

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
WESTERN UNITED LIFE ASSURANCE COMPANY
SPOKANE, WASHINGTON

NAIC CODE 77925
December 31, 2012

Order No. 13-238
Western United Life Assurance Company
Exhibit A

SALUTATION

Seattle, Washington
July 23, 2013

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

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an 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 located at 929 West Sprague, Spokane, WA 99201. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2012.

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, 2012.



Patrick H. McNaughton
Chief Examiner

8-22-13

Date

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
INSTRUCTIONS	1
COMMENTS AND RECOMMENDATIONS.....	3
COMPANY PROFILE.....	3
Company History	3
Territory and Plan of Operations.....	3
Growth of Company	4
Affiliated Companies	5
Intercompany Agreements.....	5
MANAGEMENT AND CONTROL.....	6
Board of Directors	6
Officers	6
Conflict of Interest.....	6
Fidelity Bond and Other Insurance.....	6
Officers', Employees', and Agents' Welfare and Pension Plans.....	6
CORPORATE RECORDS	7
MORTALITY AND LOSS.....	7
REINSURANCE	7
STATUTORY DEPOSITS.....	8
ACCOUNTING RECORDS AND INFORMATION SYSTEMS	8
SUBSEQUENT EVENTS.....	9
FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS	9
FINANCIAL STATEMENTS.....	9
Assets, Liabilities, Surplus and Other Funds.....	10
Summary of Operations	12
Four Year Reconciliation of Surplus.....	14
NOTES TO THE FINANCIAL STATEMENTS	15
ACKNOWLEDGMENT	16
AFFIDAVIT	17

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2009 through December 31, 2012 and comprises a risk focused review of the books and records of the Company. The examination followed 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 on July 23, 2013.

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 section of this report. In addition, the Company's Certified Public Accountant's (CPA's) workpapers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2012 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and to provide assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2012 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 outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. NAIC Annual Statement Errors, Omissions, and Misclassifications

The examination team found instances in which the Company's filing of the 2012 NAIC Annual Statement did not conform to the NAIC Annual Statement Instructions and the AP&P. While the Company needs to correct these errors, the following items were not material to the financial statements and no adjustments were necessary. The following errors were noted:

a. Schedule D – The Company's filing of 2012 Residential Mortgage-Backed Security (RMBS) and Commercial Mortgage-Backed Security (CMBS) on Schedule D failed to use the Financial Modeling (FM) symbol as required by the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO), effective for NAIC Annual Statements ending December 31, 2012 (refer to Part One, Section 3(b)(iii)(C), and Part Three, Section 3(c)). We noted 91 exceptions on the Company's 2012 NAIC Annual Statement Schedule D Part 1, compared with the NAIC database for the RMBS and CMBS securities.

b. Schedule D – A security was omitted on the Company’s 2012 NAIC Annual Statement Schedule D. Despite impairment of the carrying value, the Company must include all securities with any remaining values in accordance with NAIC Annual Statement Instructions.

The Company is instructed to comply with RCW 48.43.097, RCW 48.05.250, and WAC 284-07-050(2) by filing its NAIC Annual Statements in accordance with the NAIC Accounting Practices and Procedures Manual, and the NAIC Annual Statement Instructions.

2. Negative Cash Surrender Values Non-Admitted

When policyholders are in default on policy loans, the principal plus accrued interest can become larger than the annuity value of the policy, resulting in negative surrender values that should have been non-admitted on the Company’s 2012 NAIC Annual Statement filing in accordance with SSAP No. 49(5) and SSAP No 4. No adjustment is required as the related amount is immaterial.

The Company is instructed to non-admit the negative cash surrender values in accordance with SSAP No. 49 and SSAP No. 4, and comply with RCW 48.43.097 and WAC 284-07-050(2) by filing its NAIC Annual Statements in accordance with the NAIC Accounting Practices and Procedures Manual, and the NAIC Annual Statement Instructions.

3. Inaccurate Data in Policy Administration System

During the testing of the accuracy of the data attributes used by the Company’s actuary to calculate reserves, the examiners found three errors. These errors related to incorrect date of birth and incorrect gender classifications. The information in the policyholder’s physical file did not match the information in the policy administration system.

