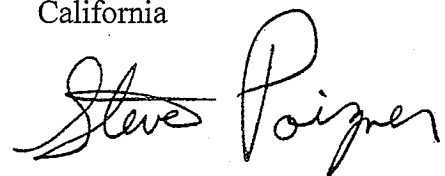


REPORT OF EXAMINATION
OF THE
AURORA NATIONAL LIFE ASSURANCE COMPANY
AS OF
DECEMBER 31, 2008

Participating State
and Zone:

California

A handwritten signature in black ink that reads "Steve Poizner". The signature is written in a cursive style with a large, prominent "P" at the end.

Insurance Commissioner

FILED 6-10-2010

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Los Angeles, California
April 19, 2010

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Christina Urias
Secretary, Zone IV-Western
Director of Insurance
Arizona Department of Insurance
Phoenix, Arizona

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

AURORA NATIONAL LIFE ASSURANCE COMPANY

(hereinafter also referred to as the Company) at the office of the Company's third party administrator located at 26050 Mureau Rd, Calabasas, California 91302. The Company's statutory home office is located at 27201 Tourney Road, Valencia, California 91355.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2008. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

SUBSEQUENT EVENTS

On March 21, 2000, the Company entered into a Put and Call Agreement (the Sale Agreement) with New California Life Holdings, Inc., (Parent) and the parent's two beneficial stockholders, and Reassure America Life Insurance Company (REALIC). The Sale Agreement provided for (1) a 95% modified coinsurance agreement and (2) a potential sale of the Parent to REALIC. Under the Sale Agreement, REALIC could, at its option, exercise a call to buy the common stock of the Parent at a price to be calculated pursuant to a formula in the Sale Agreement. Either stockholder of the Parent could, under certain circumstances (primarily the conclusion of certain litigation) put the stock of the Parent to REALIC using the same formula. The Sale Agreement was filed with the California Insurance Commissioner in April 2000 in connection with the Company's request for the Commissioner's approval of the modified coinsurance agreement. The 95% modified coinsurance agreement with REALIC was approved by the CDI on April 19, 2001 and it was executed on April 25, 2001. Accordingly the accompanying financial statements reflect the effect of the reinsurance agreement.

On September 19, 2008 REALIC exercised its call option to purchase the Parent and filed a Form A Application pursuant to California Insurance Code (CIC) Section 1215.2 with the Commissioner for approval. Thereafter, a dispute as to the calculation of the purchase price under the Sale Agreement arose between REALIC and the stockholders of the Parent. In August 2009, the stockholders of the Parent and REALIC agreed that the parties would enter into an agreement to arbitrate before a retired judge such dispute after the conclusion of the sale of the Parent to REALIC, subject to the Commissioner's approval by December 31, 2009. The required conditions were not met within the specified time frame therefore the arbitration agreement did not become effective.

On October 14, 2009, Aurora, S.A., the beneficial owner of 67% of the Parent's common stock filed a mandamus and declaratory relief action against the Commissioner in the Superior Court of the State of California, for the City and County of San Francisco seeking various orders including an order requiring him to act on the pending Form A Application. On February 9, 2010, the Commissioner filed his answer to Aurora S.A.'s mandamus action. It is unclear when the matter will be judicially resolved.

