# REPORT OF EXAMINATION

# OF THE

# AURORA NATIONAL LIFE ASSURANCE COMPANY

# AS OF

# DECEMBER 31, 2011

Filed June 24, 2013

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Los Angeles, California
May 24, 2013

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

AURORA NATIONAL LIFE ASSURANCE COMPANY

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

## SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2011. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting

Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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; pensions, stock ownership and insurance plans; growth of company; loss experience; accounts and records; and statutory deposits.

## SUBSEQUENT EVENTS

On March 23, 2012, a Put and Call Agreement (Sale Agreement) that was originally entered into on March 21, 2000 (see "Company History" section) by the Company, its parent, New California Holdings, Inc. (NCLH), NCLH's two beneficial stockholders, and Reassure America Life Insurance Company (REALIC) was amended.

The amendments changed the terms of the Sale Agreement as follows: (1) REALIC assigned all of its rights and obligations under the Sale Agreement to SRLHA; and (2) REALIC transferred to SRLHA by way of novation all of its rights and obligations under and in connection with the 95% modified coinsurance agreement. A revised Form A Application of Swiss Re Life & Health America, Inc.'s (SRLHA) acquisition of all issued and outstanding shares of NCLH was submitted to the California Department of Insurance (CDI) for approval on June 26, 2012. Approval of the Form A was granted by the CDI on August 22, 2012. On August 29, 2012, the Company became a wholly-owned subsidiary of SRLHA.

Concurrent with the amended Sale Agreement and Form A Application filing, the Company and NCLH also submitted to the CDI an application pursuant to California Insurance Code Section (CICS) 1011(c) in which NCLH would be merged with and into the Company, with the Company being the surviving entity. The merger would occur immediately following the approval of the aforementioned acquisition.

On March 30, 2012, the Company, SRLHA, and REALIC submitted an application to the CDI pursuant to CICS 1011(c) seeking approval of REALIC's assignment and transfer by novation of all its rights and obligations under and in connection with the 95% Modified Coinsurance Agreement. SRLHA would act as the reinsurer and administrator under the Modified Coinsurance Agreement upon approval. The application was approved by the CDI on May 24, 2012.

Under the terms of the Executive Life insurance Company Rehabilitation Plan Enhancement Agreement, Participating Life and Health State Guarantee Associations (PGAs) (see "Territory and Plan of Operation" section), PGAs may either: (1) deposit money with the Company; or (2) have the option to make a lump-sum payment to defease their obligations. The PGAs have the right to defease their non-surrenderable liabilities once per year. On May 29, 2012, 20 out of 42 PGAs chose to defease their obligations. The PGAs obligation includes the contracts classified as deposit funds contracts and period certain contracts with life contingency. The present value of future benefits for the PGAs that elected to defease their obligations totaled approximately $200 million as of January 1, 2012. Net cash received by the Company was approximately $196 million after credits for funds on deposit with the Company and interest paid. The May 29, 2012 defeasance resulted in a statutory financial reporting loss of approximately $61 million, of which $58 million was ceded to REALIC pursuant to the modified coinsurance agreement.

As of December 31, 2012, all remaining PGAs requested the defeasance calculation for 2013. If all of the remaining 22 PGAs defease, the Company would receive approximately $250 million for the PGAs obligations. Should any PGA defease, the Company would be required to establish reserves at the anticipated interest rate and this would result in a one-time gain or loss to the Company depending on the regulatory interest rate and investment opportunities available to the Company at the time of defeasance. Pursuant to the modified coinsurance agreement, 95% of any gain or loss would be ceded to SRLHA.

Effective August 29, 2012, the Company entered into a Service Agreement with its affiliate, Swiss Re America Holding Corporation (SRAH). Under the terms of the agreement, and on an actual cost basis, SRAH provides general management and administrative services including, but not limited to: legal and government relations services, personnel, payroll and human resources, information systems and technology, tax services, corporate, non-technical, and technical accounting services, finance and treasury services, risk management, actuarial services, auditing services, office administration, and logistics services. The agreement was approved by the CDI on November 6, 2012.

Subsequent to the examination date, the Company entered into a Tax Allocation Agreement with its new parent, SRLHA. The new Tax Allocation Agreement was approved by the CDI on November 6, 2012.

