

REPORT ON EXAMINATION
OF
US ALLIANCE LIFE AND SECURITY COMPANY
1303 SW FIRST AMERICAN PL, SUITE 200
TOPEKA, KANSAS 66604
AS OF
DECEMBER 31, 2019

FILED

JUN 01 2021

VICKI SCHMIDT
Commissioner of Insurance

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Topeka, Kansas
February 3, 2021

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Road
Topeka, Kansas 66604

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

US ALLIANCE LIFE AND SECURITY COMPANY

with its main administrative and statutory home office at:

**1303 SOUTHWEST FIRST AMERICAN PL, SUITE 200
TOPEKA, KANSAS 66604**

hereinafter referred to as the "Company" or "USALSC". The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners performed a multi-state financial examination of USALSC, a Kansas domiciled life and health insurance company. The last examination covered the four-year period from January 1, 2012, through December 31, 2015. This examination covers the four-year period from January 1, 2016, through December 31, 2019. This examination was performed as part of the multi-state coordinated examination of the US Alliance Corporation Group ("Group") of regulated entities wherein Kansas was the lead state. All states with a domiciled insurer in the Group participated in the examination. This examination was conducted concurrently with that of the Company's North Dakota domiciled wholly-owned subsidiary, Dakota Capital Life Insurance Company ("DCLIC"),

and the Company's Montana domiciled wholly-owned subsidiary, US Alliance Life and Security Company – Montana ("USALSC – MT").

The examination was conducted in accordance with the rules, regulations, and directives of the Department and the observed guidelines and procedures contained in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook"). The Handbook requires the examiners 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 ("SSAP"). The examination does not attest to the fair presentation of the financial statements included herein. If, during 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 K.S.A. 40-222, and general information about the insurer and its financial condition. The Department may have identified other items during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

Independent Audit Reports

The financial statements of the Company were audited by Kerber, Eck & Braeckel LLP for the years ending December 31, 2016, through December 31, 2019. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Department.

The independent auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during this examination.

Actuarial Review

The Department retained the services of Hause Actuarial Solutions, Inc. ("HAS") in order to perform a review of the Company's actuarial practices and reserves as of December 31, 2019. HAS's review consisted of evaluating certain assumptions, methodologies, and calculations utilized by the Company in the reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the course of the examination.

COMPANY HISTORY

General

The Company was incorporated on July 22, 2011, as a Kansas domestic stock life insurance company under the provisions of K.S.A. 40-301 *et. seq.* and K.S.A. 40-401 *et. seq.* The Company was organized and commenced business on January 2, 2012. An accident and health line of business was added to the Company's Certificate of Authority subsequent to its organization.

Mergers and Acquisitions

DCLIC, a North Dakota domiciled life insurance company, was acquired on August 1, 2017, when US Alliance Corporation (“USAC”), the Company’s parent, merged with Northern Plains Capital Corporation. USAC then contributed DCLIC to the Company.

The Company acquired control of Great Western Life Insurance Company (“Great Western”) on December 14, 2018. Subsequent to the acquisition Great Western was renamed US Alliance Life and Security Company – Montana.

Surplus Note

On December 27, 2013, the Company issued a surplus note to its parent, USAC, at an interest rate equal to the Prime Lending Rate published and adjusted from time to time by the *Wall Street Journal*. As of December 31, 2019, the surplus note’s outstanding value was \$1,680,000. The surplus note matures on December 31, 2023. The Department approved the issuance of the surplus note. No interest payments were made during the period under examination.

Capital Stock

The Company’s articles authorize the issuance of 100,000,000 shares of common capital stock with a par value of \$0.10 per share. In 2016, the Company repurchased and retired \$500,000 of capital stock from USAC, its parent. At December 31, 2019, USAC owned 100% of the 10,000,000 issued and outstanding shares, resulting in a total paid-up common capital stock amount of \$1,000,000. Gross paid-in and contributed surplus was \$8,011,501 as of December 31, 2019. No preferred stock is authorized.

Dividends and Capital Contributions

The Company has not received any dividends from DCLIC or USALSC - MT during the examination period. The Company did not pay any dividends to USAC during the

examination period. In 2016 and 2017, the Company received capital contributions of \$1,325,000 and \$3,186,501 from USAC, respectively.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed with no amendments being noted during the examination period.