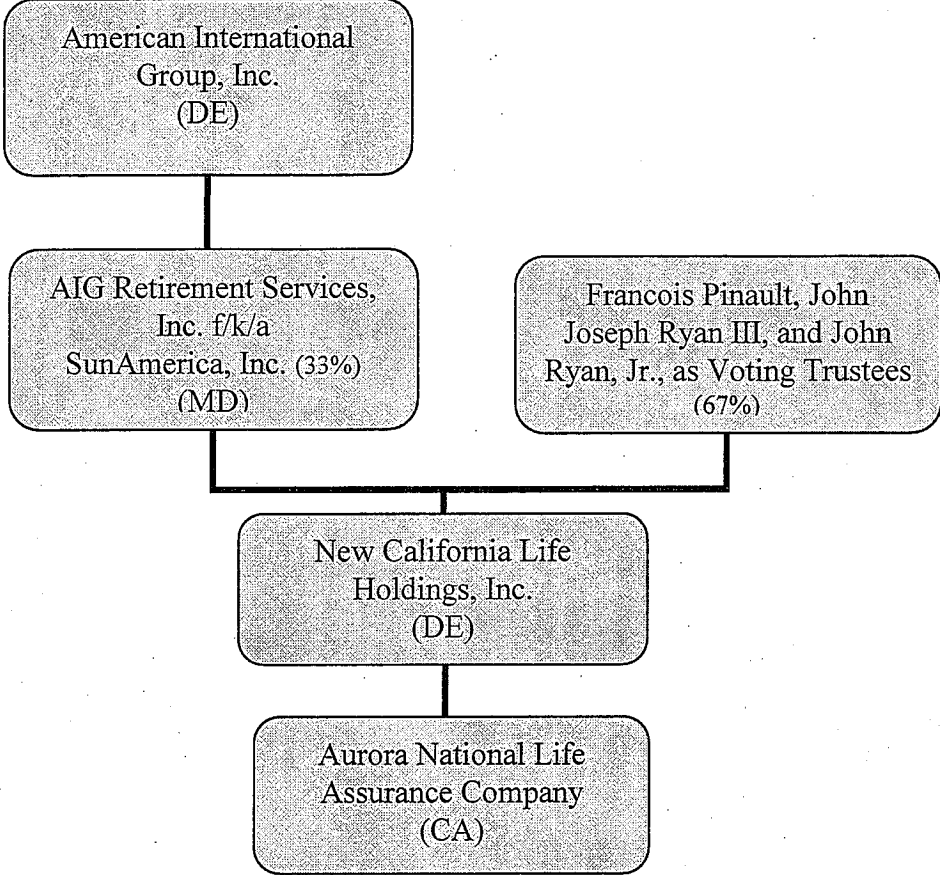
On November 23, 2009, the California Department of Insurance (CDI) issued a notice of disapproval of the acquisition transaction and denial of the Form A Application submitted by REALIC. On March 4, 2010, REALIC submitted a request for reconsideration and reversal of denial of the Form A Application to the CDI. On April 7, 2010 the CDI issued an amended notice of disapproval and denial and determined REALIC's actions with respect to the filing of the Form A Application were insufficient to comply with the requirements of CIC Section 1215.2 and CIC Section 1215.3, but did not rise to a level of deficiency sufficient to constitute an independent basis for denial of the late filed Form A Application.

The Company's consulting actuary completed a cash flow asset adequacy analysis as of September 30, 2009. As a result of the analysis the Company has increased its reported reserves by \$30 million as of December 31, 2009.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of New California Life Holdings, Inc., a Delaware corporation (NCLH). NCLH is owned 33% by AIG Retirement Services, Inc. which, in turn, is wholly-owned by the American International Group, Inc. The remaining 67% ownership of NCLH is held by Francois Pinault, John Joseph Ryan III, and John Ryan Jr. as voting trustees, pursuant to an agreement dated August 31, 1994 among Artemis S.A., Aurora S.A., and each voting trustee.

The following organizational chart depicts the interrelationships of the companies within the holding company system (all ownership is 100% unless otherwise noted):



Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2008 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Patricia M. Barbizet Paris, France	Chief Executive Officer Financiere Pinault
Gilles M. Erulin Paris, France	Global Head of Insurance Financiere Pinault
Michael K. Parks Los Angeles, California	Managing Director The TCW Group
Etienne Rosenstiehl Paris, France	Consultant Esteban Conseils
John J. Ryan, III Geneva, Switzerland	Director Dublin Holdings LLC

Principal Officers

<u>Name</u>	<u>Title</u>
Steven W. Turner	President, Chief Executive Officer, Chief Investment and Financial Officer, and Treasurer
Kenneth R. Schild	Senior Vice President, General Counsel, and Assistant Secretary
Dennis M. Schwartz	Senior Vice President, Assistant Secretary, and Assistant Treasurer

Management Agreements

Administrative Service Agreement: On April 5, 2000, the Company entered into an Administrative Service Agreement (ASA) with Mynd Corporation. On December 28, 2002, the ASA was novated to an affiliate, Alliance-One Service, Inc., a wholly-owned subsidiary of Computer Science Corporation (CSC), pursuant to which Mynd Corporation would act as a third party administrator (TPA). On October 5, 2000, the TPA began administering policies and maintaining accounting records on behalf of the Company. On April 25, 2001, the Company assigned this agreement to Reassure America Life Insurance Company (REALIC), a subsidiary of Swiss Re Life & Health America Inc., in connection with the closing of a modified coinsurance reinsurance transaction.

