Report

of the

Examination of

National Guardian Life Insurance Company

Madison, Wisconsin

As of December 31, 2015

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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December 12, 2016

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

NATIONAL GUARDIAN LIFE INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of National Guardian Life Insurance Company (NGL or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

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, annual statement instructions, and Wisconsin laws and regulations. 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 at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, dividends to policyholders, asset adequacy analysis, and deferred life insurance premiums. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was originally incorporated in 1909 as the Guardian Life Insurance Company. Its present name was adopted in 1920. Prior to April 1, 1920, policies were written on a nonparticipation basis; subsequent policies were written on a participating basis. The company completed a plan of mutualization in 1949. NGL and its insurance subsidiaries operate under the name “NGL Insurance Group.”

In 1997, the company initiated a plan to use mergers and acquisitions to achieve growth and expansion into new markets, to gain access to new distribution channels, and to improve its operational efficiencies. Between 1997 and 2010 NGL acquired eight blocks of insurance policies through assumption reinsurance and coinsurance agreements, purchased five life insurance companies, merged with two mutual life insurers, and completed two mergers combining subsidiaries. During the period under examination NGL entered into a coinsurance agreement to acquire preneed life and annuity business, an affiliation agreement with a health insurance company, and acquired the in-force individual life and annuity business and operations of two affiliated insurance companies through assumption coinsurance agreements.

Effective January 1, 2011, NGL acquired through a 100% coinsurance agreement with Lincoln Heritage Life Insurance Company a block of 59,000 preneed life and annuity policies with $136.7 million in reserves.

On April 23, 2012, NGL entered into an Affiliation Agreement, Cost-Sharing Agreement, Reinsurance Agreement and Surplus Note Agreement with Commercial Travelers Mutual Insurance Company (CTMIC), a mutual health insurer domiciled in New York. NGL invested $5 million under the terms of the Surplus Note Agreement and acquired the majority of the seats on CTMIC’s board of directors under the terms of the affiliation agreement. On September 25, 2012, NGL executed a Surplus Support Agreement with CTMIC. The Surplus Support Agreement is a commitment to provide CTMIC such funds as may be needed to promptly pay CTMIC policyholder claims. CTMIC would issue surplus notes to NGL as consideration for any funds provided. The maximum liability under the agreement is $25 million. The agreement automatically renews annually on its anniversary. The agreement automatically terminates if

CTMIC receives a rating from AM Best of A- or better on a stand-alone basis and can be immediately revoked if ordered by the Wisconsin Office of the Commissioner of Insurance. NGL executed a line of credit promissory note on August 20, 2012, under which CTMIC may borrow up to $5 million from NGL. As of December 31, 2015, the outstanding principal balance of the surplus note was $5 million.

On July 31, 2015, NGL acquired the in-force individual life and annuity business and operations of Madison National Life Insurance Company (MNL) and its affiliate Standard Security Life Insurance Company of New York (SSLNY), including net reserves of $264.4 million through coinsurance. Also included in the transaction was MNL's individual life and annuity operation, including all associated information systems and employees. The total purchase price was $42.0 million.

NGL issued surplus notes in 1999, 2002 and 2015, with maturity dates in 2020, 2023 and 2035, respectively, to the State of Wisconsin Investment Board (SWIB) for the purpose of capital financing in conjunction with acquisitions. NGL issued a $30 million surplus note in 1999 in conjunction with the company's acquisition of Settlers Life Insurance Company (Settlers) and a $15 million surplus note in 2002 in conjunction with a coinsurance transaction with Trustmark Insurance Company. On November 15, 2015, NGL issued four surplus notes for $47 million to SWIB and three other investors in conjunction with the acquisition of the in-force individual life and annuity business and operations of MNL and its affiliate SSLNY. Issuance of these notes was reviewed and approved by this office, and all interest and principal payments are subject to prior approval by this office. The notes were issued in accordance with s. 611.33 (2) (b), Wis. Stat., and are a direct and unsecured obligation of NGL. As of December 31, 2015, the aggregate outstanding principal balance of the surplus notes was $71 million.

In 2015, the company collected direct premium in the following states:

Texas	$ 95,698,676	11.2%
California	72,383,734	8.4
North Carolina	55,702,620	6.5
Michigan	53,036,367	6.2
Wisconsin	47,009,987	5.5
Florida	45,342,529	5.3
Pennsylvania	42,459,059	4.9
All others	449,404,856	52.2
Total	$861,037,828	100.0%

Historically, NGL's marketing strategy centered on the sale of traditional life insurance and accumulation products through career agents and independent brokers. Starting in the early 2000s, NGL withdrew from traditional life products and entered into new product lines using new forms of distribution. Distribution shifted from the traditional career agent force to wholesale distribution through independent marketing organizations and brokers. Currently the majority of new sales are preneed products, specialized life insurance and annuity products designed to finance and fund funeral plans. Final expense life products are primarily marketed by NGL's wholly owned subsidiary, Settlers.

In 2002, the company commenced marketing group dental and vision products in conjunction with strategic partners. The company reported $341,833,432 of direct premium written in 2015 through managing general agents and third party administrators. Of the $341,833,432, $297,240,227 is through five group marketing partners.

In 2012, the company expanded into the student accident and health business through the affiliation with CTMIC. The company continues to service other products previously written or acquired including whole life, term life, universal life, deferred annuities, and disability income. Further detail on the changes within the NGL Insurance Group and its operations are discussed in the section of this report captioned "Affiliated Companies."

In 2015, NGL decided to enter the long-term care insurance market with the first policy to be released in late 2016. NGL is entering the long-term care market through a partnership venture with LifeCare Assurance, a life insurer domiciled in Arizona. LifeCare Assurance will perform the product work, pricing, policy filing, marketing, underwriting, administration, and claims. On May 1, 2016, NGL entered into Service and Reinsurance Agreements with LifeCare Assurance. Further detail on this Service and Reinsurance Agreement with LifeCare Assurance is discussed in the section of this report captioned "Reinsurance."

