

**REPORT OF
EXAMINATION**

OF

NATIONAL SECURITY INSURANCE COMPANY

ELBA, ALABAMA

AS OF

DECEMBER 31, 2023

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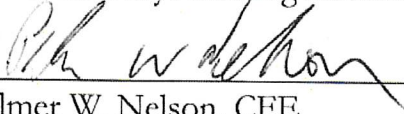
EXAMINER'S AFFIDAVIT

**STATE OF COLORADO
COUNTY OF DENVER**

Palmer W. Nelson, CFE, being duly sworn, states as follows:

1. I have the authority to represent Alabama in the examination of National Security Insurance Company.
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 National Security Insurance Company was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.



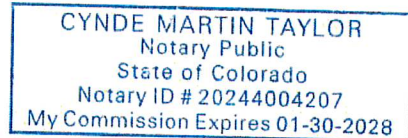
Palmer W. Nelson, CFE

Subscribed and sworn before me by Palmer W. Nelson on the 14th day of November, 2024.

(Seal)



(Signature of Notary Public)



My commission expires 01-30-2028



KAY IVEY
GOVERNOR

MARK FOWLER
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE

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CHIEF EXAMINER
SHEILA TRAVIS

STATE FIRE MARSHAL
SCOTT F. PILGREEN

GENERAL COUNSEL
REYN NORMAN

November 14, 2024

Honorable Mark Fowler
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, AL 36104

Dear Commissioner Fowler:

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, 2023, has been made of

**National Security Insurance Company
Elba, AL**

at its home office located at 661 East Davis Street Elba, AL 36323. The report of examination is submitted herewith. Where the description "The Company" or "NSIC" appears herein, without qualification, it will be understood to indicate National Security Insurance Company.

SCOPE OF EXAMINATION

We have performed an examination of National Security Insurance Company, a multi-state insurance company. The last examination covered the period of January 1, 2014, through December 31, 2018. The current examination covers the period of January 1, 2019, through December 31, 2023.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the *Code of Alabama, 1975*, as amended and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

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 applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory, plan of operation, claims payment practices, advertising and marketing, underwriting and

rating, policyholders' complaints, compliance with producers licensing requirements, and privacy standards. See the "Market Conduct Activities" section of this report on page 11 for further discussion.

Warren Averett, LLC was the Company's certified public accountant (CPA) for all years under examination. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate. The workpapers of the Company's internal audit department were reviewed and considered in the examiner's identification and assessment of risks and controls.

A signed letter of representation was obtained at the conclusion of the examination. In this letter, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2023.

ORGANIZATION AND HISTORY

The Company was incorporated on February 5, 1947, as a mutual aid company in Coffee County, Alabama. It commenced business with paid up capital of \$25,000 divided into 250 shares of \$100 par value common stock and \$7,500 paid in surplus.

In 1955, the authorized capital stock was increased to 500,000 common shares, with a one-dollar par value, and the Company was converted to a legal reserve life insurance company. The Company merged with two Birmingham, Alabama based insurance companies, Alabama Life and Casualty Company in 1959, and Mercantile Life Insurance Company in 1961. The Company survived the mergers, and its subsequent capital stock was 1,200,000 common shares, with a par value of one dollar per share.

In 1988, the authorized capital stock of the Company was increased to 10,000,000 common shares, with a par value of one dollar per share. Also, 10,000,000 shares of preferred stock, with a par value of one dollar per share were authorized; however, no preferred stock was issued at year end 2023.

The National Security Group (NSG) was purchased by VR Insurance SPV on June 30, 2022. The ownership is a mixture of individuals and companies, and the group is headed by Vivek Ranadive. As a result of the acquisition, The NSG is no longer publicly traded and is instead privately held. The Company's capital structure on December 31, 2023, consisted of 2,500,000 shares of common stock, issued and outstanding, for a total common stock par value of \$2,500,000. The Company also had \$500,000 in gross paid in and contributed surplus and reported \$2,824,961 of unassigned funds.

MANAGEMENT AND CONTROL

Stockholder

The Company is a stock corporation with ultimate control vested in its stockholders. On December 31, 2023, 100% of the Company's issued and outstanding common stock was owned by The NSG, a Delaware corporation.

Board of Directors

Members elected to the board of directors by the sole shareholder and serving on December 31, 2023, were as follows:

<u>Directors/Residence</u>	<u>Principal Occupation</u>
Ross Peter Aron New York, NY	President/CEO National Security Group, Inc.
Kelly Holland Jackson Enterprise, AL	Vice President, CFO, Treasurer National Security Group, Inc.
Tonya Mathews Jones Brantley, AL	Vice President, Secretary, Assistant Treasurer Human Resources Manager, COO National Security Group, Inc.
Laura Williams Jordan Jack, AL	Vice President, Assistant Secretary, CAO National Security Group, Inc.