Investment Advisory Agreement: On April 25, 2001, the Company entered into an Investment Advisory Agreement with Swiss Re Asset Management, Inc. (now Swiss Re Financial Services Corporation (SRFSC)), an affiliate of REALIC. Under the terms of this agreement, SRFSC acts as the Company's investment advisor whose duties include investment accounting services. The Company pays SRFSC a fee for the services provided based upon the market value of the Company's securities. The Company incurred \$3.2 million in expenses for these services in each of the years 2006 through 2008.

Tax Allocation Agreement: Effective January 1, 2001, the Company entered into a Tax Allocation Agreement with its parent. The agreement provides for the Company to file a consolidated federal income tax return with its parent. Allocation of taxes is based upon separate return calculations with inter-company tax balances settled in the quarter subsequent to the filing of the consolidated return. Although the Company included the agreement with its annual holding company filings (Form B), it did not submit the agreement to the CDI for prior approval, as required by California Insurance Code Section 1215.5(b)(4). The previous Report of Examination recommended that the Company submit this agreement to the California Department of Insurance (CDI) for approval. The Company did not comply and it is again recommended the Company submit this agreement to the CDI for approval.

Administrative Service Agreement: On September 3, 1993, the Company entered into an Administrative Service Agreement with the California Insurance Commissioner acting in his capacity as conservator, liquidator, and rehabilitator of Executive Life Insurance Company (ELIC). Under the terms of this agreement, the Company provides certain services related to the conservation of ELIC. Services provided include: data processing, administration of pre-closing claims, human resources, structured settlements administration, services in connection with Michigan contracts, employee benefit administration, treasury, accounting, tax, and similar administrative services other than rehabilitation services. Charges for these services to ELIC are based on actual costs and allocated in accordance with an ELIC Rehabilitation Plan (Rehabilitation Plan). The agreement expired on December 31, 2008. The Company has offered to renew the agreement on the terms in effect when it expired.

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed in all states except Connecticut, Maine, New Hampshire, and New York, and the District of Columbia. However, the licenses from New Jersey, North Carolina, and Minnesota limit the Company to servicing existing business. In 2008, approximately 44% of all renewal life premiums were in California, Texas, Florida, and Illinois.

Current activities of the Company are predominantly concentrated on the servicing of restructured individual life and individual and group annuity blocks of business which were transferred to the Company as part of the previously noted Executive Life Insurance Company Rehabilitation Plan (Rehabilitation Plan). In addition, the Company continues to accept a small number of new single premium immediate annuity funds under the terms of the Rehabilitation Plan.

ELIC Rehabilitation Plan

On September 3, 1993, the Company assumed substantially all of the restructured insurance and annuity contracts of Executive Life Insurance Company (ELIC) Restructured Contracts in accordance

with the court approved Rehabilitation Plan. In consideration of its assumption of the ELIC Restructured Contracts, the Company received over \$6 billion of ELIC's assets.

As part of the Rehabilitation Plan, base assets trust and other trusts (ELIC Trusts) were established in order to obtain recoveries from lawsuits and to liquidate other ELIC assets not transferred to the Company. Through 2008, \$1.2 billion of the ELIC Trusts have been distributed to the Company for the benefit of policyholders (and their subrogees and their assignees, including the Company) who chose to participate in the Rehabilitation Plan.

The Enhancement Agreement

Most states have life and health insurance guaranty associations that provide specified benefits to policyholders of insolvent life insurance companies. These payments are intended to minimize the effects of the insolvency on contractholders. In the Executive Life Insurance Company (ELIC) insolvency, these associations have been represented by the National Organization of Life and Health Guarantee Association (NOLHGA).

The ELIC Rehabilitation Plan includes an Enhancement Agreement (EA) among the Company, NOLHGA, certain Participating Life and Health State Guarantee Associations (PGAs), the Company's parent, and the rehabilitator. Pursuant to the EA, the account values of certain ELIC Restructured Contracts receive an enhancement amount from the PGAs. The Company collects its respective portion of the enhancement amounts from the PGA's and passes them on to the contract holders. The Company provides accounting and other record-keeping services for the PGAs related to its obligations under the EA for a fee.

Since the Company is only acting as an administrator for NOLHGA and the PGAs, the aggregate enhancement amount payable, representing the obligations of NOLHGA and their PGAs to contract holders, was not reported in the Company's Annual Statements as a liability. It is possible that a PGA may become unable to meet its obligations under the EA and if this does occur, the account values or benefit payments of the contracts (the enhancement amount) covered by that particular

PGA would be reduced to zero. The Company, as a result, has no risks in the event of default of these PGAs.