Pursuant to RCW 48.05.280, the Company is instructed to keep full and adequate accounts and records of its assets, obligations, transactions, and affairs.

4. Written Investment Policy Requirements

The Company’s written investment policy omitted the following written guidelines per RCW 48.13.051. RCW 48.13.051(1) requires the delegation and monitoring of policies, procedures, and controls covering all aspects of the investment function. RCW 48.13.051(4) requires professional standards for the individuals making day to day investment decisions to assure that investments are managed in an ethical and capable manner. RCW 48.13.051(7) requires the manner in which the insurer intends to implement RCW 48.13.041 (Prudent Investment).

The Company is instructed to comply with RCW 48.13.051, and ensure that its written investment policy meets all requirements of this section.

COMMENTS AND RECOMMENDATIONS

1. Internal Controls over Policy Setup

The examiners found instances where the employees administering claims have access to the policy administration system for new policy set up.

It is recommended that the Company strengthen its controls over segregation of duties between new policy set up and the administration of claims.

2. Conflict of Interest Annual Disclosure

The examiners identified that one of the Company's directors and the corporate secretary did not comply with the conflict of interest disclosure policy by submitting the conflict of interest disclosure annually.

It is recommended the Company ensure that all directors, officers, and key employees complete an annual conflict of interest disclosure form annually.

COMPANY PROFILE

Company History

The Company was incorporated as a Washington stock insurance company on June 3, 1963. Consumers Insurance Company, Inc., and Metropolitan Mortgage & Securities Co., Inc., owned 75.5 percent and 24.5 percent of the Company respectively, until December 24, 2003 when Consumers Insurance Company ceased doing business and Metropolitan Mortgage & Securities Co., Inc., acquired 100 percent ownership through a stock purchase transaction. On the same day, the Company consented to an Order for Supervision by the OIC. 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), a Delaware non-insurer, acquired the Company 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. The common member interests of GLH are owned by Global Secured Investments, LLC and Global Life Acquisitions, LLC and the preferred member interests of GLH are owned by Global Life Acquisitions, LLC. Both Global Secured Investments, LLC and Global Life Acquisitions, LLC are owned by two individuals, Richard Kearns and Joseph MacLean. They are equal shareholders of WULA, and are on the Company's BOD as of December 31, 2012.

Territory and Plan of Operations

The Articles of Incorporation as amended on June, 27, 2008 authorize the Company to write life insurance, annuities of all types, disability insurance, and other related coverage including healthcare services. The Company is primarily engaged in the offering, issuance, sale, and renewal of individual annuity contracts. WULA is licensed to sell insurance products in 16 states, currently concentrating in the states of Idaho, Montana, North Dakota, Oregon, Utah, and Washington. The Company is not currently accepting applications in the states of Arizona and Texas at the request of their respective

Departments of Insurance. WULA markets its annuity products through a network of approximately 1,040 independent agents. The agents are recruited, trained, and managed by a staff of experienced regional managers who are employees of WULA.