In 2013, the Company noted an error in the calculation of its authorized control level risk based capital and related risk based capital ratios within its Annual Statements for the examination years under review. The error occurred due to a misinterpretation of the C-3 level risk balance received from the Company's appointed actuary. The Company corrected the error which resulted in significant reductions to the risk based capital ratios; however, the ratios still remained above the minimum statutory levels. Below are the original and corrected ratios as reported in the amended Annual Statements:

| | Authorized Control Level | | Risk Based Capital Ratio | |
|---|---|---|---|---|
| | Original | Corrected | Original | Corrected |
| 2009 | $2,550,822 | $4,764,610 | 13,201.8% | 7,067.3% |
| 2010 | 3,039,437 | 9,049,596 | 11,372.5% | 3,819.6% |
| 2011 | 3,336,669 | 10,939,234 | 10,494.0% | 3,379.5% |

## COMPANY HISTORY

On March 21, 2000 the Company entered into a Put and Call Agreement (Sale Agreement) with its parent, New California Life Holdings, Inc. (NCLH), the parent's two beneficial stockholders, and Reassure America Life Insurance Company (REALIC). The Sale Agreement provided for a 95% modified coinsurance agreement and a potential sale of NCLH to REALIC. Under the Sale Agreement, REALIC could, at its option, exercise a call to buy the common stock of NCLH at a price to be calculated pursuant to a formula in the Sale Agreement. Either stockholder of NCLH could, under certain circumstances (primarily the conclusion of certain litigation) put the stock of NCLH 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 California Department of Insurance (CDI) on April 19, 2001, and executed on April 25, 2001.

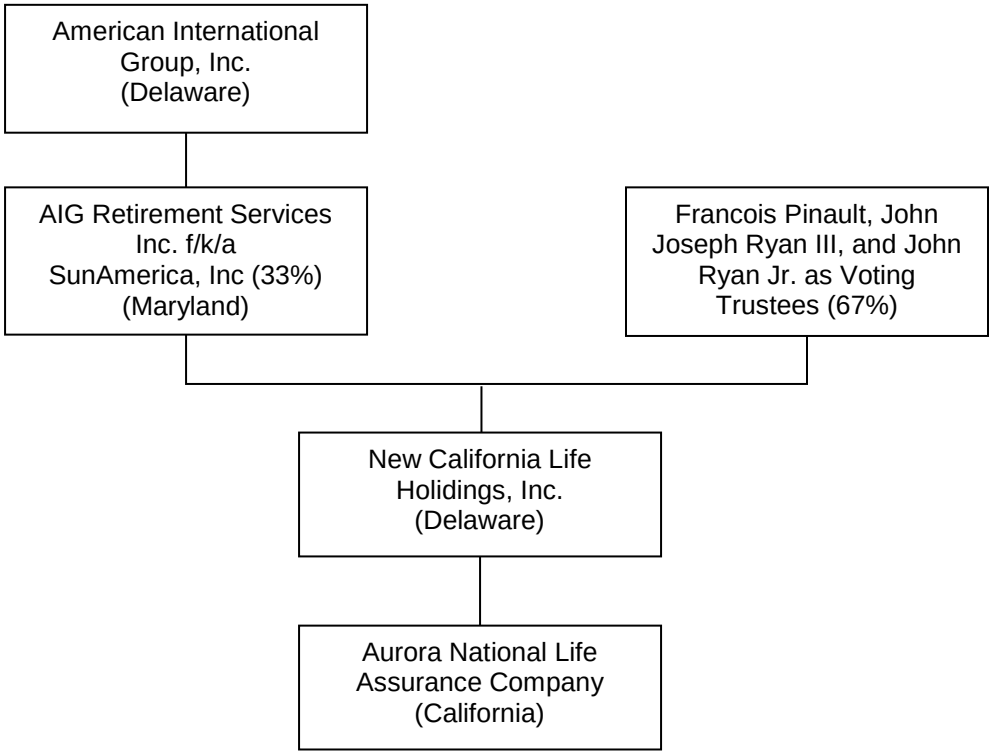
During the examination period, REALIC attempted to exercise its call option to purchase NCLH by submitting a Form A Application to the CDI. In 2009, the CDI issued a notice of disapproval of the acquisition transaction and denial of REALIC's Form A Application. Ultimately, the acquisition transaction was approved on August 22, 2012 whereby NCLH was sold to Swiss Re Life & Health America, Inc. and NCLH was merged into the Company (see "Subsequent Events" section).

