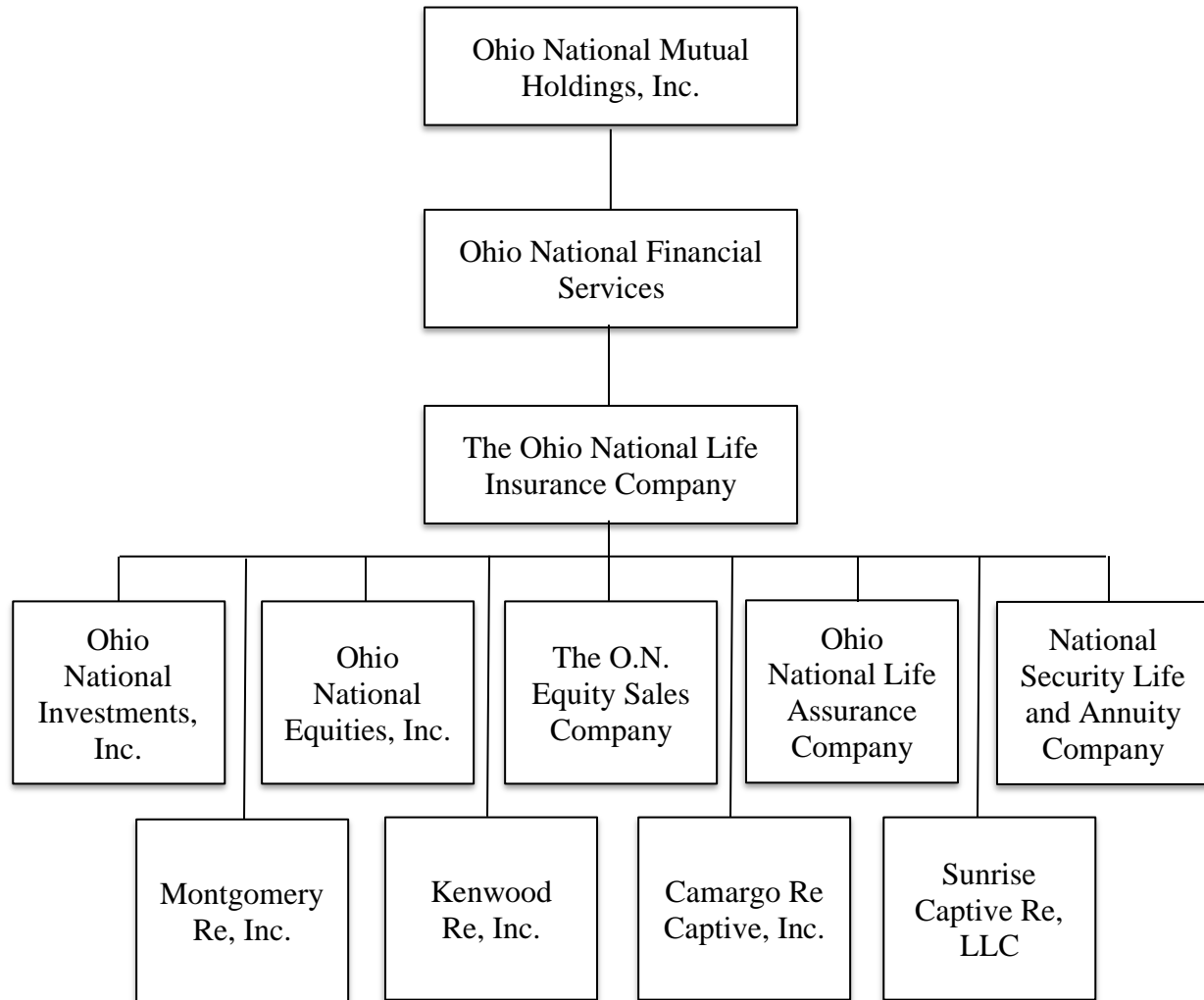
#### B. Holding Company

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, 2020 follows:



D. Service Agreements

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

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Administration Services Agreement File No. 30523 File No. 48391	01/04/2002  Amended 07/31/2002 05/14/2014	ONLIC	The Company	Plan of operation, product development, underwriting, claims, product administration, advertising and sales materials, accounting, audit functions, and investments.  Reinsurance administration services	2016 \$(1,026,210) 2017 \$ (948,657) 2018 \$ (469,213) 2019 \$ (382,728) 2020 \$ (348,510)
Administration Services Agreement File No. 30524	01/04/2002  Amended 07/31/2002				
Investment Management Services Agreement File No. 29524A	01/04/2002	Ohio National Investments, Inc. and ONLIC	The Company	Investment advisory services	2016 \$(19,871) 2017 \$(17,878) 2018 \$(19,572) 2019 \$(17,012) 2020 \$(17,012)
Principal Underwriting Agreement File No. 30475	08/01/2002	Ohio National Equities, Inc.	The Company	Underwriting services	2016 \$(2,775) 2017 \$(1,950) 2018 \$ 0 2019 \$ 0 2020 \$ (125)
Distribution Agreement File No. 30476	08/14/2002	Ohio National Equities, Inc. and The O.N. Equity Sales Company	The Company	General distribution services	2016 \$(547,697) 2017 \$(484,413) 2018 \$(305,643) 2019 \$(212,751) 2020 \$(196,133)
Letter Agreement/ Administration Service Agreement File No. 29524A	05/07/2002	Ohio National Equities, Inc.	The Company	Administrative services with respect to the Ohio National Fund	2016 \$(550,472) 2017 \$(486,363) 2018 \$(305,643) 2019 \$(212,751) 2020 \$(196,258)

\* 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 2 of the Administrative Services Agreement between the Company and ONLIC states:

“(b) Provider shall submit to the Company within fifteen (15) days after the end of each calendar month a written statement of the amount estimated to be owed by the Company for services and the use of facilities pursuant to this Agreement in that calendar month, and the Company shall pay to Provider within ten (10) days following receipt of such written statement the amount set forth in the statement. Within fifteen (15) days after the end of each month, Provider will submit to the Company a detailed written statement of the charges due from the Company in the preceding month, including charges not included in any previous statements, and any balance payable as shown in such statement shall be paid within ten (10) days following receipt of such written statement by the Company, unless the Company notifies Provider in writing that such charges are disputed.”

The Company received services from its parent, ONLIC, during the examination under two Administrative Service Agreements effective January 2002. The examiner’s review of the allocation of expenses between the Company and ONLIC revealed that ONLIC did not provide monthly invoices for the services provided to the Company as required under the provisions of the Administrative Services Agreement and the Reinsurance Administrative Services Agreement. In addition, ONLIC used estimates for the amounts due under both agreements. Furthermore, ONLIC did not prepare or submit written statements of the amount estimated to be owed by the Company and was unable to provide a breakdown of the cost of services for each agreement separately.

The Company informed the examiners that there is not a specific invoice sent from ONLIC to the Company and any actual to estimate true-up is recorded in the month following the quarter end close. Consequently, the Company made payments on quarterly basis instead of monthly as required by the Administrative Service Agreements.

The examiner recommends that the Company adhere to the terms in its Administrative Services Agreements approved by the Department.

Section 91.4(f)(4) of 11 NYCRR 91 (Insurance Regulation 33) states:

“Estimates of time spent on activities may be used in the distribution of costs to lines of business only where such activities by their nature are not susceptible to the objective measurement or where the cost of making time studies is disproportionate to the expense being distributed or where estimates of time are otherwise clearly appropriate. Where such estimates are made, they shall be made by a person or persons familiar with the nature of the activity and shall be reviewed by an executive responsible for expense allocations.”

During the examination, the Company informed the examiners that the monthly estimates for the allocation of expenses under its Intercompany Services Agreement with ONLIC is based on the approved annual budget. On a quarterly basis, that estimate is then trued up based on expenses incurred and there is not a specific sign-off on the monthly expenses amount budgeted.

The Company also received investment services from Ohio National Investments, Inc. (“ONII”) and ONLIC during the examination period under an Agreement effective January 2002. The Company indicated that ONII receives advisory fees from the Company as the annuity products can have part of their investment in the Ohio National funds and the fees are an estimate of management services that increases at a similar rate of the Mutual Fund Investment department. The examiner determined that estimates of the time spent are used for management services and such estimates are not reviewed by an executive officer responsible for expense allocations.