Growth of Company

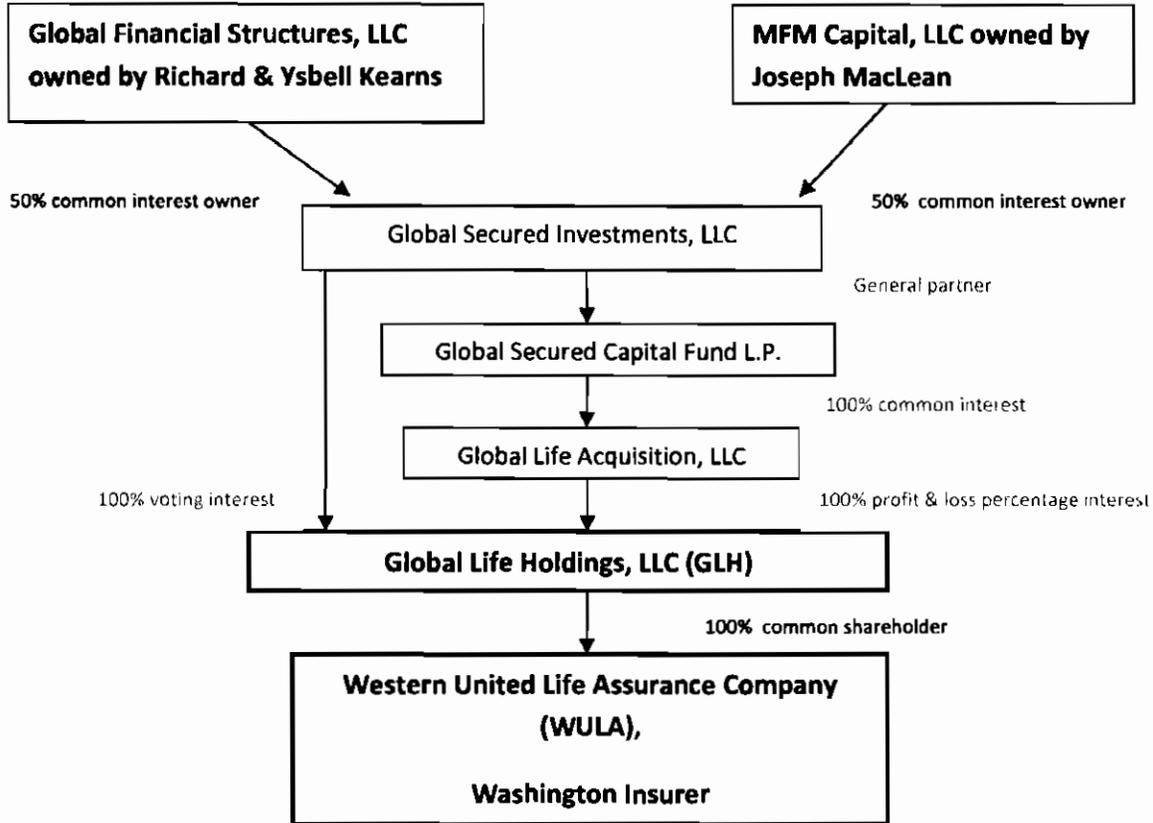
The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the four year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2012	\$765,515,878	\$732,600,641	\$32,915,237
2011	757,808,978	731,076,481	26,732,497
2010	753,863,995	727,771,076	26,092,919
2009	764,474,686	737,225,833	27,248,853

<u>Year</u>	<u>Premium Earned</u>	<u>Total Benefits</u>	<u>Net Investment</u>	
			<u>Income</u>	<u>Net Income (Loss)</u>
2012	\$121,192,206	\$143,517,615	\$40,663,650	\$10,205,745
2011	31,159,495	54,394,165	38,132,795	2,294,855
2010	73,480,503	98,574,260	37,635,275	2,685,687
2009	75,014,284	101,751,667	32,860,647	(10,018,383)

Affiliated Companies

WULA is a wholly owned subsidiary of GLH, which is ultimately owned by two individuals, Richard Kearns and Joseph MacLean. The following organizational chart illustrates the Company’s affiliates within the organization as of December 31, 2012:



Intercompany Agreements

The Company currently has no intercompany agreements with any affiliate. The Company terminated its Management Services Agreement with GLH as of December 31, 2009.

MANAGEMENT AND CONTROL

Board of Directors

Directors of the Company as of December 31, 2012:

Dale Whitney - Chairman
Andrew Alberti
Todd Bareika
Richard Kearns
Don Kelley
Joseph MacLean
Rahul Sharma

Officers

Officers of the Company as of December 31, 2012:

Dale Whitney	Chief Executive Officer
Todd Bareika	Chief Financial Officer
Rahul Sharma	Chief Operating Officer
Linda Mason	Secretary

Conflict of Interest

The Company has a policy that requires that all employees who serve as a board appointed officer or director must complete a conflict of interest statement annually. The purpose of the statement is to give guidance on the standards and procedures applicable to employees in actual or potential conflict of interest and external engagement situations. Our review revealed an exception to this policy. (See Comments and Recommendations No. 2.)