Officers

Officers of the Company elected by the board of directors and serving on December 31, 2023, were as follows:

<u>Position</u>	<u>Name</u>
President/CEO	Ross Peter Aron
Treasurer/Vice President/CFO	Kelly Holland Jackson
Secretary/Vice President/COO	Tonya Mathews Jones
Vice President/Assistant Secretary/CAO	Laura Williams Jordan
Vice President	Phillip Tarkington Curtis

Committees

The Company had no board of director committees during the examination. The Audit Committee of the holding company, The NSG, serves as the audit committee for all the insurance companies in the group.

Conflict of Interest

The Company requires that conflict of interest statements be completed annually by all directors, officers, and exempt status employees. In addition, the Company requires every new employee, whether they are exempt, non-exempt, full-time, part-time, or contracted, to attend a Code of Business Conduct and Compliance Program. This program provides employees with a formal statement of the Company's standards and rules of ethical business. At the end of the program, the employees are required to sign a statement of understanding, which is maintained in the employees' personnel files. Officers, directors, and managers are also required to complete a Code of Ethics Certification on an annual basis. This certifies their understanding and agreement to abide by the Company's ethical standards and expectations.

A review was conducted of all the conflict-of-interest statements filed by the board of directors and officers during the examination period. No items of disclosure, which may have had the potential of a material or adverse impact on the operations of the Company, were noted.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected and found to provide for the operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings of the stockholder and board of directors' meetings from January 1, 2019, through the most recent meetings held at the conclusion of the examination were reviewed. The minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company was subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE § 27-29-4(a)(1) (2022). VR Insurance Holdings, Inc., was registered with the Alabama Department of Insurance as registrant of the Insurance Holding Company System.

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

Dividends to Stockholders

The following dividends were declared and paid to stockholders of the Company during the period under examination:

<u>Year</u>	<u>Dividend Paid</u>
2019	\$ 750,000
2020	\$ 1,100,000
2021	\$ -0-
2022	\$ -0-
2023	\$ -0-

The dividends were reported to the Alabama Department of Insurance in accordance with ALA. CODE § 27-29-4(e) (2022), which states in part: "...each registered insurer shall so report all dividends and other distributions to shareholders within 15 business days following the declaration thereof."

Management and Service Agreements

The following agreements between the Company and its affiliates were in effect during the examination period.

Holding Company Management Service Agreement

Effective July 1, 2010, The NSG entered into a Holding Company Management Service Agreement among and between, NSIC, NSFC, and Omega. The purpose of the agreement is to provide remuneration for services provided by The NSG on

behalf of and/or to the benefit of the subsidiaries. The primary intent of this fee is to cover operating costs of The NSG related to providing additional risk management, board oversight, and various other benefits to its subsidiaries. The management fee is calculated and paid on a monthly basis.

Agreement for the Allocation of General and Administrative Expenses

On December 1, 2011, an Amendment to the Management Agreement for Allocation of General and Administrative Expenses, Adjuster Employees, and Income Taxes was filed. A Form D Prior Notice of a Transaction was filed with the Alabama Department of Insurance by The NSG on behalf of NSIC, NSFC, Omega, and NATSCO, Inc. The amendment provided for allocation of common expenses, adjuster fees, and income taxes between The NSG and its subsidiaries. In consideration for the settlement of common expenses, adjuster fees, and income taxes between The NSG and its subsidiaries, each subsidiary agreed to pay the respective amounts to the respective company as calculated using the most pertinent means which shall be construed as reimbursement of all direct costs.

The term of the agreement was for one-year, renewable for successive one-year periods until any party elects to terminate or until modified, amended, or superseded by a subsequent agreement.

Investment Management Agreement

On June 16, 2022, a Form D Prior Notice of a Transaction for an Investment Management Agreement was filed with the Alabama Department of Insurance by VR Insurance Holdings, Incorporated. The agreement was approved by the Commissioner on June 17, 2022. VR Asset Management, LLC, a direct wholly owned subsidiary of VR Insurance Holdings, Inc., NSIC, NSFC, and Omega entered into an Investment Management Agreement effective July 1, 2022, whereby VR Asset Management, LLC manages the investment portfolios of NSIC, NSFC, and Omega within each insurer's investment guidelines for a flat fee of 55 basis points.