The Company violated Section 91.4(f)(4) of 11 NYCRR 91 (Insurance Regulation 33) by not having estimates of time spent on activities reviewed by an executive responsible for expense allocations.

The examiner recommends that the Company have an executive responsible for expense allocations review the estimates for the allocation of expenses.

Section 91.5 of 11 NYCRR 91 (Insurance Regulation 33) states:

“(b) A licensed life insurer proposing to adopt an investment year method in the distribution of net investment income, or to revise such a method already in effect, shall on or before November 1 of the first year for which such method or revision is to be used file with the superintendent a full description of its plan, together with its certification that the plan conforms to the foregoing rules. If the company's method includes deviations from the foregoing rules, or contemplates the use of a method other than the investment year method for assets not listed in paragraph (a)(1), such deviations or use require the approval of the superintendent as being equitable and as being necessary for reasons of feasibility before the method can be

adopted.”

During the examination, the Company informed the examiners that it used an alternate method for allocating net investment income for both life insurance and annuities lines of business during the examination period. The examiners determined that the Company used a segmentation method for allocating net investment income but did not file a full description of the plan with the Superintendent.

The Company violated Section 91.5(b) of 11 NYCRR 91 (Insurance Regulation 33) by using a segmentation method to allocate net investment income to annual statement lines of business without filing the method with the Superintendent prior to its use.

The examiner recommends that the Company submit its segmentation method for allocating net investment income to the Department for review and approval.

#### E. Management

The Company’s by-laws provide that the board of directors shall be comprised of not less than 7 and not more than 21 directors. Any change in the number of directors made by resolution of the Board of Directors shall require the affirmative vote of a majority of all directors then in office, but no decrease in the number of directors so made shall shorten the term of any incumbent director. 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, 2020, the board of directors consisted of eight members. Meetings of the board are held at such times as may from time to time be fixed by resolution of the Board of Directors.

The eight board members and their principal business affiliation, as of December 31, 2020, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Christopher J. Calabro Cincinnati, OH	Senior Vice President and Chief Distribution and Marketing Officer Ohio National Financial Services, Inc. Ohio National Life Insurance Company	2020
Joseph A. Campanella* Hudson, OH	Retired	2018

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Michael J. DeWeirdt Cincinnati, OH	Senior Vice President and Chief Product Officer Ohio National Life Insurance Company National Security Life and Annuity Company	2018
Ronald J. Dolan Cincinnati, OH	Retired	2002
Kristal E. Hambrick Cincinnati, OH	Executive Vice President and Chief Risk Officer Ohio National Financial Services, Inc. Ohio National Life Insurance Company	2012
John W. Mulhall* Floral Park, NY	Retired	2012
John J. Palmer* Tucson, AZ	Retired	2002
Barbara A. Turner Cincinnati, OH	President and Chief Executive Officer Ohio National Financial Services, Inc. Ohio National Life Insurance Company	2019

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

In April 2021, Michael DeWeirdt retired, and Jay Bley was appointed to the board. At the time of his appointment, Jay Bley was Vice President, Annuity Strategy and Sales of ONLIC and NSLAC.

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, 2020:

<u>Name</u>	<u>Title</u>
Michael J. DeWeirdt	President and Chief Executive Officer
Therese S. McDonough	Secretary
Lori D. Dashewich	Vice President, Treasurer and Chief Financial Officer
Scott N. Shepherd	Appointed Actuary
Robert T. Brockman	Vice President, Mutual Funds Operations

<u>Name</u>	<u>Title</u>
Philip C. Byrde	Investment Officer
Rocky Coppola	Vice President, Finance
Thomas J. DeGaetano	Vice President, Annuity Product Development
Joseph M. Fischer*	Assistant Counsel and Assistant Secretary
Paul Gerard	Chief Investment Officer
Kristal E. Hambrick	Vice President, Chief Risk Officer and Chief Product Officer
Doris L. Paul	Assistant Treasurer
Barbara A. Turner	Vice President, Chief Executive Officer of Ohio National Mutual Holdings, Inc.
Peter E. Whipple	Product Development and Life Illustration Actuary

\*Designated consumer services officer per Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64)

In April 2021, Michael DeWeirdt retired as the President and Chief Executive of the Company and was replaced by Jay Bley. In addition, Tom DeGaetano, Vice President, resigned in March 2021. Phil Byrde, Investment Officer, retired in December 2021. Rocky Coppola, Vice President, resigned in January 2022.