The following chart is a summary of premium income as reported by the company in 2015. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Industrial life	$ 212,359	$ 5,684,063	$ 110	$ 5,896,312
Ordinary individual life	16,270,153	170,519,176	1,002,025	185,787,304
Preneed life	139,062,928	5,268,872	29,409,056	114,922,744
Universal life	8,869,742	1,163,355	1,033,541	8,999,556
Interest-sensitive life	1,004,976	465,847	315,284	1,155,539
Final expense	25,248,066	29,053,091	9,695,699	44,605,458
Term life	1,685,006	648,913	562,027	1,771,892
Individual deferred annuities	10,743,884	78,662,217	9,252	89,396,849
Group life	292,395,482	8,995,636	70,146,689	231,244,429
Group deferred annuities	18,739,483	2,275	22,321	18,719,437
Group accident and health	352,128,511	26,289,619	294,479,053	83,939,077
Other accident and health	8,086,559	1,121,298	5,604,888	3,602,969
Total All Lines	$874,447,149	$327,874,362	$412,279,945	$790,041,566

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive a $10,000 quarterly retainer, $2,000 for each regular or special meeting attended, and $1,500 for each committee meeting attended (includes the Audit Committee).

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Elizabeth M. Burns Cave Creek, AZ	President and CEO, Morgan Murphy Media	2018
F. Curtis Hastings Madison, WI	Retired Chairman, J.H. Findorff & Son, Inc.	2019
John D. Larson Madison, WI	Retired CEO, National Guardian Life Insurance Company, Chairman of the Board	2019
Elmer J. Lemon, CPA Madison, WI	Retired Partner, Grant Thornton, LLP	2019
Mark L. Solverud Madison, WI	President and CEO, National Guardian Life Insurance Company	2018
Albert L. Toon, Jr. Fitchburg, WI	Owner, AT8 Private Investment Companies	2017
David G. Walsh Madison, WI	Retired Attorney and Partner, Foley & Lardner LLP	2018
Judith B. Ward Washington, DC	Senior Consultant, 4GB Search	2017
Gary J. Wolter Madison, WI	Chairman, President and CEO, MGE Energy Inc. and Madison Gas & Electric Company	2017

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2015 Compensation*
Mark L. Solverud	President and CEO	$917,211
Robert A. Mucci	Sr. VP, Treasurer and Director Corp Svcs	494,424
Brian J. Hogan	Sr. VP Chief Financial Officer	443,522
Phillip W. Grace	VP, Director of Group Markets	356,331
Steven M. Phelps	VP, Director of Marketing	349,220
Kimberly A. Shaul	VP, General Counsel and Secretary	292,477
Daniel T. Durow	AVP and Actuary	260,157

*Compensation is on a Group level.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee*
John Larson, Chair
Curtis Hastings
Elmer Lemon
Mark Solverud
Albert Toon
David Walsh
Gary Wolter

Finance Committee*
John Larson, Chair
Curtis Hastings
Elmer Lemon
Mark Solverud
Albert Toon
David Walsh
Gary Wolter

Audit Committee
Elmer Lemon, Chair
Curtis Hastings
David Walsh
Gary Wolter

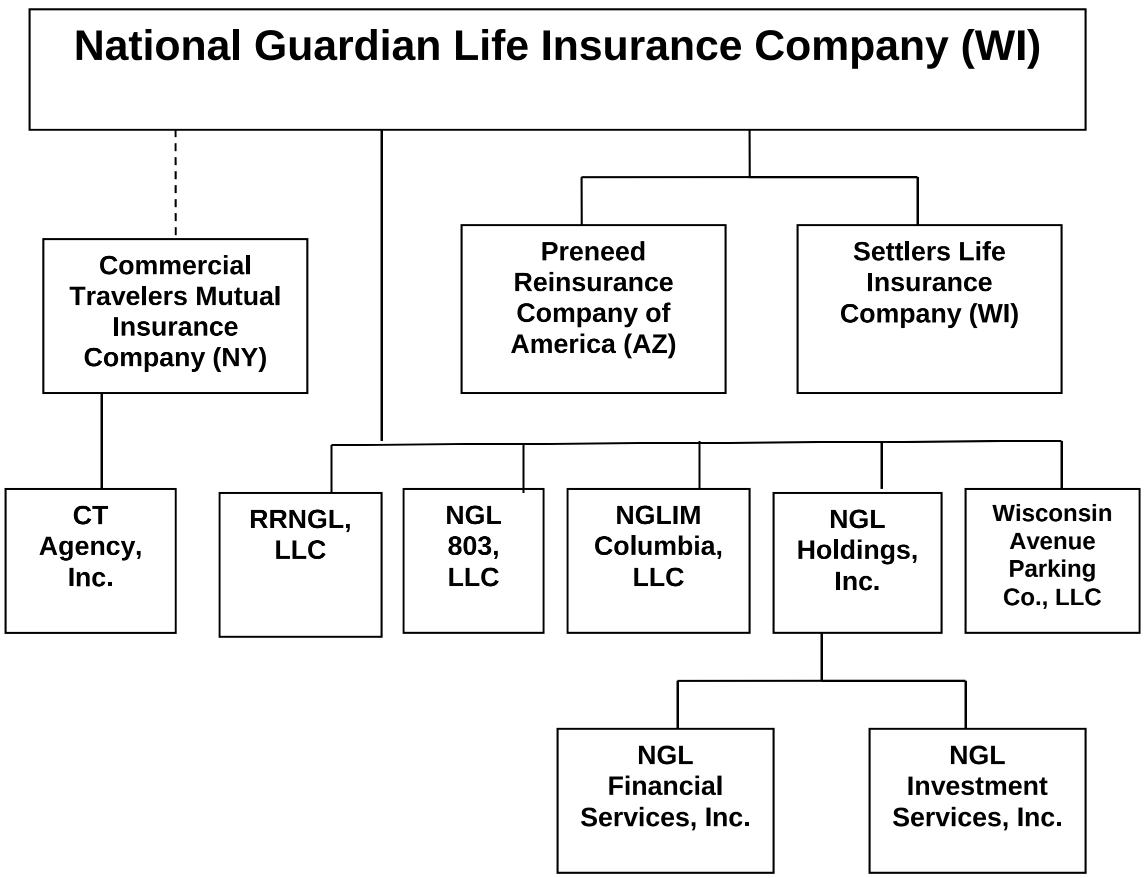
Compensation Committee
David Walsh, Chair
Elizabeth Burns
Curtis Hastings
John Larson
Elmer Lemon
Mark Solverud
Albert Toon
Judith Ward
Gary Wolter

* This committee did not meet during the examination period; see comments in the section captioned “Summary of Examination Results.”