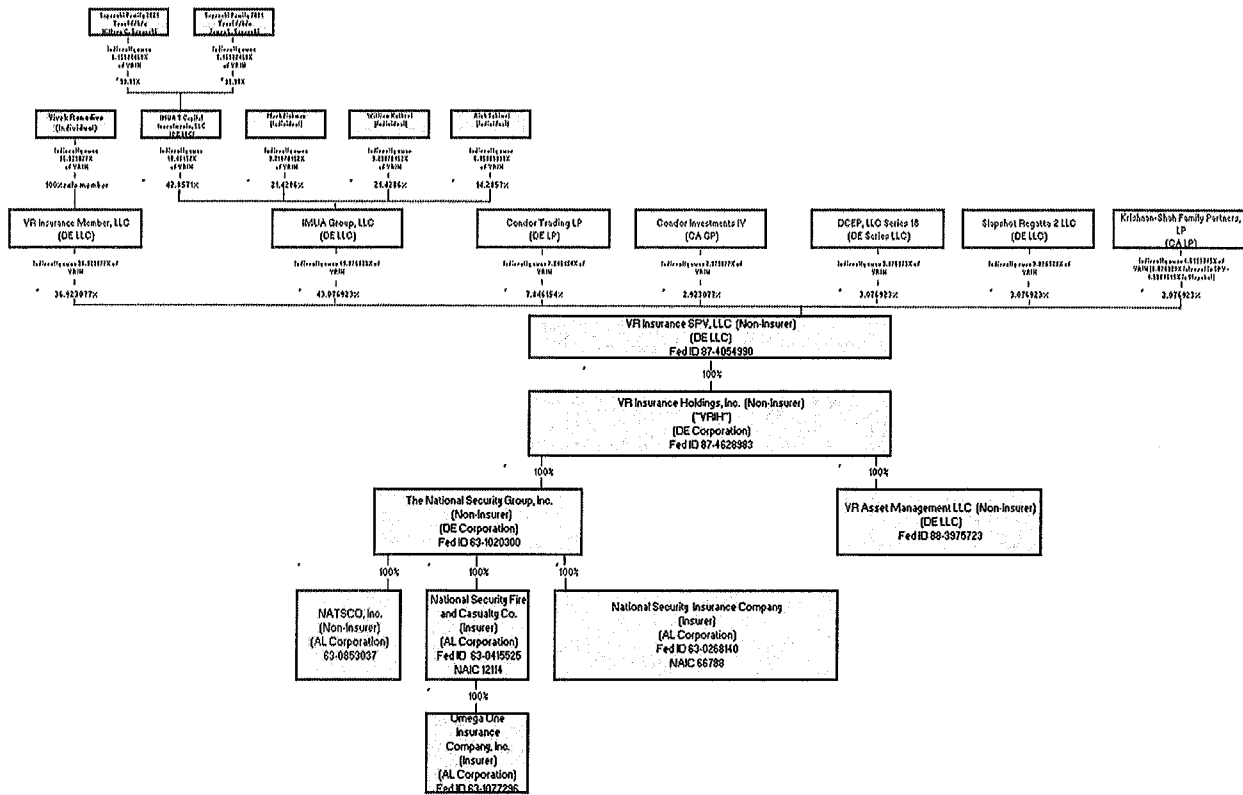
The agreement shall be effective for a period ending on the five-year anniversary of the effective date. The agreement may be extended by mutual agreement of the Company and investment manager, but the extension is subject to the approval of the Alabama Department of Insurance. If the Company or investment manager does not perform satisfactorily under the agreement, the agreement may be terminated with 30 days prior written notice by either party. The Company or investment manager may terminate the agreement upon 180 days prior written notice or a

shorter period of time if the parties agree in writing. A prior notice shall also be provided to the Commissioner.

ORGANIZATIONAL CHART

The following chart presents the affiliations of the entities affiliated with the Company.

Organizational Chart



FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured with Liberty Mutual Insurance Company for an aggregate amount, which met the suggested minimum requirements of the *NAIC Financial Condition Examiners Handbook*. In addition to this coverage, the Company also had insurance coverage for the following:

- Auto coverage provided by Cincinnati Insurance Company
- Cyber Liability Policy provided by Accredited Specialty Insurance Company

The Company was an insured entity on all policies. Each policy included all insurers in the group as a group or by entity name.

EMPLOYEE AND AGENT WELFARE

The Company utilizes independent agents to market its business. They also employ home office employees, adjusters, and home service agents.

