STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF

EXAMINATION

OF

SOUTHLAND NATIONAL INSURANCE CORPORATION

TUSCALOOSA, ALABAMA

AS OF

DECEMBER 31, 2010

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF TUSCALOOSA

Blase Francis Abreo, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Southland National Insurance Corporation.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Southland National Insurance Corporation was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Francis Blase Abreo
Blase Francis Abreo

Subscribed and sworn before me by

________________________________ on this 25th day of

May, 2012

(SEAL)

STATE OF ALABAMA
DEPARTMENT OF INSURANCE

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ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

DEPUTY COMMISSIONER
CHARLES M. ANGELL (acting)

CHIEF OF STAFF
RAGAN INGRAM

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
REYN NORMAN

Tuscaloosa, Alabama
May 25, 2012

Honorable Jim L. Ridling
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2010, has been made of

SOUTHLAND NATIONAL INSURANCE CORPORATION

at its home office at 1812 University Boulevard, Tuscaloosa, Alabama, 35401. The report of examination is submitted herewith. Where the description "Company" or SNIC appears herein, without qualification, it will be understood to indicate Southland National Insurance Corporation.

SCOPE OF EXAMINATION

The last full-scope association examination of the Company was for the four-year period ended December 31, 2005. During the intervening period two limited-scope examinations were conducted by the Alabama Department of Insurance. The first examination was as of December 31, 2007 to verify compliance with the prior examination recommendations. The next limited-scope examination was conducted as of December 31, 2009 to determine if the Company was 1) refunding the cash value of pre-need policies rather than the premiums paid; 2) complying with the provisions of approved contracts with subsidiaries and affiliates; and 3) complying with two recommendations made in the 2007 limited-scope exam. This full-scope examination covers the period of January 1, 2006 through December 31, 2010, and was conducted by the examiners representing the State of Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to December 31, 2010, were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the State of Alabama Insurance Code and the Alabama Insurance Department regulations and bulletins in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2010, and to identify the Company's prospective risks by obtaining information about the Company including corporate governance. In addition, the examination was planned and performed to identify and assess inherent risks within the Company and to evaluate system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements, management's compliance with statutory accounting principles and annual statement instructions.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examination. The IS examination included a review of management and organizational controls, logical and physical security controls, changes in application controls, system and program development controls, contingency planning controls, service provider controls, operation controls, processing controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The market conduct examination included a review of the Company's territory and plan of operation, advertising, producers' licensing, claims processing, marketing and sales, policy forms and underwriting, policyholder complaints and privacy standards. See the caption "MARKET CONDUCT ACTIVITIES" - Page 22.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances. During 2006 and 2007, the Company was audited by KPMG LLP, certified public accountants (CPA) and in 2008 through 2010 by Warren, Averett, Kimbrough, & Marino (CPA). The CPA's workpapers were reviewed and were used in the examination as deemed appropriate by the examiners.

A signed certificate of representation was obtained during the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2010.

ORGANIZATION AND HISTORY

The Company is a product of a merger between two Alabama domestic insurers. Below is a brief history of each company.

Southland National Insurance Corporation (SNIC):

SNIC had its origins in 1950, as an Alabama mutual aid association under the name, Southland National Insurance Company (Old Southland). In 1964, Old Southland was acquired by Lecil Dean Gray, who sold its existing book of small health and accident policies. Mr. Gray then commenced the sale of the "Founders Policy," a $500 life policy, which was participating and convertible at the end of six years into a whole-life policy. Founders Policies were sold in conjunction with a dividend trust and stock procurement agreement, whereby trust accumulations, dividends and contributions, were used to capitalize a legal reserve life insurance corporation.

On January 21, 1969, the trust principal (which was then in excess of $500,000) was contributed to a newly formed legal reserve life insurance corporation, New Southland National Insurance Company (New Southland). At this time the Founders Policies became convertible to participating whole life policies, and the amount of dividends accumulated were exchangeable for an equivalent amount of New Southland common stock, in accordance with the dividend trust and stock procurement agreement. All of the assets and liabilities of Old Southland were transferred to New Southland. The original capital stock of New Southland consisted of 239,559 common shares, par value $1.00, issued and outstanding.

On April 5, 1971, New Southland's authorized capital stock was increased from 400,000 shares to 5,000,000 shares; par value remained $1.00 per share. On May 27 1988, New Southland's Articles of Incorporation were amended to change its name to Southland National Insurance Corporation (SNIC). On June 5, 1992, a one-for-four reverse stock split was affected on SNIC's common stock. The number of authorized shares was thereby reduced to 1,250,000, and the par value was increased from $1.00 per share to $4.00 per share. On May 27, 1994, the par value of SNIC's common stock was increased from $4.00 to $6.00, thereby increasing the authorized capital to $7,500,000. Paid-up capital was accordingly increased to $1,502,718, in respect to the 250,453 shares outstanding. The $500,906 increase in paid-up capital was funded by a transfer from paid-in surplus. There were no further changes in the capital stock of SNIC.

Southwide Life Insurance Corporation (Southwide):

Southwide was incorporated on February 14, 1983, under the name, Freedom Life Insurance Company. It was formed as a subsidiary of Collateral Investment Company, an Alabama limited partnership. Subsequently, the name of Collateral Investment Company was changed to Collateral Mortgage Company, Ltd. (CML). On January 18, 1986, the name Freedom Life Insurance Company was changed to Southwide Life Insurance Corp. On October 1, 1990, a reorganization of CML resulted in the transfer of 100% of the stock of Southwide to a newly formed holding company, Collateral Investment Corp. (CIC). The stock of CIC was distributed to the partners of CML. At that time the majority owner of both CML and CIC was William Thomas Ratliff, Jr., so there was no change in the ultimate control of Southwide.

The capital stock of Southwide, at the date of the merger, consisted of 1,500,000 common shares issued and outstanding with a par value $1.00. Gross paid-in and contributed surplus amounted to $1,000,000. Subsequent to the merger, the Company survived under the name and charter of Southland National Insurance Corporation, but under the ownership and control which formerly applied to Southwide. The Company's capital stock as of December 31, 1996 amounted to $1,502,718, consisting of 1,250,000 common shares authorized, par value $6.00, of which 250,453 were issued and outstanding. Gross paid-in and contributed surplus amounted to $890,042.

On June 3, 1998, the Company entered into an Assumption and Coinsurance agreement with Madison National Life Insurance Company, Inc. (MNLIC) for the

Company's universal life type policies as well as certain ordinary life policies assumed by the Company through its merger with Southwide, in 1996. The assumption was effective October 31, 1998. In 1998, the Company's Board of Directors signed updated Articles of Incorporation which was recorded in Probate Court on April 12, 1999. The Articles had no significant changes. In 1998, the Company sold its wholly-owned subsidiary Southern Insurance Management Association, Inc. (SIMA) to an unrelated third party. In December 1998, the Company sold another wholly-owned subsidiary, Peoples Insurance Company to an unrelated third party. In October 1999, the Company entered into an agreement to purchase DentaNet for a total of $110,000. In addition, in October 1999, the Company formed a subsidiary, Benefits Resource Group, LLC to house the newly-acquired dental network. In October 1999, the Company purchased 65% of North American Vision Alliance, LLC (NAVA), and in December 1999, the Company acquired the remaining 35% of outstanding NAVA shares.

On October 1, 2000, the Company entered into an assumption agreement with Reassure America Life Insurance Company (Reassure) for the Company to assume certain whole life policies and annuity contracts on residents of the state of Louisiana. Final regulatory approval was received in January 2001, and the effective date of the agreement was January 31, 2000. On December 31, 2002, the organization chart reflected DNA Connections LLC as a 60% subsidiary of the Company. In December 2003, Benefit Resources Group, Inc. through a dividend became a subsidiary of Collateral Investment Corporation. Subsequently, in December 2003, Benefit Resource Group, Inc. through a capital contribution became a subsidiary of Collateral Benefits Group, Inc. On January 1, 2005, Benefit Resource Group, LLC, Life Connections LLC, and American Funeral & Cremation Plans, LLC were sold to the Company by its affiliate Collateral Mortgage Ltd. On January 1, 2006, Collateral Mortgage Ltd. was renamed Collateral Holdings, Ltd (CHL). Capstone of Georgia, LLC, was incorporated on December 4, 2006 in accordance with the laws of Georgia and became a subsidiary of the Company. On November 19, 2008, Southland Benefit Solutions, LLC was incorporated as a Delaware company and became a subsidiary of the Company.

The Company received capital contributions from Collateral Holdings, Ltd. (CHL) in the amount of $310,000, in 2006, increasing the Gross paid-in and contributed surplus from $5,528,042 to $5,838,042, $1 million in 2008, increasing the Gross paid-in and contributed surplus to $6,838,042 and $1 million in 2009, increasing the Gross paid-in and contributed surplus to $7,838,042. The Company issued a surplus note to CHL in the amount of $3 million in 2008. The changes in the capital structure of the Company are provided in the following table:

Description	Capital and Surplus 2005	Capital and Surplus 2010
Common capital stock	$ 1,502,718	$ 1,502,718
Surplus notes	-0-	3,000,000
Gross paid-in and contributed surplus funds	5,528,042	7,838,042
Aggregate write-ins for special surplus funds	-0-	457,172
Unassigned funds (surplus)	3,354,643	(3,004,476)*
Total Capital and Surplus	$ 10,385,403	$ 9,793,456

*Per filed 2010 Annual Statement.