IV. AFFILIATED COMPANIES

National Guardian Life Insurance Company is a member of a holding company system referred to as the NGL Insurance Group. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant follows the organizational chart.

Organizational Chart
As of December 31, 2015



- - - - - Denotes affiliation

Settlers Life Insurance Company (Settlers or SLI)

Settlers Life Insurance Company is a wholly owned stock subsidiary of NGL domiciled in Wisconsin. Settlers is licensed in 49 states and the District of Columbia. Effective July 1, 2006, Settlers was formed by a merger of two wholly owned NGL subsidiaries—NGL American Life Insurance Company (NGLA) and the former Settlers Life Insurance Company (which was originally domiciled in Virginia). The surviving entity was NGLA, but the company was renamed Settlers Life Insurance Company to preserve the value of the Settlers brand. Settlers markets the NGL Insurance Group's final expense product through independent agents. On October 1, 2008, Key Life Insurance Company, another wholly owned subsidiary acquired by NGL, merged into Settlers.

As of December 31, 2015, the audited statutory financial statement of Settlers Life Insurance Company reported total admitted assets of $387,993,138, total liabilities of $348,526,560, and capital and surplus of $39,466,578. Operations for 2015 produced a net income of $2,758,784. Settlers is the subject of a contemporaneous examination report by this office.

Preneed Reinsurance Company of America (Preneed Re)

On July 26, 2001, NGL formed Preneed Reinsurance Company of America (Preneed Re) as a one-state, reinsurance company. On October 12, 2001, Preneed Re received its certificate of authority in Arizona as a domestic life and disability reinsurer. Preneed Re was created to share its ownership and consequently its profitability with select marketing organizations selling NGL's and Settler's preneed products.

Preneed Re has issued two classes of common stock—A and B. Class A is either directly owned or controlled via a voting trust by NGL. Class B stock is issued annually to marketing groups based on the volume and quality of the business they write. Class A stockholders elect six of the eight members of the board of directors. Class B stockholders elect the other two directors. Otherwise, class B stock is non-voting except in extraordinary circumstances.

Class B shareholders' ownership of Preneed Re is limited to 75%. That limit has been reached, so additional shares of Class A stock will be issued in proportion to the Class B stock issued annually to maintain Class A ownership at 25%.

As of December 31, 2015, the audited statutory financial statement of Preneed Re reported total admitted assets of $38,621,012, total liabilities of $2,216,382, and capital and surplus of $36,404,630. Operations for 2015 produced a net income of $5,521,595.

Commercial Travelers Mutual Insurance Company

In April 2012, NGL executed an affiliation agreement with Commercial Travelers Mutual Insurance Company, a mutual health insurer domiciled in New York, in order to provide the company and its partners access to the state of New York. NGL intends to demutualize CTMIC and make it a stock subsidiary. Completion of the demutualization is expected to be completed during 2016 or 2017.

As of December 31, 2015, the audited statutory financial statement of CTMIC reported total admitted assets of $16,616,039, total liabilities of $10,392,205, and capital and surplus of $6,223,835. Operations for 2015 produced a net loss of $393,168.

NGL Holdings, Inc. (NGL-H)

NGL Holdings, Inc., was incorporated May 18, 1989, as a non-operating subsidiary of NGL. NGL-H is wholly owned by NGL. Effective December 31, 1999, NGL contributed the 97.8% interest it owned of Kentucky Home Capital Corporation (KHCC) to NGL-H. KHCC was a holding company for special-purpose subsidiary corporations that were acquired by NGL with the merger of Kentucky Home Mutual Life into NGL in 1998. KHCC merged into NGL-H on April 1, 2000. The remaining minority ownership of KHCC was eliminated as part of that merger.

As of December 31, 2015, NGL-H reported total assets of $3,332,474, total liabilities of $1,708,668, and stockholder's equity of $1,623,806. Operations for 2015 produced a net income of $126,424. NGL-H is shown as a nonadmitted asset on NGL's annual statement.

NGL Financial Services, Inc. (NGL-FS)

NGL Financial Services, Inc., is 100% owned by NGL Holdings, Inc. In the past, NGL-FS operated as a corporate general agency to market life and health insurance products of other insurance companies that neither NGL nor its insurance subsidiaries wrote. Currently, NGL-FS receives renewal commissions on the business that remains in force.

As of December 31, 2015, NGL-FS reported total admitted assets of $18,131, total liabilities of $5,041, and stockholder's equity of $13,090. Operations for 2015 produced a net income of $942.

NGL Investment Services, Inc. (NGL-IS)

NGL Investment Services, Inc., is 100% owned by NGL Holdings, Inc. NGL-IS holds and operates select real estate properties and other investments. In 2008, NGL-IS began to offer advanced funding to selected funeral homes for a fee.

As of December 31, 2015, NGL-IS reported total admitted assets of $3,021,433, total liabilities of $1,725,622, and stockholder's equity of $1,295,811. Operations for 2015 produced a net income of $131,083.

Limited Liability Companies

In 2010, NGL formed two new limited liability companies: NGLIM Columbia, LLC, and NGL 803, LLC. These companies were created to acquire, maintain and dispose of properties obtained through foreclosure. NGL is a 50% owner of these companies. The other 50% interest is held by Illinois Mutual Life Insurance Company.

RRNGL, LLC

RRNGL, LLC, is a limited liability company with two members, R&R Real Estate Investors II, LLC, and NGL, formed for the purpose of owning and operating an office park in West Des Moines, Iowa, two office buildings in Urbandale, Iowa, and a retail park in West Des Moines, Iowa.

As of December 31, 2015, RRNGL, LLC, reported total admitted assets of $105,331,517, total liabilities of $78,319,993, and members' equity of $27,011,524. Operations for 2015 produced a net loss of $780,032.

Wisconsin Avenue Parking Company, LLC

Wisconsin Avenue Parking Company, LLC, was formed on March 30, 2011, as a limited liability company for the purpose of acquiring, developing, and operating a parking structure located in downtown Madison, Wisconsin. Edgewater Hotel Company, LLC, and NGL each own 50% of the company. NGL leases parking spaces from Wisconsin Avenue Parking Company, LLC, for use by its employees.

As of December 31, 2015, Wisconsin Avenue Parking Company, LLC, reported total admitted assets of $8,188,107, total liabilities of $188,603, and members' equity of $7,999,504. Operations for 2015 produced a net income of $72,690.