## MANAGEMENT AND CONTROL

As of the examination date, the Company was a wholly-owned subsidiary of New California Life Holdings, Inc. (NCLH), a Delaware corporation, which was owned 33% by American International Group Retirement Services, Inc., which in turn, was wholly-owned by the American International Group, Inc. The remaining 67% ownership of NCLH was 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. As discussed within the "Subsequent Events" section of this report of examination, the organization chart has changed since the Company was acquired by a new parent company, Swiss Re Life & Health America, Inc. on August 29, 2012.

The following organizational chart depicts the Company's relationship within the holding company system as of December 31, 2011 (all ownership is 100% unless otherwise noted):




The five members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and the principal officers of the Company serving at December 31, 2011:

## Directors

| Name and Residence | Principal Business Affiliation |
|---|---|
| Patricia M. Barbizet<br>Paris, France | Director General<br>Groupe Artemis |
| Gilles M. Erulin<br>London, United Kingdom | Chief Executive Officer<br>Tawa UK |
| Michael K. Parks<br>Los Angeles, California | Managing Director<br>Crescent Capital Group, LP |
| Etienne Rosenstiehl<br>Lyon, France | Consultant<br>Esteban Conseils |
| John J. Ryan, III<br>New York, New York | Director<br>Dublin Holdings, LLC |

## Principal Officers

| Name | Title |
|---|---|
| Steve 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 |

All members of the board and the principal officers of the Company were replaced on August 29, 2012 subsequent to the examination date due to the acquisition of the Company by Swiss Re Life & Health America, Inc. (SRLHA).

## Management Agreements

Administrative Service Agreement: On April 5, 2000, the Company entered into an

Administrative Service Agreement (ASA) with Mynd Corporation. On October 5, 2000, the third party administrator (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), an affiliate of Swiss Re Life & Health America Inc. (SRLHA) in connection with the modified coinsurance transactions. On December 28, 2002, the ASA was novated to Alliance-One Service, Inc., a wholly-owned subsidiary of Computer Science Corporation (CSC). All expenses incurred under the ASA are paid by REALIC as stated within the modified coinsurance agreement. The Company is no longer a party participating in the ASA.

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 and an affiliate of SRLHA. 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 original agreement was approved on April 19, 2001, and the latest amendment was approved subsequent to the examination date, by the California Department of Insurance (CDI) on September 12, 2012. For 2009, 2010, and 2011, the Company paid SRFSC in fees $2,859,476, $2,861,547, and $2,910,246, respectively.

Tax Allocation Agreement: Since January 1, 2001, the Company has been party to a Tax Allocation Agreement with its former Parent, New California Life Holdings, Inc. (NCLH). Allocation of taxes was 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 disclosed the agreement in its annual holding company filings (Form B), it never submitted the agreement to the CDI for approval. This agreement was terminated on August 29, 2012, the effective date of the Sale Agreement acquisition. The Company paid the following taxes during the examination period:

| Year | Amount |
|---|---|
| 2009 | $ 11,871,804 |
| 2010 | 13,000,000 |
| 2011 | 1,148,466 |
| Total | $ 26,020,270 |

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to transact health and life insurance business in all states except Connecticut, Maine, New Hampshire, and New York, and the District of Columbia. However, the licenses from Minnesota, New Jersey, and North Carolina limit the Company to only servicing existing business. In 2011, approximately 44.3% of all renewal life premiums were generated in California, Florida, Illinois, and Texas.

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 Executive Life Insurance Company Rehabilitation Plan (Rehabilitation Plan) which is discussed below. In addition, the Company will 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 all of the restructured insurance and annuity contracts of Executive Life Insurance Company (ELIC) 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. Distributions totaling $1.2 billion were received

from ELIC Trusts between 1995 and 2007 and no distributions have been received by the Company since 2007. All funds received by the Company from the ELIC Trusts have been distributed to contract holders except for $127,000.

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 contract holders. In the 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.

