

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION

OF

**WESTERN UNITED LIFE ASSURANCE COMPANY
SPOKANE, WASHINGTON**

**NAIC CODE 77925
DECEMBER 31, 2008**

Western United Life Assurance Company
Order No. 10-0055
Exhibit A

**Participating States:
Washington**

SALUTATION

Seattle, Washington
March 31, 2010

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

The Honorable Alfred W. Gross, Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
Chair, NAIC Financial Condition (E) Committee
PO Box 1157
Richmond, VA 23218

The Honorable Christina Urias, Director
NAIC Secretary, Western Zone
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, AZ 85018-7256

The Honorable Mary Jo Hudson, Director
NAIC Secretary, Midwestern Zone
Ohio Department of Insurance
50 West Town Street
Third Floor, Suite 300
Columbus, OH 43215

Dear Commissioners and Directors:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

Western United Life Assurance Company

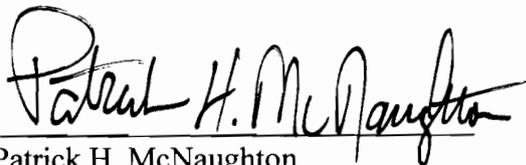
of

Spokane, Washington

hereinafter referred to as "WULA" or "the Company," at its home office, 929 West Sprague Avenue, Spokane, Washington 99210. This report is respectfully submitted showing the condition of the Company as of December 31, 2008.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Western United Life Assurance Company of Spokane, Washington. This report shows the financial condition and related corporate matters as of December 31, 2008.



Patrick H. McNaughton
Chief Examiner

3-31-10

Date

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SCOPE OF EXAMINATION

This examination covers the period January 1, 2004 through December 31, 2008 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field-work, January 5, 2010.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2008 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P). The following summarizes the exceptions noted while performing this review.

1. Annual Statement Errors

The results of the examination disclosed several instances in which the Company's filing of the 2008 NAIC Annual Statement did not conform to the NAIC AP&P and the NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in this instruction were material to the financial statements and no examination adjustments were necessary.

- a.** Schedule DA – Part 1 incorrectly reported par values for exempt money market funds. According to the NAIC Annual Statement Instructions, exempt and class one money market mutual funds should report a zero in the par value column.
- b.** The Company incorrectly reported its life business as 100% coinsured, when approximately half of it was novated per an assumption agreement with an unaffiliated reinsurer in 2005.
- c.** Schedule Y did not disclose all affiliates as required by the NAIC Annual Statement Instructions.

The Company is instructed to comply with RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

2. Custodial Agreement Deficiencies

The Company responded in its 2008 NAIC Annual Statement General Interrogatory No. 26.01 that its custodial agreements with Wells Fargo Bank, US Bank, and Federal Home Loan Bank of Seattle complied with the FCEH. However, they did not contain several provisions as required by the FCEH. In addition, the Company did not disclose its custodial agreements with Wachovia Trust Company National Association or First Union Trust Company National Association in General Interrogatory No. 26.01.

The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and to comply with the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also instructed to execute revised or amended custodial agreements that comply with the FCEH.

3. Related Party Fees

The Company is a party to a management services agreement with its parent, Global Life Holdings, LLC (GLH). The fees paid to GLH as part of the agreement are not fair and reasonable. The Company was unable to provide sufficient documentation to support the reasonableness of the charges, or to show that apportionment was based on specific identification to the entity incurring the expense or based upon cost studies, as required by RCW 48.31B.030(1)(a), SSAP 70, Paragraph 8, and SSAP Appendix A-440.

The Company is instructed to amend its agreement with GLH to comply with RCW 48.31B.030(1)(a), RCW 48.05.073, SSAP 70, Paragraph 8, and SSAP Appendix A-440.

4. Board Approval of Investment Transactions

The Company could not provide evidence of Board of Directors (BOD) approval for all investment transactions. RCW 48.13.340 requires all investments, loans, sales or exchanges to be approved or authorized by the BOD or by committee charged by the BOD or bylaws with the duty of making investments, loans, sales or exchanges of assets. It further requires the minutes of such committee to be recorded and reports thereof to be submitted to the BOD for approval or disapproval.

The Company is instructed to comply with RCW 48.13.340 by obtaining BOD approval of investment transactions and recording authorization and approval in the minutes of such meetings.

5. Accounting for Forfeiture of Real Estate Deposit

WULA received a \$950,000 deposit associated with the sale of land it owned in Lake Travis, Texas. The deposit was forfeited by the potential purchaser. WULA reduced the book value of

the real estate upon forfeiture of the deposit. SSAP 40, Paragraph 22 requires the forfeited deposit to be reported as income. (See Adjustment No. 1.)

The Company is instructed to comply with RCW 48.05.073 which requires the filing of its financial statements in accordance with the NAIC AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC AP&P, SSAP 40, Paragraph 22.

6. Real Estate Values

The Company reported real estate assets held for sale at their fair values but did not reduce these fair values by the estimated costs to sell as required by SSAP No. 90, Paragraph 25. The difference was immaterial.