Amounts Received from PGAs

The Participating Life and Health State Guarantee Associations (PGAs) are required by the Enhancement Agreement (EA) to pay annual installments to the Company on April 30th, based upon the contracts in force. The Company received approximately \$56 million from the PGAs in 2008.

REINSURANCE

Assumed

The Company has no reinsurance assumed.

Ceded

As of March 21, 2000, the Company, its parent company, New California Life Holdings Inc., (NCLH), SunAmerica, Inc., Aurora, S.A., Artemis, S.A., Reassure America Life Insurance Company (REALIC), and Life Reassurance Corporation of America (Life Re) entered into a Master Agreement, which contemplates the eventual acquisition of 100% of the stock of NCLH and the Company by REALIC, as well as the execution of a modified coinsurance agreement between the Company and REALIC.

In conjunction with the above referenced Master Agreement, the Company and its parent, NCLH, entered into several agreements with REALIC, a subsidiary of Swiss Re Life & Health America Inc. in April 2001. These agreements included a 95% Modified Coinsurance Agreement (Modco Agreement) and a Sale Agreement regarding a potential sale of NCLH to REALIC.

After obtaining approval from the California Department of Insurance on April 19, 2001 the Company entered into the Modco Agreement with REALIC on April 25, 2001, effective retroactively

to January 1, 2000. As part of the transaction, the Company received a ceding commission of \$93.6 million, including interest, and placed approximately \$3.2 billion of its assets into a trust for the purpose of securing the Company's obligation to REALIC. The trust balance is approximately \$2.2 billion as of December 31, 2008. The individual assets in trust remain under the exclusive control of the Company.

At December 31, 2008, the Company has \$2.6 billion of contract and claim reserves, \$10.3 million of which was reinsured on either a monthly or yearly renewal term, or coinsurance basis, and \$2.5 billion was reinsured on a modified coinsurance basis. Less than 1% of the reinsurance recoverables were from unauthorized reinsurers.

The Company's automatic cession agreements as of December 31, 2008 are summarized in the following schedule:

Treaty Description	Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer (s) Maximum Coverage
	Interest Sensitive Whole Life	Various North American and European companies	Varies by year of issue, underwriting category (age and face amount), ranging from \$25,000 to \$1 million (1), (2)	Pre-1/1/84: \$2 million Post-1/1/84: \$5 million
	Interest Sensitive Group Life (Issued up to 12/31/89)	Various North American and European companies	Varies by year of issue, underwriting category (age and face amount), ranging from 50% of face amount up to a maximum of \$1 million (1), (2)	\$5 million
Automatic Pool Treaties	Interest Sensitive Group Life (Issued 1/1/90 onwards)	Various North American companies	Varies by year of issue, underwriting category (age and face amount), ranging from 25% of face amount up to a maximum of \$1 million (2)	\$5 million
	Term Life	Various North American and European companies	None, starting 8/1/91 Prior to 8/1/91, retention varies by year of issue, underwriting category (age and face amount), ranging from \$25,000 to \$1 million. (1)	Pre-10/1/83: \$2 million Post- 10/1/83: \$5 million
	Single Premium Whole Life	Various North American and European companies	Varies by year of issue, underwriting category (age and face amount), ranging from \$25,000 to \$1 million (1)	Pre-10/1/83: \$2 million Post-10/1/83: \$5 million
	Interest Sensitive Whole Life	Various North American companies	Depending on Underwriter's decision (2)	No limits-based on amount accepted by the reinsurers
Facultative	Term Life	Various North American	None, starting 8/1/91	No limits-based on amount