Agreements with Affiliates

NGL has management services agreements with three subsidiaries: NGL Investment Services, Inc., Preneed Reinsurance Company of America, and Settlers Life Insurance Company. Services provided by NGL to its subsidiaries pursuant to individual management services agreements include the following:

- Executive management services
- Financial services including accounting, actuarial, tax and audit
- Policy administration services
- Legal and compliance services
- Marketing, agent support, and human resources services
- Investment management services, corporate insurance, and office space

NGL service fees charged to each of the respective affiliates for the costs of provided services are intended to approximate the allocation of actual costs and are based on time and cost allocation estimates. The estimates of time and cost allocation are amended by NGL periodically as needed. Direct costs incurred by NGL that are not covered by the services categories specified in the management services agreements are charged to the affiliates on an hourly basis. The only exception to this method is that Preneed Re is charged 0.5% of premium assumed from NGL and affiliates for management and administrative services on a monthly basis, subject to a minimum service fee of $7,500 per month. In addition, Preneed Re reimburses NGL for the reinsurance percentage of certain external costs associated with that business. These agreements can be amended if both parties agree to the contract changes and either party may terminate the agreement after providing a 90-day written notice to the other party.

NGL and Settlers file consolidated federal tax returns and are parties to a tax allocation agreement. Pursuant to that agreement, the tax liability or benefit to each insurer is the amount that each insurer would have paid or received if filed on a separate-return basis with the federal and, if applicable, state tax authorities. Consolidated tax liability is allocated in accordance with provisions of Treasury regulations using the percentage method, with an election to use a percentage of 100%. Prior to 2007, Preneed Re consolidated its tax return with NGL and NGL's other life insurance subsidiaries. Preneed Re began filing a separate tax return in 2007.

NGL has cost-sharing, administrative, and marketing agreements with CTMIC. Further detail on CTMIC agreements are discussed in the section of this report captioned "History and Plan of Operation." Services subject to the cost-sharing agreement include:

- Billing, premium collection, rate and form filings services
- Policy administration services
- Communications, sales, marketing, agent support, and human resources services
- Information systems, actuarial, legal services, accounting and financial services
- Corporate and executive support services

CTMIC provides marketing and administrative services for business written by NGL under the marketing and administrative agreements. Fees charged under the cost-sharing agreement are based on actual cost and usage. Fees charged under the administrative and marketing agreements are based on actual cost and expenses incurred.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. The company's reinsurance contracts contained proper insolvency provisions.

On its directly written business, the company has reinsurance treaties that cede excess coverage to a small number of reinsurance companies. Many of the reinsurance treaties have existed for more than 20 years. The company's maximum net retention limit for any one life is $400,000 for individual life and $200,000 for group life coverage. The retention on life insurance risks is graded and decreases based upon the age and rating of the insured. The reinsurers automatically assume any life insurance coverage between $400,000 and $1,600,000. The company submits policies for facultative reinsurance coverage when it wishes to retain no risk or less risk than the specified retention under the company's excess of loss reinsurance treaties. The retention on group life policies varies by size of insured group, with the maximum retention on group business being $200,000.

The company's net retention limit for accidental death is $50,000 per risk. The company discontinued issuing new disability income policies in 1997 but still reinsures its in-force block of business.

The company's net retention is $8,000 per month for disability income benefits of less than five years, $2,000 per month for benefit periods of five years, and $1,000 per month for benefit periods greater than five years.

The company's unaffiliated assumed life reinsurance is primarily related to acquisitions of blocks of business. These are discussed below.

NGL has acquired a number of companies and blocks of business and has generally retained existing reinsurance cessions on those blocks of business. The retentions on these blocks are typically lower than NGL's retentions on its directly written business. The blocks are summarized below with an indication of the general maximum retention levels.

- Kentucky Home Mutual Life Insurance Company—This company merged into NGL effective November 30, 1998. Traditional whole life, interest-sensitive life, and term life is ceded to various reinsurers with maximum retentions generally of $100,000 or less.

- Fort Dearborn Life block—Block of group and individual universal life policies acquired by NGL from Fort Dearborn Life via assumption reinsurance effective December 1, 1998. Reinsurance is ceded to Lincoln National Life with a maximum retention of $100,000.

- Allnation Life Insurance Company—This company was purchased by NGL from Blue Cross/Blue Shield of Delaware January 1, 1999. Allnation Life Insurance Company was merged into NGLA effective March 31, 2000. Ordinary, term and universal life policies are ceded to various reinsurers with a maximum retention of $50,000.

- United Wisconsin Life block—Small block of individual life policies purchased by NGL from United Wisconsin Life via assumption reinsurance effective July 1, 1999. Reinsurance is ceded to Optimum Re with a maximum retention of $100,000.

- Milwaukee Life Insurance Company (MLIC)—Company purchased by NGL from Clarica-U.S. effective April 1, 2001, and merged into NGLA effective October 1, 2001. MLIC had both participating and nonparticipating whole life, term life and universal life policies which are ceded to various reinsurers with maximum retention generally of $250,000 or less. MLIC also has disability income policies which are ceded to Employers Reinsurance.

- Trustmark Life block—Block of participating whole life, universal life, interest-sensitive whole life, and term life acquired from Trustmark Insurance Company via 100% coinsurance effective July 1, 2002. Ceded to various reinsurers with maximum retentions generally of $200,000 or less.

- Protected Home Mutual Life Insurance Company—This company merged into NGL effective November 30, 2003. Traditional whole life, interest-sensitive life, and term life is ceded to various reinsurers with maximum retentions generally of $200,000 or less. Disability income is also ceded.

- Key Life Insurance Company—Acquired by NGL effective July 1, 2008, and merged into Settlers on October 1, 2008. Universal life and term is ceded to various reinsurers with maximum retention of $5,000.

- Central American Life Insurance Company and Ashley Life Insurance Company—Blocks of ordinary, preneed and industrial life acquired via assumption reinsurance from these two affiliated entities effective October 1, 2008. Ceded to Optimum Re with a maximum retention of $5,000.

- Western Catholic Union block—Block of paid up life acquired from Western Catholic Union via 100% coinsurance effective December 31, 2008. No reinsurance ceded is attached to this block.

- United Liberty Life block—Block of life insurance which had been written through United Liberty Life which was acquired from its parent, Citizens Security Life Insurance Company, via 100% coinsurance effective April 1, 2009. Reinsurance is ceded to various reinsurers with maximum retentions of $50,000 or less.