The Company's staff performs the functions necessary for the operations of the Company. The staff performs the same type of functions for its two affiliated property and casualty insurance affiliates under the terms of a management and services agreement.

Benefits provided by the Company to its employees as of December 31, 2023, included the following:

- Paid time off (PTO)
- Extended illness leave (EIL)
- Bereavement leave
- Jury duty leave
- Paid holidays (New Year's Day, Martin Luther King, Jr. Day, Memorial Day, Independence Day, Labor Day, Veteran's Day, Thanksgiving Day and the following Friday, Christmas Day)
- Group health, dental, and vision insurance
- Medical reimbursement benefits for employees not participating in the group health plan
- 401K
- Life insurance
- Flexible health and dependent care spending account
- Tuition reimbursement
- The NSG scholarship program

- Service awards
- Home office recreational room
- Lactation breaks
- Social events
- Recreational facility

Compliance with 18 U.S.C § 1033

The examiners reviewed the Company's internal procedures to determine if prospective and current employees and/or contractors are in compliance with 18 U.S.C. § 1033, which prohibits persons with certain felony offenses from participating in the business of insurance. Also, compliance with ALA. ADMIN. CODE 482-1-146 (2009) was examined.

A sample of NSIC employees was selected and reviewed. For the sample of employees that were reviewed, the examiners verified that the Company performed criminal background checks on prospective employees as required. The review also indicated that the Company performed criminal background checks of existing employees every three years unless a background check had just been run during the past year for a newly hired employee on the date of obtaining the background checks. The managers indicated that those that were excluded because of a recent background check will be tested on the date that background checks will be obtained again for all existing employees. The Company did not have a documented procedure with the details of the intervals in which background checks would be obtained to verify that existing employees did not have a felony conviction. ALA. ADMIN. CODE 482-1-146.11 (2009) states:

- (1) a Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:
 - ...(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.

MARKET CONDUCT ACTIVITIES

Territory

On December 31, 2023, the Company was licensed to transact business in the following states: Alabama, Arizona, Arkansas, Colorado, District of Columbia,

Florida, Georgia, Idaho, Iowa, Kentucky, Louisiana, Maryland, Mississippi, Montana, Nebraska, New Hampshire, Oklahoma, Rhode Island, South Carolina, Tennessee, Texas, Utah, and Vermont. Indiana was approved January 12, 2024. Wisconsin was approved February 23, 2024. Hawaii was approved May 2, 2024. Alaska was approved July 1, 2024. The Certificates of Authority were issued by the respective states and were reviewed for the period under examination.

Plan of Operation

The Company's life products consisted of whole, term, group, and annuities. The accident and health lines consisted of accident, critical illness, cancer, and disability. As of December 31, 2023, the Company's agency force consisted of approximately 1,100 independent producers.

Advertising and Marketing

The Company's advertising materials were reviewed for the examination period. The Company's advertising files contained specimen copies of all the Company's advertisements that were printed, published, or prepared. The examiner's review did not reveal any advertisements that misrepresented policy benefits, forms, or conditions, made unfair or incomplete comparisons with other policies, or made false, deceptive, or misleading statements or representations.

The Company's website (www.nationalsecuritygroup.com) provided product information and product descriptions of life insurance and accident and health plans offered by the Company. Producers are not allowed to create their own advertising or marketing materials.

Policyholder's Complaints

The Company did not have any complaints during the period. The Company has a complaint register in place to record all its complaints, both consumer direct and those received by the Department of Insurance. The Company has adequate complaint procedures in place for the distribution of complaints and obtaining and recording responses to the complaints.

Claims Payment Practices

Paid Claims

A sample of 110 Alabama paid claims was selected from a population of 8,680 transactions from the examination period, 2019 - 2023. The sample was reviewed for compliance with the Company's policy provisions, timeliness of payment, and adequacy of documentation. The examination found that the claims were paid in compliance with ALA. ADMIN CODE 482-1-124(2003).

Closed with without payment/Denied Claims

A sample of 105 Alabama denied claims was selected from a population of 616 claims reported during the examination period. The examiner obtained and reviewed denial letters to the claimants. The denials were determined to be reasonable and based on specific policy provisions and/or exclusions.

Compliance with Producer Licensing Requirements

Appointments

A random sample of 114 transactions was selected from the Alabama written premium transactions from the examination period. The examiners used the NAIC's State Based System and verified that all the producers that produced the business represented in the sample were appropriately licensed and appointed by the Company prior to each producer writing the subject business.