MANAGEMENT AND CONTROL

Shareholders

Article II, Section 1 of the Company's bylaws provides that: "The annual meeting of shareholders shall be held at a date and time other than a legal holiday to be determined by the President of the corporation."

Article II, Section 8A of the Company's bylaws provides that: "Each outstanding share entitled to vote shall be entitled to one vote upon each matter submitted to a vote at the meeting of the shareholders."

Article II, Section 8B of the Company's bylaws provides that: "Each member of the Board of Directors shall be elected by ballot. Each full-paid, outstanding share of stock shall be entitled to one vote. Shares may be voted by proxy in compliance with Section 7 of this Article II. Each stockholder shall have the right to cast as many votes in the aggregate as shall equal the number of shares of stock held by him, multiplied by the number of directors to be elected, and each stockholder may cast the whole number of votes for one candidate, or may divide his votes among two or more candidates."

Board of Directors

Article III, Section 1 of the Company's bylaws provides that: "The business and affairs of the corporation shall be managed by its Board of Directors."

Article III, Section 2 of the Company's bylaws provides that: "The number of directors of the corporation shall be at least three (3) and not more than fifteen (15), as set by resolution of the Board of Directors or shareholders from time to time. Each director shall hold office until his successor shall have been duly elected and qualified, or until his earlier death, removal or resignation."

Article III, Section 5 of the Company's bylaws provides that: "A majority of the number of directors fixed by Section 2 of this Article III shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such a majority is present at the meeting, a majority of the directors may adjourn the meeting from time to time without further notice."

The following is a listing of directors and their position(s) held as of December 31, 2019:

<u>Director</u>	<u>Position(s) Held</u>
Jack H. Brier	Chairman, CEO and President US Alliance Life and Security Company
Donald J. Schepker	Vice Chairman US Alliance Life and Security Company
Rochelle R. Chronister	Former Secretary (Retired) KS Dept. of Social & Rehabilitation Services.
James M. Concannon III	Emeritus Dean and Professor of Law Washburn University School of Law.
William P. Graves	CEO and President (Retired) American Trucking Association
Kurtis L. Scott	CEO and President Kansas Medical Mutual Insurance Company

Officers

Article IV, Section 1 of the Company's bylaws provides that: "The officers of the corporation shall be a Chairman and President, who shall be elected among the Board of Directors, and a Secretary and a Treasurer, who shall be appointed by the Board of Directors. The Board of Directors may, from time to time, create such other offices and appoint such additional officers as it may determine. Any two (2) or more offices may be held by the same person, except that no officer shall execute, acknowledge or verify any instrument in more than one capacity."

Article IV, Section 2 of the Company's bylaws provides that: "The officers of the corporation to be elected or appointed by the Board of Directors shall be elected or appointed annually at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If the election or appointment of officers shall not be held at such meeting, such election or appointment of officers shall be held as soon thereafter as it conveniently may be held. Each officer shall hold office until his successor shall be duly elected or appointed and shall have qualified or until his death or until he shall resign or shall have been removed by the Board of Directors."

The following is a listing of officers and their position(s) held as of December 31, 2019:

<u>Officer</u>	<u>Position(s) Held</u>
Jack H. Brier	Chairman, CEO and President
Donald J. Schepker	Vice Chairman
Rebecca J. Kinsinger	Secretary
Kurtis L. Scott	Treasurer
Jeffery D. Brown	Executive Vice President and Chief Operating Officer

