

**REPORT OF
EXAMINATION**

OF

NATIONAL SECURITY INSURANCE COMPANY

ELBA, ALABAMA

AS OF

DECEMBER 31, 2018

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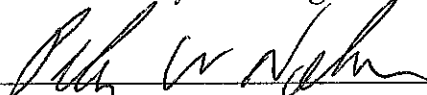
EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF COFFEE**

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

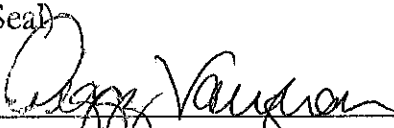
1. I have the authority to represent Alabama in the examination of National Security Insurance Company.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, 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 25th day of October, 2019.

(Seal)


(Signature of Notary Public)

MY COMMISSION EXPIRES
February 5, 2023
My commission expires _____



KAY IVEY
GOVERNOR

JIM L.
RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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DEPUTY COMMISSIONER
JERRY WORKMAN
MARK FOWLER

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
SCOTT F. PILGREEN

GENERAL COUNSEL
REYN NORMAN

October 25, 2019

Honorable Jim L. Ridling
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, AL 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, 2018, 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, 2010 through December 31, 2013. The current examination covers the period of January 1, 2014 through December 31, 2018.

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 practicing, 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 10 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, 2018.

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 had been issued at year end 2018.

MANAGEMENT AND CONTROL

Stockholder

The Company is a stock corporation with ultimate control vested in its stockholders. At December 31, 2018, 100% of the Company's issued and outstanding common stock was owned by The National Security Group, Inc., a Delaware corporation.

Board of Directors

Members elected to the Board of Directors by the sole shareholder and serving at December 31, 2018, were as follows:

Name and Address	Principal Occupation
William Lister Brunson, Jr. Elba, AL	President, National Security Insurance Company; CEO, National Security Group, Inc.; Chairman of the Board, National Security Insurance Company, National Security Fire & Casualty Company, and Omega One Insurance Company
Jack Edward Brunson Elba, AL	President, National Security Fire & Casualty Company and Omega One Insurance Company
Brian Richard McLeod Elba, AL	Treasurer and CFO, National Security Insurance Company, National Security Fire & Casualty Company, and Omega One Insurance Company
Patricia Bowdoin Henderson Elba, AL	Vice President, National Security Insurance Company

Officers

Officers of the Company elected by the Board of Directors and serving at December 31, 2018 were as follows:

Officer	Title
William Lister Brunson, Jr.	President
Brian Richard McLeod	Treasurer
Tonya Matthews Jones	Secretary
Timothy Wilson	Vice President
Patricia Bowdoin Henderson	Vice President
Kelly Holland Jackson	Controller

Committees

The Company had no committees of the Board during the examination. The Audit Committee of the holding company, The National Security Group, Inc. serves as the audit committee of all insurance companies of the group.

Conflict of Interest

The conflict of interest statements filed by the officers and directors of the Company were reviewed for this examination period. There were no conflicts disclosed.

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, 2014, 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 § 27-29-1(1975). The Company's sole owner, The National Security Group, Inc. was registered with the Alabama Department of Insurance as registrant of an 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>
2014	\$750,000
2015	\$500,000
2016	\$750,000
2017	\$900,000
2018	\$750,000

The dividends were reported to the Alabama Department of Insurance in accordance with ALA. CODE § 27-29-4(d)(1975), which states in part: "...each registered insurer shall so report all dividends and other distributions to shareholders within five 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 National Security Group, Inc. (the Holding Company) entered into a Holding Company Management Service Agreement among and between, National Security Fire and Casualty Company, Omega One Insurance Company and National Security Insurance Company.

The one year term of the Holding Company Management Service Agreement is renewable for successive one year periods until either party terminates or until modified, amended or superseded by a subsequent agreement.

The purpose is to provide remuneration for services provided by the Holding Company on behalf of and/or to the benefit subsidiaries. The primary intent of this fee is to cover operating costs of The National Security Group related to providing additional risk management, board oversight and various other benefits to its subsidiaries. The Holding Company 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 National Security Group, Inc. (NSG) on behalf of the following Insurance Companies: National Security Insurance Company, National Security Fire & Casualty Company, Omega One Insurance Company and Natsco, Inc. The amendment provided for allocation of common expenses, adjuster fees and income taxes between NSG and its subsidiaries.