#### F. Books and records

Section 325(a) of the New York Insurance Law states, in part:

“Every domestic insurer and every licensed United States branch of an alien insurer entered through this state shall, except as hereinafter provided, keep and maintain at its principal office in this state its charter and by-laws, (in the case of a United States branch a copy thereof) and its books of account, and if a domestic stock corporation, a record containing the names and addresses of its shareholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof, and if a domestic corporation the minutes of any meetings of its shareholders, policyholders, board of directors and committees thereof. . . .”

The Company’s books and records, including its books of account, namely general ledger, trial balance, and transaction register, were not maintained in the Company’s principal office in New York during the examination period.

The Company violated Section 325(a) of the New York Insurance Law by failing to keep and maintain its books and records at its principal office in the State of New York.

The examiner recommends that the Company maintain its books and records at its principal office in the state of New York.



#### 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. Effective March 1, 2018, the Company no longer actively sells new business.

The Company is licensed to transact business in 17 states, and the District of Columbia. In 2020, the Company received 100% of direct life insurance premiums and 93.8% of direct annuity considerations from New York. All policies were written on a non-participating basis.

##### A. Statutory and Special Deposits

As of December 31, 2020, the Company had \$1,600,000 (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. Per a confirmation received from the state of Arkansas, an additional \$110,095 was being held on deposit which was reported in Schedule E of the 2020 filed annual statement.

##### 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 state of New York. Effective March 1, 2018, the Company no longer actively sells new business.

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

##### C. Reinsurance

As of December 31, 2020, the Company had reinsurance treaties in effect with five non-affiliated companies, of which two were authorized, accredited, or certified. The Company's life insurance business is retroceded.

The maximum retention limit for individual life contracts is \$100,000. As of December 31, 2020, the Company cedes 99.4% of its individual life business. The total face amount of life insurance ceded as of December 31, 2020, was \$31,320,000, which represents 99.4% of the total

face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$132,373,357, was supported by letters of credit and trust agreements.

The total face amount of life insurance assumed as of December 31, 2020, was \$31,320,000.

## 5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2020, as contained in the Company's 2020 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, 2020 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 of the Company as of December 31<sup>st</sup> 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	\$ 57,131,320
Cash, cash equivalents and short-term investments	4,289,017
Investment income due and accrued	432,694
Reinsurance:	
Amounts recoverable from reinsurers	167,814
Other amounts receivable under reinsurance contracts	32,846
Net deferred tax asset	1,362,711
Guaranty funds receivable or on deposit	1,600
Other assets non admitted	
Annuity rider charges receivable	2,034,890
Fund revenue receivable	136,057
NSCC deposit	20,000
From separate accounts, segregated accounts and protected cell accounts	<u>399,200,073</u>
Total admitted assets	<u>\$464,809,022</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 34,803,621
Liability for deposit-type contracts	249,401
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	358,069
Interest maintenance reserve	321,801
Commissions to agents due or accrued	13,649
General expenses due or accrued	130,019
Transfers to separate accounts due or accrued	(2,266,605)
Taxes, licenses and fees due or accrued, excluding federal income taxes	222,117
Current federal and foreign income taxes	813,838
Remittances and items not allocated	57,495
Miscellaneous liabilities:	
Asset valuation reserve	404,162
Reinsurance in unauthorized companies	14,123
Payable to parent, subsidiaries and affiliates	114,575
Unclaimed funds	5,730
From Separate Accounts statement	<u>399,200,073</u>
 Total liabilities	 <u>\$434,442,072</u>
 Common capital stock	 \$ 2,500,000
Gross paid in and contributed surplus	33,271,590
Asset adequacy reserve	(14,000,000)
Unassigned funds (surplus)	<u>8,595,360</u>
Surplus	\$ <u>27,866,950</u>
Total capital and surplus	\$ <u>30,366,950</u>
 Total liabilities, capital and surplus	 <u>\$464,809,022</u>