Termination

A random sample of 113 Alabama terminated producers was selected from a population of 803 terminations. The examiners reviewed the producer termination notifications on the State Based System and termination notification letters sent to the producers. The Company did send a termination notification to each terminated producer's last known address and reported the termination to the Commissioner as required.

Underwriting and Rating

Policy Forms and Ratings

The Company filed its rates and forms with the Alabama Department of Insurance during the examination period. The Company filed its rates in accordance with ALA. ADMIN CODE 482-1-24-.03(6) (2003), which states:

Notices of rate increases and rate filings in general for accident and health policies, riders and endorsements are hereby requested to be filed with this Department on an informational basis only. This information shall be considered proprietary and trade secret information and shall not be subject to disclosure by the Commissioner to persons outside the Department of Insurance except as agreed to by the insurer or as ordered by a court of competent jurisdiction.

Underwriting Practices

The Company underwrote whole, graded benefit whole, term, and group term for its life insurance products and critical illness, cancer and specified disease, lump sum cancer, and disability for its health and accident products and single premium annuities. A random sample of 117 Alabama premium transactions across all lines of business was selected to verify the policy premiums were calculated in accordance with the filed rates. The examination determined policy premiums were filed in accordance with its filed rates.

A random sample of 86 Alabama rejected applications for insurance was selected from rejections reported during the examination period. The examiners determined that the rejections were for valid reasons. A random sample of 116 Alabama cancellations was selected from the cancellation transactions during the examination period. The cancellations/non-renewals were properly documented and were valid according to the policy provisions.

Privacy Standards

The Company's privacy notice was reviewed for compliance with ALA. ADMIN. CODE 482-1-122 (2001). The Company sent out notices to new business policyholders when a policy was written or renewed and annually thereafter. The Company provided notices to its customers that indicated the types of information collected, the way the information is used, and the manner that it is collected. The

notice also informed the customer that the Company did not disclose any information to any nonaffiliated third parties.

The Company's privacy notice emphasized and explained the Company's policies. The Company's policies followed the guidelines established in ALA. ADMIN. CODE 482-1-122 (2001).

The Company does not share consumer personal information with any nonaffiliated third parties. The Company had proper controls in place for employees and producers for the disclosure of nonpublic personal financial or health information.

SPECIAL DEPOSITS

The Company maintained the following deposits with the respective statutory authority on December 31, 2023, as required or permitted by law.

State	Book/Adjusted Carrying Value	Fair Value
Alabama	1,592,623	1,539,669
Georgia	50,000	51,034
Nevada	598,749	524,255
South Carolina	151,387	147,685

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following information presents significant financial information that reflects the growth of the Company for the years indicated.

Year	Admitted Assets	Liabilities	Capital and Surplus	Net Premium Income
2019	\$59,254,114	\$43,012,024	\$16,242,090	\$5,864,133
2020	53,939,480	44,169,737	9,769,743	5,708,775
2021	55,186,853	44,215,657	10,971,197	5,553,892
2022	57,107,575	45,870,104	11,237,472	5,441,573
2023	129,924,643	124,099,681	5,824,961	76,282,184

REINSURANCE

Reinsurance Ceded

The Company had ceded reinsurance provided by reinsurance agreements with one reinsurer as of December 31, 2023. The total reserve credits taken on December 31, 2023, in relation to the ceded business was \$34,351. In 2023, the Company had coinsurance reinsurance provided by Optimum Re. The Company had yearly renewable term reinsurance provided by Optimum Re. The current Optimum Re yearly renewable term agreement became effective May 15, 1987, with American United Life and was later assumed by Optimum Re. The Company's retention for automatic reinsurance on any one life is \$50,000 for insureds under age 45 and \$25,000 for insureds age 45 and older. The automatic reinsurance limit is four times the Company's retention to a maximum of \$200,000. The automatic reinsurance reinsures policies written under the Company's whole life plan as well as 10- and 20-year term plans. All cases in which business submitted does not meet the criteria for automatic reinsurance may be submitted for facultative assessment. The maximum amount per life that may be reinsured is \$7,500,000. The Optimum Re coinsurance agreement became effective January 1, 2001, and is currently in run off.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums, and loss data electronically. The Company maintained additional electronic workpapers, reconciliations, and statements in its database of imaged records.

The Company's independent audit was performed by Warren Averett, LLC, a certified public accounting firm of Birmingham, Alabama.

Unclaimed Property

The Company provided its in-force listing as of December 31, 2023. The examination indicated that there were two policies that reached the age of limitation. The two checks totaled \$489 payable to Alabama residents that were beyond the three-year dormancy period. These checks were unclaimed property per the Alabama Code.