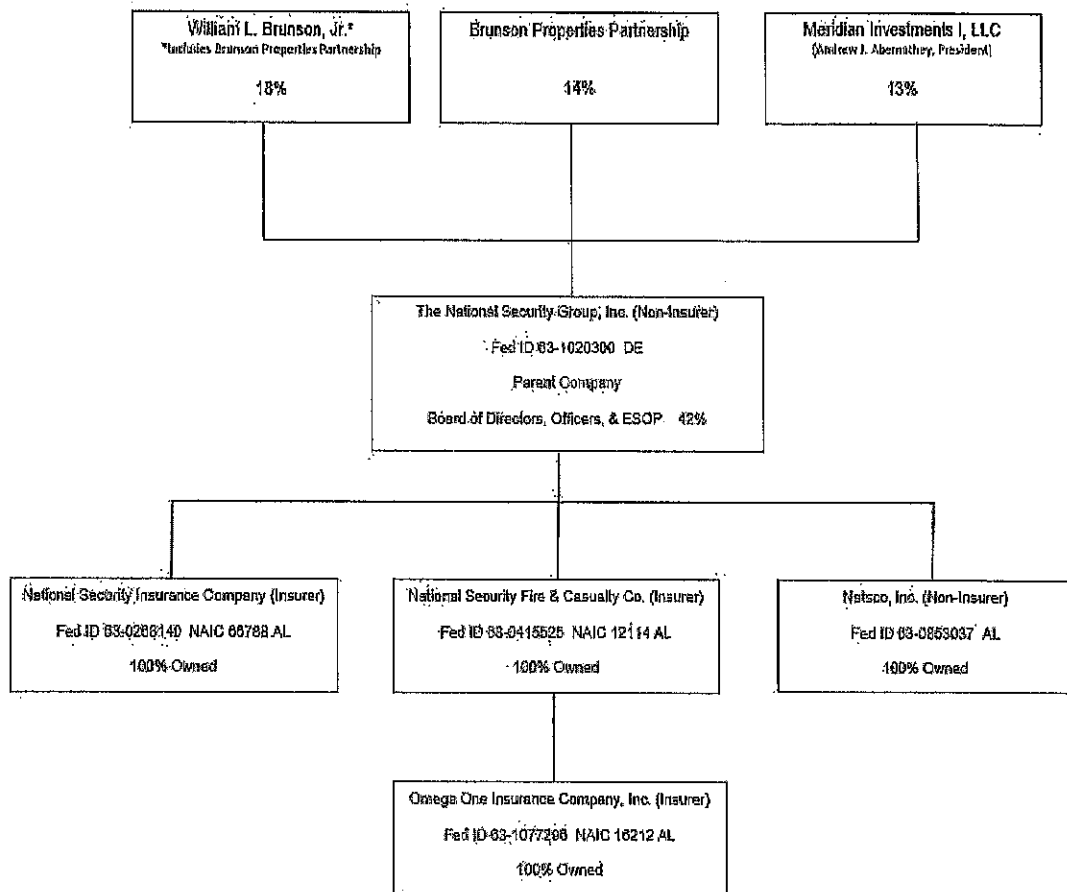
In consideration for the settlement of common expenses adjuster fees and income taxes between NSG and its subsidiaries, each subsidiary agreed to pay the respective amounts to the respective company as calculated using the most pertinent means which shall be construed as reimbursement of all direct costs.

This 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.

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 named insured by a Financial Institution Bond issued by Liberty Mutual Insurance Company. The bond was issued to The National Security Group, Inc. and Subsidiaries beginning in May 2018. The amount of the fidelity bond maintained by the Company exceeded the minimum amount suggested in the NAIC *Financial Condition Examiners Handbook*.

In addition to the above coverage, the Company was named insured under policies affording the following protections at December 31, 2018:

- Business Auto Coverage with The Cincinnati Insurance Company.
- Commercial Property Coverage with The Cincinnati Insurance Company.
- Commercial General Liability Coverage with The Cincinnati Insurance Company.
- Electronic Data Processing Coverage with The Cincinnati Insurance Company.
- Claims Liability Insurance with National Union Fire Insurance Company of Pittsburgh, PA.
- IT Cyber Security Insurance Coverage with National Union Fire Insurance Company of Pittsburgh, PA.
- System Failure Coverage with National Union Fire Insurance Company of Pittsburgh, PA.