D. Condensed Summary of Operations

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Premiums and considerations	\$20,751,909	\$12,158,373	\$ 3,244,573	\$(2,334,646)	\$ (716,306)
Investment income	2,041,273	2,145,789	2,193,478	1,973,407	2,084,325
Commissions and reserve adjustments on reinsurance ceded	5,311	13,918	26,419	25,025	29,572
Miscellaneous income	<u>10,443,734</u>	<u>11,150,217</u>	<u>11,360,311</u>	<u>10,700,796</u>	<u>10,341,262</u>
Total income	<u>\$33,242,227</u>	<u>\$25,468,297</u>	<u>\$16,824,781</u>	<u>\$10,364,582</u>	<u>\$11,738,853</u>
Benefit payments	\$23,674,348	\$30,537,164	\$40,547,345	\$43,403,347	\$31,553,145
Increase in reserves	3,340,471	(675,820)	(4,244,973)	(5,588,394)	(1,006,039)
Commissions	3,399,503	3,336,698	3,045,452	2,027,202	2,152,757
General expenses and taxes	1,982,142	1,664,802	1,211,268	1,206,817	889,996
Net transfers to (from) Separate Accounts	(133,058)	(11,653,109)	(26,170,202)	(35,448,993)	(27,868,236)
Miscellaneous deductions	<u>(27,834)</u>	<u>(11,991)</u>	<u>0</u>	<u>90,000</u>	<u>1,736,993</u>
Total deductions	<u>\$32,235,572</u>	<u>\$23,197,744</u>	<u>\$14,388,890</u>	<u>\$ 5,689,979</u>	<u>\$ 7,458,616</u>
Net gain (loss)	\$ 1,006,655	\$ 2,270,553	\$ 2,435,891	\$ 4,674,603	\$ 4,280,237
Federal and foreign income taxes Incurred	<u>(459,851)</u>	<u>200,737</u>	<u>495,638</u>	<u>291,076</u>	<u>1,213,665</u>
Net gain (loss) from operations before net realized capital gains	\$ 1,466,506	\$ 2,069,816	\$ 1,940,253	\$ 4,383,527	\$ 3,066,572
Net realized capital gains (losses)	<u>(47,357)</u>	<u>(23,750)</u>	<u>(6,831)</u>	<u>(11,049)</u>	<u>(47,633)</u>
Net income	<u>\$ 1,419,149</u>	<u>\$ 2,046,066</u>	<u>\$ 1,933,424</u>	<u>\$ 4,372,478</u>	<u>\$ 3,018,938</u>

E. Capital and Surplus Account

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and surplus, December 31, prior year	<u>\$32,180,040</u>	<u>\$32,602,407</u>	<u>\$21,071,579</u>	<u>\$23,019,047</u>	<u>\$26,947,292</u>
Net income	\$ 1,419,149	\$ 2,046,066	\$ 1,933,424	\$ 4,372,478	\$ 3,018,938
Change in net deferred income tax	135,444	3,180,500	201,327	(122,629)	715,179
Change in non-admitted assets and related items	17,443	(2,851,000)	(150,320)	(19,441)	(200,351)
Change in liability for reinsurance in unauthorized companies	(65,857)	64,190	1,140	(300,659)	287,064
Change in reserve valuation basis	0	0	0	0	(2,099,655)
Change in asset valuation reserve	(18,544)	(46,327)	(38,103)	(1,504)	(35,610)
Dividends to stockholders	(1,300,000)	0	0	0	0
Change in separate account variable annuity reserve valuation	<u>234,733</u>	<u>(13,924,257)</u>	<u>0</u>	<u>0</u>	<u>1,734,093</u>
Net change in capital and surplus for the year	\$ <u>422,368</u>	\$ <u>(11,530,828)</u>	\$ <u>1,947,469</u>	\$ <u>3,928,245</u>	\$ <u>3,419,658</u>
Capital and surplus, December 31, current year	<u>\$32,602,407</u>	<u>\$21,071,579</u>	<u>\$23,019,047</u>	<u>\$26,947,292</u>	<u>\$30,366,950</u>