The Company is instructed to comply with RCW 48.05.073 which requires the filing of its financial statements in accordance with the NAIC AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC AP&P, SSAP 90, Paragraph 25.

7. Interest on Federal Income Tax Recoverable

In March 2009, WULA recovered \$689,467 of interest related to tax receivables for years 2006 and 2007. This interest receivable was not recognized as an asset at December 31, 2008. SSAP 10, Paragraph 8, defines current income tax recoverables as including "...all current income taxes, including interest, reasonably expected to be recovered in a subsequent accounting period..." This error understated surplus by \$689,467. (See Adjustment No. 2.)

The Company is instructed to comply with RCW 48.05.073 which requires the filing of its financial statements in accordance with the NAIC AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC AP&P, SSAP No. 10, Paragraph 8.

8. Policy Loan – Capitalization of Interest

The Company did not capitalize \$182,476 of policy loan interest that was more than 90 days past due, as required by SSAP 49, Paragraph 4. This amount should be reclassified from "Interest Income Due and Accrued" to "Contract Loans" for financial statement presentation. This reclassification does not affect surplus. (See Adjustment No. 3.)

The Company is instructed to comply with RCW 48.05.073 which requires the filing of its financial statements in accordance with the NAIC AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC AP&P, SSAP 49, Paragraph 4.

9. Actuarial Instructions

a. Reserve Calculation

The Company did not consider the present value of all guaranteed benefits potentially available in the calculation of reserves for its equity indexed plan or in another of its single premium deferred annuity plans. For single premium deferred annuities, RCW 48.74.040(2) requires the reserve to include the present value of future guaranteed benefits, using the valuation interest rate. Actuarial Guideline VIII states: "Individual single premium deferred annuity reserves shall at least equal the greatest of any of the discounted

values of all guaranteed future benefits including cash surrender values available after the date of valuation, such benefits discounted to the valuation date at the maximum permissible statutory interest rate. This method applies to all individual single premium deferred annuities which are subject to the provisions of the Standard Valuation Law.” Actuarial Guideline XXXIII states: “All guaranteed benefits potentially available under the terms of the contract must be considered in the valuation process and analysis and the ultimate policy reserve held must be sufficient to fund the greatest present value of all potential integrated benefit streams, reflecting all guaranteed elective and non-elective benefits available to the contract owner.” This error understated reserves by \$437,016. (See Adjustment No. 4.)

The Company is instructed to comply with RCW 48.74.040(2) and Actuarial Guidelines VIII and XXXIII by including in its reserve the present value of all future guaranteed benefits. The ultimate policy reserve held must be sufficient to fund the greatest present value of all potential integrated benefit streams, reflecting all guaranteed elective and non-elective benefits available to the contract owner.

b. Statement of Actuarial Opinion and Memorandum

The following discrepancies were noted in the Company’s Statement of Actuarial Opinion (Opinion) and Actuarial Memorandum (Memorandum):

- i. The schedule of reserves and related items in the Opinion did not match the documentation in the supporting Memorandum. RCW 48.74.025(3) requires a supporting Memorandum for each Opinion.
- ii. WULA’s Opinion is disclaimed by reference to the Memorandum and by limiting its use to only the Company management and regulators of the states in which this Opinion is filed. RCW 48.74.025(1) requires WULA to submit an Opinion of a qualified actuary regarding its reserves, which is a public document. Additionally, WAC 284-07-380(4) does not allow Opinions to be qualified by reference to the Memorandum.
- iii. WULA’s Memorandum fails to adequately document the expense assumptions in a manner allowing evaluation of the reasonableness of the actuary’s work. WAC 284-07-390(2)(a)(vii) and Actuarial Standards of Practice (ASOP) No. 7 (4.3g) require the actuary to document the data, assumptions, and methods used with sufficient clarity that another actuary qualified in the same practice area could evaluate the reasonableness of the actuary’s work, and to form a conclusion regarding the reasonableness of the assumptions.

The Company is instructed to comply with RCW 48.74.025(3) by ensuring that the schedule of reserves and related items in the Opinion matches documentation in the Memorandum. The Company is instructed to comply with RCW 48.74.025(1) and WAC 284-07-380(4) by not including an improper disclaimer or by qualifying the Opinion by reference to the Memorandum. The Company is instructed to comply with WAC 284-07-390(2)(a)(vii) and ASOP No. 7 (4.3g) by documenting the expense assumptions in a manner that would allow one to evaluate the reasonableness of the actuary’s work.

c. Asset Adequacy Analysis

- i. The assets used by WULA included annuities and structured settlements which were not described or identified. WAC 284-07-390(1)(b)(i) requires a description of the assets used in the preparation of the asset adequacy analysis, and WAC 284-07-350(3) requires conformance to ASOPs. ASOP No. 7 (3.3) requires that tested assets be identified.
- ii. With respect to the lottery assets and cash flows, the appointed actuary disclosed that he was unable to determine whether the book value and cash flows provided were reasonable. ASOP No. 23 (3.5) requires the actuary to review data used in the asset adequacy analysis for reasonableness and consistency.
- iii. The projected surplus included non-admitted assets, and amounts that should have been charged to the Interest Maintenance Reserve (IMR). ASOP No. 22 (3.3.3) requires appropriate assumptions and supporting rationale in the asset adequacy analysis.
- iv. The Company did not include a statement in the Regulatory Asset Adequacy Issues Summary of “the amount of additional reserve as of the valuation date that, if held would eliminate the negative aggregate surplus values” as required by WAC 284-07-390(3)(a)(i).