- Citizens Security Life—Block of life insurance acquired from Citizens Security Life Insurance Company via 100% coinsurance effective September 30, 2010. Reinsurance is ceded to various reinsurers with maximum retentions of $50,000 or less. There are also 90% quota share cessions to Oxford Life and London Life.

- Lincoln Heritage Life—NGL entered into a coinsurance agreement effective January 1, 2011. The business was all preneed with no attached ceded reinsurance and was 100% assumed by NGL.

- Madison National Life—Effective July 31, 2015, NGL acquired the individual life and annuity business of Madison National Life Insurance Company and its affiliate, Standard Security Life Insurance Company of New York, through 100% coinsurance agreements. The acquired business consisted primarily of ordinary life and annuities totaling approximately $260 million of net reserves representing 280,000 policyholders. Substantially all of the business acquired had been administered by MNL on behalf of itself and SSLNY or other carriers from which MNL had previously coinsured blocks of business.

  For several of the blocks that MNL had previously acquired via coinsurance assumed, NGL agreed to novate such that the cession would run direct from the ceding company to NGL. These are summarized as follows with the effective date of novation and approximate amount of reserves involved:

  - Guarantee Income Life, August 1, 2015, $5 million of reserves
  - Monitor Life, August 1, 2015, $3 million
  - Columbian Mutual Life, January 1, 2016, $60 million

Group Markets Reinsurance

The majority of business in this segment consists of dental and vision insurance. In most cases, NGL cedes up to 50% of the net retained business (after cessions to other parties) to a partner, Starmount Life Insurance Company, based on the individual program. There are several agreements under which NGL cedes on a quota share basis to the entity (or its affiliate) that markets and/or administers the subject business. These treaties cover dental, vision, group life, Short-Term Disability, Long-Term Disability, accident only, critical illness, podiatry and audiology. Cessions range from 0% to 100%.

Student Health and Accident Reinsurance

The student accident and health business is administered by CTMIC or by unaffiliated TPAs. A summary of agreements in this area is as follows:

- Companion Life Insurance Company fronts for NGL in certain states and cedes 100% to NGL.

- NGL assumes 50% of student health and accident written by CTMIC.

- NGL assumes 50% of student health and accident written and administered by Consolidated Health Plans to National Indemnity Company.

- NGL cedes 80% of student health and accident written and administered by Student Assurance Services to Investors Growth Life Insurance.

Affiliated Reinsurance - Preneed

NGL and Settlers have both written preneed life and annuities in the past. However, all new preneed business has been written through NGL for over ten years. The face amounts written are modest; therefore, no external reinsurance is ceded. Preneed business written by selected large third-party marketing groups (TPMs) was 50% ceded by both NGL and Settlers to Preneed Reinsurance Company of America, a subsidiary of NGL, on a modified coinsurance basis. Effective October 1, 2010, Settlers 100% coinsured substantially all of its in-force preneed business to NGL, including all business covered under the cession to Preneed Re. As a result, currently only NGL cedes business to Preneed Re.

Affiliated Reinsurance - Other

NGL ceded 10% of a closed block of Supplementary Contracts Involving Life Contingencies to Preneed Re effective July 26, 2001.

Miscellaneous

A run-off block of interest-sensitive life business is 100% coinsured to American Heritage Insurance Company (AHIC) under an agreement effective December 13, 1996. This block was ceded to AHIC by Kentucky Home Mutual Life (KHML) prior to KHML's November 30, 1998, merger into NGL.

Under an agreement with Indianapolis Life Insurance Company (now Accordia Life and Annuity Company or Accordia) NGL previously sold a term life product which was designed by, and administered by, Accordia and reinsured to Athene Annuity and Life Assurance Company (Athene). No new business has been issued under this agreement since December 31, 2001. NGL policies are coinsured 10% to Athene, except for policies issued in Kentucky which are coinsured 40% to Athene.

Long-Term Care Reinsurance

The new long-term care (LTC) policies will be ceded on a coinsurance basis. NGL is to cede to LifeCare Assurance Company all LTC policies written. LifeCare Assurance shall pay coinsurance allowances to NGL equal to a percentage of the reinsurance premium. The coinsurance allowance per policy year is as follows:

Policy Year	Coinsurance Allowance
1	100%
2	35
3 - 10	25
11+	15
Single Pay	25

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2015, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

National Guardian Life Insurance Company
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$2,672,702,474	$	$2,672,702,474
Stocks:			
Preferred stocks	15,560,410		15,560,410
Common stocks	115,743,707	1,623,806	114,119,901
Mortgage loans on real estate:			
First liens	123,832,535		123,832,535
Real estate:			
Occupied by the company	5,774,530		5,774,530
Held for production of income	724,958		724,958
Cash, cash equivalents, and short-term investments	203,556,332		203,556,332
Contract loans	44,828,469		44,828,469
Derivatives	200,000		200,000
Other invested assets	105,025,442	5,000,006	100,025,436
Receivables for securities	24,274		24,274
Investment income due and accrued	39,283,312	195,961	39,087,351
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	7,271,434	5,516,876	1,754,558
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	33,181,707		33,181,707
Reinsurance:			
Amounts recoverable from reinsurers	220,634		220,634
Funds held by or deposited with reinsured companies	1,141,791		1,141,791
Net deferred tax asset	71,267,685	22,818,578	48,449,107
Guaranty funds receivable or on deposit	385,223		385,223
Electronic data processing equipment and software	4,944,499	2,925,833	2,018,666
Furniture and equipment, including health care delivery assets	1,754,004	1,754,004	
Receivable from parent, subsidiaries and affiliates	7,074,822	45,299	7,029,523
Health care and other amounts receivable	2,396,462	2,396,462	
Write-ins for other than invested assets:			
Goodwill – acquired insurance in force	7,608,283	2,655,161	4,953,122
Notes receivable	8,838,055	7,898,592	939,463
Deposit account deferred compensation	818,075		818,075
Receivable line of credit – NGLIS	1,749,211	1,055,505	693,706
Miscellaneous receivables	268,649	104,433	164,216
Prepaid expenses	1,623,382	1,623,382	
Total Assets	$3,477,800,359	$55,613,898	$3,422,186,461