## 6. SUBSEQUENT EVENTS

On March 22, 2021, ONMH's Board of Directors unanimously approved a Transaction with Constellation Insurance Holdings, Inc. ("Constellation"), an insurance holding company, which is backed by Caisse de dépôt et placement du Québec and Ontario Teachers' Pension Plan Board. The Transaction includes the conversion of ONMH to a stock company and the issuance of all of its newly issued stock to Constellation pursuant to a sponsored demutualization. The transaction was approved by policyholders on March 11, 2022, and by Ohio on March 29, 2022. ONMH has converted to a stock company, renamed Ohio National Holdings, Inc. ("ONH"), and has become an independently managed subsidiary of Constellation. Constellation has committed to infusing half a billion dollars over four years into the group.

## 7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation, recommendations, and comment contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommended 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.</p> <p>The Company's parent has not made any surplus contributions since the last exam in 2015.</p>
B	<p>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.</p> <p>The Company ceased selling new variable annuity business in New York effective March 2018.</p>
C	<p>The examiner recommended that the Company continue to incorporate certain refinements to its reserves methodologies as agreed upon with the Department.</p> <p>The Company agreed to make the required changes as a result of the last exam and based on the Department's actuarial review, has continued to incorporate the revisions.</p>
D	<p>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.</p> <p>The Company agreed to make the required changes as a result of the last exam and has not issued any new products since the time this was addressed with the Company.</p>



## 8. SUMMARY AND CONCLUSIONS

Following are the violations, recommendations, and comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the Company have an executive responsible for expense allocations review the estimates for the allocation of expenses.	9
B	The Company violated Section 91.4(f)(4) of 11 NYCRR 91 (Insurance Regulation 33) by not having estimates of time spent on activities reviewed by an executive responsible for expense allocations.	10
C	The examiner recommends that the Company have an executive responsible for expense allocations review the estimates for the allocation of expenses.	10
D	The Company violated Section 91.5(b) of 11 NYCRR 91 (Insurance Regulation 33) by using a segmentation method to allocate net investment income to annual statement lines of business without filing the method with the Superintendent prior to its use.	11
E	The examiner recommends that the Company submit its segmentation method for allocating net investment income to the Department for review and approval.	11
F	The Company violated Section 325(a) of the New York Insurance Law by failing to keep and maintain its books and records at its principal office in the State of New York.	13
G	The examiner recommends that the Company maintain its books and records at its principal office in the state of New York.	14
H	In March 2021, Constellation, a New York holding company, announced plans to acquire ONFS that indirectly owns NSLAC. Constellation is backed by institutional investors Montreal's Caisse de dépôt et placement du Québec and Ontario Teachers' Pension Plan Board. Constellation Insurance holdings has committed to infusing half a billion dollars over four years into the group.	21

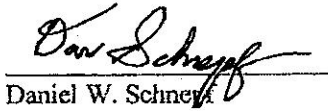
Respectfully submitted,



Daniel W. Schnepf, CFE  
Noble Consulting Services, Inc.

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

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

  
Daniel W. Schnepf

Subscribed and sworn to before me

this 27<sup>th</sup> day of June, 2022  
Audrey Hall

**AUDREY HALL**  
Notary Public, State of New York  
No. 01HA8274800  
Qualified in Kings County  
Commission Expires January 28, 2025

Respectfully submitted,

\_\_\_\_\_/s/  
Mostafa Mahmoud  
Principal Insurance Examiner

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

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

\_\_\_\_\_/s/  
Mostafa Mahmoud

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_

***APPOINTMENT NO. 32298***

***NEW YORK STATE***

***DEPARTMENT OF FINANCIAL SERVICES***

*I, **SHIRIN EMAMI**, Acting 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:*

***DANIEL WAYNE SCHNEPF  
(NOBLE CONSULTING SERVICES, INC.)***

*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 18th day of August, 2021*

***SHIRIN EMAMI***  
*Acting Superintendent of Financial Services*

By:

*Mark McLeod*

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***MARK MCLEOD***  
***DEPUTY CHIEF - LIFE BUREAU***