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation organized under the laws of Alabama, with the ultimate control residing with the stockholders of the Company. At December 31, 2010, 100% of the Company's issued and outstanding common stock was owned by Collateral Holdings, Ltd., an Alabama limited partnership formerly Collateral Mortgage Ltd. The ultimate control is vested in the hands of Mr. William Ratliff, III and Mr. William Ratliff, Jr.

Board of Directors

The following directors were elected by the sole shareholder on March 29, 2010 and were serving at December 31, 2010:

Name and Residence	Principal Occupation
William Thomas Ratliff, III Birmingham, Alabama	President and General Partner of Collateral Holdings, Ltd.
Louis Clifton Henderson, Jr. Birmingham, Alabama	Consultant Henderson Myers, LLC
Michael Anthony Bownes Tuscaloosa, Alabama	Legal Counsel The University of Alabama Systems
William Harrison Lanford Tuscaloosa, Alabama	Retired President Southland National Insurance Corporation
James Edward Leitner, Sr. Tuscaloosa, Alabama	EVP of the Company and President of Southland Benefits Solutions, LLC
Robert Hugh Rust Tuscaloosa, Alabama	Managing Director Southland Benefits Solutions, LLC
John Singleton Pitts Samford Birmingham, Alabama	President Samford Capital Corporation
Jeffery Douglas Wright* Birmingham, Alabama	President and CEO Southland National Insurance Corporation

*Resigned May 31, 2011. Replaced by Mr. James Edward Leitner, Sr.

Pecuniary Interest Violation

On March 24, 2008, a financial consultant of the Company was appointed to the Board of Directors and is currently a board member. According to the consultation agreement, the services provided by the consultant included the following:

1. The development and implementation of a marketing plan that will sell profitably priced products with attention to not exceeding product assumptions;
2. The review of the home office administrative structure and personnel and the information processing systems;
3. Developing upper management that can lead and is capable of directing a more dynamic and successfully focused company;
4. Financial analysis of the Company's results and profitability; and
5. An overall validation of the Company's business plan and operating strategy to be accomplished.

The Company paid consultation fees in the amount of $3,000 per month for a total of $138,000 from March 2008 through December 2011.

On June 30, 2010, the Company had a special contract with the consultant to negotiate the sale of the Company. The consulting fee according to the contract was set at $50,000 plus commissions, based on the sale price of the Company.

The Company was not in compliance with ALA. CODE *§* 27-27-26 (1975), which states:

> "(a) Any officer, or director, or any member of any committee or any employee of a domestic insurer who is charged with the duty of investing or handling the insurer's funds shall not deposit... shall not be pecuniarily interested in any loan, pledge or deposit, security, investment, sale, purchase, exchange, reinsurance, or other similar transaction or property of such insurer except as a stockholder or member and shall not take or receive to his own use any fee, brokerage, commission, gift, or other consideration for, or on account of, any such transaction made by, or on behalf of, such insurer."

Officers

The following officers were elected by the Board of Directors in March 29, 2010 and serving on December 31, 2010:

Officer	Title
Jeffrey Douglas Wright*	President and CEO
Vickie Deslattes Davis	Treasurer and Controller
Patricia Diane Beall	Advance Funeral Planning Operations and Secretary
James Edward Leitner, Sr.	EVP – Supplemental Benefit Products
Gary Don Wilkerson@	Vice President – Financial Reporting
Ann Marie Sapala	Assistant Vice President – Compliance Officer
Celica Horsak Franklin*	Advance Funeral Planning
Virginia Lynn Huckaba Hardy*	Advance Funeral Planning
Julian Bentley Pearson#	Vice President Information System

*Resigned on May 31, 2011. # Resigned on June 30, 2011. @Resigned on March 8, 2012.

Board Committees

The following committees were appointed by the Board of Directors and were the active committees of the Board of Directors at December 31, 2010:

Audit Committee	Investment Committee
Louis Clifton Henderson, Jr., Chairman	John Singleton Pitts Samford, Chairman
Michael Anthony Bownes	Louis Clifton Henderson, Jr.
William Harrison Lanford	James Edward Leitner, Sr.
James Edward Leitner, Sr.	Jeffery Douglas Wright
Jeffery Douglas Wright	

The minutes of the meetings of the above committees were reviewed, and it was determined that the minutes appropriately documented the actions taken by the committees.

Conflict of Interest

The Company follows an established procedure for the disclosure of conflicts between the Company's interests and personal interests of directors and officers. The conflict of interest statements filed annually by the officers and directors of the Company were reviewed for the period covered by the examination.

The directors and officers of the Company signed the conflict of interest statements. No disclosures were made by the directors and officers of the Company. The examiners had determined that one of the directors of the Company was also a paid consultant. See "Pecuniary Interest Violation" – Page 7.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws, as amended, were inspected during the course of the examination and were found to provide for the Company's operation in accordance with the usual corporate practices and applicable statutes and regulations.

Minutes of meetings of the Stockholders, Board of Directors and committees of the Company were reviewed for the period under examination. The minutes appeared to be complete with regard to recorded actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company is subject to the *Alabama Insurance Holding Company Regulatory* Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System. The Company is responsible for the holding company registration and periodic filings in accordance with ALA. CODE § 27-29-4 (1975) and ALA. ADMIN. CODE 482-1-055 (1994).

Appropriate filings required under the Holding Company Act are made from time to time by the Company as registrant of an Insurance Holding Company System. A review of the Company's filings during the period under review indicated that required disclosures were included in the Company's filings.

Dividend to Stockholders

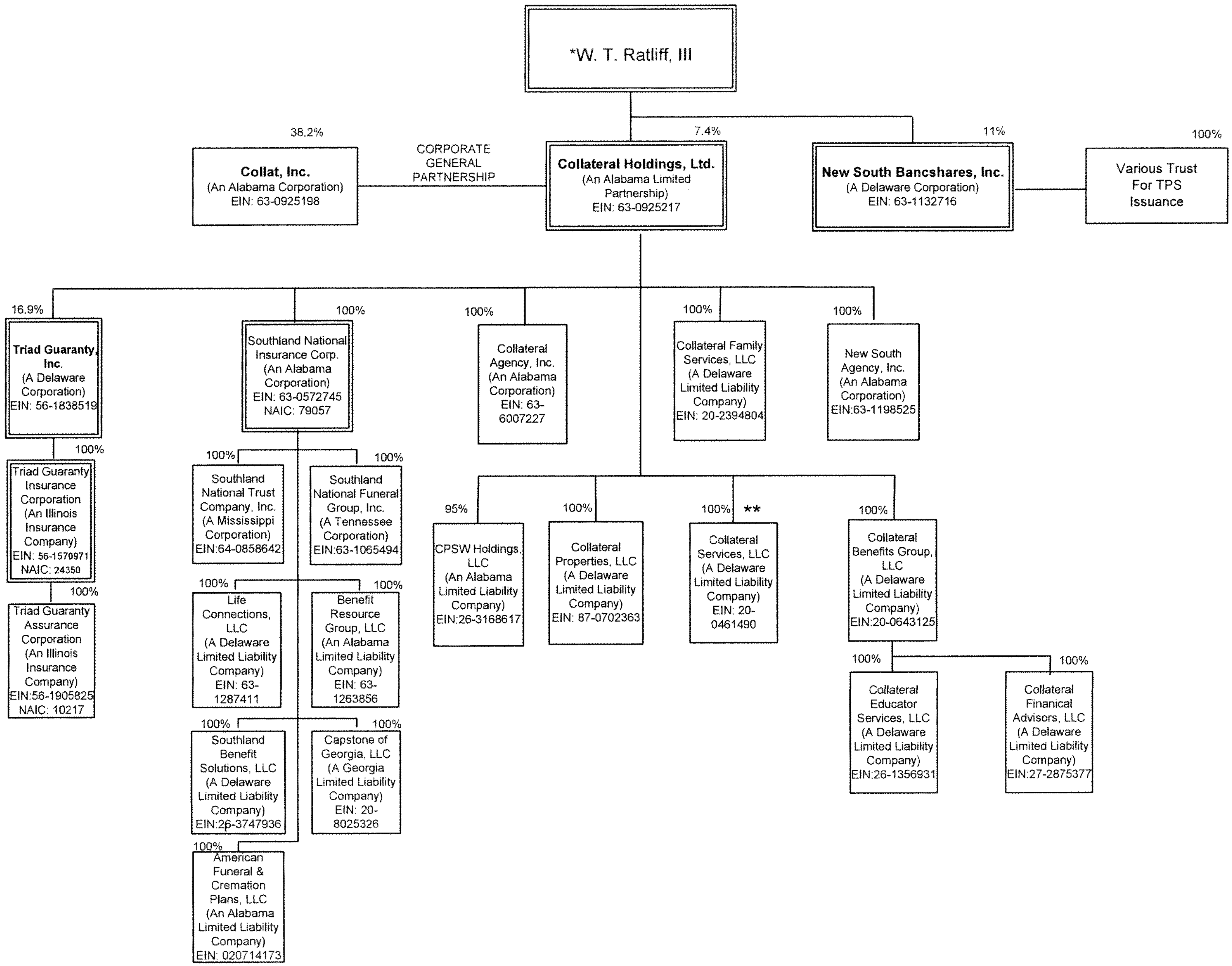
No dividends were paid during the examination period.