Treaty Description	Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer (s) Maximum Coverage
Treaties		companies	Prior to 8/1/91, retention was dependent on Underwriter's decision.	accepted by the reinsurers
	Single Premium Whole Life	Various North American companies	Depending on Underwriter's decision	No limits-based on amount accepted by the reinsurer
Second Excess Pool (Effective 1/1/80)	Interest Sensitive Whole Life	Swiss Re Life	Varies by underwriting category (age and table ratings), ranging from \$25,000 to \$200,000 (2)	\$2 million
	Term Life	Swiss Re Life	None, starting 8/1/91 Prior to 8/1/91, retention varies by year of issue, underwriting category (age and face amount), ranging from \$25,000 to \$200,000.	\$2 million
Second Excess Pool (Effective 1/1/87)	Interest Sensitive Whole Life	Various North American companies	Varies by year of issue and age, ranging from \$250,000 to \$1 million (2)	\$4 million
	Single Premium Whole Life	Various North American companies	Varies by year of issue and age, ranging from \$250,000 to \$1 million	\$4 million
Monthly Renewable Term	Interest Sensitive Group and Whole life	Various North American and One European company	Pre-3/1/96: 20% of the maximum retained Net Amount at Risk, up to \$1 million Between 3/1/96 and 7/1/97: 43% of the maximum retained net amount at risk, up to \$1 million Between 7/1/97 and 1/1/99: 45% of the maximum retained net amount at risk, up to \$1 million Post 1/1/99: 68% of the maximum retained Net Amount at Risk, up to \$1 million	Pre-3/1/96: 80% of maximum retained Net Amount at Risk Between 3/1/96 and 7/1/97: 57% of the maximum retained net amount at risk. Between 7/1/97 and 1/1/99: 55% of the maximum retained net amount at risk. Post 1/1/99: 32% of the maximum retained net amount at risk.
Coinsurance Term Treaty	Term Life effective 8/1/91	Swiss Re Life	None, starting 8/1/91	\$1 million
New Business Facultative	Interest Sensitive Whole Life	Various North American companies	Depending on Underwriter's decision	No limits-based on amount accepted by the reinsurers
New Business Automatic	Interest Sensitive Whole Life	Various North American companies	\$100,000	\$1 million
	10-Year Term	Various North American companies	\$100,000	\$1 million

(1) An approximate additional 3% of the reinsured net amount at risk is retained by the Company.

(2) Effective 10/1/94, the Company's net retention changed due to the reinsurance of a portion of the retained amount under the Monthly Renewable Term Treaty.

During the prior examination, it was noted that the Company had approximately 1,200 active contracts where the reinsured (ceded) net amount of risk (NAR) was greater than the direct NAR. The Company estimated that these instances resulted in the Company purchasing reinsurance in excess of its direct insurance in force of approximately \$45 million in the aggregate.

During 2007 and 2008, the Company undertook a system project to correct the NAR issue noted above. Effective in the 2008 policy anniversaries of the affected policies, the Company changed the amounts of reinsurance (and associated premiums) and modified its reporting to the various reinsurers but it did not highlight the corrections made to the reported reinsurance coverage. It is recommended that the Company appropriately communicate the corrections made to the reported changes in coverage calculations to the various reinsurers.

ACCOUNTS AND RECORDS

During 2009, the Company determined that it had failed to properly record modified coinsurance settlements related to the quarterly periods ended on September 30, 2003 through December 31, 2008, as a result of errors in the modified coinsurance calculations provided to the Company by its primary reinsurer and third party administrator, Reassure America Life Insurance Company (REALIC). The Company amended its 2008 annual statements to reflect the correct amounts. The net after tax effect of the restatement is a reduction to surplus of \$4.7 million for the years 2007 and prior and a \$2.7 million after tax reduction to net income in 2008.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 2,756,332,374	\$	\$ 2,756,332,374	
Preferred stocks	34,131,352		34,131,352	
Cash and short-term investments	72,242,553		72,242,553	
Contract loans	238,280,958		238,280,958	
Other invested assets	2,972,911		2,972,911	
Receivable for securities	606,411		606,411	
Investment income due and accrued	37,316,206		37,316,206	
Premiums Consideration:				
Uncollected premiums and agents' balances in course of collection	(6,427,675)		(6,427,675)	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	324,941		324,941	
Amounts recoverable from reinsurers	6,986,025		6,986,025	
Other amounts receivable under reinsurance contracts	3,482		3,482	
Current federal and foreign income tax recoverable and interest thereon	4,743,646		4,743,646	
Guaranty funds receivable or on deposit	(26,717,966)		(26,717,966)	
Receivable from parent, subsidiaries and affiliates	2,761	2,761	0	
Health care and other amounts receivable	421,578	421,578	0	
Aggregate write-ins for other than invested assets	<u>8,836,072</u>	<u>219,916</u>	<u>8,616,156</u>	
 Total assets	 <u>\$3,130,055,629</u>	 <u>\$ 644,255</u>	 <u>\$ 3,129,411,374</u>	

Statement of Financial Condition
as of December 31, 2008

(Continued)