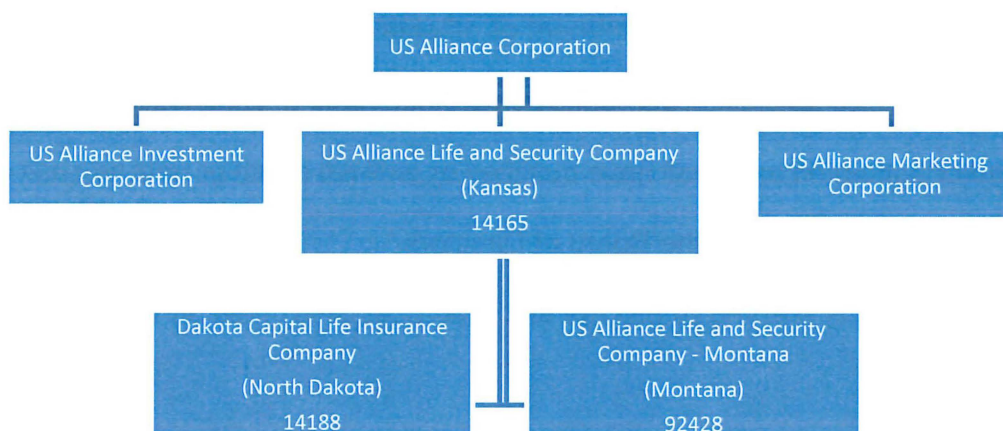
Committees

The Company has no standing committees of its own and has designated the Audit Committee of its parent, USAC, to act as the Company's Audit Committee.

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company submitted Form "B" and "C" registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Company were properly reported as required by statute.

The following is an organizational chart showing the direct line of ownership as of December 31, 2019. All subsidiaries listed below are wholly-owned.



Intercompany/Cost Sharing Agreements

The Company receives administrative services from its parent, USAC, under a Management Services Agreement, effective January 2, 2012. USAC provides services reasonably necessary to operate a life insurance company. Services include, but are not limited to underwriting, billing and premium collection, claim processing and payment,

regulatory filing, and accounting services. Compensation is based on actual expenses incurred plus an administrative fee for intellectual capital, administrative overhead, and a fair and reasonable return.

The Company receives investment management services from its affiliate, US Alliance Investment Corporation (“USAIC”), under an Investment Management Services Agreement, effective January 1, 2012. Pursuant to the agreement, USAIC makes all investment decisions in accordance with the investment restrictions and guidelines contained in the agreement. The agreement was amended to update the investment guidelines, effective June 1, 2015. Effective October 5, 2016, the agreement was amended again to update the investment guidelines. USAIC also provides investment accounting services and assists in preparing the Company’s statutory investment schedules for its quarterly and annual financial statements. Compensation is based on the percentage of the value of all assets managed as of the last trading day of each calendar month and is to be paid quarterly.

The Company receives marketing services from its affiliate, US Alliance Marketing Corporation (“USAMC”) under a Marketing Contract, effective April 3, 2013. The contract provides that USAMC will solicit applications for insurance and submit those applications to the Company for approval or rejection, and will collect the initial payments due on such applications. Additional services provided include, but are not limited to, the following:

- Design, prepare and distribute marketing materials;
- Design, prepare and manage all social media marketing opportunities;
- Identify and provide input on possible new products to be developed and marketed;
- Identify and assist with development of new product distribution methods;
- Design and manage incentive opportunities for all distribution networks; and
- Other duties as mutual agreed to enhance the marketing of USALSC products

Compensation for these services is based on commission rates included as part of this contract and are payable when a policy is issued and paid for upon an application submitted by USAMC and accepted by the Company. Effective January 1, 2015, the contract was amended to revise the commission schedule.

The Company has a Third Party Insurance Services Agreement with DCLIC. The agreement, effective September 1, 2015, was entered into prior to DCLIC becoming a member of the holding company system. Under the agreement the Company provides the following services: policy administration, policy accounting, and customer service. The agreement was amended, when signed in December 2015, to include changes in the standard services, payment for services, location of services, schedule A and schedule B. The agreement was amended, effective December 1, 2017, to include marketing and management costs. Payment is due on the last working day of each month and payable on or before the 10th of the following month.

Effective August 31, 2017, the Company is a party to a Risk Based Capital Agreement with USAC, whereby, USAC will provide capital to the Company so that its RBC Ratio is in excess of 350%.

Effective June 1, 2019, the Company entered into a Third Party Insurance Services Agreement with USALSC-MT. The Company provides the following services: policy administration, policy accounting, and customer service. The Company will be responsible for the day-to-day operations of USALSC-MT. Payment is due on the last working day of each month and payable on or before the 10th of the following month.

The Company entered into a Tax Allocation Agreement with its subsidiaries, DCLIC and USALSC-MT, effective for the 2018 calendar year-end. The consolidated tax liability will be allocated to members using the "immediate payment method". All

settlements will be due within thirty (30) days of the filing of the estimated or actual consolidated federal income tax return with the Internal Revenue Service, except where a refund is due to the Company, in which case, it may defer payment to the member(s) to within thirty (30) days upon receipt of the refund.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company is authorized to transact business in the states of Kansas, Missouri, Nebraska, North Dakota, and Oklahoma. However, the Company did not write business in North Dakota during the period under examination. The NAIC Schedule T Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

In 2019, the Company's five largest lines of business by percentage of direct premiums earned are as follows: ordinary life (48%), individual annuities (39%), group life (8%), group accident and health (4%), and other accident and health (1%).