National Guardian Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2015

Aggregate reserve for life contracts		$2,913,860,151
Aggregate reserve for accident and health contracts		49,486,216
Liability for deposit-type contracts		57,565,086
Contract claims:		
Life		13,144,649
Accident and health		9,031,642
Policyholders' dividends and coupons due and unpaid		(447)
Apportioned for payment		4,020,000
Premiums and annuity considerations received in advance		730,286
Contract liabilities not included elsewhere:		
Provision for experience rating refunds		647,891
Other amounts payable on reinsurance		7,424,408
Interest maintenance reserve		10,203,993
Commissions to agents due or accrued		433,774
General expenses due or accrued		4,572,551
Taxes, licenses, and fees due or accrued, excluding federal income taxes		2,745,387
Current federal and foreign income taxes		1,805,985
Unearned investment income		226,509
Amounts withheld or retained by company as agent or trustee		1,108,847
Amounts held for agents' account, including agents' credit balances		2,845,553
Remittances and items not allocated		5,720,047
Liability for benefits for employees and agents if not included above		6,236,980
Miscellaneous liabilities:		
Asset valuation reserve		30,500,848
Reinsurance in unauthorized and certified companies		385,286
Funds held under reinsurance treaties with unauthorized and certified reinsurers		2,247,898
Funds held under coinsurance		306,503
Write-ins for liabilities:		
Liability for pension benefits		14,486,516
Post-retirement benefits other than pension		6,012,748
Unclaimed funds escheatable		2,581,647
Contingent liability for settlement of lawsuit		1,500,000
Deferral of gain by affiliates		1,202,434
Interest on outstanding claims		68,542
Total liabilities		3,151,103,930
Surplus notes	$ 71,000,000	
Write-ins for special surplus funds:		
Health insurer fee payable	1,550,000	
Unassigned funds (surplus)	198,532,531	
Total capital and surplus		271,082,531
Total Liabilities, Capital and Surplus		$3,422,186,461

National Guardian Life Insurance Company
Summary of Operations
For the Year 2015

Premiums and annuity considerations for life and accident and health contracts		$ 790,041,563
Considerations for supplementary contracts with life contingencies		1,183,464
Net investment income		159,855,049
Amortization of interest maintenance reserve		1,939,077
Commissions and expense allowances on reinsurance ceded		42,369,901
Reserve adjustments on reinsurance ceded		15,314,107
Miscellaneous income:		
Write-ins for miscellaneous income:		
Administration fees		1,446,588
Miscellaneous income		5,570
Interest income on funds withheld		3,509
Total income items		1,012,158,828
Death benefits	$199,235,047	
Matured endowments	1,012,934	
Annuity benefits	30,347,947	
Disability benefits and benefits under accident and health contracts	59,465,656	
Coupons, guaranteed annual pure endowments and similar benefits		
Surrender benefits and withdrawals for life contracts	32,692,339	
Interest and adjustments on contract- or deposit-type contract funds	2,212,893	
Payments on supplementary contracts with life contingencies	2,088,094	
Increase in aggregate reserves for life and accident and health contracts	434,991,213	
Subtotal	762,046,123	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	125,327,227	
Commissions and expense allowances on reinsurance assumed	40,556,844	
General insurance expenses	56,742,833	
Insurance taxes, licenses, and fees excluding federal income taxes	10,580,973	
Increase in loading on deferred and uncollected premiums	8,268,099	
Write-in for deductions:		
IMR adjustment reinsurance assumed	4,926,307	
Amortization of goodwill – acquired business	1,732,174	
Loss from settlement of lawsuit	1,500,000	
Miscellaneous expense	62,014	
Interest on funds withheld	61,830	
Regulatory fees and penalties	50,879	
Total deductions		1,011,855,303

Net gain (loss) from operations before dividends to policyholders and federal income taxes	303,525
Dividends to policyholders	4,036,097
Net gain (loss) from operations after dividends to policyholders and before federal income taxes	(3,732,572)
Federal and foreign income taxes incurred (excluding tax on capital gains)	7,069,630
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses	(10,802,202)
Net realized capital gains or (losses)	6,264,558
Net Loss	$ (4,537,644)

National Guardian Life Insurance Company
Cash Flow
For the Year 2015

Premiums collected net of reinsurance			$781,337,530
Net investment income			162,105,973
Miscellaneous income			44,367,378
Total			987,810,881
Benefit- and loss-related payments		$309,518,785	
Commissions, expenses paid, and aggregate write-ins for deductions		234,275,208	
Dividends paid to policyholders		3,895,364	
Federal and foreign income taxes paid (recovered)		8,221,488	
Total deductions			555,910,845
Net cash from operations			431,900,036
Proceeds from investments sold, matured, or repaid:			
Bonds	$254,792,494		
Stocks	38,508,302		
Mortgage loans	13,249,645		
Other invested assets	10,011,730		
Total investment proceeds		316,562,171	
Cost of investments acquired (long-term only):			
Bonds	645,359,255		
Stocks	25,178,047		
Mortgage loans	25,769,787		
Real estate	257,411		
Other invested assets	21,898,517		
Miscellaneous applications			
Total investments acquired		718,463,017	
Net increase (or decrease) in contract loans and premium notes		8,932,898	
Net cash from investments			(410,833,744)
Cash from financing and miscellaneous sources:			
Surplus notes, capital notes		44,500,000	
Net deposits on deposit-type contracts and other insurance liabilities		5,667,046	
Other cash provided (applied)		2,103,443	
Net cash from financing and miscellaneous sources			52,270,489
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			73,336,781
Cash, cash equivalents, and short-term investments:			
Beginning of year			130,219,551
End of Year			$203,556,332

National Guardian Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2015

Assets			$3,422,186,461
Less security surplus of insurance subsidiaries			18,447,581
Less liabilities			3,151,103,930
Adjusted surplus			252,634,950
Annual premium:			
Individual life and health	$393,913,591		
Factor	15%		
Total		$59,087,038	
Group life and health	620,142,015		
Factor	10%		
Total		62,014,201	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		8,198,867	
Compulsory surplus (subject to a $2,000,000 minimum)			129,300,106
Compulsory Surplus Excess or (Deficit)			$ 123,334,844
Adjusted surplus (from above)			$ 252,634,950
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%)			142,230,116
Security Surplus Excess or (Deficit)			$ 110,404,834