<u>Liabilities, Capital and Surplus</u>		<u>Notes</u>
Aggregate reserve for life policies and contracts	\$ 2,450,671,418	(1)
Liability for deposit-type contracts	180,625,675	
Contract claims: Life	13,143,574	(1)
Premiums and annuity considerations for life and accident and health contracts received in advance	31,746	
Interest maintenance reserve	21,033,374	
Commissions to agents due or accrued - life contracts and and annuity contracts	42,384	
General expenses due or accrued	4,664,369	
Taxes, licenses and fees due or accrued, excluding federal income taxes	2,024,068	
Current federal and foreign income taxes	950,572	
Net deferred tax liability	56,110,714	
Amounts withheld or retained by company as agent or trustee	12,714	
Remittances and items not allocated	3,234,119	
Miscellaneous Liabilities:		
Asset valuation reserve	8,917	
Reinsurance in unauthorized companies	93,092	
Funds held under reinsurance treaties with unauthorized Reinsurers	148,261	
Drafts outstanding	36,243,972	
Payable for securities	20,349,844	
Aggregate write-ins for liabilities	<u>19,843,366</u>	
 Total liabilities	 2,809,232,179	
 Common capital stock	 \$ 3,000,000	
Gross paid-in and contributed surplus	223,460,219	
Aggregate write-ins for special surplus funds	11,311,971	
Unassigned surplus	<u>82,407,005</u>	
 Total capital and surplus	 <u>320,179,195</u>	
 Total liabilities, capital and surplus	 <u>\$ 3,129,411,374</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2008

Summary of Operations

Premiums and annuity considerations for life and accident and health contracts	\$ 1,343,199	
Considerations for supplementary contracts with life contingencies	30,414	
Net investment income	179,150,858	
Amortization of interest maintenance reserve (IMR)	2,881,988	
Commissions and expense allowances on reinsurance ceded	3,175,485	
Reserve adjustments on reinsurance ceded	(223,378,174)	
Charges and fees for deposit type contracts	116	
Aggregate write-ins for miscellaneous income	<u>124,687</u>	
 Total		 \$ (36,671,427)
 Death benefits	 3,343,515	
Annuity benefits	4,746,138	
Disability benefits and benefits under accident and health contracts	32,969	
Surrender benefits and withdrawals for life contracts	4,193,809	
Interest and adjustments on contracts or deposit-type contract funds	662,773	
Payments on supplementary contracts with life contingencies	200,335	
Increase in aggregate reserves for life and accident and health contracts	(95,789,988)	
Commissions on premiums, annuity considerations and deposit-type contracts funds	632,903	
General insurance expenses	2,748,717	
Insurance taxes, licenses and fees, excluding federal income taxes	185,078	
Increase in loading on deferred and uncollected premiums	(907)	
Aggregate write-ins for deductions	<u>387</u>	
 Total		 <u>(79,044,271)</u>
 Net gain from operations before federal income taxes		 42,372,844
Federal income taxes incurred		<u>12,033,590</u>
Net gain from operations after federal income taxes and before realized capital gains or (losses)		30,339,254
Net realized capital losses		<u>(18,880,836)</u>
Net income		<u>\$ 11,458,418</u>

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2008

(Continued)

Capital and Surplus Account

Capital and surplus, December 31, 2007		\$ 300,879,863
Net income	\$ 11,458,418	
Change in net deferred income tax	7,032,270	
Change in non-admitted assets	(146,114)	
Change in liability for reinsurance in unauthorized companies	106,270	
Change in asset valuation reserve	8,164,765	
Change in surplus as a result of reinsurance	(2,573,236)	
Aggregate write-ins for losses in surplus	<u>(4,743,041)</u>	
Net change in capital and surplus for the year		<u>19,299,332</u>
Capital and surplus, December 31, 2008		<u>\$ 320,179,195</u>

Reconciliation of Capital and Surplus
from December 31, 2005 through December 31, 2008

Capital and surplus, December 31, 2005, per Examination			\$ 271,430,903
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 52,294,953	\$	
Change in net deferred income tax	394,892		
Change in nonadmitted assets and related items		55,041	
Change in liability for reinsurance in unauthorized companies	57,759		
Change in asset valuation reserve	10,147,922		
Change in surplus as a result of reinsurance		9,349,152	
Change in aggregate write-ins for gains and losses in surplus	<u> </u>	<u>4,743,041</u>	
Total gains and losses in surplus	<u>\$ 62,895,526</u>	<u>\$14,147,234</u>	
Increase in capital and surplus			<u>48,748,292</u>
Capital and surplus, December 31, 2008, per Examination			<u>\$ 320,179,195</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Policies and Contracts Contract Claims: Life