SELECT FINANCIAL INFORMATION

The exhibit below shows select financial information of the Company's financial results for the period of December 31, 2015, through December 31, 2019. The financial results were obtained from annual statements filed by the Company.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<i>(in thousands)</i>					
Admitted Assets	7,361	10,948	24,366	29,781	35,736
Liabilities	4,426	8,136	20,180	24,541	29,905
Capital and Surplus	2,935	2,812	4,186	5,240	5,831
Net Income	(863)	(867)	(1,728)	29	6
Net Premiums Earned	5,064	7,971	16,201	11,067	10,427

REINSURANCE

The Company cedes its individual whole life and solid solutions term life policies with Optimum Re Insurance Company ("Optimum Re") on a Yearly Renewable Term

("YRT") basis. Policies are underwritten by Optimum Re and then ceded in excess of the Company's retention of \$25,000 for the term life policies and \$35,000 for the whole life policies.

The Company cedes its individual sound solutions term life with General Re Life Corporation ("Gen Re") on a YRT basis. Policies are underwritten by Gen Re and then ceded in excess of the Company's retention of \$25,000. The Company cedes its group business for life, critical illness, and accidental death and dismemberment ("AD&D") under other various reinsurance treaties with Gen Re.

The Company assumes business from Unified Life Insurance Company ("ULIC"). The Company assumes 20% of the risks associated with the group medical coverage underwritten by ULIC.

On September 30, 2017, the Company entered into a coinsurance agreement with American Life and Security Corp. ("ALSC"). Under the agreement the Company assumes 100% of the risk on a block of whole life policies with annuity riders. The Company retrocedes 15% of this assumed block to DCLIC.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. Any accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the Annual Statement and should be considered and integral part of the financial statements.

US ALLIANCE LIFE AND SECURITY COMPANY
ASSETS
AS OF DECEMBER 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 20,882,141	\$ -	\$ 20,882,141
Preferred stocks	2,583,582	-	2,583,582
Common stocks	5,943,769	-	5,943,769
Cash, cash equivalents and short-term investments	4,805,990	-	4,805,990
Contract loans	90,112	-	90,112
Investment income due & accrued	211,327	-	211,327
Uncollected premiums and agents' balances in the course of collection	338,623	-	338,623
Deferred premiums and agents' balances and installments booked but deferred and not yet due	154,093	-	154,093
Net deferred tax asset	561,509	-	561,509
Receivables from parent, subsidiaries and affiliates	164,830	-	164,830
Aggregate write-ins for other than invested assets	68,854	68,854	-
Total assets	<u>\$ 35,804,830</u>	<u>\$ 68,854</u>	<u>\$ 35,735,976</u>

**US ALLIANCE LIFE AND SECURITY COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2019**

Aggregate reserve for life contracts	\$ 25,930,070
Aggregate reserve for accident and health contracts	442
Liability for deposit-type contracts	175,890
Contract claims - life	51,559
Contract claims - accident and health	227,589
Premium and annuity considerations for life and accident and health contracts received in advance	78,650
Commissions to agents due or accrued	665
Commissions and expense allowances on reinsurance assumed	99,656
Taxes, licenses and fees	6,463
Amounts withheld or retained by reporting entity as agent or trustee	11,726
Remittances and items not allocated	2,958
Borrowed money	1,000,000
Asset valuation reserve	510,027
Payable to parent, subsidiaries and affiliates	18,124
Funds held under coinsurance	1,742,978
Aggregate write-ins for liabilities	48,026
Total liabilities	<u>\$ 29,904,823</u>
Common capital stock	\$ 1,000,000
Surplus note	1,680,000
Gross paid in and contributed surplus	8,011,501
Unassigned funds (surplus)	<u>(4,860,348)</u>
Total capital and surplus	\$ 5,831,153
Total liabilities, surplus and other funds	<u><u>\$ 35,735,976</u></u>