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

Effective January 2006, the Company established its own 401k plan (defined contribution plan). Eligible employees may contribute from one percent to 80 percent of annual compensation, subject to an annual limitation of \$17,000 and \$16,500 for 2012 and 2011, respectively. Employees who are age 50 or older may make additional pre-tax contribution of up to \$5,500 for 2012 and 2011. The Company may match a certain portion of employee contributions. The Company contributed no matching amounts in 2012 and 2011, respectively.

The Company has accrued an obligation for certain post-employment benefits (originally structured as part of a non-compete agreement with a former Company officer) of \$427,812 and \$414,276 at December 31, 2012 and 2011, respectively.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. The minutes supported the transactions of the Company and actions taken by the officers.

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 and applicable actuarial guidelines.

The OIC actuary performed such testing of the Company's reserving methodologies and philosophies as was deemed necessary to come to a conclusion with respect to the methods and assumptions used. WULA provided copies of its actuarial workpapers and reserve reports as of December 31, 2012. Several tests were performed on the underlying data, methods, and calculations as deemed necessary. In addition, valuation reports and procedures were tested to establish that accurate and complete in-force information as of December 31, 2012 was represented in the valuation reports and workpapers. The OIC actuary has determined that the reserves reported by the Company were adequate and complete.

REINSURANCE

The Company entered into a coinsurance agreement with Athene Life Re Ltd (Athene) effective October 1, 2009, with an amendment dated November 1, 2011. Athene is an unauthorized reinsurer organized under the laws of Bermuda. The Company has a funds withheld liability of \$126 million and \$148 million at December 31, 2012 and 2011, respectively.

The Company also has a 100 percent coinsurance treaty with Manhattan Life Insurance Company to reinsure the life business that was not novated.

The reinsurance agreements were found to be in compliance with Washington State reinsurance statutes.

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

STATUTORY DEPOSITS

The Company maintained the following statutory deposits as of December 31, 2012:

<u>STATE</u>	<u>MARKET VALUE</u>	<u>STATEMENT VALUE</u>
Washington	\$ 1,047,350	\$ 1,011,019
Other*	217,176	217,176

*Washington State letter of credit for construction bonds

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to a Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of EisnerAmper and 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 exceptions were noted.

The Company's information technology (IT) environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and Related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT systems and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels.

SUBSEQUENT EVENTS

Effective March 31, 2013, Central United Life Insurance Company (CULIC), an Arkansas domiciled stock life insurance company (NAIC No. 61883) purchased all 2,400,000 shares of issued and outstanding \$1 par value common stock of WULA from GLH for \$30 million in cash. CULIC is a member of a holding company group, Manhattan Insurance Group, led by Harris Insurance Holdings, Inc., a Texas corporation with its home office in Houston, Texas.

Also, on March 31, 2013, GLH paid off its \$8.38 million secured non-interest bearing note to WULA. On April 1, 2013, CULIC contributed to WULA the common stock of Investors Consolidated Insurance Company, a wholly owned subsidiary of CULIC domiciled in New Hampshire (NAIC No. 85189). The amount received was \$7.5 million and was recorded as an investment in subsidiary common stock and paid in capital.

Concurrent with the purchase of WULA, CULIC replaced the majority of the Company's BOD. David Harris, who is the ultimate owner of the Manhattan Insurance Group, is the new chairman of the board. CULIC also replaced the Company's senior officers, including chief executive officer, chief financial officer and general counsel.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and recommendations were corrected and satisfactorily addressed.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Western United Life Assurance Company as of December 31, 2012:

Assets, Liabilities, Surplus and Other Funds
Summary of Operations
Four Year Reconciliation of Surplus

Western United Life Assurance Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2012