The California Department of Insurance (CDI), pursuant to California Insurance Code (CIC) Section 733(g), retained an independent actuary for the purpose of providing an actuarial evaluation of the Company's aggregate reserve for life policies and contracts and life contract claims and to review the asset adequacy analysis on which the Company's actuarial opinion was based. Based on the work performed by the independent actuary and a review of their work by a Life Actuary from the CDI, the Company's aggregate and claim reserves have been accepted and no additional reserves are required for this examination.

Although the aggregate reserves as reported by the Company were found acceptable, the following omissions or comments were noted:

Expense Assumption - The corporate expense assumption is a critical assumption for the Company's asset adequacy analysis result because those expenses are not covered by the 95% modified coinsurance arrangement. The expense assumptions utilized by the Company's actuary for the asset adequacy analysis appear to be approximately \$1 million less than a reasonable estimate of expenses anticipated by the Company. The CDI contracted actuary calculated the net effect of the increase in the expense assumptions on the present value of after tax profits to be approximately \$10 million less than the Company's calculation. Due to the large impact of the assumed expenses on the present value of future profits it is recommended that the Company re-evaluate its basis/methodology used to support its expense assumptions.

Voluntary Reserve for Individual vs. Group Policies – Based upon recommendations from a prior examination report, the Company has established a voluntary reserve for certain contracts. After a review of the Company's calculation of the voluntary reserve it appears that the reserve for certain allocated qualified retirement annuities (AQRA) policies and certain single premium immediate annuities (SPIA) were reserved using group mortality tables while it may have been more appropriate to use individual mortality tables in calculating the additional reserve. The potential impact of the

change in status from a group contract to an individual contract (for all of the contracts in question) results in an increase of \$10 million to the voluntary reserve based on the Company's calculation. It is recommended that the Company review its restructured AQRA and SPIA contracts to ascertain whether individual or group mortality tables are appropriate. Alternatively, the Company could establish a voluntary reserve to record the individual versus the group mortality difference for all restructured SPIA and all AQRA policies that were recognized as group policies.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements (Page 6): It is recommended that the Company submit its tax allocation agreement to the California Department of Insurance for approval in compliance with California Insurance Code (CIC) Section 1215.5(b)(4). This is a repeat finding from the prior examination.

Reinsurance - Ceded (Page 9): It is recommended that the Company appropriately communicate the corrections made to the reported changes in coverage calculations to the various reinsurers.

Aggregate Reserve for Life Contracts (Page 19): Due to the large impact of the assumed expenses on the present value of future profits it is recommended that the Company re-evaluate its basis/methodology used to support its expense assumptions. It is also recommended that the Company review its restructured allocated qualified retirement annuity and single premium immediate annuity contracts to ascertain whether individual or group mortality tables are appropriate.

Previous Report of Examination

Management and Control – Management Agreements (Page 5): It was recommended that the Company submit its tax allocation agreement to the California Department of Insurance for approval in compliance with California Insurance Code (CIC) Section 1215.5(b)(4). The Company has not complied.

Reinsurance - Ceded (Page 8): It was noted that the Company has approximately 1,200 active contracts where the reinsured (ceded) net amount of risk (NAR) is greater than the direct NAR. It was recommended that the Company complete its research and take corrective actions to address the NAR issue. The Company complied with this recommendation.

Accounts and Records (Page 12): It was recommended that the Company follow the National Association of Insurance Commissioners' Annual Statement and Quarterly Statement Instructions to comply with CIC Section 923. The Company has complied.

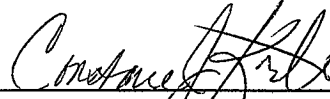
Aggregate Reserve for Life Contracts (Page 18): It was recommended that the Company establish a written policy that specifies how non-guaranteed elements of its policies are determined. The Company established said policies at the board of director meetings which was indicated in the minutes.

Contract Claims: Life (Page 18): It was recommended that the Company continue to make appropriate changes to its incurred but not reported estimation procedures to ensure that the reserves are adequate. The Company has complied.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,



Constance J. Korte, CFE
Examiner-In-Charge
Department of Insurance
State of California