The Company appeared to have sufficient insurance for the hazards and risks to which it was exposed.

EMPLOYEE AND AGENT WELFARE

The Company utilizes independent agents and a small number of agents that are employees to market its business.

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, 2018, included the following:

- Paid Holidays
- Retirement 401(k) and ESOP
- Medical, Dental and Vision Benefits
- Life Insurance
- Funeral and Jury Duty Leave
- Paid Time Off and Extended Illness Leave
- Education Reimbursement

Compliance with 18 U.S.C. § 1033

The examiners reviewed the Company's internal procedures to determine if prospective and current employees are in compliance with 18 U.S.C. § 1033, which prohibits persons with certain felony offences from participating in conducting the business of insurance.

The examiners determined that the Company had adequate procedures and were in compliance with 18 U.S.C. § 1033 and ALA. ADMIN. CODE 482-1-146 (2009) during the exam period.

MARKET CONDUCT ACTIVITIES

Territory

At December 31, 2018, the Company was licensed to transact business in the following States: Alabama, Georgia, Florida, Mississippi, South Carolina, and Texas.

The Certificate of Authority from the respective jurisdictions were inspected and found to be in order.

Plan of Operation

The Company wrote Life and Accident & Health insurance. The types of life products written were whole life, term life and group life. For the accident and health lines, the products were accident, critical illness, cancer, and disability.

As of December 31, 2018, the Company's agency force consisted of a small staff of 3 home service producers and 876 independent producers. The agency force was under the overall supervision of the Company's Marketing Director. The Company's claim office was located at its home office in Elba, Alabama.

Advertising and Marketing

The Company had a limited number of advertisements appearing in insurance periodicals and printed brochure during the examination period. Brochures and advertising materials were distributed to potential customers through the Company's agents. The Company filed certificate of compliance by an authorized officer of the Company with its annual statements.

The Company website (www.nationalsecuritygroup.com) provided information such as information about its products, access to claim forms that can be submitted over the website, finding an agent, learning how to become an agent, investor information, and other information about NSG. It was determined that the Company's internet advertising was not misleading and contained appropriate language to identify the policy form(s) that was being advertised.

Policyholder's Complaints

The examiner reviewed all of the Company's Alabama complaints during the examination period, a total of three. The Company recorded all of its complaints both consumer direct and those received by the Department of Insurance in its complaint register in the required format. The Company had an adequate complaint register in the required format. The Company had adequate complaint procedures in place for the distribution of complaints, and obtaining and recording responses to the complaints. The examiner reviewed the Company's consumer direct and Department of Insurance complaints that originated during the examination period. It was determined that the complaints were responded to timely and addressed the issues raised.

Claims Payment Practices

Paid Claims

A sample of 110 Alabama paid claims were selected from a total population of 11,619 transactions for the examination period (2014-2018). The sample was reviewed for compliance with the Company's policy provisions, timeliness of payments, and

adequacy of documentation. The examination found that the claims were paid in compliance with Alabama statutes and regulations.

Closed without payment/Denied Claims

A sample of 107 Alabama denied claims were selected from a population of 1,760 claims reported during the examination period. The examiner obtained and reviewed denied letters to the claimants. The denials were determined to be reasonable and based on specific policy provisions and/or exclusions.

No discrepancies were found.

Compliance with Producer Licensing Requirements

Appointments

A random sample of 114 Alabama direct written premium transactions were selected during the examination period (2014-2018). The examiners verified that the producers held a current license and were properly appointed through the NAIC's State Based System (SBS). The examiner used the SBS to verify the appointments.

Termination

A random sample of 79 Alabama terminated producers was selected from the terminated producers reported during the examination period. The examiners verified that the Company properly reported the termination of producers to the NAIC's State Based System (SBS) and a letter of termination was mailed to the appointed producer's last known address. The Company did not send timely termination notices to the producer's last known address for six producers. The Company was not in compliance with ALA. CODE § 27-7-30.1(a)(1975), which states: "Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address."

Underwriting and Rating

Policy Forms and Ratings

The Company filed 15 rates and forms with the Alabama Department of Insurance during the examination period. The Company filed its rates in accordance with ALA ADMIN CODE 482-1-024-.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. No rate filings are requested for life insurance policies.