It was determined that the Company did not properly escheat the unclaimed property to the State of Alabama in accordance with ALA. CODE § 35-12-72(2013), which states, "(a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property...(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." All Alabama unclaimed property is to be included in the unclaimed property report in accordance with the reporting procedures described in ALA. CODE § 35-12-76(2013).

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2023. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

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National Security Insurance Company
Statement of Assets
For the Year Ended December 31, 2023

Bonds	\$ 110,445,791		\$ 110,445,791
Preferred stocks	751,593		751,593
Mortgage loans on real estate			
First liens	136,261		136,261
Real estate			
Properties occupied by the company	1,323,963		1,323,963
Cash, cash equivalents, and short-term investments	11,656,738		11,656,738
Contract loans	1,779,024		1,779,024
Other invested assets	10,858,226	10,050,000	808,226
Receivables for securities	9,849		9,849
Subtotals, cash and invested assets	<u>\$ 136,961,445</u>	<u>\$ 10,050,000</u>	<u>\$ 126,911,445</u>
Investment income due and accrued	861,547		861,547
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	75,515		75,515
Deferred premiums, agents' balances and installments booked but deferred and not yet due	831,575	22,571	809,004
Net deferred tax asset	2,632,200	2,113,630	518,571
Electronic data processing equipment and software	418,391	17,581	400,180
Furniture and equipment, included health care delivery assets	55,595	55,595	
Receivables from parent, subsidiaries and affiliates	32,793		32,793
Aggregate write-ins for other-than-invested assets	627,769	312,810	314,959
TOTAL ASSETS	<u>\$ 142,496,831</u>	<u>\$ 12,572,188</u>	<u>\$ 129,924,643</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL
PART THEREOF**

**National Security Insurance Company
Statement of Liabilities, Surplus, and Other Funds
For the Year Ended December 31, 2023**

<u>Liabilities</u>	<u>Current Year</u>
Aggregate reserve for life contracts <u>Note 1</u>	\$ 111,778,522
Aggregate reserve for accident and health contracts <u>Note 1</u>	4,291,780
Liability for deposit-type contracts	1,362,245
Contract Claims:	
Life	782,449
Accident and health	283,923
Policyholders' dividends	3,245
Premiums and annuity considerations for life and accident health contracts received in advance less \$...0 discount; including \$...0 accident and health premiums	10,161
Contract liabilities not included elsewhere:	
Interest Maintenance Reserve	580,600
Commissions to agents due or accrued - life and annuity contracts	10,159
General expenses due or accrued	725,306
Taxes, licenses and fees due or accrued, excluding federal income taxes	134,855
Current federal and foreign income taxes	1,124,709
Unearned investment income	61,437
Amounts withheld or retained by reporting entity as agent or trustee	159,827
Amounts held for agents' account	2,018
Remittances and items not allocated	40,184
Miscellaneous liabilities:	
Asset valuation reserve	1,245,086
Payable to parent, subsidiaries and affiliates	3,176
Payable for securities	1,500,000
TOTAL LIABILITIES	\$ 124,099,681
Common capital stock	2,500,000
Gross paid in and contributed surplus	500,000
Unassigned funds	2,824,961
TOTAL SURPLUS	\$ 5,824,961
TOTAL LIABILITIES, SURPLUS AND OTHER FUNDS	\$ 129,924,643

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL
PART THEREOF**

National Security Insurance Company
Summary of Operations
For the Years Ended December 31, 2019-2023

