

EXAMINATION REPORT OF
CANAL REINSURANCE COMPANY
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2021

West Des Moines, Iowa
May 31, 2023

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

CANAL REINSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2021

at its home office located at 8300 Mills Civic Pkwy, West Des Moines, Iowa.

INTRODUCTION

This is the first examination of Canal Reinsurance Company, hereinafter referred to as the “Company” or “Canal Re”, by the Iowa Insurance Division.

The Company’s parent, Midland National Life Insurance Company (“MNL”), and affiliates, North American Company for Life and Health Insurance (“NAC”), MNL Reinsurance Company (“MNL Re”), and Solberg Reinsurance Company (“Solberg Re”), were examined concurrently with this examination with separate reports prepared for each entity.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from September 30, 2019 to the close of business on December 31, 2021, including any material transactions and events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Division plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

The examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was incorporated effective September 30, 2019 as an Iowa domiciled limited purpose subsidiary of MNL.

CAPITAL STOCK AND DIVIDENDS

The Company has 100,000 shares of common stock authorized, issued and outstanding, with a par value of \$1.00 per share. At December 31, 2021, common capital stock amounted to \$100,000 and gross paid-in and contributed surplus amounted to \$52,322,095. The Company is 100% owned by MNL. Surplus contributions received from MNL during the examination period were as follows:

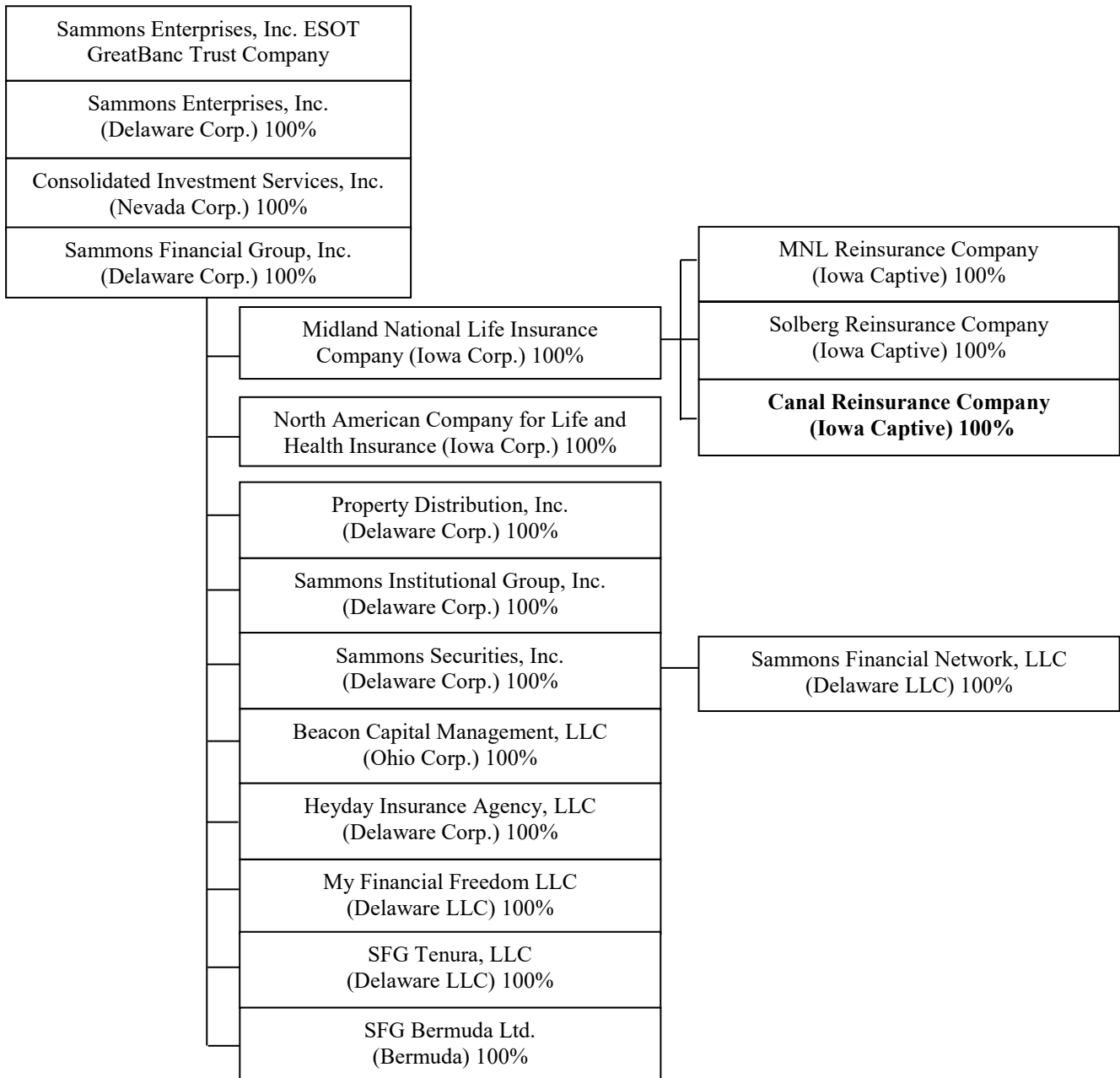
<u>Year</u>	<u>Contributions Received</u>
2017	\$ -
2018	-
2019	52,322,095
2020	-
2021	-