Amounts Received from PGAs

The PGAs are required under the terms of the EA to pay annual installments to the Company on April 30th of each year, based upon the contracts in-force. The Company received approximately $49.2 million of pass-through funds from the PGAs in 2011, as advance payments for the estimated portion of non-surrenderable contract benefit payments.

## REINSURANCE

### Assumed

The Company has no reinsurance assumed.

### Ceded

As of March 21, 2000, the Company, its former 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 (a/k/a Put and Call Agreement), which contemplated 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 (a/k/a Put and Call Agreement), the Company and its former parent, NCLH, entered into several agreements with REALIC, an affiliate of Swiss Re Life & Health America Inc., in April 2001. These agreements included a 95% Modified Coinsurance Agreement (Modco Agreement).

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 assets into a trust for the purpose of securing the Company's certain obligations to REALIC. The trust balance is approximately $2.0 billion as of December 31, 2011. The individual assets in trust remain under the exclusive control of the Company.

At December 31, 2011, the Company has $2.36 billion of contract and claim reserves, $6.27 million of which was reinsured on either a monthly or yearly renewal term, or coinsurance basis, and $2.2 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, 2011 are summarized in the following table:

| 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<br>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<br><br>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<br>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<br>Post-10/1/83: $5 million |
| | Interest Sensitive Whole Life | Various North American companies | Depending on Underwriter's decision<br>(2) | No limits-based on amount accepted by the reinsurers |
| Facultative Treaties | Term Life | Various North American companies | None, starting 8/1/91<br><br>Prior to 8/1/91, retention was dependent on Underwriter's decision. | No limits-based on amount 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 |
| | | | | |

| Treaty Description | Type of Contract | Reinsurer(s) | Company's Retention | Reinsurer (s) Maximum Coverage |
|---|---|---|---|---|
| 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<br><br>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<br>(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<br><br>Between 3/1/96 and 7/1/97: 43% of the maximum retained net amount at risk, up to $1 million<br><br>Between 7/1/97 and 1/1/99: 45% of the maximum retained net amount at risk, up to $1 million<br><br>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<br><br>Between 3/1/96 and 7/1/97: 57% of the maximum retained net amount at risk.<br><br>Between 7/1/97 and 1/1/99: 55% of the maximum retained net amount at risk.<br><br>Post 1/1/99:<br>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.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Summary of Operations and Capital and Surplus Account
for the Year ended December 31, 2011

Reconciliation of Capital and Surplus from December 31, 2008
through December 31, 2011

## Statement of Financial Condition
## as of December 31, 2011

| Assets | Ledger and Nonledger Assets | Assets Not Admitted | Net Admitted Assets | Notes |
|---|---|---|---|---|
| Bonds | $ 2,534,458,481 | $ | $ 2,534,458,481 | |
| Cash and short-term investments | 74,268,611 | | 74,268,611 | |
| Contract loans | 190,834,845 | | 190,834,845 | |
| Other invested assets | 2,974,539 | | 2,974,539 | |
| Receivable for securities | 109,495 | | 109,495 | |
| Investment income due and accrued | 38,070,907 | | 38,070,907 | |
| Premium and considerations: | | | | |
| Uncollected premiums and agents' balances in course of collection | (3,761,100) | | (3,761,100) | |
| Deferred premiums and agents' balances and installments booked but deferred and not yet due | 314,481 | | 314,481 | |
| Amount recoverable from reinsurers | 4,000,759 | | 4,000,759 | |
| Other amounts receivable under reinsurance contracts | 2,593 | | 2,593 | |
| Guaranty funds receivable or on deposit | (22,564,054) | | (22,564,054) | |
| Receivables from parent, subsidiaries and affiliates | 795 | 795 | 0 | |
| Health care and other amounts receivable | 388,017 | 388,017 | 0 | |
| Aggregate write-ins for other than invested assets | 19,164 | 19,100 | 64 | |
| Total assets | $ 2,819,117,533 | $ 407,912 | $ 2,818,709,621 | |