	2023	2022	2021	2020	2019
Premiums and annuity considerations for life and accident and health contracts	\$ 76,282,184	\$ 5,441,573	\$ 553,892	\$ 5,708,775	\$ 5,864,133
Net investment income	4,543,876	2,527,093	2,334,095	2,511,089	2,585,501
Amortization of Interest Maintenance Reserve	263,090	155,690	181,823	133,335	112,548
Charges and fees for deposit-type contracts					
Aggregate write-ins for misc. income	430,037	455,120	386,139.00	711,019	408,477
Totals	\$ 81,519,186	\$ 8,579,475	\$ 8,455,949	\$ 9,064,217	\$ 8,970,659
Death benefits	\$ 2,460,689	\$ 2,735,721	\$ 3,430,310	\$ 3,349,850	\$ 2,642,303
Disability benefits and benefits under accident and health contracts	596,415	718,811	684,280	803,221	950,626
Surrender benefits and withdrawals for life contracts	580,209	437,132	453,388	513,045	582,977
type					
contract funds	1,151,383	41,216	43,170	40,689	42,625
Increase in aggregate reserves for life and accident and health contracts	75,715,168	554,701	396,622	429,227	643,325
Totals	\$ 80,503,865	\$ 4,487,581	\$ 5,007,770	\$ 5,136,032	\$ 4,861,856
considerations					
and deposit-type contract funds	\$ 2,409,861	\$ 511,284	\$ 569,510	\$ 610,179	\$ 626,058
General insurance expenses	3,371,996	2,190,297	1,660,004	1,568,640	1,625,405
Insurance taxes, licenses and fees	407,258	197,042	191,288	215,303	284,192
Increase in loading on deferred and uncollected premiums	(22,417)	(30,762)	(23,640)	(20,721)	(5,112)
Totals	\$ 86,670,563	\$ 7,355,442	\$ 7,404,932	\$ 7,509,433	\$ 7,392,399
Net gain from operations before dividends to policyholders and before federal income taxes	\$ (5,151,376)	\$ 1,224,033	\$ 1,051,017	\$ 554,784	\$ 1,578,260
Dividends to policyholders	3,206	3,424	2,941	3,181	3,579
Net gain from operations after dividends to policyholders and before federal income taxes	(5,154,582)	1,220,609	1,048,076	1,551,603	1,574,681
Federal and foreign income taxes incurred	820,225	436,973	313,832	383,221	381,669
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(5,974,807)	783,636	734,244	1,168,382	1,193,012
Net realized capital gains (losses) less capital gains tax	199,397	2,038,401	(57,497)	(250,479)	184,706
Net Income	\$ (5,775,410)	\$ 2,822,036	\$ 676,747	\$ 917,903	\$ 1,377,718

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF

National Security Insurance Company
Capital and Surplus
For the Years Ended December 31, 2019-2023

	2023	2022	2021	2020	2019
Capital and surplus, December 31, prior year	<u>\$ 11,237,472</u>	<u>\$ 10,971,197</u>	<u>\$ 9,769,743</u>	<u>\$ 16,242,090</u>	<u>\$ 15,276,651</u>
Net income	(5,775,410)	2,822,036	676,747	917,903	1,377,718
Change in net unrealized capital gains or (losses) less capital gains tax	(64,691)	(1,805,693)	450,205	82,093	465,071
Change in net deferred income tax	2,168,485	132,522	101,694	115,029	84,224
Change in nonadmitted assets	(1,930,752)	(510,869)	22,177	(6,441,694)	(9,833)
Change in asset valuation reserve	189,857	(371,722)	(49,369)	(45,679)	(201,741)
Capital changes:					
Transferred to surplus	1,000,000				
Surplus adjustment:					
Paid in:	98,248				
Transferred from capital	(1,098,248)				
Dividend to stockholders				(1,100,000)	(750,000)
Net change in capital and surplus for the year	(5,412,511)	266,275	1,201,454	(6,472,347)	965,439
Capital and surplus, December 31, current year	<u>\$ 5,824,961</u>	<u>\$ 11,237,472</u>	<u>\$ 10,971,197</u>	<u>\$ 9,769,743</u>	<u>\$ 16,242,090</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL
PART THEREOF**

NOTES TO FINANCIAL STATEMENTS

Note 1 - Aggregate reserve for life contracts **\$111,778,522**

Aggregate reserve for accident and health contracts **\$4,291,780**

The board of directors was not involved in establishing and/or reviewing the Company's overall reserving practices. The minutes of the board of directors did not indicate that the appointed actuary had made a presentation to the board of directors or Audit Committee. In addition, in the interview with the appointed actuary, she stated that she had not made a presentation to the board of directors or Audit Committee, either in person or by telephonic means. The instructions to the annual statement state:

The Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The minutes of the Board of Directors shall indicate that the Appointed Actuary has presented such information to the Board of Directors or Audit Committee.

Samples of 80 annuity contracts, 40 life policies, and 40 accident and health policies were selected from the reserve listings. The samples were reviewed to verify the accuracy of the reserve determinants by reconciling the Company's reserve determinants in the Company's policy administration system to the original application. There were five errors in the reserve determinants, and the Company was unable to provide a copy of the original applications for two life policies. The examiners' evaluation of the financial impact is that the financial impact of the errors is immaterial. ALA. CODE § 27-27-29(a) (2012) states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

Analysis of Changes to Surplus

There were no changes to the Company's surplus.