US ALLIANCE LIFE AND SECURITY COMPANY
SUMMARY OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

Premiums and annuity considerations for life and accident and health claims	\$ 10,427,308
Net investment income	1,093,177
Amortization of interest maintenance reserve	(6,788)
Commissions and expense allowances on reinsurance ceded	17,062
Totals	<u>\$ 11,530,759</u>
Death benefits	\$ 1,165,744
Annuity benefits	875,556
Disability benefits and benefits under accident and health contracts	3,364,691
Surrender benefits and withdrawals for life contracts	437,564
Interest and adjustments on contract or deposit-type contract funds	5,694
Increase in aggregate reserves for life and accident and health contract funds	3,883,235
Totals	<u>\$ 9,732,484</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	\$ 356,939
Commissions and expense allowances on reinsurance assumed	504,205
General insurance expenses	788,527
Insurance taxes, licenses and fees	59,667
Increase in loading on deferred and uncollected premium	(24,670)
Aggregate write-ins for deductions	65,810
Totals	<u>\$ 11,482,962</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 47,797
Federal income taxes incurred	<u>-</u>
Net gain from operations after dividends to policyholders and federal income taxes but before realized capital losses	\$ 47,797
Net realized capital losses	<u>(41,677)</u>
Net income	<u><u>\$ 6,120</u></u>

US ALLIANCE LIFE AND SECURITY COMPANY
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

Capital and surplus, December 31, 2015			<u>\$ 2,935,205</u>
Net income	2016	(866,993)	
	2017	(1,727,897)	
	2018	28,885	
	2019	<u>6,120</u>	(2,559,885)
Change in net unrealized capital gains or (losses)	2016	(31,570)	
	2017	82,276	
	2018	773,787	
	2019	<u>574,701</u>	1,399,194
Change in net deferred income tax	2016	-	
	2017	-	
	2018	-	
	2019	<u>561,509</u>	561,509
Change in nonadmitted assets	2016	(12,414)	
	2017	(541)	
	2018	5,309	
	2019	<u>(56,821)</u>	(64,467)
Change in asset valuation reserve	2016	(36,974)	
	2017	(166,212)	
	2018	245,512	
	2019	<u>(494,230)</u>	(451,904)

US ALLIANCE LIFE AND SECURITY COMPANY
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION
(Continued)

Capital changes: transferred to surplus	2016	(500,000)	
	2017	-	
	2018	-	
	2019	-	(500,000)
		<hr/>	
Surplus adjustments: paid in	2016	1,325,000	
	2017	3,186,501	
	2018	-	
	2019	-	4,511,501
		<hr/>	<hr/>
Capital and surplus, December 31, 2019			<u>\$ 5,831,153</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company, as of December 31, 2019, was \$5,831,153, which was the same amount reported by the Company in its 2019 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

As indicated in the "Summary of Recommendations" section below, the Company did not properly follow SSAP 25, Paragraph 19, and SSAP 72, Paragraph 7, when accounting for obligations forgiven by its parent, USAC, in 2019. While there would be no overall impact to surplus had the Company properly accounted for the forgiveness of the obligation, certain line items including those involving expenses and components of total surplus would have materially changed in the 2019 financial statements. Therefore, the table below has been utilized to show the line items which would have been altered had the Company followed the required SSAPs. As called for in the "Summary of Recommendations" section, the Company will need to correct the issue by following SSAP No. 3, Paragraph 10, and report a debit to unassigned surplus and a credit to gross paid in and contributed surplus both in the amount of approximately \$307,309 to correct the error and properly report this in its next quarterly or annual statement, whichever is filed first. This will allow for certain cumulative balances (i.e., gross paid in and contributed surplus) to be reported correctly moving forward.