Organizational Chart

See the next page for the Company's organizational chart as of December 31, 2010.

COLLATERAL FAMILY OF COMPANIES

As of December 31, 2010



*William T. Ratliff, III 7.36% ownership, Alabama resident
William T. Ratliff, Jr., 29.58% ownership, Alabama resident

** In Process of Being Dissolved

Org Chart Collateral Holdings 2010 CHL 4th Qtr 10 Legal.vsd

Transactions and Agreements with Affiliates

The following agreements with affiliates were approved by the Alabama Department of Insurance (ALDOI).

Management Servicing Agreement between Southland National Insurance Corporation (SNIC) and Collateral Holdings, Ltd. (CHL)

This was approved by the ALDOI on October 26, 2007 and had an effective date of January 1, 2007. CHL will provide the services of its President, and other officers, employees, agents, representatives and affiliates. Such services include normal oversight of marketing and administrative matters, asset and liability management, guidance and consultation in the areas of accounting and financial reporting and other general business management. The services under this agreement shall be for an initial term of twelve months, beginning January 1, 2007, and shall be automatically renewed on each anniversary for a like period unless either party gives the other sixty days written notice of its intent not to renew the agreement. SNIC shall pay to CHL a $10,000 monthly fee. As of January 1, 2010, the monthly fee increased to $12,500 with the approval of the ALDOI, dated February 5, 2010.

An amendment to the agreement was filed on December 22, 2010 and was approved by the ALDOI on January 14, 2011. Effective January 1, 2011, SNIC shall pay CHL, Inc a $15,600 monthly fee.

Management Servicing Agreement between Southland National Insurance and Collat, Inc. (Collat)

This was approved by the ALDOI on October 26, 2007 and had an effective date of January 1, 2007. Collat will provide the services of its President, and other officers, employees, agents, representatives and affiliates. Such services include normal oversight of marketing and administrative matters, asset and liability management, guidance and consultation in the areas of accounting and financial reporting and other general business management. SNIC shall pay to Collat a $4,200 monthly fee. The services under this agreement shall be for an initial term of twelve months, beginning January 1, 2007, and shall be automatically renewed on each anniversary for a like period unless either party gives the other sixty days written notice of its intent not to renew the agreement.

An amendment to the agreement was filed on December 22, 2010 and was approved by the ALDOI on January 14, 2011. Effective January 1, 2011, SNIC shall pay Collat a $2,520 monthly fee.

Administrative Services Agreement between Southland National Insurance Corporation (SNIC) and Collateral Services, LLC (CSLLC)

This was approved by ALDOI on October 30, 2007 and had an effective date of January 1, 2007. The agreement is to continue until January 1, 2008 whereupon it shall renew automatically for periods of one year. The agreement can be terminated effective the first day of the month following sixty days written notice by either party to the other or upon written notice by CSLLC in the event the account balance is insufficient to meet Plan and Company obligations. The purpose of the agreement was to set forth the administrative services to be provided by CSLLC with respect to the Dental Plan for Employees of the Company (Plan) for its eligible Employees and their enrolled eligible Dependents (Members).

The Company shall furnish CSLLC with the following:

- An appropriate description of the benefits to be provided under the Plan;
- An administration manual for the Plan and any amendments;
- Provide monthly via computer tape Member eligibility criteria and certification of Members and assist in determining eligibility of Members to receive benefits;
- A copy of the Summary Plan Description for printing and distribution to Members by the Administrator;
- Notification of changes resulting from updated bargaining agreements and/or conditions that affect the Plan; and
- A copy of the Plan.

CSLLC shall:

- Provide adequate facilities and trained personnel for providing the services;
- Provide toll-free access facilities for Members to call and inquire regarding claims processing;
- Receive from Company and process monthly a computer tape for certifying Member eligibility under the Plan;
- Process claims submitted in accordance with the Plan performing as required such investigations as may be necessary;
- Adjudicate and pay all claims under the plan and Company guidelines regarding payments;
- Perform a review of each claim denied. CSLLC shall notify the Member in writing of its decision on review. Such notice shall satisfy ERISA requirements;
- Report to Company any non-routine claims;
- Investigate, settle and defend all claims incurred and arising under the Plan;

- Make timely reimbursements to Members with funds provided by Company; and
- Furnish Company with annual reports in accordance with Employee Retirement Income Security Act of 1974.

The Company shall pay to CSLLC a monthly administration fee during the term of the agreement with a minimum of 100 employees participating in the Plan each year. The administration fee payable to the administrator is 8.5% of claims paid.

Human Resources Services Agreement between Southland National Insurance Corporation (SNIC) and Collateral Services, LLC (CSLLC)

This was approved by the ALDOI on October 26, 2007 and was for an initial term of twelve months, beginning January 1, 2006. The agreement shall be automatically renewed on each anniversary for a like period, unless either party gives the other at least sixty days written notice of its intent not to renew the agreement.

CSLLC shall:

- Provide payroll and compensation services and administration, including salary administration, maintenance of payroll records, payment of regular and special earnings, withholding of general and benefit-related deductions, reconciliation to payroll records and remittance of all related federal and state, unemployment and local payroll taxes;
- Perform salary surveys, draft and maintain job descriptions, and performance feedback analysis;
- Maintain employee benefit plans including retirement benefits, employee hiring, retention and termination services;
- Provide job-related training;
- Prepare any required reports as needed; and
- Maintain accurate and adequate documents which clearly reflect the services performed.

On June 6, 2008, an amendment to agreement was approved by ALDOI on June 16, 2008. Effective July 1, 2008, the fees for these services shall be calculated annually and shall be paid to CSLLC at $9,485 per month.

Administrative Services Agreement between Southland National Insurance Corporation (SNIC) and Collateral Benefits Group, LLC (CBG)

This was approved by the ALDOI on October 2, 2007 and was effective July 1, 2006 and shall continue for a term of three years. The Agreement shall automatically renew for successive one-year periods unless terminated by either party upon ninety days written notice prior to the expiration of the term. In the agreement, CBG provides marketing and certain administrative services to administer certain group insurance policies and services to groups insured by American United Life Insurance Company and Chubb.

SNIC shall:

- Generate all premium billing statements and process all premium payments;
- Handle all correspondence relating to the policies;
- Have no authority regarding settlement of claims;
- Maintain licenses required by applicable states;
- Submit all applications for any new groups and will not have any underwriting authority; and
- Be responsible for compliance with state and federal statutes.

CBG shall:

- Maintain licenses required by applicable states;
- Develop and obtain approval from carriers of all materials used in conjunction with policies;
- Handle all service calls;
- Provide sixty days notice of policy, premium or commission changes or the addition of new products or carriers;
- Be responsible for the licensing and appointment with carriers of all agents selling the policies; and
- Remit all commissions calculated by SNIC, to its agents and to the carriers.

CBG will pay monthly to SNIC an administrative service fee of 3% of gross premiums processed for the term of this agreement. Administrative service fees will be reviewed upon renewal, any changes to the fees will be mutually agreed by CBG and SNIC in writing not less than ninety days prior to the effective date of the rate adjustment.

Administrative Services Agreements between Southland National Insurance Corporation (SNIC) and Southland Benefit Solutions, LLC (SBS) concerning the administration of the Alabama State Employees Insurance Board (SEIB) program and the Alabama Public Education Employees Health Insurance Board (PEEHIP)

These agreements were approved by the ALDOI on December 17, 2008, and became effective on January 1, 2009. SNIC has been engaged as third-party administrator of self-insured hospital indemnity, dental, cancer, and vision programs on behalf of SEIB since July 1, 2007 and on behalf of PEEHIP since August 28, 2007. These agreements transfer the administration of the SEIB and PEEHIP programs from SNIC to SBS.

SBS shall:

- Review and process claims submitted directly to SNIC or SBS by the programs' participants or their assignees;
- Pay SEIB claims with funds provided to SNIC by SEIB;
- Pay PEEHIP claims with funds provided to SNIC by PEEHIP;
- Maintain a toll-free number for the programs' participants to use in connection with claims and general information;
- Accept collect calls from the programs' participants for questions or information in connection with claims and general information;
- Provide an answering device for after-hours use, holiday use and weekend use;
- Notify the programs' participants of payment of any benefits to an assignee;
- Maintain an operation interactive website for the programs' participants;
- Prepare, maintain and delivery all records, reports, accounting information, claims processing history and other information required to be maintained pursuant to the SEIB and PEEHIP contracts; and
- Provide any other services which are required for compliance by SNIC with the terms and conditions of the SEIB and PEEHIP contracts.