COMMENTS AND RECOMMENDATIONS

Compliance with 18 U.S.C § 1033 – Page 11

It is recommended that the Company have a documented procedure that effectively ensures that none of the Company's employees and/or contractors are prohibited from engaging in the business of insurance and particularly identify in the procedure the intervals in which background checks will be conducted in accordance with ALA. ADMIN. CODE 482-1-146.11 (2009) which states:

- (1) a Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:
 - ...(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.

Unclaimed Property – Page 16

It is recommended that the Company properly identify and escheat all Alabama unclaimed property in accordance with ALA. CODE §35-12-72, which states, "(a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property...(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." All Alabama unclaimed property is to be included in the unclaimed property reports in accordance with the reporting procedures described in ALA. CODE §35-12-76.

Notes to Financial Statements – Page 23

It is recommended that (a) the appointed actuary make a presentation to the board of directors or Audit Committee each year discussing the reserving methodology, assumptions, and the results of the asset adequacy analysis; (b) the appointed actuary include in the actuarial opinion the date he or she was appointed by the board of directors; and (c) the board of directors minutes include a discussion of the appointed actuary's presentation in accordance with the instructions to the annual statement which state:

The Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial

Opinion. The minutes of the Board of Directors shall indicate that the Appointed Actuary has presented such information to the Board of Directors or Audit Committee.

It is recommended that the Company keep complete records of its policy applications for life insurance policies that are outstanding, and the Company maintain accurate records of the reserve determinants for outstanding life insurance policies to ensure that the correct aggregate reserve for life contracts is accurately determined and reported in accordance with ALA. CODE § 27-27-29(a) (2012) which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was performed to determine if the Company had complied with the recommendations made in the last examination report. The review indicated that the Company had complied with all, but the following recommendation contained in the most recent Report of Examination.

Unclaimed Property

The Company provided its in-force listing as of December 31, 2023. The examination indicated that there were two policies that reached the age of limitation. The two checks totaled \$489 payable to Alabama residents that were beyond the three-year dormancy period. These checks were unclaimed property per the Alabama Code.

It was determined that the Company did not properly escheat the unclaimed property to the State of Alabama in accordance with ALA. CODE § 35-12-72(2013), which states, "(a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property...(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." All Alabama unclaimed

property is to be included in the unclaimed property reports in accordance with the reporting procedures described in ALA. CODE § 35-12-76(2013).

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included a review of the Company's annual statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of the accounts for unrecorded items. The review did not identify any items that would have a material impact on the Company's financial statements in the event of an adverse outcome.

SUBSEQUENT EVENTS

In December 2023, VR Insurance Holdings, Inc. entered into a merger agreement with PhenixFin Corporation (PhenixFin) pursuant to which it agreed to sell a controlling interest in VR Insurance SPV, LLC to PhenixFin. On October 1, 2024, PhenixFin acquired controlling interest of VR Insurance SPV, LLC. On the date of the acquisition a capital contribution of \$9,251,748 was made to the Company and reflected in the Company's September 30, 2024 financial statements.

In May, July and September of 2024, the Company received and responded to inquiries from the Alabama Department of Insurance regarding the Company's current and projected risk-based capital.

The Company underwent a secondary review of its life reserves and recalculation of its annuity reserves by a third-party actuarial firm. This project was completed on September 30, 2024, with the review resulting in changes to the methodology utilized in calculating the tax reserves which impacted the calculation of current and deferred income taxes. This change led to the restatement and refile of the 2023 annual statement and the quarterly statements for first and second quarter of 2024.

In July 2024, AM Best downgraded the Financial Strength Rating of the Company to B (Fair) from B++ (Good) and the Long-Term Issuer Credit Rating to "bb" (Fair) from "bbb" (Good). AM Best maintained the under review with negative implications status for these credit ratings pending the close of the transaction with PhenixFin.

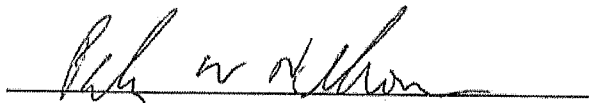
CONCLUSION

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

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

In addition to the undersigned, Theo Goodin, AIE, ALMI, MCM, Mora Perkins-Taylor, MCM, David Martin, Andarius Vincent, David Abbot, Cristi Owen, CPA, CFE, AMCM, CPM, David Gordon, CISA, CIA, CFE (Fraud), CDFE, Lisa Bringman, CRP, CBA, and Harland Dyer, ASA, MAAA; all representing the Alabama Department of Insurance, participated in the examination of National Security Insurance Company.

Respectfully submitted,



Palmer W. Nelson, CFE
Examiner-in-charge
Alabama Department of Insurance