National Guardian Life Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2015

The following schedule details items affecting the company's total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2015	**2014**	**2013**	**2012**	**2011**
Capital and surplus, beginning of year	$250,133,281	$241,345,641	$196,363,532	$182,404,384	$196,365,153
Net income	(4,537,644)	24,404,960	28,757,351	18,904,449	8,680,976
Change in net unrealized capital gains/losses	(21,423,722)	4,847,764	9,776,052	6,280,346	(5,304,309)
Change in net deferred income tax	12,994,436	3,248,010	1,250,907	2,743,315	4,497,973
Change in nonadmitted assets and related items	(14,018,863)	(7,244,685)	6,204,562	(2,740,687)	(18,954,248)
Change in liability for reinsurance in unauthorized and certified companies	(322,726)	(49,901)	3,322	(5,224)	164,442
Change in reserve on account of change in valuation bases				(1,804,000)	
Change in asset valuation reserve	(608,936)	(2,500,486)	406,174	(8,779,315)	(1,181,067)
Change in surplus notes	44,500,000	(2,500,000)	(2,500,000)	(2,250,000)	(2,250,000)
Write-ins for gains and (losses) in surplus:					
Change in additional deferred tax asset					5,066,451
Pension minimum additional liability			5,406,465	732,563	(4,680,987)
Change in liability for postretirement benefits	451,101	(2,039,395)	(368,212)		
Change in liability for pension benefits	3,915,604	(9,378,627)	(3,954,512)		
Change in reserve tax effect				631,400	
Change in liability for deferral of gain by affiliates				246,301	
Capital and Surplus, End of Year	$271,082,531	$250,133,281	$241,345,641	$196,363,532	$182,404,384

National Guardian Life Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2015

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2015	2014	2013	2012	2011
#1	Net change in capital and surplus	(9)%	5%	24%	9%	(6)%
#2	Gross change in capital and surplus	8	4	23	8	(7)
#3	Net income to total income	-0*	4	5	3	1
#4	Adequacy of investment income	140	136	138	134	151
#5	Nonadmitted to admitted assets	2	1	1	2	2
#6	Total real estate and mortgage loans to cash and invested assets	5	6	5	4	4
#7	Total affiliated investments to capital and surplus	29	36	35	32	36
#8	Surplus relief	1	14	13	15	(7)
#9	Change in premium	70*	12	4	(18)*	26
#10	Change in product mix	4.8	0.7	0.4	2.0	4.0
#11	Change in asset mix	0.3	0.3	0.4	0.2	0.3
#12	Change in reserving	29*	0	2	(25)*	(13)

Ratio No. 3 compares the net income to total income including realized capital gains and losses. Ratio No. 9 compares the change in premium in the current year with the change in premium in the prior year. Ratio No. 12 compares the change in reserves to premiums as of the current year to the change in reserves to premiums as of the prior year. The exceptional results for Ratio Nos. 3, 9, and 12 in 2015 were primarily due to the acquisition of the MNL and SSLNY business.

The exceptional results for Ratio Nos. 9 and 12 in 2012 were primarily due to a decrease in premiums compared to the higher amount in 2011 which was attributable to acquisition of the preneed business of Lincoln Heritage Life Insurance Company (LHLIC) effective January 1, 2011.

Growth of National Guardian Life Insurance Company

Year	Admitted Assets	Liabilities	Capital and Surplus
2015	$3,422,186,461	$3,151,103,930	$271,082,531
2014	2,948,271,841	2,698,138,560	250,133,281
2013	2,730,752,212	2,489,406,571	241,345,641
2012	2,532,783,821	2,336,420,289	196,363,532
2011	2,331,447,313	2,149,042,929	182,404,384
2010	2,043,181,390	1,846,816,237	196,365,153

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2015	$578,707,394	$108,116,286	$1,170,385
2014	361,061,844	26,047,622	1,329,179
2013	329,150,820	24,262,882	1,023,223
2012	309,963,833	21,986,484	870,196
2011	419,800,742	21,774,622	1,284,773
2010	326,538,777	19,254,952	668,904

Life Insurance In Force (in thousands)

Year	In Force End of Year	Reinsurance Ceded	Net In Force
2015	$7,688,352	$1,913,942	$5,774,410
2014	6,416,544	1,569,885	4,846,659
2013	6,207,076	1,401,699	4,805,377
2012	6,145,514	1,344,105	4,801,409
2011	6,097,774	1,283,206	4,814,568
2010	5,804,345	1,187,357	4,616,988

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2015	$84,615,988	$61,026,351	$2,240,393	$16,111,990	93.8%
2014	73,892,312	50,781,635	3,221,653	14,172,007	92.3
2013	56,380,439	36,801,452	1,844,853	10,263,663	86.7
2012	56,265,202	42,451,153	3,653,323	10,780,395	101.1
2011	37,765,089	27,607,583	1,144,847	8,064,405	97.5
2010	33,498,105	25,092,315	957,813	6,630,341	97.6

* Includes increase in contract reserves
** Includes taxes, licenses, and fees

Total admitted assets have increased 67.5% to $3.4 billion and total liabilities increased 70.6% to $3.2 billion since 2010. Life insurance premiums, annuity considerations, and accident and health premiums have increased 77.2%, 461.5%, and 152.6%, respectively. These increases are largely the result of NGL's new affiliation with CTMIC and the acquisition of MNL business as described in the "History and Plan of Operation" section of this report. During the period under examination, NGL entered into a coinsurance agreement to acquire preneed life and annuity business and an affiliation agreement with a health insurance company. The largest increase in life and annuity business occurred in 2015 when the company entered into a coinsurance transaction to acquire blocks of life and annuity business from MNL and SSLNY.

Surplus increased 38% during the examination period to $271.1 million. The increase in surplus is the result of favorable operating results and an increase in surplus notes during the period.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2015, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were ten specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Custodial Agreement—It is recommended that the company's custodial agreement incorporate indemnification provisions as recommended in the NAIC Financial Condition Examiners Handbook.

   Action—Compliance

2. Custodial Agreement—It is suggested that the company's custodial agreement incorporate other desirable provisions outlined in the NAIC Financial Condition Examiners Handbook.

   Action— Compliance

3. Bank Safe Deposit—It is recommended that the company review and revise its bank safe deposit contract on a regular basis to ensure that it reflects the current list of persons who are authorized to access the safety deposit box.

   Action—Compliance

4. Managing General Agent—It is recommended that the company take steps to ensure that they only contract for managing general agent services with persons who are licensed as a managing general agent pursuant to s. Ins 42.02 (2), Wis. Adm. Code.