SNIC will pay SBS a monthly fee equal to the product of the total number employees/retirees enrolled in the SEIB program and the PEEHIP program multiplied by the respective employee monthly charge per program/program year, subject to the terms, conditions, and limitations set for in the SEIB and PEEHIP contracts.

Management Servicing Agreement between Southland National Insurance Corporation (SNIC) and Life Connections, LLC (LCLLC)

This was approved by the ALDOI on October 26, 2007 and had an effective date of January 1, 2007. SNIC will provide the services of its President, and other officers, employees, agents, representatives and affiliates. The services will include, without limitation, normal oversight of marketing and administrative matters, assets and liability management, guidance and consultation in the areas of accounting and financial reporting and other general business management. An amendment to the agreement, which was approved by the Alabama Department of Insurance on July 8, 2009, indicated that effective January 1, 2009, LCLLC will pay to SNIC a monthly fee of $613. The services under this agreement shall be for an initial term of twelve months, beginning January 1, 2007 and shall be automatically renewed on each anniversary for a like period unless either party gives the other sixty days written notice of its intent not to renew the agreement.

Services Agreement between Southland National Insurance Corporation (SNIC) and Southland Benefit Solutions, LLC (SBS)

This was approved by the ALDOI on December 17, 2008 and became effective on January 1, 2009. SNIC organized SBS as a wholly-owned subsidiary to provide third-party administrative services for the SEIB and PEEHIP programs and any other third-party administration business contracted by SNIC. SBS agreed to provide the following services to SNIC:

- Underwriting services, including but not limited to, evaluation of risk and policy issuance, on all accident and health (A&H) policies issued by on behalf of SNIC on or after the effective date. SBS will abide by the underwriting guidelines provided by SNIC;
- Claims Administration of all A&H policies existing as of this agreement's effective date as well as all A&H policies issued by or on behalf of SNIC on or after the effective date and will obtain approval of the SNIC President before making payments or settlements in excess of $10,000;
- Accounting, Billing & Clerical Services including but not limited to customer service, billing and premium collection services, secretarial support and other administration support services. All funds collected or received by SBS for or on behalf of SNIC in connection with the policies shall not be deposited by SBS into any account of SBS, but shall be delivered to SNIC promptly upon receipt; and
- Other Administration Services as required under the following administrative service agreements: Drummond Company, Inc. (March 16, 2004), Cullman

Regional Medical Center (January 1, 2007), Dolphin Line, Inc. (September 5, 2005), and Collateral Services, LLC (January 7, 2007).

SNIC shall make payment to SBS consisting of the sum of (i) actual costs incurred by SBS in providing services, including but not limited to salaries, benefits and expenses incurred providing the services, and (ii) an administrative fee equal to 7.5% of the actual costs. SBS shall provide SBIC, within ten days following the end of each calendar month, a billing statement consisting of a recitation of services provided, the actual costs and administrative fee for the previous calendar month. SNIC shall pay SBS within fifteen days of receipt of the statement.

The agreement can be terminated by either party as follows:

- Immediately in the event a proceeding is commenced in any state against either SBS or SNIC for the purpose of conserving, rehabilitating or liquidating SBS or SNIC;
- Immediately in the event of a material breach by either party that is not cured within ten days of receipt of written notice of such breach; or
- Upon mutual written consent by SNIC or SBS in which shall state the effective date of termination.

Sublease Agreement between Southland National Insurance Corporation (SNIC) and Southland Benefit Solutions, LLC (SBS)

This was approved by the ALDOI on December 22, 2008. SNIC has a commercial lease agreement (Prime Lease) dated February 27, 2007 to lease the premises at 1812 University Blvd., Tuscaloosa, AL (building) from Rusty LA Boys, LLC. SNIC subleased to SBS approximately 5,121 square feet of space comprising Suite 1 of the building. The sublease commenced on January 1, 2009 and will end on the expiration date of the Prime Lease (currently February 28, 2014), unless sooner terminated or extended. The sublease can be terminated on sixty days prior written notice to SBS. SNIC will be responsible for (i) all utility consumption costs and (ii) all maintenance, repairs and replacements to the building, to the extent SNIC is obligated to perform them under the Prime Lease. The cost of structural repairs to the building or repairs to the building's HVAC, electrical or plumbing services, in excess of $500 shall be shared by SNIC and SBS on a pro-rata basis to be calculated by dividing SBS's rentable area by the rentable area of the building. SBS agrees to pay rent in monthly installments of $6,250 in advance on the first day of each month.

Administrative Services Agreement between Southland National Insurance Corporation (SNIC) and Subsidiaries of SNIC listed on Exhibit A (Southland National Funeral Group, Inc., Southland National Trust Company, Inc., Benefit Resource Group, LLC, American Funeral and Cremation Plans, LLC and Capstone of Georgia, LLC)

This was approved by the ALDOI on February 26, 2007 and shall be for the initial term of twelve months, beginning on December 4, 2006. The agreement shall automatically review on each anniversary for a like period under the terms and conditions unless either party gives the other written notice at least sixty days prior to the end of any term of its intent not to renew this agreement. The administrative services provided by SNIC in the ordinary course of business include, but are not limited to, organizational cost, management of day-to-day operations, annual taxes and fees as they come due, and payment of commissions to licensed agents for an agency subsidiary. Actual costs of administrative and support services shall be shared by SNIC and its subsidiaries in accordance with generally accepted accounting principles such as:

- Only reasonable, customary and usual charges for services rendered by SNIC for the benefit of its subsidiaries;
- Only actual costs, or reasonable estimates thereof, may be shared; and
- Only costs for services actually rendered or goods actually purchased by SNIC for the direct benefit of its subsidiaries.
- As of January 1, 2010, Exhibit A was amended to include Life Connections, LLC, and the amendment was approved by the ALDOI on February 5, 2010.

FIDELITY BONDS AND OTHER INSURANCE

The Company was covered by a financial institution bond - form 25 issued by the National Union Fire Insurance Company of Pittsburgh, Pennsylvania as of December 31, 2010. The single loss limit of the bond exceeded the NAIC suggested minimum requirements for fidelity coverage. The bond provided the following coverages:

- Dishonesty (Employee, and Servicing Contractor)
- On Premises
- In Transit
- Forgery or Alteration
- Extended Forgery
- Counterfeit Money

In addition to the above mentioned coverage, the Company was insured under the following insurance policies:

- Kidnap and Ransom
- Directors and Officers Liability including Employment

The Company is also a named insured on an insurance policy protecting the Company against other hazards to which it may be exposed.

EMPLOYEES' AND PRODUCERS' WELFARE

Employee Benefits

As of December 31, 2010, the Company provided the following benefits to its employees. The employees' benefits are not available to the producers because all are independent producers.

- flextime
- paid vacation
- paid sick leave
- paid holidays
- medical appointment leave
- jury duty
- bereavement leave
- family medical leave
- health insurance
- dental insurance
- group life
- 401(k) plan
- employee assistance program
- tuition reimbursement

Section 1033 of Title 18 of the U.S. CODE [ALA. ADMIN. CODE 482-1-146-.11 (2009)]

The Company has very few employees of its own. Collateral Holdings, Ltd. and Collat, Inc., upstream affiliates of the Company provided the Company with the services of its president, officers, employees, and independent producers. According to ALA. ADMIN. CODE 4821-146-.11 (2009), any person who acts as or are officers, directors, producers, or employees, including those authorized to act on their behalf are subjected to Section § 1033 of Title 18 of the U.S. CODE; therefore, the

Company was asked how it determined if those working on its behalf were not in conflict of Section § 1033 of Title 18 of the U.S. CODE.

Company management indicated that all prospective employees are required to submit to financial and criminal background checks by signing a consent form. There is no background check performed after initial employment. Independent producers appointed by the Company are rigorously screened before any appointment is considered and producers are required to comply with applicable law or regulation.

Since the Company did not have a procedure in place after initial employment or contracting, the Company did not comply with ALA. ADMIN. CODE 482-1-146-.11, which states:

> "(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense. (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense."

SPECIAL DEPOSITS

In order to comply with the statutory requirements for doing business in the various jurisdictions in which it was licensed, the Company had the following securities on deposit with state authorities at December 31, 2010:

State	Statement Value	Fair Value
Alabama*	$ 249,531	$ 261,656
	500,000	534,500
	507,473	546,255
	167,460	172,763
	249,973	258,908
Total Alabama	**$ 1,674,437**	**$ 1,774,082**
Arkansas	$ 210,000	$ 210,151
Florida	248,332	335,900
Georgia	214,601	219,001
New Mexico	252,060	256,475
North Carolina	508,449	509,460
Ohio	120,633	128,986
Oklahoma	320,858	302,690
South Carolina	250,371	264,123
Virginia	538,356	558,960
Total Other States	**$ 2,663,660**	**$ 2,786,746**
TOTAL SPECIAL DEPOSITS	**$ 4,338,097**	**$ 4,560,828**

*For the benefit of all policyholders

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

Year	Admitted Assets	Liabilities	Capital and Surplus	Premiums Earned
2010*	$ 183,667,751	$ 174,404,034	$ 9,263,717	$ 37,271,628
2009	168,196,269	157,107,093	11,089,179	31,383,102
2008	154,912,967	146,190,528	8,722,439	28,073,310
2007	151,221,216	140,525,165	10,696,051	27,619,257
2006	141,561,531	133,018,817	8,542,714	28,287,962
2005*	$ 132,560,232	$ 122,394,870	$ 10,165,362	$ 32,537,662

*Per examination. Amounts for the remaining years were obtained from Company copies of filed Annual Statements.