The Company is instructed to comply with WAC 284-07-390(1)(b)(i), WAC 284-07-390(3)(a)(i), WAC 284-07-350, and ASOP No. 7, No. 22, and No. 23 when preparing its asset adequacy analysis.

10. Financial Statements – Ultimate Controlling Person

The Company's 2008 holding company Form B filing did not contain the annual financial statements of the ultimate controlling person, accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial position of the ultimate controlling person and the results of its operations for the year then ended, in conformity with generally accepted accounting principles, or with requirements of insurance or other accounting principles prescribed or permitted under law, as required by WAC 284-18-920, Item 8.

The Company is instructed to comply with WAC 284-18-920 by filing all information required in the holding company Form B filings.

11. Holding Company Violations

During the examination of WULA, the following holding company violations were identified:

- a. WULA failed to report in its holding company Form B the identity and relationship of the following members of the insurance holding company system as required by RCW 48.31B.025(2)(b):
 - i. **Global Secured Investments LLC** - the general partner of Global Secured Capital Fund LP (Delaware Fund), a WULA affiliate.

- ii. **Global Secured Capital Fund (Cayman) Ltd. (Cayman Fund)** –formed by Global Secured Capital LLC, a WULA affiliate that also manages the investments of the Cayman Fund.
 - iii. **Global Premium Finance I, LLC**, - a subsidiary of the Delaware Fund, which is also a WULA affiliate.
 - iv. **GSC Servicing, LLC**, - a subsidiary of Global Secured Capital, LLC, which is also a WULA affiliate.
- b. The Company entered into the following affiliated transactions that were not included on the Form B filing as required by RCW 48.31B.025(2)(c):
- i. Acquired \$7.8 million in interests of the Cayman Fund
 - ii. Sold approximately \$4.3 million in interests of the Cayman Fund

The Company is instructed to comply with RCW 48.31B.025 by disclosing all intercompany transactions greater than one-half of one percent of its admitted assets as of the 31st day of the previous December on its holding company Form B filing within fifteen days following the end of the month in which it learns of each change or addition.

12. Investments Designed to Evade a Prohibition of the Code

In December 2008, the Company purchased an investment in a privately placed Credit-Linked Note (CLN) issued by ABN Amro Bank. The investment return on the CLN is linked to and materially dependent on the performance of the Delaware Fund. The Delaware Fund indirectly owns 49% of Class 2, Series B common stock and 100% preferred shares of Global Life Holdings, LLC. Global Secured Capital, LLC owns 49% of the Class 2 Series A common stock (voting rights only) of Global Life Holdings, LLC, and controls the Delaware Fund through a complex organization structure. Global Life Holdings, LLC owns 100% of WULA.

Although the CLN contract specifies that ABN Amro Bank is under no obligation to purchase interests in the Delaware Fund, it also specifies that payment of contingent interest to WULA is dependent on ABN Amro Bank's ability to sell sufficient fund interests. In other words, WULA cannot receive any contingent interest payments if ABN Amro Bank does not own any fund interests. WULA has a reasonable right to expect a return on the CLN and the only way this is possible is if ABN Amro purchases interests in the Delaware Fund. ABN Amro Bank did purchase \$12.7 million limited partnership interests in the Delaware Fund in December 2008.

RCW 48.12.020(4) would disallow as an asset WULA's investment in the Delaware Fund because the Delaware Fund is an indirect owner of WULA. By selling its interests in the Delaware Fund and re-investing into the Delaware Fund via the ABN Amro CLN transaction, WULA has evaded the prohibitions of the Code. The investment in the ABN Amro CLN is therefore a prohibited investment and subject to disposal per RCW 48.13.290(2).

The Cayman Fund is a separate legal entity from the Delaware Fund. However, the entire portfolio of the Cayman Fund was acquired from the Delaware Fund at the direction of Global Secured Capital, LLC, which is the investment manager of both funds and is also an affiliate of

WULA. The OIC views WULA's investment in the Cayman Fund as a means to evade the statutory prohibition of 48.12.020(4), which would disallow as an asset any investment into the Delaware Fund. The investment in the Cayman Fund is therefore a prohibited investment per RCW 48.13.270(6) and subject to disposal per RCW 48.13.290(2).

The Company is instructed to comply with RCW 48.12.020(4), 48.13.270(6), and 48.13.290(2) by investing only in allowed investments.

13. Investment Limit Exceeded

RCW 48.13.030(1) states that an insurer shall not, except with the consent of the commissioner, have at any time any investment in any one entity aggregating an amount exceeding four percent of the insurer's assets. Four percent of WULA's assets at December 31, 2008 was \$28,558,598. WULA's investment in the ABN Amro CLN exceeded this limitation by \$1,478,823. (See Adjustment No. 5.)