| Liabilities, Capital, and Surplus | | | |
|---|---|---|---|
| Aggregate reserve for life contracts | | $ 2,196,425,882 | (1) |
| Liability for deposit-type contracts | | 156,922,250 | |
| Contract claims: Life | | 13,462,742 | (1) |
| Premium and annuity considerations received in advance | | 48,115 | |
| Contract liabilities not included elsewhere: | | | |
| Interest maintenance reserve | | 17,451,027 | |
| Commissions to agents due or accrued-life and annuity contracts | | 30,992 | |
| General expenses due or accrued | | 5,060,328 | |
| Taxes, licenses and fees due or accrued | | 2,311,436 | |
| Current federal and foreign income taxes | | 709,843 | |
| Net deferred tax liability | | 45,695,029 | |
| Amount withheld or retained by company as agent or trustee | | 34,022 | |
| Remittances and items not allocated | | 1,697,758 | |
| Miscellaneous liabilities: | | | |
| Asset valuation reserve | | 5,813,007 | |
| Reinsurance in unauthorized companies | | 46,651 | |
| Funds held under reinsurance treaties with unauthorized reinsurers | | 58,261 | |
| Drafts outstanding | | 13,414,387 | |
| Payable for securities | | 557,572 | |
| Aggregate write-ins for liabilities | | 3,089,967 | |
| Total liabilities | | 2,462,829,269 | |
| Common capital stock | $ 3,000,000 | | |
| Gross paid-in and contributed surplus | 223,460,219 | | |
| Aggregate write-ins for other than special surplus funds | 5,724,682 | | |
| Unassigned Surplus | 123,695,451 | | |
| Capital and Surplus | | 355,880,352 | |
| Total liabilities, capital, and surplus | | $ 2,818,709,621 | |

## Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2011

### Summary of Operations

| | | |
|---|---|---|
| Premiums and annuity considerations | $ 817,842 | |
| Considerations for supplementary contracts with life contingencies | 622,187 | |
| Net investment income | 157,038,297 | |
| Amortization of interest maintenance reserve (IMR) | 8,298,043 | |
| Commissions and expense allowances on reinsurance ceded | 1,927,507 | |
| Reserve adjustments on reinsurance ceded | (209,209,920) | |
| Charges and fees for deposit type contracts | 88 | |
| Aggregate write-ins for miscellaneous income | 118,287 | |
| Total | | $ (40,387,669) |
| Death benefits | $ 2,978,311 | |
| Annuity benefits | 4,560,772 | |
| Disability benefits and benefits under accident and health policies | 24,205 | |
| Surrender benefits and withdrawals for life contracts | 3,086,167 | |
| Interest and adjustments on contracts or deposit-type contract funds | 948,765 | |
| Payments on supplementary contracts with life contingencies | 324,236 | |
| Increase in aggregate reserves for life and accident and health contracts | (81,482,213) | |
| Commissions on premiums, annuity considerations and deposit-type contracts | 383,607 | |
| General insurance expenses | 3,654,020 | |
| Insurance taxes, licenses and fees, excluding federal income taxes | 237,120 | |
| Increase in loading on deferred and uncollected premiums | (290) | |
| Aggregate write-ins for deduction | 10,274 | |
| Total | | (65,275,026) |
| Net gain from operations before federal income taxes | | 24,887,357 |
| Federal income taxes incurred | | 6,294,560 |
| Net gain from operations after federal income taxes | | 18,592,797 |
| Net realized capital losses | | (519,665) |
| Net income | | $ 18,073,132 |

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2011

(Continued)

Capital and Surplus Account

| | | |
|---|---|---|
| Capital and Surplus, December 31, 2010 | | $ 341,940,275 |
| Net income | $ 18,073,132 | |
| Change in net deferred income tax | (593,716) | |
| Change in non-admitted assets | 136,814 | |
| Change in liability for reinsurance in unauthorized companies | (19,236) | |
| Change in asset valuation reserve | (2,094,671) | |
| Surplus adjustment: | | |
| Change in surplus as a result of reinsurance | (1,562,246) | |
| Net change in capital and surplus for the year | | 13,940,077 |
| Capital and Surplus, December 31, 2011 | | $ 355,880,352 |