LOSS EXPERIENCE

The following information was obtained from the Company's filed Annual Statements for 2006, 2007, 2008, 2009 and 2010.

Year	Tabular Cost	Contract Benefits	Reserves Released By Death and Other Terminations
2006	10,338,677	16,793,659	7,537,113
2007	11,824,982	17,058,247	7,246,865
2008	12,882,508	18,593,381	8,816,354
2009	13,897,941	19,176,243	7,947,094
2010	9,702,026	20,388,533	13,633,732

It should be noted that the tabular cost plus reserves released by death and other terminations were greater than the contract benefits, which implies that the mortality costs built into the reserves were more than sufficient to cover the contract benefits of the Company.

MARKET CONDUCT ACTIVITIES

Territory

At December 31, 2010, the Company was licensed to transact business in the following states:

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

The Certificates of Authority were inspected for the period under review and found to be in order. There were no pending applications at December 31, 2010.

Plan of Operation

During the examination period, the Company's primary lines of business were pre-need life insurance products, which were marketed through funeral homes, and a group dental product, which was marketed by Collateral Benefit Group, Inc. The Company's agency force consists of funeral homes and individual producers within certain funeral homes. In 2010, total direct premiums were in excess of $40 million dollars.

In June, 2011, the Company announced it had shifted the focus of the Company from marketing and issuance of pre-need insurance products to the growth of its benefit related dental, vision and cancer products. All pre-need business was placed in run-off mode. The Company anticipates that they are well positioned from an investment portfolio, cash flow position and reserve perspective to meet all contractual obligations to its policyholders.

As the pre-need business declines, the Company will consider alternatives in order to prudently deploy its excess capital such as:

1. Acquisitions that enhance the employee benefit business,
2. The purchase of new blocks of business,
3. Purchase of dividend paying stocks, limited to large capitalized companies, and
4. Growth in the corporate bond portfolio limited to bonds rated 1 or 2 by the NAIC

Management is aware of the potential risk involved in the decision to enter into run-off of the pre-need business. Aside from mortality risk, the Company faces the following three key risks in the implementation of this strategy.

1. Declining net investment income
2. Overhead structure
3. Negative cash flow.

The Company's plan is to expand its employee benefits business. Southland Benefit Solutions, LLC (SBS), a wholly-owned subsidiary of the Company, serves as a third-party administrator for dental, cancer, vision, and indemnity plans primarily in Alabama. SBS is evaluating opportunities that will allow it to provide products and services, including some of its existing services to brokers or intermediaries on a national scale.

<u>Advertising and Marketing</u>

As of December 31, 2010, the Company did not have a formal advertising program. Advertising materials were limited to industry trade publications, and sales brochures were provided to funeral homes in regard to their pre-need insurance products. The Company's website was accessible by the general public.

Claims Payment Practices

A sample of 116 paid claims included 95 paid life claims and 21 Accident and Health paid claims. All 116 items were paid claims to Alabama policyholders and were reviewed for compliance with Alabama Laws and Regulations, and compliance with policy provisions and timeliness of payment.

The examiners determined that the payments were made in a timely manner and were made in accordance with the contract provisions.

Compliance with Producers' Licensing Requirements

The Company ceased writing new life insurance policies effective June 1, 2011. A limited review to determine compliance with producers' licensing and appointment requirements was conducted during the course of the examination. No significant deficiencies were noted. The Company is reminded that it is required to comply with ALA. CODE §27-7-4 (a) (1975), which states "No person shall in this state sell, solicit, or negotiate insurance for any class or classes of insurance unless the person is then licensed for that line of authority in accordance with this chapter. Any insurer accepting business directly from a person not licensed for that line of authority and not appointed by the insurer shall be liable to a fine up to three times the premium received from the person."

Underwriting and Rating Practices

As of December 31, 2010, the Company was issuing pre-need products mainly through producers connected to funeral homes. The Company filed three pre-need forms for riders during the period covered by the examination.

The examiner reviewed a sample of policies application files and determined that the rates charged for the policy coverage were in accordance with the rating cards and the policy applications. The active pre-need forms were found to be approved by the Alabama Department of Insurance.

Policyholders Complaints

The Company provided its complaints handling policies and procedures. The procedures addressed complaints forwarded to the Company by the Alabama Department of Insurance (ALDOI) and complaints received by the Company directly from the policyholders. The Company's policies and procedures complied with the requirements of ALA. ADMIN. CODE 482-1-118 (1999).

The examiners reviewed the Company's complaint register and determined that out of the nine complaints three complaints were forwarded by the ALDOI and six were received directly from the policyholders. The examiners reviewed the complaint files and determined that the Company had responded to the complaints received from the ALDOI in a timely manner, and complaints received directly from policyholders were responded to in accordance with the Company's complaints handling policies and procedures.

Privacy Policies and Practices

[Compliance with ALA. ADMIN. CODE 482-1-122 (2002)]

The Company's Privacy Notice was reviewed for compliance with ALA. ADMIN. CODE 482-1-122 (2002). The privacy notice is included on the policy application form and is also mailed to new policyholders. Privacy notices are sent to current subscribers annually. The privacy notice indicated the types of information collected by the Company, the way the information is used, and the manner in which it was collected. The notice also advised the customer that the Company will not disclose information to nonaffiliated third parties. The Company appeared to have followed privacy guidelines in accordance with ALA. ADMIN. CODE 482-1-122 (2002).

REINSURANCE

Reinsurance Assumed

Schedule S – Part 1 – Section 2 of the Company's 2010 Annual Statement indicated that the Company assumed reinsurance under a 100% quota share coinsurance reinsurance agreement with USAble Life Insurance Company, which was managed by American Pre-Arrangement Services Inc., a third party administrator of the Company. The reserve liability recorded by the Company for this contact was $373,093. The contract was terminated for all new business effective May 31, 2007.

Reinsurance Ceded

Schedule S – Part 3 – Section 1 of the 2010 Annual Statement indicated that the Company's ceded program encompassed agreements with two reinsurers. The reserve credit taken by the Company on the reinsurance contracts was $34,419,989.

Hannover Life Reassurance Co. of America (Hannover)

Type	50% Automatic Quota Share Coinsurance Agreement
Coverage	1) Virginia Meridian (Home Team) Series, 2) Virginia Horizon (TPM) Series, 3) Meridian Series, 4) Horizon Series, and 5) Landmark Series.
Effective	HA-SNLI-01 effective January 1, 2004 and HA-SNLI-02 effective September 1, 2005
Insolvency	Standard insolvency language without cut-through provisions included under ARTICLE VII – General Provisions

The agreements, HA-SNLI-01, effective January 1, 2004 and HA-SNLI-02 effective September 1, 2005, were terminated by Hannover for all new business effective December 31, 2009.

Southern Financial Life Insurance Company (SFLIC)

Type	100% Coinsurance Agreement
Coverage	Traditional Life, Final Expenses and some Annuities
Effective	September 30, 2005
Insolvency	Standard insolvency language without cut-through provision
Other Information	SFLIC was not a licensed or approved reinsurer in the state of Alabama. The Trust Agreement dated September 28, 2005, indicated that the Company was the beneficiary in the trust.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained on electronic data processing equipment.

The Company was audited annually by KPMG during 2006 and 2007. In 2008 the Company's parent Collateral Holdings Ltd., retained Warren, Averett, Kimbrough, & Marino, LLC (WAKM) as independent auditor for the Company.

The Company's reserves for the years 2006 through 2009 were certified by Wakely Actuarial Services, Inc. Palm Harbor, Florida. In 2010, the Company retained Mr. Leon Langlitz, FSA, MAAA, an actuary with Lewis & Ellis, Overland Park, Kansas, replacing Mr. Don Patterson with Wakely Actuarial Services.

Fraud Policy

The Company has a written fraud policy which was approved by the Board of Directors. According to the policy, Company management is responsible to maintain awareness of the fraud exposures and create controls and procedures to counteract fraud, to a reasonable and appropriate extent. When fraud is suspected, Company personnel are required to report the suspicious activity to the appropriate levels of management. The policy was designed so that the Company could report fraudulent acts by the employees or outsiders as required by the laws and regulations of the states in which the Company conducts its business. The examiners determined that the policy did not indicate that the Company would report fraudulent acts committed by producers to the Alabama Department of Insurance's Commissioner as is required by ALA. ADMIN. CODE 481-1-054-.03(1) (2003), which states:

> "(1) The Commissioner of Insurance shall be notified within thirty days of the happening of any one or more of the following:
>
> (a) The suspension or revocation of a licensee's license, certificate of authority, or right to transact business in another state.
> (e) The filing of a civil lawsuit, the rendering of a verdict, or the finding of a court against a producer, where such lawsuit, verdict, or finding of a court alleges or charges the producer with committing any of the following acts in the State of Alabama: intentional misrepresentation, fraud, dishonesty, misappropriation or conversion of funds, a breach of a fiduciary duty, or any other offense involving a breach of trust.
>
> (2) The notice required in this rule shall be provided by the licensee directly involved in any such event."