No dividends were paid ordinary or extraordinary during the period of exam.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. SEI Employee Stock Ownership Trust (“ESOT”) is the ultimate controlling person for the group. An Insurance Holding Company System Registration Statement was filed with the Iowa Insurance Division for each year of the examination period.

An abbreviated organizational chart identifying the Companies within the Holding Company System follows:



MANAGEMENT AND CONTROL

STOCKHOLDERS

The annual meeting of the stockholders of the Company shall be held at the registered office of the Company in the City of West Des Moines, Dallas County, Iowa, on the second Thursday in March, commencing at 11:00 AM, to elect a Board of Directors and for the transaction of such other business as shall properly come before the meeting.

Notice of the annual meeting of the stockholders shall be given by the Secretary to each stockholder appearing as such on the books of the Company, by duly mailing notice of the meeting to his or her address as shown on the books and records of the Company, at least ten days prior to such annual meeting.

Special meetings of the stockholders of the Company may be held at the registered office of the Company upon call in writing by the President, the Board of Directors or the stockholders holding not less than one-tenth of the shares entitled to vote at the meeting, provided that written notice of such special meeting, stating the day, hour, and place thereof and stating in general terms, the business to be transacted thereat, shall be mailed at least ten days prior to such meeting to each stockholder at his address as the same appears on the books of the Company.

A majority of the common stock issued and outstanding, represented either in person or by proxy, shall constitute a quorum for the transaction of business and each stockholder shall be entitled to one vote for each share of common stock outstanding in his or her name on the books of the Company, whether represented in person or by proxy. No person shall be entitled to vote by virtue of any proxy unless the proxy shall have been on file with the Secretary at least one day before the meeting at which it is to be used.

BOARD OF DIRECTORS

The Board of Directors shall exercise the corporate powers of the Company, and shall be the governing body thereof, and shall have general management of the business and property of the Company. The directors shall be elected at the annual meeting and the number to be elected, not less than five nor more than 21, shall be determined annually by the stockholders.

The Directors shall serve for a period of one year or until the election and qualification of their successors. The directors shall act only as the entire Board of Directors and the individual directors shall have no power to bind the company. Any director or the entire Board of Directors may be removed, with or without cause, by vote of the holders of the majority of shares then entitled to vote at an election of directors.