## Reconciliation of Capital and Surplus
## from December 31, 2008 through December 31, 2011

| | Gain in Surplus | Loss in Surplus | |
|---|---|---|---|
| Capital and Surplus, December 31, 2008 per Examination | | | $ 320,179,195 |
| Net income | $ 36,394,068 | $ | |
| Change in net deferred income tax | 10,415,685 | | |
| Change in nonadmitted assets | 236,343 | | |
| Change in liability for reinsurance in authorized companies | 46,441 | | |
| Change in asset valuation reserve | | 5,804,090 | |
| Surplus adjustments: | | | |
| Change in surplus as a result of reinsurance | | 5,587,290 | |
| Total gains and losses | $ 47,092,537 | $ 11,391,380 | |
| Net change in capital and surplus | | | 35,701,157 |
| Capital and surplus, December 31, 2011, per Examination | | | $ 355,880,352 |

## 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 omission or comments were noted:

Expense Assumption - The corporate expense assumption is a critical assumption of the Company's asset adequacy analysis because those expenses are not covered by the 95% modified coinsurance agreement. The 2011 expense assumption was not evaluated by the Company as a result of the planned submission of the Sale Agreement (see "Subsequent Events" section) to the CDI. In addition, the CDI did not evaluate the 2011 expense assumption since the examination occurred subsequent to the final acquisition and the Company had already performed a 2012 asset adequacy analysis. The Company revised its expense assumption in its 2012 asset adequacy analysis subsequent to the examination date due to the acquisition. The expense assumptions utilized by the Company's actuary in its 2012 asset adequacy analysis appear to be a reasonable estimation of the expenses anticipated by the Company. Due to the large impact of the assumed expenses on the present value of future profits, it is recommended the Company periodically evaluate the basis or methodology used to support its expense assumptions as part of its asset adequacy analysis.

Reserve methodology for Individual vs. Group Policies - After a review of the Company's reserve calculation during the prior examination, it appeared that the reserves for certain allocated qualified retirement annuity (AQRA) policies and certain single premium immediate annuity (SPIA) policies were based upon group mortality tables. It may have been more appropriate to use individual mortality tables in calculating the reserves since these contracts were restructured as a result of the Executive Life Insurance Company Rehabilitation Plan. The Company believes that these AQRA and SPIA policies should be reserved using the group mortality tables since the policies were sold under the group underwriting/mortality tables. However, the CDI Life Actuary believes that the Rehabilitation Plan should prevail since these AQRA and SPIA policies were effectively restructured as individual contracts and therefore, the individual mortality tables should be utilized. As noted in the prior report of examination, the potential impact of the change in status from group policy to individual policy (for all of the policies in question) results in an approximately $10 million increase to the voluntary reserve based on the last examination as of December 31, 2008.

As of December 31, 2011, the potential increase does not appear to have a significant solvency impact to the Company because the Company's total reserves (formulated reserve based on Standard Valuation Law, voluntary reserve, and additional actuarial reserve calculated from cash flow testing (CFT)) adequately covers the Company's future obligations and therefore no financial adjustment was made. However, if at any time in the future the potential increase as a result of the change in status of the group mortality tables to individual tables for the AQRA and SPIA policies is not adequately covered in the total reserves the Company's would need to set up additional reserves. Therefore, it is recommended the Company continue to evaluate the various mortality tables to ensure the mortality tables used for the calculation on the above policies are appropriate, and periodically perform a mortality experience study as part of the asset adequacy analysis to ensure an adequate reserve is maintained.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Aggregate Reserve for Life Contracts (Page 19): It is recommended the Company continue to evaluate the various mortality tables to ensure the mortality tables used for the calculation on the above policies are appropriate, and periodically perform a mortality experience study as part of the asset adequacy analysis to ensure an adequate reserve is maintained.

### Previous Report of Examination

Management and Control – Management Agreement (Page 6): 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 is in compliance with this recommendation.

Reinsurance – Ceded (Page 9): It was recommended that the Company appropriately communicate the corrections made to the reported changes in coverage calculations to the various reinsurers. The Company is in compliance with this recommendation.

Aggregate Reserve for Life Contracts (Page 19): Due to the large impact of the assumed expenses on the present value of future profits, it was recommended that the Company re-evaluate its basis/methodology used to support its expense assumptions. It was 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. The Company evaluated the reasonableness of its basis/methodology used to support its expense assumption subsequent to the examination date. The Company also reviewed the contracts and believes the use of group mortality tables was appropriate (See Comments on Financial Statement Items Section).

## ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_____/S/_____
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