Record Retention Policy and Procedures

The Company was asked to provide its record retention policy and procedures in use during the period under examination. It was determined that the Company did not have a formal written record retention policy and related procedures. The Company's Board of Directors should develop a record retention policy and procedure that fits its business needs and, at the minimum, ensure compliance with ALA. ADMIN. CODE 482-1-118-.03 (1999), which states:

> "Every insurer, which term shall include every domestic insurer, foreign insurer, health care services corporation, health maintenance organization, prepaid dental plan, managing general agent or any other legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years."

Unclaimed Property Filings

According to ALA. CODE § 35-12-72 (2004), "Presumption of abandonment (a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property: ... (10) Amount owed by an insurer on a life or endowment insurance policy or an annuity that has matured or terminated, three years after the obligation to pay arose or, in the case of a policy or annuity payable upon proof of death, three years after the insured has attained, or would have attained if living, the limiting age under the mortality table on which the reserve is based. ... (18) All other property, three years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs." Also regarding the unclaimed property report to be filed with the Alabama State Treasurer, according to ALA. CODE §35-12-76 (2004), "(c) The report shall be filed before November 1 of each year and cover the 12 months next preceding July 1 of that year."

Stale Dated Checks

There were 196 stale dated checks that were over three years past due at July 1, 2010. There was no state code provided to identify which state these checks pertained. The examiners found 40 of these stale dated checks on the Company's filing with the State of Mississippi. The remaining 156 stale dated checks totaling $18,988 were not traced to an unclaimed property report filing. According to Company personnel,

> "It is our policy to follow the state guidelines of the state of record in the address of the Payee. We currently file Unclaimed Property in Alabama, Arizona, Arkansas, Colorado, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, New Mexico, Ohio, Oklahoma, South Carolina, Tennessee, Texas, and Virginia. Each state has its own requirements for filing. In Alabama the dormancy period is for 3 years. The time frame for gathering dormant checks is from July 1 to June 30 of the prior 3rd year. In other words what was filed with the November filing in 2011 for the state of Alabama included checks between July 1 2007 and June 30 2008. The other states have similar filing requirements with the exception of Mississippi. Unclaimed Property is only filed every 3 years with Mississippi."

The Company will need to review these stale dated checks and determine which checks are related to Alabama and escheat them to the Alabama Treasurer in accordance with ALA. CODE §35-12-76 (c) (2004). For those stale dated checks not related to Alabama, the Company should determine the appropriate action for each related state.

Life and Annuity Policies

There were 84 base life policies with attained ages of 103 and older, face amounts totaling $123,376 and total death benefits of $155,022 found on the Company's reserve listing as of December 31, 2010. The Company will need to review these life policies and determine which policies are related to Alabama and escheat them to the Alabama Treasurer in accordance with ALA. CODE §35-12-76 (c) (2004). For those policies not related to Alabama, the Company should determine the appropriate action for each related state.

FINANCIAL STATEMENT INDEX

Financial statements included in this report, which reflect the financial condition of the Company at December 31, 2010, and its operations for the years under examination, consist of the following:

	Page
Statement of Assets, Liabilities, Capital and Surplus	31 and 32
Statement of Revenue and Expenses	33
Statement of Reconciliation of Capital and Surplus	34

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

SOUTHLAND NATIONAL INSURANCE CORPORATION
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2010

	Assets	Assets Not Admitted	Net Admitted Assets
ASSETS			
Bonds	$171,145,763		$171,145,763
Preferred stocks	2,510,220		2,510,220
Common stocks	1,024,534		1,024,534
Mortgage loans **(Note 1)**	259,674		259,674
Cash ($1,228,074, Sch. E-Part 1), cash equivalents and Short-term investments ($2,328,497, Sch. D)	3,556,571		3,556,571
Contract loans	88,235	-0-	88,235
Subtotals, cash and invested assets	$ 178,584,998	$ -0-	$178,584,998
Investment income due and accrued	$ 2,071,387	$ 2,700	$ 2,068,687
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	10,205	165,162	-154,957
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,473,804		1,473,804
Reinsurance:			
Amounts recoverable from reinsurers	375,964		375,964
Other amounts receivable under reinsurance contracts	36,129		36,129
Current federal and foreign income tax recoverable and interest thereon	291,232		291,232
Net deferred tax asset	4,735,862	4,056,547	679,315
Guaranty funds receivable or on deposit	223,529		223,529
Electronic data processing equipment and software	105,443	48,381	57,062
Furniture and equipment, including health care delivery assets	19,426	19,426	
Receivables from parent, subsidiaries & affiliates	14,997		14,997
Health care and other amounts receivable	289,401	289,401	
Aggregate write-ins for other than invested assets	101,409	84,418	16,991
TOTALS	$188,333,786	$4,666,035	$183,667,751

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

SOUTHLAND NATIONAL INSURANCE CORPORATION
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2010

LIABILITIES	
Aggregate reserve for life contracts **(Note 2)**	$164,219,480
Aggregate reserve for accident and health contracts	373,348
Contract claims:	
Life **(Note 3)**	1,360,773
Accident and health **(Note 3)**	79,357
Premiums and annuity considerations for life and accident and health contracts received in advance	153,065
Contract liabilities not included elsewhere:	
Interest Maintenance Reserve	2,580,399
Commissions to agents due or accrued **(Note 4)**	134,794
General expenses due or accrued **(Note 5)**	746,932
Taxes, licenses and fees due or accrued, excluding federal income taxes	484,816
Current federal and foreign income taxes	10,425
Unearned investment income	78
Amounts withheld or retained by company as agent or trustee **(Note 5)**	11,975
Amounts held for agents' account **(Note 4)**	0
Remittances and items not allocated	-1,151
Miscellaneous liabilities:	
Asset valuation reserve	445,112
Payable to parent, subsidiaries and affiliates	25,444
Aggregate write-ins for liabilities	3,779,187
Total Liabilities	$ 174,404,034
CAPITAL AND SURPLUS	
Common capital stock	$ 1,502,718
Surplus notes	3,000,000
Gross paid-in and contributed surplus	7,838,042
Aggregate write-ins for special surplus funds	457,172
Unassigned funds (surplus) **(Note 6)**	-3,534,215
Total Surplus	7,760,999
Total Capital and Surplus	$ 9,263,717
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$183,667,751

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

SOUTHLAND NATIONAL INSURANCE CORPORATIONS
SUMMARY OF OPERATIONS
For the Years Ended December 31, 2010, 2009, 2008, 2007, and 2006

	2010	2009	2008	2007	2006
Income:					
Premiums and annuity consideration	$37,271,628	$31,383,102	$28,073,310	$27,619,257	$28,287,962
Net investment income	8,975,596	8,356,196	8,446,033	7,851,018	7,247,253
Amortization of IMR	404,895	191,460	82,230	131,617	146,978
Commissions and expense allowances on reinsurance ceded	233,135	994,848	1,130,669	1,907,504	2,250,799
Aggregate write-ins for Misc. income	160,304	144,451	183,037	741,512	111,680
Total Income	$47,045,558	$41,070,057	$37,915,279	$38,250,908	$38,044,672
Deductions:					
Death benefits	$20,388,533	$19,176,243	$18,593,381	$17,058,247	$16,793,659
Matured endowments	0	0	0	0	3,640
Annuity benefits	81,170	16,806	26,506	60,533	82,757
Disability benefits and benefits under accident and health contracts	1,541,572	1,370,181	1,358,202	1,345,196	1,508,750
Surrender benefits and withdrawals for life contracts	149,002	141,470	145,001	113,051	229,936
Interest and adjustments on contract or deposit-type contract funds					-3
Increase in aggregate reserves for life and accident and health contracts **(Note 2)**	13,091,325	9,831,877	7,890,751	8,365,705	9,435,913
Commissions on premiums, annuity considerations & deposit-type contract funds(direct business only)	4,414,939	4,133,121	3,775,134	4,878,212	5,296,924
Commissions and expense allowances on reinsurance assumed				23,403	47,516
General insurance expenses **(Note 5)**	8,183,315	4,707,846	4,396,060	4,326,143	5,737,358
Insurance taxes, licenses and fees, excluding federal income taxes	1,179,731	1,047,194	982,686	946,113	981,010
Increase in loading on deferred and uncollected premiums.	252,175	29,338	-67,555	-71,436	83,073
Total deductions	$49,281,762	$40,454,076	$37,100,166	$37,045,167	$40,200,533
Net gain from operations before dividends to policyholders and federal income taxes	$ -2,236,204	$ 615,981	$ 815,113	$ 1,205,741	$-2,155,861
Federal and foreign income taxes incurred	6,875	3,550	$ 270,417	$ -365,607	$ 11,168
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	$ -2,243,079	$ 612,431	$ 544,696	$ 1,571,348	$-2,167,029
Net realized capital gains or (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax (excluding taxes transferred to the IMR)	435,011	-17,235	-5,824,777	-85,691	-58,302
Net income	$ -1,808,068	$ 595,196	$-5,280,082	$ 1,485,657	$-2,225,331