Surplus at December 31, 2019, per Annual Financial Statement			\$5,831,153
	<u>Increase</u>	<u>Decrease</u>	
General Insurance Expenses	\$307,309		
Net Income		\$307,309	
Gross Paid In and Contributed Surplus	\$307,309		
Unassigned Funds (Surplus)		\$307,309	
Net increase (or decrease)			\$0
Surplus at December 31, 2019, after adjustment			\$5,831,153

SUBSEQUENT EVENTS

1. The Company entered into a Funds Withheld and Funds Paid Coinsurance Agreement with ALSC. Under the agreement, ALSC will cede to the Company, on a funds withheld and funds paid coinsurance basis, an initial 49% quota share of certain liabilities with respect to ALSC's Fixed Indexed Annuity ("FIA") business effective January 1, 2020, through March 31, 2020. Effective from March 1, 2020, through March 10, 2020, ALSC will cede a 45.5% quota share of certain liabilities with respect to its Multi Year Guaranteed Annuity ("MYGA") business to the Company. Effective March 11, 2020, through March 31, 2020, on a funds withheld and funds paid coinsurance basis, the quota share will increase to 66.5% of certain liabilities with respect to ALSC's MYGA business. Effective April 1, 2020, the FIA quota share was reduced to 40% and the MYGA quota share was reduced to 25%. The agreement closed on April 15, 2020, following approval by the Nebraska Department of Insurance on April 7, 2020. The transaction will result in approximately \$50 million in assumed annuities for the Company.
2. On March 11, 2020, the World Health Organization declared the spreading coronavirus ("COVID-19") outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility

in the financial markets. The full effect of COVID-19 on the Company is still unknown at the time of releasing this report.

SUMMARY OF RECOMMENDATIONS

1. K.S.A. 40-225 requires financial statements to be made upon the form and prepared in accordance with the instructions and accounting practices and procedures prescribed and adopted from time to time by the National Association of Insurance Commissioners.

The Company did not properly account for the forgiveness of obligations to its parent, US Alliance Corporation ("USAC"), in accordance with SSAP No. 25, Paragraph 19, and SSAP No. 72, Paragraph 7, within its 2019 Annual Statement.

In 2019, USAC did not bill the Company for its fourth quarter expense allocation in the amount of \$177,964.62. Additionally, the Department determined that the Company was not billed by USAC for salaries that applied to the Company's Third Party Insurance Services Agreement with DCLIC, whereby DCLIC had paid the Company \$129,344 for services rendered. The \$129,344 was supposed to pass-through the Company and be reimbursed to USAC. As such, the Company did not record these expenses and ultimately was forgiven its obligation in the amount of \$307,308.62 due to USAC. While the forgiveness of the obligation is permitted, the Company failed to properly recognize and allocate these expenses and record an offsetting capital contribution to address the forgiveness in their 2019 Annual Statement, as required under SSAP No. 25, Paragraph 19, and SSAP No. 72, Paragraph 7. While these transactions do not result in a decrease to surplus due to their offsetting nature, the importance of reporting the expenses in accordance with the aforementioned SSAPs, is to properly document the expense amounts in determining profitability. Without the proper recognition of these expenses the

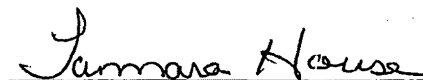
overall profitability, and the profitability by line of business, is not accurate in the financial statements.

The Company shall immediately follow the requirements of SSAP No. 25, Paragraph 19, and SSAP No. 72, Paragraph 7, when recognizing affiliated transactions that have been forgiven or have not been received. Additionally, the Company shall correct the above issue by following SSAP No. 3, Paragraph 10, and report a debit to unassigned surplus and a credit to gross paid in and contributed surplus both in the amount of \$307,308.62 to correct the error and properly report this in its next quarterly or annual statement, whichever is filed first.

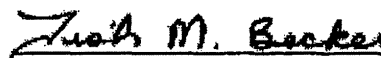
CONCLUSION

The officers of the Company provided the necessary assistance and cooperation during the course of this examination. In addition to the undersigned, Mr. Chris Buchanan, CPA, CFE and Mr. Shane Mead, CISA, CISM, CRISC, an Information Systems Examiner, participated in this examination.

Respectfully submitted,



Tamara House, CFE
Senior Insurance Examiner
Kansas Insurance Department



Tish Becker
Director of Financial Surveillance
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Kansas

County of Shawnee

Tamara House, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of US Alliance Life and Security Company.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of US Alliance Life and Security Company was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

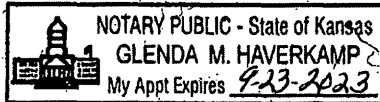
The affiant says nothing further.

Tamara House

Examiner's Signature

Subscribed and sworn before me by Tamara House on this 24th day of May, 2021.

(SEAL)



Glenda M. Haverkamp

Notary Public

My commission expires 9-23-2023
(date)