Underwriting Practices

The Company underwrote Whole Life, Graded Benefit Whole Life, Term Life and Group Term Life for its Life Insurance products and Critical Illness, Cancer & Specified Disease, Lump Sum Cancer, and Disability for its Health & Accident Products. A random sample of 110 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 rejection reported during the examination period. The examiners determined that the reason for rejections were for valid reasons. A random sample of 116 Alabama cancellation was selected from the cancellation transactions during the examination period. The cancellations/nonrenewal were properly documented and were valid according to the policy provisions.

Privacy Standards

The Company's privacy notice was reviewed for compliance to ALA. ADMIN CODE 482-1-122 (2001). The Company sent out the 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 customer and/or 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, health or medical information.

SPECIAL DEPOSITS

At December 31, 2018, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows:

State	Book/Adjusted Carrying Value	Fair Value
Alabama	\$1,068,325	\$1,084,111
Georgia	\$50,000	\$51,034
South Carolina	\$154,998	\$155,462

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated.

	2014	2015	2016	2017	2018
Admitted Assets	\$ 51,672,607	\$ 53,456,529	\$ 55,230,848	\$ 56,440,972	\$ 56,996,788
Liabilities	39,581,206	40,405,091	41,123,902	41,592,466	41,720,138
Premiums Earned	6,373,850	6,300,479	6,234,373	6,118,695	6,019,238
Common Capital Stock	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Gross Paid in and Contributed Surplus	401,752	401,752	401,752	401,752	401,752
Unassigned Funds	10,189,648	11,149,685	12,205,195	12,946,755	13,374,898
Premiums Written	6,526,805	6,385,795	6,310,259	6,238,506	6,166,885
Death Benefits	3,019,374	2,625,933	2,768,569	2,669,037	3,085,277
Disability benefits and benefits under accident and health contracts	799,855	849,104	954,163	932,752	911,686
Surrender benefits and withdrawals for life contracts	551,428	540,127	672,508	595,029	677,231

REINSURANCE

Assumed Reinsurance

The Company did not assume any reinsurance during the examination period.

Ceded Reinsurance

The Company had ceded reinsurance provided by reinsurance agreements with two reinsurers as of December 31, 2018. The total reserve credits taken at December 31, 2018, in relation to the ceded business was \$41,867. In 2018, the Company had coinsurance reinsurance provided by Optimum Re. The Company had yearly renewable term reinsurance provided by Swiss Re and Optimum Re.

The current Optimum Re yearly renewable term (YRT) 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. The Swiss Re YRT agreement has been effective since April 1, 1986 and the business is also in run off.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums and losses 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 outstanding checks detail as of December 31, 2018. The Company had two checks totaling \$726 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, 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.

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, 2018. 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, 2018

<u>ASSETS</u>	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 48,252,932	-	\$ 48,252,932
Common stocks	2,428,722	-	2,428,722
Mortgage loans on real estate		-	-
First liens	155,676	-	155,676
Real estate		-	-
Properties occupied by the company	1,513,758	-	1,513,758
Properties held for sale	263,000	-	263,000
Cash	811,814	-	811,814
Contract loans	1,854,250	-	1,854,250
Other invested assets	3,665,701	3,550,000	115,701
Subtotals, cash and invested assets	<u>\$ 58,945,853</u>	<u>\$ 3,550,000</u>	<u>\$ 55,395,853</u>
Investment income due and accrued	516,970	-	516,970
Premiums and considerations:		-	-
Uncollected premiums and agents' balances in the course of collection	94,017	-	94,017
Deferred premiums, agents' balances and installments booked but deferred and not yet due	965,454	67,639	897,815
Current federal and foreign income tax recoverable and interest thereon	58,690	-	58,690
Electronic data processing equipment and software	8,900	7,049	1,850
Furniture and equipment, included health care delivery assets	71,561	71,561	-
Receivables from parent, subsidiaries and affiliates	31,592	-	31,592
Aggregate write-ins for other-than-invested assets	4,967	4,967	-
TOTAL ASSETS	<u><u>\$ 60,698,004</u></u>	<u><u>\$ 3,701,216</u></u>	<u><u>\$ 56,996,788</u></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, 2018