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

SOUTHLAND NATIONAL INSURANCE CORPORATION
CAPITAL AND SURPLUS ACCOUNT
For the Years Ended December 31, 2010, 2009, 2008, 2007, and 2006

	2010	2009	2008	2007	2006
Capital and surplus,					
December 31, prior year	$11,089,179	$8,722,439	$10,696,052	$ 8,542,714	$10,385,403
Gains and (losses) in surplus:					
Net income	$-1,808,068	$ 595,196	$-5,280,082	$ 1,485,657	-2,225,331
Change in net unrealized capital gains or (losses)	64,715	618,206	-174,796	-25,505	31,319
Change in net deferred income tax	-1,835,533	-758,915	2,577,528	4,228,829	65,953
Change in nonadmitted assets and related items	2,051,551	1,095,121	-3,010,079	-3,531,798	457,324
Change in asset valuation reserve	-298,127	-146,551	76,529	150,061	-30,473
Change in surplus note			3,000,000		
Surplus adjustment- paid-in	0	1,000,000	1,000,000	-0-	310,000
Dividend to stockholders					-306,304
Aggregate write-ins for gains and losses in surplus	0	-36,317	-162,713	-153,906	-145,177
Net change in capital and surplus for the year	$-1,825,462	$ 2,366,740	$-1,973,613	$ 2,153,338	$-1,842,689
Capital and surplus, December 31, current year	$ 9,263,717	$11,089,179	$ 8,722,439	$10,696,052	$ 8,542,714

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Mortgage loans **$259,674**

The captioned asset is the same as reported by the Company in its 2010 Annual Statement, but $85,312 more than the $174,362 determined by the examination. Due to immateriality, no changes were made to the 2010 Annual Statement.

The examiner reviewed Schedule B - Part 1 of the 2010 Annual Statement and determined that two mortgage loan properties, one located in Alachua, Georgia and other located in Rex, Florida, were appraised in 2007; however, the appraisers were not licensed in the state of Alabama as required by ALA. ADMIN. CODE 482-1-059-.02, which states:

> "Qualifications of the Appraiser. All real estate appraisals conducted at the request of the Insurance Department, if to be used by the Department for valuation of assets, must be performed by a person licensed under Section 34-27A-1 et seq., Code of Alabama 1975, specifically 34-27A-9 by the Alabama Real Estate Appraisers Board."

The Company should only admit mortgage loans which are in compliance with the above mentioned regulation.

The examiners reviewed the certifications by the appraisers for all seven mortgage loans properties. The certification did not indicate that the appraisers would testify under oath on request concerning the appraisals as required by ALA. ADMIN. CODE 482-1-059-.04, which states:

> "Certification by Appraiser. The appraiser shall certify that he is familiar with the provisions of this chapter and that the appraisal is made in conformity with the chapter. He shall also certify that he is willing to testify under oath on request concerning the appraisal."

Note 2 - Aggregate reserve for life contracts **$164,219,480**

The captioned amount is $192,357 more than the $164,027,123 reported by the Company in its 2010 Annual Statement.

The examiners reviewed the Company's valuation database as of December 31, 2010 for completeness and accuracy with the original records. Using ACL, it was determined that 103 base policies in the valuation listing of 83,857 base policies and certificates did not have a calculated reserve amount. Company management and the Company's opining actuary reviewed the listing of 103 base policies and added any riders to the base policies for a total of 392 records without a calculated reserve.

The examination adjustment increased the Aggregate reserve for life contracts to $164,219,480 from $164,027,123 or $192,357, which is the calculated reserve for the 392 policies (base policies and riders).

Company management and the opining actuary indicated that a recalculation of 2010 year reserves was completed in July 2011 using newly developed reserve factors and methods. The recalculation resulted in total gross reserves for Exhibit 5 - Life Insurance equal to $196,815,254, or $427,071 less than reported in the 2010 Annual Statement and that the $427,071 amount included the $192,357.

The actuarial examiners did not review the recalculated reserve for the 2010 valuation listing to verify the opining actuary's assertion that the 2010 reserve calculation provided to the examiners was $427,071 more than the recalculated amount. The examination actuary had reviewed the reserves calculation for a sample of 60 items taken from the 2010 listing and determined that the reserve calculation for the sample policies was appropriately calculated based on the reserve methodology utilized by the opining actuary.

The examiners reviewed the Company's valuation database as of December 31, 2010 for completeness and accuracy with the original records. The examination determined that some plans with inherent descendant riders did not record the descendant coverage along with the base policy. Company management indicated the following:

> "In late 2011, it was discovered that the policy administration system did not have a coverage recorded for inherent descendant riders for certain base policies. The reason found was that the base plan did not have the rider plan attached. On December 30, 2011, the Company corrected this by attaching the rider to the base plan and adding a descendant coverage record to policies in active status at December 30, 2011."

Company management also indicated that 93 plans with inherent descendent riders, for a total of 5,841 policies and 52 plans with ADB riders, for a total of 1,486 policies were omitted from the valuation listing. Company management's affirmation of the missing plans and policies was not verified by the examiners. The actuarial examiner determined that the descendent and ADB rider would carry some additional reserve; however, the reserve amounts for the missing riders were minimal.

The examiners also determined, from a review of a sample of policies, that the Company did not complete the Exhibit of Life Insurance appropriately, when they included the amount of insurance on the ADB rider in the exhibit. Company management indicated that the amount of ADB included in the exhibit was $4,264,627 for ordinary and $2,533,297 for group. The error will have no impact on the surplus.

Note 3 - Contract claims – Life	**$ 1,360,773**
Contract claims - Accident and health	**$ 79,357**

The captioned amounts are the same as reported by the Company in its 2010 Annual Statement, but $7,415 more than the $1,360,773 and $3,968 more than the $79,357 determined by the examination. Due to immateriality, no changes were made to the 2010 Annual Statements.

The actuarial examiner calculation indicated that the claims adjustment expenses should have been $27,215 for life insurance business and $3,968 for accident and health. All claims adjustment expense liabilities are included in the Contract Claims: Life and Accident and Health Liability Lines.

The examination determined that the Company did not calculate the claims adjustment expense liability in accordance with the guidance provided by SSAP No. 55, paragraph 6 of the NAIC Accounting Practices and Procedures Manual, which states:

> "Claims, losses and loss/claim adjustment expenses shall be recognized as expense when a covered or insured event occurs. In most instances the covered or insured event is the occurrence of an incident which gives rise to a claim or the incurring of costs. For claims made type policies the covered or insured event is the reporting to the entity of the incident that gives rise to a claim. Claim payments and related expense payments are made subsequent to the occurrence of a covered or insured event and, in order to recognize the expense of a covered or insured event that has occurred, it is necessary to establish a liability..."

Further review of the accounts and records indicated that the Company accrued $19,800 for claims adjustment expenses and inappropriately recorded the amount under General expenses due and accrued. The amount was $7,415 less than the amount determined by the examination.

Note 4- Commissions to agents due or accrued $ 134,794
Amounts held for agents' account $ -0-

The captioned amounts are $134,794 more than and $134,794 less than the $0 and the $134,794, respectively, reported by the Company in its 2010 Annual Statement.

Amounts held for agents' account consisted of commissions owed to agents, which was not in accordance with the NAIC Annual Statement Instructions, which states:

> "Line 18 - Amounts Held for Agents' Account," Include: Agents' credit balances as well as any other amounts due or contingently due to agents (but not commissions, which should be included in Line 10). Do not offset the debit balance of one agent against the credit balance of another."

Note 5 - General expenses due or accrued $746,932
Amounts withheld or retained by the Company as agent or trustee $ 11,975

The captioned amounts are $464,724 more than and $127,342 less than the $282,208 and $139,317, respectively, reported by the Company in its 2010 Annual Statement.

The review of accounts and records indicated that the Company had recorded an auditing fee accrual under *Amounts withheld or retained by company as agent or trustee.* The amount of $127,342 was reclassified from *Amounts withheld or retained by company as agent or trustee* in accordance with the NAIC Annual Statement Instructions and had no impact on the Company's surplus.

A review of disbursements made subsequent to the examination date determined that the Company did not establish adequate accruals for actuarial and legal fees, related to 2010, totaling $337,382. In accordance with the NAIC Accounting Practices and Procedures Manual- SSAP No. 5R, paragraph 7 a. and b., the examiners increased the General expenses due and accrued at December 31, 2010 by this amount.