WULA is instructed to comply with RCW 48.13.030(1) by not having at any time any combination of investments in securities of any one person, institution, or municipal corporation aggregating an amount exceeding four percent of the insurer's assets.

COMMENTS AND RECOMMENDATIONS

1. Monitoring of Hedging Transactions

The Company does not have a monitoring system to determine the effectiveness of its hedging transactions. RCW 48.13.285 only allows admission of derivative transactions for hedging transactions that are effective and for certain income generation transactions. Without a monitoring system, the Company is at risk of overstating its surplus should a hedging transaction become ineffective.

It is recommended that the Company develop and implement a process to determine the effectiveness of its hedging transactions.

2. Bank Reconciliation

The Company's bank reconciliation of the operating account was prepared and reviewed. However, there were several errors that were not detected by the reconciliation or by the second level review. The error had an immaterial effect on surplus.

It is recommended that the Company enhance its control over the reconciliation and review process of bank accounts.

3. Conflict of Interest for Directors

The Company does not have a formal conflict of interest policy for its BOD. Potential conflicts of Board members do arise, and there is no formal policy to handle reporting or disposition of the potential conflict. A conflict of interest policy for directors would help avoid violations of RCW 48.05.370, which states: "officers and directors of an insurer or a corporation holding a controlling interest in an insurer shall be deemed to stand in a fiduciary relation to the insurer, and shall discharge the duties of their respective positions in good faith, and with that diligence, care and skill which ordinary prudent men would exercise under similar circumstances in like positions."

It is recommended that the Company develop and implement a conflict of interest policy for directors that encourages compliance with RCW 48.05.370.

COMPANY PROFILE

Company History

The Company was incorporated on June 3, 1963 as a stock life insurance company under the laws of the state of Washington. Consumers Insurance Company, Inc. (CIC) and Metropolitan Mortgage & Securities Co., Inc. (Metropolitan) owned 75.5% and 24.5% of the Company respectively. On December 24, 2003 CIC ceased doing business and Metropolitan acquired through a stock purchase transaction, CIC's shares of WULA resulting in 100% ownership. On December 24, 2003, WULA consented to an Order for Supervision by the OIC, and on March 2, 2004, the Thurston County Superior Court of Washington State issued an Order of Rehabilitation and Appointment of Receiver. On June 5, 2008, Global Life Holdings, LLC (GLH) acquired WULA in a stock purchase transaction, and the Company was released from court-ordered rehabilitation in conjunction with the sale. GLH was formed for the sole purpose of acquiring WULA.

Territory and Plan of Operation

WULA is engaged in the offering, issuance, sale, and renewal of annuity contracts. WULA is presently licensed in sixteen states, currently concentrating in the states of Idaho, Montana, North Dakota, Oregon, Utah and Washington. WULA markets its annuity products through a network of approximately 1,300 independent agents. The agents are recruited, trained, and managed by a staff of experienced regional managers who are employees of WULA.

During the period WULA was in court-ordered rehabilitation, it ceased operations in the states of Arizona and Texas at the request of their respective Departments of Insurance, and the state of Alaska suspended the Company's Certificate of Authority. Due to the receivership, the Company also ceased competitive solicitations for new business in other licensed states, except Washington, and later, Oregon. In 2006, the state of Wyoming suspended the Company's Certificate of Authority. On April 14, 2008, the state of Idaho notified the Company that it was no longer in compliance with Idaho's minimum surplus requirements, and the Company was required to cease accepting any new business from Idaho.

Upon WULA's sale and release from rehabilitation, it pursued activating its licenses and commencing its operations in all of its licensed states. As of December 31, 2008, it was active in all of its licensed states except Arizona and Texas.

Growth of Company

The Company's growth, as reported in its NAIC Annual Statements, is illustrated below:

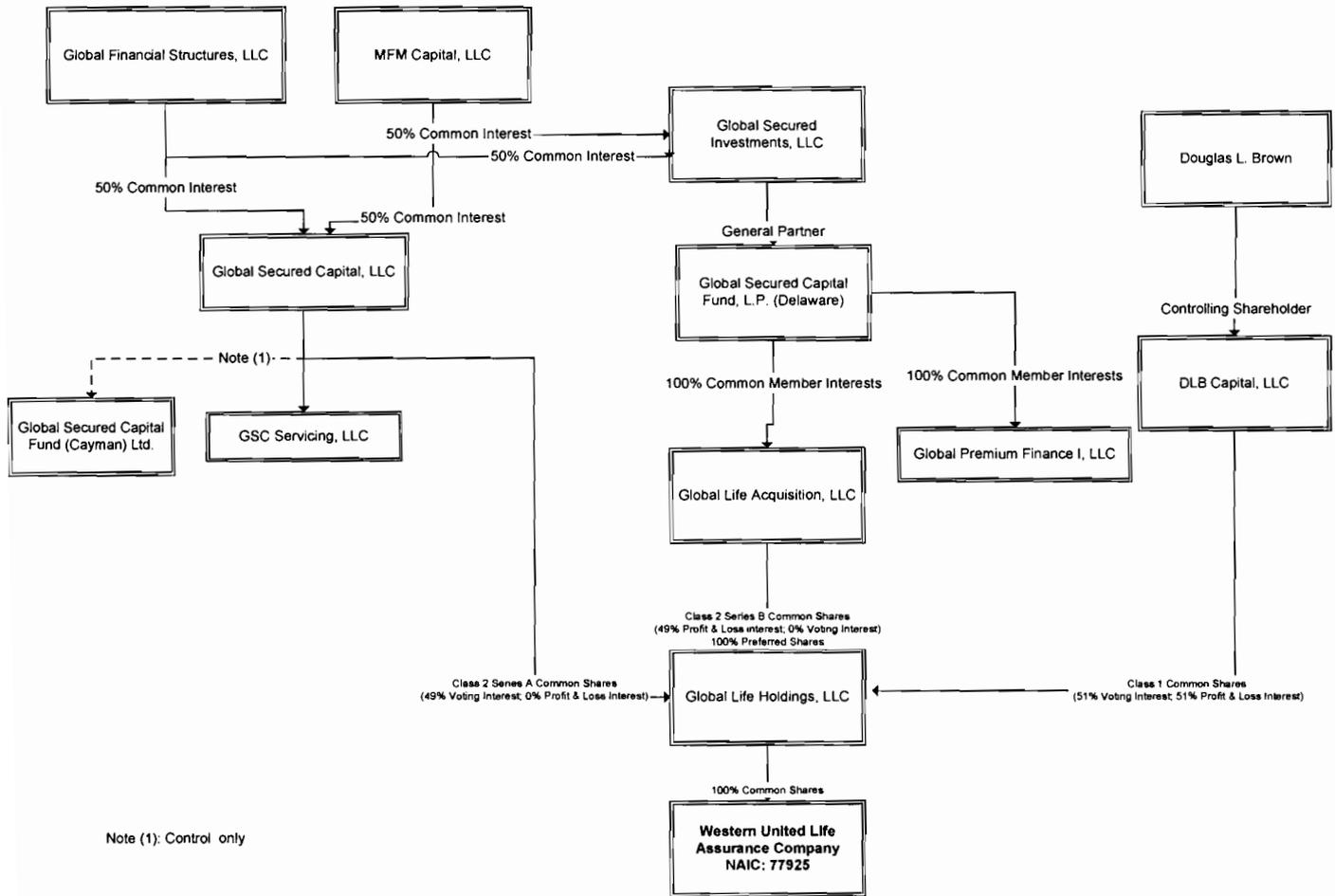
Year	Admitted Assets	Liabilities	Capital & Surplus
2004	\$1,339,790,330	\$1,276,448,648	\$63,341,682
2005	1,159,579,693	1,117,916,048	41,663,645
2006	1,011,610,953	963,930,657	47,680,296
2007	812,525,802	766,968,791	45,557,011
2008	713,964,970	687,821,025	26,143,945

Year	Premiums Earned	Investment Income	Surrender Benefits	Annuity Benefits
2004	\$79,891,808	\$72,709,965	\$271,801,718	\$27,807,287
2005	9,048,861	52,748,810	125,870,298	24,302,011
2006	71,474,826	38,350,573	203,547,327	28,878,853
2007	65,089,549	39,359,570	217,869,949	21,361,804
2008	103,697,319	32,410,605	157,582,553	26,224,151

AFFILIATED COMPANIES

Organizational Chart

WULA is a wholly owned subsidiary of GLH. The following organizational chart illustrates the Company's direct and indirect line affiliates within the organization as of December 31, 2008:



Intercompany Agreements

The Company is a party to a management services agreement with GLH dated June 5, 2008, for various management and asset management services. This agreement was filed as part of a Form D filing on May 18, 2008. The Company is operating within the terms of the agreement; however, the fees are not fair and reasonable and are not on a pure-cost basis. (See Instruction No 3.)

MANAGEMENT AND CONTROL

Ownership

WULA is a wholly owned subsidiary of GLH. As of December 31, 2008 Douglas L. Brown was the ultimate controlling person.

Board of Directors (BOD)

Directors as of December 31, 2008:

Douglas Brown	Chairman of the Board
James Daly	
Deval Dvivedi	
Jean-Francois Lemay	
Rahul Sharma	
Dale Whitney	

Officers

Officers as of December 31, 2008:

Dale Whitney	President
Dave Luhn	Chief Financial Officer and Treasurer
Rahul Sharma	Chief Operating Officer
Lynn Ciani	General Counsel and Secretary
Jean-Francois Lemay	Chief Investment Officer

Committees

WULA's BOD established an audit committee on June 6, 2008. As of December 31, 2008, there were five members. The Company also has an investment and actuarial committee, strategic planning and operations committee, compensation committee and a corporate governance and ethics committee. The corporate governance and ethics committee was dissolved in February 2009.

Conflict of Interest

The Company requires the annual completion of a conflict of interest statement by officers and key employees. All are required to disclose to the corporate counsel relevant outside interests, memberships, associations, and affiliations. Our review did not disclose any exceptions.

However, we recommended that the Company develop a conflict of interest policy for directors. (See Comment and Recommendation No. 3.)