Meetings of the Board of Directors shall be held at such place within or without the State of Iowa as may from time to time be fixed by resolution of the Board or as may be specified in the call of any meeting. Regular meetings of the Board of Directors shall be held at such times as may from time to time be fixed by resolution of the Board, and special meetings may be held at any time upon the call of the President or a Vice President or of the Secretary by oral, electronic or written notice duly served on each director not less than one day before such meeting.

A meeting of the Board of Directors may be held without notice immediately after the annual meeting of stockholders at the same place at which such meeting was held. Notice need not be given of regular meetings of the Board held at times fixed by resolution of the Board of Directors. Meetings may be held at any time if all the directors are present or if those not present waive notice of the meeting in writing.

The Board of Directors at each annual meeting in March shall select one of their number as Chairman of the Board of Directors during the ensuing year, and said Chairman shall preside at each regular or special meeting of the Board of Directors. If the Chairman of the Board shall at any time be absent, then the President or any Vice President

shall preside at said meeting. Regular minutes of the proceedings of the Board of Directors shall be kept by the Secretary, or such other person as may be designated by the Board.

A majority of the directors shall constitute a quorum for the transaction of business at any regular, special or adjourned meeting. A lesser number than a quorum may adjourn the meeting to a future date.

The directors duly elected and serving as of December 31, 2021 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Esfandyar Dinshaw Urbandale, IA	Chairman and Chief Executive Officer Sammons Financial Group, Inc.	2022
Steven Palmitier* Chicago, IL	President and Chief Operating Officer Midland National Life Insurance Company	2022
Donald Lyons West Des Moines, IA	Senior Vice President and Chief Financial Officer Sammons Financial Group, Inc.	2022
Brian Hansen West Des Moines, IA	Senior Vice President, General Counsel, Secretary Sammons Financial Group, Inc.	2022
Heather Kreager** Dallas, TX	Chief Executive Officer Sammons Enterprises, Inc.	2022

*Effective December 31, 2021, Director Steven C. Palmitier retired.

**Effective December 31, 2022, Director Heather Kreager retired.

Effective January 1, 2022, William Lowe and Robert Tekolste were elected as Directors of the Company. The Company continues to maintain the appropriate number of directors and independent directors, in accordance with respective bylaws and Iowa law.

COMMITTEES

The Board of Directors, by resolutions adopted by a majority of the directors then in office, may appoint such committee or committees as it shall deem advisable and with such functions and duties as the Board of Directors shall prescribe. The Board of Directors has not appointed any committees.

OFFICERS

The Bylaws provide that the officers of the Company shall consist of a President, one or more Vice Presidents, the number of which shall be determined by the Board of Directors, a Secretary, one or more Assistant Secretaries and a Treasurer, and any additional officers as may be determined by said Board, each of whom shall hold office during the pleasure of the Board, and until his successor is elected and qualified. The Board of Directors may employ officers or other employees of the Company for a longer term than one year if it seems advisable. The same person may hold one or more offices.

The officers duly elected and serving as of December 31, 2021, were as follows:

<u>Name</u>	<u>Title</u>
Esfandyar Dinshaw	President, Chairman and Chief Executive Officer
Brian Hansen	Senior Vice President, General Counsel and Secretary
David Attaway	Senior Vice President and Chief Financial Officer
Eric Lin	Senior Vice President and Corporate Actuary
Theresa Kuiper	Associate Vice President and Treasurer

The total compensation paid during 2021 to the officers serving at December 31, 2021 is shown in Exhibit A to be found immediately following the signature page of this report.

CONFLICT OF INTEREST

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors, or key employees which is in, or likely to, conflict with the official duties of such person. The Company requires its officers and directors to sign conflict-of-interest statements and disclose any known or potential conflict of interest as part of the annual disclosure process. An examination review of these statements indicated there were no conflicts of interest reported during the period covered by this examination.

CORPORATE RECORDS

The Articles of Incorporation were amended during the examination period on May 1, 2021 to change the address and the registered agent of the Company. The Bylaws were not amended or restated during the examination period.