Note 6 – Unassigned funds (surplus) $(3,534,215)

The Unassigned funds (surplus) balance of the Company, as determined by this examination, was $529,739 less than the $(3,004,476) reported by the Company in its 2010 Annual Statement. The following presents a reconciliation of unassigned funds per the Company's filed Annual Statement to that developed by this examination.

Unassigned funds per Company		**$ (3,004,476)**
Examination increase/(decrease) to assets:		
• None	-0-	
Total – Increase in Assets	**$ -0-**	
Examination (increase)/decrease to liabilities:		
• Aggregate reserve for life contract	$ (192,357)	
• General expenses due and accrued	(337,382)	
Total – Increase in Liabilities	**$ (529,739)**	
Total decrease in surplus		**$ (529,739)**
Unassigned funds (surplus) per examination		**$ (3,534,215)**

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by Company management; a review of a report to the examiners on pending litigation made by the Company's attorney; and a general review of the Company's records and files conducted during the examination, including a review of claims. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with recommendations made in the previous examination and the target examinations. The review indicated that the Company had satisfactorily complied with the recommendations.

COMMENTS AND RECOMMENDATIONS

Board of Directors – Pecuniary Interest Violation – Page 7

It is recommended that the Company not pay consultation fees to a director due to the prohibition specified in ALA. CODE § 27-27-26 (1975), which states:

> "(a) Any officer, or director, or any member of any committee or any employee of a domestic insurer who is charged with the duty of investing or handling the insurer's funds shall not deposit... shall not be pecuniarily interested in any loan, pledge or deposit, security, investment, sale, purchase, exchange, reinsurance, or other similar transaction or

property of such insurer except as a stockholder or member and shall not take or receive to his own use any fee, brokerage, commission, gift, or other consideration for, or on account of, any such transaction made by, or on behalf of, such insurer."

Section 1033 of Title 18 of the U.S. CODE – Page 19

It is recommended that the Company adopt an internal procedure to ascertain the existence of a felony conviction for a Section 1033 offense by its existing employees, applied on a periodic basis and comply with ALA. ADMIN. CODE 482-1-146-.11, which states:

"(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense. (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense."

Compliance with Producers' Licensing Requirements – Page 24

The Company is reminded that it is required to comply with ALA. CODE §27-7-4 (a) (1975), which states "No person shall in this state sell, solicit, or negotiate insurance for any class or classes of insurance unless the person is then licensed for that line of authority in accordance with this chapter. Any insurer accepting business directly from a person not licensed for that line of authority and not appointed by the insurer shall be liable to a fine up to three times the premium received from the person."

Fraud Policy – Page 26

It is recommended that the Company update its fraud policy, which would include that fraud committed by producers would be reported to the Commissioner in accordance with ALA. ADMIN. CODE 481-1-054-.03(1) (2003), which states:

"(1) The Commissioner of Insurance shall be notified within thirty days of the happening of any one or more of the following:

(a) The suspension or revocation of a licensee's license, certificate of authority, or right to transact business in another state.

(e) The filing of a civil lawsuit, the rendering of a verdict, or the finding of a court against a producer, where such lawsuit, verdict, or finding of a court alleges or charges the producer with committing any of the following acts in the State of Alabama: intentional misrepresentation, fraud, dishonesty, misappropriation or conversion of funds, a breach of a fiduciary duty, or any other offense involving a breach of trust.

Record Retention Policy and Procedure – Page 27

It is recommended that the Company establish a formal written record retention policy and procedures that will ensure compliance with ALA. ADMIN. CODE 482-1-118-.03 (1999), which states:

> "Every insurer, which term shall include every domestic insurer, foreign insurer, health care services corporation, health maintenance organization, prepaid dental plan, managing general agent or any other legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years."

Unclaimed Property Filings – Page 28

It is recommended that the Company file all Alabama stale-dated checks over three years past due and life and annuity policies three years after the insured has attained, or would have attained if living, the limiting age under the mortality table on which the reserve is base with the Alabama State Treasurer on November 1 of each year and cover the twelve months next preceding July 1 of that year in accordance with ALA. Code § 35-12-72 (2004), which states: "Presumption of abandonment (a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property: ... (10) Amount owed by an insurer on a life or endowment insurance policy or an annuity that has matured or terminated, three years after the obligation to pay arose or, in the case of a policy or annuity payable upon proof of death, three years after the insured has attained, or would have attained if living, the limiting age under the mortality table on which the reserve is based. ... (18) All other property, three years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs." Also regarding the unclaimed property report to be filed with the Alabama State Treasurer, according to ALA. CODE §35-12-76 (2004), "(c) The report shall be filed before November 1 of each year and cover the 12 months next preceding July 1 of that year."

It is recommended that the Company review the 156 stale-dated checks totaling $18,988.28 that were over three years past due at July 1, 2010 and determine which checks are related to Alabama and escheat them to the Alabama Treasurer in accordance with ALA. Code §35-12-76 (c) (2004). For those stale-dated checks not related to Alabama, it is recommended that the Company determine the appropriate action for each related state.

It is recommended that the Company review the 84 base life policies with attained ages of 103 and older to determine which policies are related to Alabama and escheat them to the Alabama Treasurer in accordance with ALA. CODE §35-12-76 (c) (2004). For those policies not related to Alabama, it is recommended that the Company determine the appropriate action for each related state.

Mortgage loans – Page 35

It is recommended that the Company only admit mortgage loans with appraisals performed by a person who meets the requirements of ALA. ADMN. CODE 482-1-059-.02, which states:

> "Qualifications of the Appraiser. All real estate appraisals conducted at the request of the Insurance Department, if to be used by the Department for valuation of assets, must be performed by a person licensed under Section 34-27A-1 et seq., Code of Alabama 1975, specifically 34-27A-9 by the Alabama Real Estate Appraisers Board."

It is recommended that the Company only appoint appraisers who will certify that they are familiar with the provisions of Alabama laws and regulation and are willing to testify under oath as required by ALA. ADMN. CODE 482-1-059-.04, which states:

> "Certification by Appraiser. The appraiser shall certify that he is familiar with the provisions of this chapter and that the appraisal is made in conformity with the chapter. He shall also certify that he is willing to testify under oath on request concerning the appraisal."

Aggregate reserves for life contracts – Page 35

It is recommended that the Company review the valuation database for missing or unrecorded reserves to ensure that the carried reserves appropriately reflect the year-end liability for Aggregate reserve for life contracts.

It is recommended that the Company review the valuation database and ensure that the insurance plans with inherent descendant riders are appropriately listed on the valuation listing.

It is recommended that the Company only include the amount of insurance on the base policy in the Exhibit of Life Insurance table.

Contract claims – Life – Page 37
Contract claims - Accident and health – Page 37

It is recommended that the Company establish and record a claims adjustment expense liability for both the life insurance claims liability and the A&H claims liability in accordance with SSAP No. 55, paragraph 6 of the NAIC Accounting Practices and Procedures Manual, which states:

> "Claims, losses and loss/claim adjustment expenses shall be recognized as expense when a covered or insured event occurs. In most instances the covered or insured event is the occurrence of an incident which gives rise to a claim or the incurring of costs. For claims made type policies the covered or insured event is the reporting to the entity of the incident that gives rise to a claim. Claim payments and related expense payments are made subsequent to the occurrence of a covered or insured event and, in order to recognize the expense of a covered or insured event that has occurred, it is necessary to establish a liability..."

Commissions to agents due or accrued – Page 38
Amounts held for agents' account - Page 38

It is recommended that the Company classify all commissions due to agents in line 10, "Commissions to agents due or accrued" in accordance with the NAIC Annual Statement Instructions.

General expenses due or accrued – Page 38
Amounts withheld or retained by the Company as agent and trustee – Page 38

It is recommended that the Company include auditing fee accruals under General expenses due or accrued in accordance with the guidance provided by the NAIC Annual Statement Instructions.

It is recommended that the Company establish adequate accruals for its General expenses due or accrued in future financial filings in accordance with the NAIC *Accounting Practices and Procedures Manual*- SSAP No. 5R, paragraph 7 a. and b.

SUBSEQUENT EVENTS

Pre-need Business

Effective June 1, 2011, the Company stopped writing new pre-need business.

Asset Adequacy Analysis

The Company had negative ending surplus on six out of seven of the New York Seven tested scenarios in the 2011 Asset Adequacy Analysis. In addition, the opining actuary ran a number of additional sensitivity testing scenarios on which the Company had negative ending surplus on some of them. The Company should monitor this situation closely.

A.M. Best Rating

In 2011, the Company made a decision to cease marketing operations and the issuance of new pre-need business. The Company also decided to withdraw from the rating offered by the A.M. Best Company. As of November 10, 2011, the Company's rating of B+ was set at NR by A.M. Best indicating Not Rated.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing the Company during the course of the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Rhonda Ball, CFE, Jerry Hyche, AIE, MCM, FLMI, and Charles Turner, CISA, Examiners; and Harland Dyer, ASA, MAAA, Consulting Actuarial Examiner; all representing the Alabama Department of Insurance, participated in this examination.

Respectfully submitted,

Francis Blase Abreo

Blase Abreo, CFE
Examiner-in-charge
Alabama Department of Insurance