Fidelity Bond and Other Insurance

WULA is a named insured on a financial institution fidelity bond insurance policy. The aggregate amount of coverage meets the recommended guidelines of the NAIC to cover the exposure risk of WULA.

Officers', Employees', and Agents' Welfare and Pension Plans

The Company's employees participate in a 401K Plan. The Company had no deferred compensation or incentive plans as of December 31, 2008. Subsequent to year-end, the Board approved a cash incentive bonus plan and a restricted stock incentive bonus plan.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. The Articles of Incorporation were amended on June 24, 2008 to create one class of preferred stock, to decrease the par value of preferred stock, to clarify that the exact number of directors of the Company is to be determined in the manner prescribed in the By-laws, and to provide for indemnification of the directors by the Company to the fullest extent permitted by law. The By-laws of WULA were also amended and adopted on June 24, 2008.

MORTALITY AND LOSS

The general examination emphasis was to review the methods, assumptions or other bases used to determine the actuarial items reported on the NAIC Annual Statement, and to determine whether the reported amounts complied with Washington State law.

During the course of the examination, the OIC actuary performed such testing of the Company's reserving methodologies and philosophies as was deemed necessary to form an opinion with respect to the items reported. The OIC actuary relied upon the Company's listings and summaries of in-force policies and contracts.

WULA provided copies of its actuarial workpapers and reserve reports as of December 31, 2008. Tests were performed on the underlying data, methods, and calculations as deemed necessary. Valuation reports and procedures were tested to establish that accurate and complete in-force information as of December 31, 2008 was represented in the valuation reports and workpapers. A sampling of contracts and payments was taken from active annuity reports and premium collection records. The samples were tested for completeness and accuracy and it was determined that the Company's calculations were based on accurate and complete demographic data.

Reserves were in compliance with statutory requirements, and except for the findings noted in Instruction No. 9, the methods, assumptions, and methodologies used by the Company were

appropriate, and all material relevant assets and liabilities on the NAIC Annual Statement were reported in accordance with accepted methods and principles.

REINSURANCE

Reinsurance agreements were found to be in compliance with Washington State reinsurance statutes. All of the reinsurers are authorized in the state of Washington. The Company entered into an assumption reinsurance agreement with Manhattan Life Insurance Company in 2005 for 100% of its life business. The Company reported all of the life business as coinsured on its Schedule S when a portion of it was novated. (See Instruction No. 1.)

The Company has controls in place to monitor its reinsurance program, including the financial condition of the reinsurers.

STATUTORY DEPOSITS

The Company maintained statutory deposits as of December 31, 2008 in the state of Texas with a fair value of \$5,109,400, the state of Alaska with a fair value of \$123,550, and in the state of Washington with a fair value of \$1,134,405.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) accrual basis. The Company is audited annually by the certified public accounting firm of Amper, Politziner & Mattia, LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no material exceptions were noted.

The management of WULA is sufficiently knowledgeable of the information systems (IS) operational issues and provides direction and oversight through its internal technology oversight committee. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. The Company maintains an information security policy that defines the responsibilities of users, management and IS personnel.

Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls exercised to maintain data security. The Company has sufficient internal controls in place to monitor system activity and processes.

WULA has a detailed, written business contingency plan that includes appropriate escalation procedures to resolve operational failures in a timely manner and addresses the continuation of

all financially significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities. The plan has been tested annually.

SUBSEQUENT EVENTS

1. Proposed Change in Control

- a. On December 11, 2009, WULA filed an amendment under Form B. The amendment disclosed that DLB Capital, LLC had entered into an agreement in which an entity acquired an option to purchase up to 20% of the aggregate outstanding common membership interest in GLH.
- b. Effective December 18, 2009, Douglas L. Brown (the ultimate controlling person) and Deval Dvivedi resigned from WULA's Board.
- c. On December 18, 2009, DLB Capital, LLC assigned its interest in GLH back to GLH, and as a result, DLB Capital, LLC was no longer a holder of any interests in GLH as of that date.

2. Reinsurance Transaction

Effective October 1, 2009, WULA entered into a funds withheld coinsurance agreement with Athene Life Re Ltd., a reinsurance company organized under the laws of Bermuda. The Agreement specifies an automatic 80% quota share cession to the reinsurer. WULA transferred reserves of approximately \$80 million and received a ceding commission of roughly \$8.4 million.

3. Management Services Agreement

At December 31, 2008, WULA was a party to a management services agreement with its parent, GLH. The agreement was amended several times during 2009 to reduce the amount of fees payable to GLH, and was fully terminated effective December 31, 2009. (See Instruction No. 3.)

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

The prior exam report included an instruction to develop a conflict of interest policy. The Company has developed a conflict of interest policy for officers and key employees, but has not developed a similar policy for directors. (See Comment and Recommendation No. 3.) All other previous examination instructions were remedied.