The minutes of the meetings of the stockholders and the Board of Directors were reviewed for the examination period. All minutes provided were signed and properly attested.

The minutes of the Board meetings showed that the Report of Examination as of December 31, 2016 by the Iowa Insurance Division was received by the Board.

FIDELITY BONDS AND OTHER INSURANCE

Under a financial institution bond, the Company is protected against loss from any fraudulent or dishonest act of any employee up to \$15,000,000 each loss occurrence and \$30,000,000 aggregate limit of liability which meets the NAIC recommended minimum amount.

The other interests of the Company appear to be adequately protected through coverages afforded by policies in force with admitted insurers.

INTERCOMPANY AGREEMENTS

Administrative and Management Agreements

MNL and Canal Re entered into an administrative services agreement, effective September 30, 2019, under which MNL provides administrative support services for Canal Re's business operations including compliance and regulatory reporting, management, legal, actuarial, accounting, financial and tax reporting, and policy administration for a fee.

Canal Re and Guggenheim Partners Investment Management (GPIM) entered into an investment management agreement effective September 30, 2019, under which GPIM provides investment management services to Canal Re. Canal Re pays GPIM a quarterly management fee pursuant to the terms of the agreement.

Consolidated Tax Allocation Agreement

MNL and Canal Re entered into a consolidated federal income tax agreement effective September 30, 2019, to provide for the manner and computation of tax payments between affiliated companies, which file as parties to a consolidated tax return under the Internal Revenue Code.

EMPLOYEE WELFARE

The Company does not have employees. Corporate services are performed pursuant to an Administrative Services Agreement between the Company and MNL.

REINSURANCE

ASSUMED

The Company entered into coinsurance agreements with MNL and NAC on September 30, 2019. The Company assumes from MNL and NAC for reserves of defined blocks of term life under Actuarial Guidance 48 (AG48) issued by MNL and NAC between January 1, 2015 and December 31, 2019. The agreements provide for the reserves on a certain portion of this business to be held by MNL and NAC on a funds withheld basis.

CEDED

The Company did not cede reinsurance during the examination period.

STATUTORY DEPOSIT

Based on its status as an Iowa Limited Purpose Subsidiary, the Company is not required to have securities on deposit with the Iowa Insurance Division.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business in the state of Iowa as a Limited Purpose Subsidiary. The Company is authorized only to reinsure (assume) risks of MNL and NAC.

GROWTH OF COMPANY

The growth of the Company is reflected by the following data taken from the Company's copies of the filed annual statements for the years indicated.

(000's Omitted)

<u>Year</u>	<u>Admitted Assets</u>	<u>Capital and Surplus</u>	<u>-----Premium Income-----</u>			<u>---Insurance in Force---</u>	
			<u>Life</u>	<u>Annuity</u>	<u>A & H</u>	<u>Ordinary</u>	<u>Group</u>
2017	\$ 0	\$ 0	\$ 0	0	0	\$ 0	0
2018	0	0	0	0	0	0	0
2019	656,317	173,390	476,219	0	0	42,972	0
2020	784,768	134,055	112,739	0	0	40,665	0
2021	800,214	108,203	105,333	0	0	39,448	0

ACCOUNTS AND RECORDS

The trial balance of the Company's general ledger was taken for 2021 and was found to be in agreement with the office copy of the filed annual statement.

The records in the Company's policy master file were sampled and tested by comparing data contained in supporting documents to data contained in the computer records. No material discrepancies were noted.

During the course of examination, no statutory violations or material differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2021, were identified.