   Action— Compliance

5. Managing General Agent—It is recommended that the company provide a written notification to the commissioner within 30 days of entering into a contract with a managing general agent in accordance with s. Ins 42.05 (5), Wis. Adm. Code.

   Action—Noncompliance; see comments in the "Summary of Current Examination Results"

6. Managing General Agent—It is recommended that the company conduct an on-site review of the underwriting and claim processing operations of its managing general agents at least semiannually in accordance with s. Ins 42.05 (3), Wis. Adm. Code.

   Action—Compliance

7. Managing General Agent—It is recommended that the company take steps to ensure that all funds collected for the account of the insurer be held by the managing general agent in a fiduciary bank account in accordance with s. Ins 42.03 (3), Wis. Adm. Code.

   Action—Compliance

8. Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation as required by ss. 601.42 and 611.63 (4), Wis. Stat.

   Action—Compliance

9. Affiliated Agreements—It is recommended that the company disclose all material management services agreements with its affiliates in Notes to Financial Statements pursuant to the NAIC Annual Statement Instructions – Life.

   Action—Compliance

10. Outstanding Checks—It is recommended that the company continue working on achievement of internal goals of transferring outstanding checks to escheat no later than the end of the second year after issuance.

    Action—Compliance

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Conflict of Interest

The examination's review of conflict of interest statements completed by the company's officers and members of the board of directors determined that NGL only retains the statements for one year. As a result of the company not retaining its conflict of interest statements, the examination was unable to determine whether any officers or members of the board of directors had any conflicts in prior periods and should therefore have removed themselves from any transaction or abstained from voting on any matters brought in front of the board. Section Ins 6.80 (4), Wis. Adm. Code, defines the various records that an insurer should maintain, including corporate records. It is recommended that the company maintain conflict of interest statements, as well as any other records, pursuant to s. Ins 6.80 (4), Wis. Adm. Code.

Board Committees

The examination's review of corporate governance identified that NGL's bylaws create the following standing committees of the board of directors: Executive, Finance, and Audit. The company has created these committees and appoints board members to them annually, but the Executive and Finance committee did not meet during the period under examination. The bylaws do not require regular meetings of these committee's but rather states "…regular meetings of a committee may be held." It is suggested that the company review its bylaws and governance structure to determine if non-active committees should be standing committees of the board of directors and then update their bylaws accordingly.

Custodial Agreement

NGL has a custodial agreement with US Bank to provide custody and other services in connection with securities, cash and other property held by the bank. The review of the custodial agreement determined that the agreement does not contain several provisions suggested in the NAIC Financial Condition Examiners Handbook related to the following areas:

- Written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian in the event the custodian gains entry in a clearing corporation through an agent.
- Custodian obligation to provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn.
- Custodian obligation to provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits with respect to the insurance company's securities held by the custodian.
- Custodian responsibility to secure and maintain insurance protection in an adequate amount.

It is recommended that the company's custodial agreement incorporate other provisions outlined in the NAIC Financial Condition Examiners Handbook.

Managing General Agents

The examination team reviewed administrative agreements between NGL and its managing general agents and concluded that the terms of the agreements comply with the requirements of s. Ins 42.03, Wis. Adm. Code. However, NGL failed to properly notify the commissioner of a new contract with a managing general agent. This is a violation of s. Ins 42.05 (5), Wis. Adm. Code, which requires that a written notification to the commissioner be provided within 30 days of entering into a contract with a managing general agent. It is again recommended that the company provide a written notification to the commissioner within 30 days of entering into a contract with a managing general agent in accordance with s. Ins 42.05 (5), Wis. Adm. Code.

Executive Compensation

The company filed its Report on Executive Compensation (Form OCI 22-060) as required by ss. 601.42 and 611.63 (4), Wis. Stat. The report should include annual compensation of each director, the chief executive officer, four most highly paid officers or employees, and all officers and employees of the insurer whose compensation exceeded specified amounts.

The examination determined that the compensation reported excluded employer-paid health insurance premiums. The company should monitor employer-paid benefits to ensure that all reportable benefits are reported on the Report on Executive Compensation. It is recommended that the company properly complete the Report on Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

VIII. CONCLUSION

National Guardian Life Insurance Company is a Wisconsin-domiciled mutual life insurance company which presently offers preneed products and group products (predominantly dental and vision) through independent marketing organizations and brokers. The company has expanded into the student health accident market through an affiliation with CTMIC. The company continues to service other products previously written or acquired including whole life, term life, universal life, deferred annuities, and disability income.

During the five-year period under examination, life insurance premiums have increased 77.2% to $579 million, total assets have increased 67.5% to $3.4 billion and surplus has increased 38.1% to $271 million. NGL's financial position and results of operations reflect robust sales as well as the results of its merger and acquisition strategy. During the period under examination NGL entered into an affiliation agreement with a health insurance company and acquired the in-force individual life and annuity business and operations of two affiliated insurance companies through assumption coinsurance agreements.

The prior examination report contained ten recommendations. The current examination determined that the company is in compliance with nine of them. The current examination resulted in four recommendations and one suggestion. One recommendation made in the current report is a repeat recommendation related to compliance with Wisconsin rules and regulations in dealing with managing general agents. The rest of the recommendations relate to conflict of interest disclosures, board committees, reporting of executive compensation, and the custodial agreement. The examination did not make any reclassifications of account balances or adjustments to surplus as reported by the company in its year-end 2015 statutory financial statements.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 33 - Conflict of Interest—It is recommended that the company maintain conflict of interest statements, as well as any other records, pursuant to s. Ins 6.80 (4), Wis. Adm. Code.

2. Page 33 - Board Committees—It is suggested that the company review its bylaws and governance structure to determine if non-active committees should be standing committees of the board of directors and then update their bylaws accordingly.

3. Page 34 - Custodial Agreement—It is recommended that the company's custodial agreement incorporate other provisions outlined in the NAIC Financial Condition Examiners Handbook.

4. Page 34 - Managing General Agents—It is again recommended that the company provide a written notification to the commissioner within 30 days of entering into a contract with a managing general agent in accordance with s. Ins 42.05 (5), Wis. Adm. Code.

5. Page 34 - Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Shelly Bueno	Insurance Financial Examiner
Adrian Jaramillo	Insurance Financial Examiner
Nicholas Hartwig	Insurance Financial Examiner
Thomas Houston, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Judith Michael
Examiner-in-Charge