FINANCIAL STATEMENTS

Statement of Assets, Liabilities, Surplus, and Other Funds

Summary of Operations

Five Year Reconciliation of Surplus

Analysis of Changes in Financial Statement Resulting from the Examination

WESTERN UNITED LIFE ASSURANCE COMPANY
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2008

Assets	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	NOTES
Bonds	\$553,240,915	(\$1,478,823)	\$551,762,092	5
Preferred stocks	1,972,250		\$1,972,250	
Common stocks	14,899,816		\$14,899,816	
Mortgage loans on real estate - first liens	11,749,545		\$11,749,545	
Real estate - properties held for sale	16,959,165	950,000	\$17,909,165	1
Cash and short-term investments	78,215,793		\$78,215,793	
Contract Loans	2,382,469	182,476	\$2,564,945	3
Other invested assets	4,211,110		\$4,211,110	
Receivable for securities	46,128		\$46,128	
Aggregate write-ins for invested assets	200,428		\$200,428	
Subtotal, cash and invested assets	683,877,619	(346,347)	683,531,272	
Investment income due and accrued	5,567,138	(182,476)	5,384,662	3
Amount Recoverable from Reinsurer	26,388		26,388	
Other amounts receivable on reinsurance contracts	5,622		5,622	
Electronic data processing equipment and software	26,042		26,042	
Current federal and foreign income tax recoverable and interest thereon	16,868,129	689,467	17,557,596	2
Aggregate write-ins for other than invested assets	7,594,032		7,594,032	
Total Assets	\$713,964,970	\$160,644	\$714,125,614	
Liabilities, Surplus and Other Funds				
Aggregate reserve for life policies and contracts	\$613,748,552	\$437,016	\$614,185,568	4
Liability for deposit-type contracts	37,535,224		37,535,224	
Life (contract claims)	14,747,337		14,747,337	
Other amounts payable on reinsurance	26,388		26,388	
Interest Maintenance Reserve	6,741,514		6,741,514	
Commissions to agents due and accrued	116,863		116,863	
General expenses due or accrued	1,077,082		1,077,082	
Taxes, licenses and fees due or accrued excluding federal income tax	1,249,066		1,249,066	
Amounts withheld or retained by company as agent or trustee	286,580		286,580	
Amounts held for agent's account	7,134		7,134	
Remittances and items not allocated	2,951,302		2,951,302	
Liability for benefits for employees and agents if not included above	370,735		370,735	
Asset valuation reserve	2,336,992		2,336,992	
Payable for securities	81,901		81,901	
Aggregate write-ins for liabilities	6,544,355		6,544,355	
Total Liabilities	687,821,025	437,016	688,258,041	
Common capital stock	2,400,000		2,400,000	
Gross paid in and contributed surplus	33,130,756		33,130,756	
Unassigned funds (surplus)	(9,386,811)	(276,372)	(9,663,183)	1,2,3,4,5
Capital and Surplus	26,143,945	(276,372)	25,867,573	
Total Liabilities, Surplus and other Funds	\$713,964,970	\$160,644	\$714,125,614	

WESTERN UNITED LIFE ASSURANCE COMPANY
SUMMARY OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
Income				
Premiums and annuity considerations	\$103,697,319	\$0	\$103,697,319	
Net investment income	32,410,605		32,410,605	
Amortization of Interest Maintenance Reserve	1,144,096		1,144,096	
Commissions and expense allowances on reinsurance ceded	163,736		163,736	
Aggregate write-ins for miscellaneous income	2,421,451	1,639,467	4,060,918	1,2
Total Income	<u>139,837,207</u>	<u>1,639,467</u>	<u>141,476,674</u>	
Benefits				
Annuity benefits	26,224,151		26,224,151	
Surrender benefits and withdrawals for life contracts	157,582,553		157,582,553	
Interest adjustments on contract or deposit-type contracts	2,716,566		2,716,566	
Increase in aggregate reserves for life and health	<u>(55,082,419)</u>	<u>437,016</u>	<u>(54,645,403)</u>	4
Total Benefits	<u>131,440,851</u>	<u>437,016</u>	<u>131,877,867</u>	4
			0	
Expenses				
Commissions on premiums and annuity considerations	3,676,701		3,676,701	
General insurance expenses	8,575,364		8,575,364	
Insurance taxes, licenses and fees, excl. federal income tax	<u>380,512</u>		<u>380,512</u>	
Total Benefits and Expenses	<u>144,073,428</u>	<u>437,016</u>	<u>144,510,444</u>	4
Net gain from operations before dividends to policyholders and income taxes	(4,236,221)	1,202,451	(3,033,770)	1,2,4
Federal income taxes incurred (excl. tax on capital gains)			0	
Net gain from operations after dividends to policyholders and federal income taxes but before realized capital gains or losses	(4,236,221)	1,202,451	(3,033,770)	1,2,4
Net realized capital gains or (losses) less capital gains tax	<u>(6,760,948)</u>		<u>(6,760,948)</u>	
Net Income	<u>(\$10,997,169)</u>	<u>\$1,202,451</u>	<u>(\$9,794,718)</u>	1,2,4
Capital and Surplus Account				
Capital and Surplus, December 31, Previous Year	<u>\$45,557,011</u>	<u>\$0</u>	<u>\$45,557,011</u>	
Net income	(10,997,169)	1,202,451	(9,794,718)	1,2,4
Change in unrealized capital gains (losses)	(1,604,082)		(1,604,082)	
Change in net deferred income tax	(1,842,586)		(1,842,586)	
Change in non-admitted assets and related items	7,546,069	(1,478,823)	6,067,246	5
Change in asset valuation reserve	5,377,339		5,377,339	
Capital changes - transferred from surplus	2,400,000		2,400,000	
Surplus adjustment - paid in	31,819,203		31,819,203	
Aggregate write-ins for gains and losses in surplus	(52,111,840)		(52,111,840)	
Net change in capital and surplus for the year	<u>(19,413,066)</u>	<u>(276,372)</u>	<u>(19,689,438)</u>	1,2,4,5
Capital and Surplus, December 31, 2008	<u>\$26,143,945</u>	<u>(\$276,372)</u>	<u>\$25,867,573</u>	