<u>Liabilities</u>	<u>Current Year</u>
Aggregate reserve for life contracts \$...\$33,827,916 <u>(Note 1)</u>	\$ 33,827,917
Aggregate reserve for accident and health contracts	3,521,432
Liability for deposit-type contracts	1,511,102
Contract Claims:	
Life	434,269
Accident and health	358,031
Policyholders' dividends	3,459
Premiums and annuity considerations for life and accident health contracts received in advance less \$...0 discount; including \$...0 accident and health premiums	9,692
Contract liabilities not included elsewhere:	
Interest Maintenance Reserve	602,491
Commissions to agents due or accrued - life and annuity contracts	10,747
General expenses due or accrued	321,150
Taxes, licenses and fees due or accrued, excluding federal income taxes	38,169
Net deferred tax liability	201,824
Unearned investment income	64,487
Amounts withheld or retained by company as agent or trustee	4,734
Amounts held for agents' account	2,073
Remittances and items not allocated	42,126
Miscellaneous liabilities:	
Asset valuation reserve	766,433
Payable to parent, subsidiaries and affiliates	3
TOTAL LIABILITIES	\$ 41,720,138
Common capital stock	1,500,000
Gross paid in and contributed surplus	401,752
Unassigned funds	13,374,898
TOTAL SURPLUS	\$ 15,276,650
TOTAL LIABILITIES, SURPLUS AND OTHER FUNDS	\$ 56,996,788

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

National Security Insurance Company
Summary of Operations
For the Year Ended December 31, 2018

	2018	2017	2016	2015	2014
Premiums and annuity considerations for life and accident and health contracts	\$ 6,019,238	\$ 6,118,695	\$ 6,234,373	\$ 6,300,476	\$ 6,373,850
Net investment income	2,627,379	2,466,418	2,575,922	2,352,485	2,387,297
Amortization of Interest Maintenance Reserve	128,216	154,137	168,928	129,533	92,179
Charges and fees for deposit-type contracts	-	-	-	30	27
Aggregate write-ins for misc. income	570,762	570,749	639,323	478,564	762,083
Totals	<u>\$ 9,345,595</u>	<u>\$ 9,309,999</u>	<u>\$ 9,618,546</u>	<u>\$ 9,261,088</u>	<u>\$ 9,615,437</u>
Death benefits	\$ 3,085,277	\$ 2,699,037	\$ 2,768,569	\$ 262,593	\$ 3,019,374
Disability benefits and benefits under accident and health contracts	911,686	932,752	954,163	849,104	779,855
Surrender benefits and withdrawals for life contracts	677,231	595,029	672,508	540,127	551,428
Interest and adjustments on contract or deposit-type contract funds	47,494	73,386	77,620	61,333	66,278
Increase in aggregate reserves for life and accident and health contracts	461,325	616,350	689,409	771,836	735,381
Totals	<u>\$ 5,183,013</u>	<u>\$ 4,916,554</u>	<u>\$ 5,162,269</u>	<u>\$ 4,848,334</u>	<u>\$ 5,152,316</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	\$ 624,942	\$ 722,495	\$ 725,523	\$ 714,316	\$ 690,281
General insurance expenses	1,761,637	1,606,261	1,761,622	1,804,340	2,412,753
Insurance taxes, licenses, and fees, excluding federal income taxes	219,173	208,190	198,780	180,221	308,193
Increase in loading on deferred and uncollected premiums	(30,048)	(36,679)	(10,172)	(11,456)	(27,304)
Totals	<u>\$ 7,758,717</u>	<u>\$ 7,416,821</u>	<u>\$ 7,838,022</u>	<u>\$ 7,535,755</u>	<u>\$ 8,536,240</u>
Net gain from operations before dividends to policyholders and before federal income taxes	\$ 1,586,878	\$ 1,893,178	\$ 1,780,524	\$ 1,725,333	\$ 1,079,197
Dividends to policyholders	3,543	3,029	3,983	3,054	3,844
Net gain from operations after dividends to policyholders and before federal income taxes	1,583,335	1,890,148	1,776,542	1,722,279	1,075,353
Federal and foreign income taxes incurred	(57,151)	244,371	134,264	212,348	135,797
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	1,640,485	1,645,777	1,642,278	1,509,931	939,556
Net realized capital gains (losses) less capital gains tax	(82,843)	(91,532)	66,630	(21,458)	111,916
Net Income	<u>\$ 1,557,642</u>	<u>\$ 1,554,245</u>	<u>\$ 1,708,908</u>	<u>\$ 1,488,474</u>	<u>\$ 1,051,471</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF

National Security Insurance Company
Capital and Surplus
For the Year Ended December 31, 2018

	2018	2017	2016	2015	2014
Capital and surplus, December 31, prior year	<u>\$ 14,848,505</u>	<u>\$ 14,106,947</u>	<u>\$ 13,051,439</u>	<u>\$ 12,091,400</u>	<u>\$ 11,577,272</u>
Net income	1,557,642	1,554,245	1,708,908	1,488,474	1,051,471
Change in net unrealized capital gains or (losses) less capital gains tax	(55,911)	(73,562)	217,322	(51,189)	191,996
Change in net deferred income tax	(417,348)	(669,410)	21,879	462,810	(120,978)
Change in nonadmitted assets	19,610	633,821	74,107	(452,181)	168,439
Change in asset valuation reserve	74,154	196,463	(216,707)	12,126	(26,801)
Dividends to stockholders	(750,000)	(750,000)	(750,000)	(500,000)	(750,000)
Net change in capital and surplus for the year	428,147	741,557	1,055,508	960,040	514,128
Capital and surplus, December 31, current year	<u>\$ 15,276,651</u>	<u>\$ 14,848,505</u>	<u>\$ 14,106,947</u>	<u>\$ 13,051,439</u>	<u>\$ 12,091,400</u>

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

NOTES TO FINANCIAL STATEMENTS

Note 1: Aggregate reserve for life contracts

\$33,827,917

The captioned amount is the same as reported by the Company in the Annual Statement.

A sample of 120 Life policies was selected from the policy in-force listing. The sample was reviewed to verify the accuracy of reserve determinants by reconciling the Company's reserve determinants in the Company's policy administration system to the original applications. The Company was unable to provide a copy of the original applications for 9 policies.

It was determined that the Company did not properly maintain its records in accordance with ALA. CODE §27-27-29(a)(1975), 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 as are customary or suitable as to the kind, or kinds, of insurance transacted."

Analysis of Changes to Surplus

No changes were made to Surplus.

COMMENTS AND RECOMMENDATIONS

Producer's Licensing - Page 12

It is recommended that the Company properly send notifications to the terminated producer's last known address in compliance with ALA. CODE § 27-7-30.1(a)(1975), which states: "Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address."

Unclaimed Property – Page 15

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.

Aggregate reserve for life contracts - Page 21

It is recommended that the Company maintain all records in accordance with ALA. CODE § 27-27-29(a)(1975), 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 as are customary or suitable as to the kind, or kinds, of insurance transacted.”

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 the recommendations contained in the most recent Report of Examination with the exception of the item noted below.

Unclaimed Property – Page 15

It was recommended in the previous examination that the Company escheat unclaimed property to the State of Alabama that is over three years old as required by 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.

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. No unreported contingent liabilities were noted and all litigation pending against the Company.

The Company's Chief Executive Officer and its Chief Financial Officer executed a letter of representation, attesting to the non-existence of unreported liabilities and contingencies as of December 31, 2018.

SUBSEQUENT EVENTS

On February 2, 2017, Meridian Investments I, LLC (Meridian), represented by the entity's principal owner, Andrew Abernathy, was approved to acquire an ownership of 14.9% of The National Security Group, Inc. (NSG), the publicly traded holding company. The Department held a Form A hearing on March 21, 2019. An order was signed March 27, 2019 approving Meridian acquiring an ownership of NSG up to 20.9%.

The review of the events subsequent to December 31, 2018, did not reveal any other items of a material amount or noteworthy in nature.

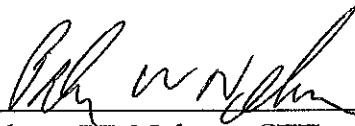
CONCLUSION

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, ALMI, MCM, Jacob Grissett, Chemeka Thomas, Charles Turner, CISA, and Kizzy Williams, Examiners; and Harland Dyer, ASA, MAAA, of Latta, Langston & Dyer, Consulting Actuary; 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