SUBSEQUENT EVENTS

No subsequent events were noted during the examination.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2021.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Assets</u>	<u>Non-Admitted</u>	<u>Admitted</u>
Bonds	\$ 88,740,363	\$ 0	\$ 88,740,363
Cash, cash equivalents and short-term investments	880,235		880,235
Investment income due and accrued	838,985		838,985
Funds held or deposited with reinsured companies	299,195,163		299,195,163
Current federal and foreign income tax recoverable and interest thereon	27,426,169		27,426,169
Receivables from parent, subsidiaries and affiliates	212,070		212,070
LLC note guarantee	382,920,967		382,920,967
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Total Assets	\$ 800,213,952	\$ 0	\$ 800,213,952

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$ 682,116,131
Other amounts payable on reinsurance	9,212,412
Interest Maintenance Reserve	85,174,221
Commissions to agents due or accrued	173,169
General expenses due or accrued	300,678
Asset valuation reserve	208,437
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Total Liabilities	\$ 692,010,827
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Common capital stock	100,000
Gross paid in and contributed surplus	52,322,095
LLC note guarantee	382,920,967
Unassigned funds (surplus)	(327,139,937)
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Total Surplus and Other Funds	\$ 108,203,126
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Total Liabilities, Surplus and Other Funds	\$ 800,213,952

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life, accident and health contracts	\$ 105,333,341
Net investment income	2,978,304
Amortization of Interest Maintenance Reserve	7,411
Funds withheld coinsurance – ceded	10,240,181
Funding allowance	919,875
Total	<u>\$ 119,479,111</u>
Death benefits	\$ 48,496,794
Matured endowments	640,958
Increase in aggregate reserves for life, accident and health contracts	102,574,132
Total	<u>\$ 151,070,927</u>
Commissions and expense allowances on reinsurance assumed	10,529,860
General insurance expenses	1,088,707
Insurance taxes, licenses and fees, excluding federal income taxes	200
Experience refund on reinsurance assumed	51,759,241
Total	<u>\$ 214,448,935</u>
Net gain from operations before dividends to policyholders and federal income taxes	<u>\$ (94,969,824)</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$ (94,969,824)
Federal and foreign income taxes incurred	<u>(27,474,171)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	<u>\$ (67,495,652)</u>
Net income	<u>\$ (67,495,652)</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus prior reporting year	<u>\$ 134,055,062</u>
Net income	(67,495,652)
Change in asset valuation reserve	(127,951)
Change in LLC note guarantee	41,771,667
Net change in capital and surplus for the year	<u>\$ (25,851,936)</u>
Capital and surplus end of reporting period	<u>\$ 108,203,126</u>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$ 44,530,876	
Net investment income	2,446,756	
Miscellaneous income	11,162,657	
Total		<u>\$ 58,140,289</u>
Benefit and loss related payments	\$ 110,042,535	
Commissions, expenses paid and aggregate write-ins for deductions	63,351,686	
Federal and foreign income taxes paid (recovered)	(32,637,013)	
Total		<u>140,757,208</u>
Net cash from operations		<u>\$ (82,616,920)</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	<u>\$ 37,715,665</u>	
Total investment proceeds		<u>\$ 37,715,665</u>
Cost of investments acquired:		
Bonds	<u>\$ 80,457,512</u>	
Total investments acquired		<u>80,457,512</u>
Net cash from investments		<u>\$ (42,741,847)</u>

Cash from Financing and Miscellaneous Sources

Net cash from financing and miscellaneous sources		<u>\$ 0</u>
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Reconciliation of Cash, Cash Equivalents, and Short-Term Investments

Net change in cash, cash equivalents and short-term investments		\$ (125,358,766)
Cash, cash equivalents and short-term investments:		
Beginning of year		<u>59,004,828</u>
End of year		<u>\$ 126,239,001</u>

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company during the course of this examination is hereby acknowledged.

In addition to the undersigned, examiners from the Iowa Insurance Division, INS Regulatory Insurance Services, Inc., information systems specialists, JP Consulting, investment specialists, and Insurance Strategies Consulting, LLC, actuarial specialists, participated in the examination and the preparation of this report.

Respectfully submitted,

/s/ Bob Wong
Bob Wong, CFE
Examiner-in-Charge
Iowa Insurance Division
State of Iowa