**WESTERN UNITED LIFE ASSURANCE COMPANY
FIVE YEAR RECONCILIATION OF SURPLUS
FOR THE YEARS ENDED DECEMBER 31**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital and surplus, December 31, prior year	\$45,557,011	\$47,680,296	\$41,663,645	\$63,341,682	\$117,944,585
Net income	(10,997,169)	(47,730)	(4,926,951)	(29,271,192)	(23,963,636)
Change in net unrealized capital gains (losses)	(1,604,082)	(194,537)	9,842,977	6,524,394	(4,108,096)
Change in net deferred income tax	(1,842,587)	3,302,409	2,555,403	8,128,213	8,306,254
Change in reserve on acct of change in valuation basis					
Change in non-admitted assets and related item	7,546,069	(7,595,374)	5,073,314	746,615	(5,988,632)
Change in asset valuation reserve	5,377,339	2,411,947	518,769	(4,710,208)	(3,810,518)
Capital Changes – transferred from surplus	2,400,000				
Cumulative effect of changes in accounting principles					
Surplus adjustment - paid in	31,819,203				
Change in surplus as a result of reinsurance			(2,000,000)		
Aggregate write-ins for gains and losses in surplus	(52,111,840)		(5,046,861)	(3,095,859)	(25,038,275)
Change in capital and surplus for the year	(19,413,066)	(2,123,285)	6,016,651	(21,678,037)	(54,602,903)
Capital and surplus, December 31, current year	<u>\$26,143,945</u>	<u>\$45,557,011</u>	<u>\$47,680,296</u>	<u>\$41,663,645</u>	<u>\$63,341,682</u>

**WESTERN UNITED LIFE ASSURANCE COMPANY
ANALYSIS OF CHANGES IN FINANCIAL STATEMENT RESULTING FROM THE EXAMINATION
DECEMBER 31, 2008**

	<u>Per Annual Statement</u>	<u>Per Examination</u>	<u>Notes</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
Capital and surplus 12/31/2008 Per Annual Statement					\$26,143,945
Assets					
Bonds	\$553,240,915	551,762,092	5	(\$1,478,823)	
Real estate held for sale	16,959,165	17,909,165	1	950,000	
Contract loans	2,382,469	2,564,945	3	182,476	
Investment income due or accrued	5,567,138	5,384,662	3	(\$182,476)	
Current federal and foreign income tax receivable	16,868,129	17,557,596	2	689,467	
Liabilities					
Aggregate reserves	613,748,552	614,185,568	4	(437,016)	
Change in surplus					(\$276,372)
Capital and surplus, 12/31/2008 per examination					<u><u>\$25,867,573</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. Real Estate

Increase Real Estate Held for Sale in the amount of \$950,000 to correct reduction of asset value upon forfeiture of a potential purchaser's deposit, in accordance with SSAP 40, Paragraph 22.

2. Federal Income Tax Recoverable

Increase Federal Income Tax Recoverable in the amount of \$689,467 to account for accrued interest in compliance with SSAP 10, Paragraph 8.

3. Policy Loan Interest

Reclassify \$182,476 of policy loan interest more than 90 days past due in accordance with SSAP 49, Paragraph 4.

4. Actuarial Findings

Increase Aggregate Reserves for Life Contracts in the amount of \$437,016 to account for all guaranteed benefits potentially available in accordance with RCW 48.74.040 and Actuarial Guidelines VIII and XXXIII.

5. Bonds

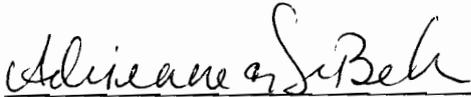
Reduce Bonds in the amount of \$1,478,823 to comply with RCW 48.13.030 which limits investments in any one issuer to four percent of the insurer's assets.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examination team by the officers and staff of Western United Life Assurance Company during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Susan Campbell, CPA, CFE, FLMI, ARA, Reinsurance Specialist, and Life & Disability Field Supervisor; Roy Olson, FSA, MAAA, Life Actuary; H. Lee Michelson, FSA, MAAA, CLU, Associate Actuary; John R. Jacobson, AFE, CISA, AES, Automated Examination Specialist; Kathy Hicks, CPA, Financial Examiner; and Friday Enoye, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



Adrienne C. DeBella, CPA, CFE, ALMI
Examiner-in-Charge
State of Washington