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
ASSETS			
Bonds	\$700,062,449	\$0	\$700,062,449
Preferred stocks	2,500,000		2,500,000
Common stocks	8,633,400		8,633,400
Mortgage loans on real estate - First liens	49,931		49,931
Properties held for sale	15,862,621		15,862,621
Cash, cash equivalents and short-term investments	25,358,618		25,358,618
Contract loans	1,401,497		1,401,497
Derivatives	330,110		330,110
Other invested assets	580,210		580,210
Receivables for securities	280,384		280,384
Subtotals, cash and invested assets	755,059,220	0	755,059,220
Investment income due and accrued	6,753,319		6,753,319
Premiums and considerations:			
Aggregate write-ins for other than invested assets	3,703,339		3,703,339
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	765,515,878		765,515,878
Total Assets	\$765,515,878	\$0	\$765,515,878

Western United Life Assurance Company
Assets, Liabilities, Surplus and Other Funds (Continued)
December 31, 2012

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
LIABILITIES, CAPITAL AND SURPLUS			
Aggregate reserve for life contracts	\$573,908,773	\$0	\$573,908,773
Liability for deposit-type contracts	19,283,689		19,283,689
Interest maintenance reserve	8,586,672		8,586,672
Commissions to agents due or accrued	199,708		199,708
General expenses due or accrued	900,091		900,091
Unearned investment income	225		225
Amounts withheld or retained by company as agent or trustee	416,364		416,364
Amounts held for agents' account, including \$7,360 agents' credit balances	7,360		7,360
Remittances and items not allocated	798,568		798,568
Liability for benefits for employees and agents if not included above	35,847		35,847
Miscellaneous liabilities:			
Asset valuation reserve	1,585,084		1,585,084
Funds held under reinsurance treaties with unauthorized reinsurers	126,003,053		126,003,053
Payable for securities	82,294		82,294
Aggregate write-ins for liabilities	792,913		792,913
Total liabilities excluding Separate Accounts	<u>732,600,641</u>	<u>0</u>	<u>732,600,641</u>
Total Liabilities	<u>732,600,641</u>	<u>0</u>	<u>732,600,641</u>
Common capital stock	2,400,000		2,400,000
Gross paid in and contributed surplus	33,130,756		33,130,756
Unassigned funds (surplus)	(2,615,519)		(2,615,519)
Total Capital and Surplus	<u>32,915,237</u>	<u>0</u>	<u>32,915,237</u>
Total Liabilities, Capital and Surplus	<u>\$765,515,878</u>	<u>\$0</u>	<u>\$765,515,878</u>

Western United Life Assurance Company
Summary of Operations
For the Year Ended December 31, 2012

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Income			
Premiums and annuity considerations for life and health contracts	\$121,192,206	\$0	\$121,192,206
Consideration for supplementary contracts with life contingencies	410,333		410,333
Net investment income	40,663,650		40,663,650
Amortization of interest maintenance reserve	5,249,114		5,249,114
Commission and expenses allowances on reinsurance ceded	5,744,003		5,744,003
Aggregate write-ins for miscellaneous income	9,292		9,292
Total Income	173,268,598	0	173,268,598
Benefits			
Annuity benefits	20,367,989		20,367,989
Surrender benefits and withdrawals for life contracts	93,640,619		93,640,619
Interest and adjustments on contract or deposit-type contract funds	752,633		752,633
Payments on supplementary contracts with life contingencies	618,490		618,490
Increase in aggregate reserves for life and accident and health contracts	28,137,884		28,137,884
Total Benefits	143,517,615	0	143,517,615
Expenses			
Commissions on premiums, annuity considerations, and deposit-type contract funds	3,750,619		3,750,619
General Insurance expenses	5,822,382		5,822,382
Insurance taxes, licenses and fees, excluding federal income taxes	287,178		287,178
Aggregate write-ins for deductions	7,061,049		7,061,049
Total Benefits and Expenses	\$160,438,843	\$0	\$160,438,843

**Western United Life Assurance Company
Summary of Operations (Continued)
For the Year Ended December 31, 2012**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$12,829,755	\$0	\$12,829,755
Net gain from operations after dividends to policyholders but before federal income taxes	12,829,755		12,829,755
Federal and foreign income taxes incurred	166,775		166,775
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	12,662,980		12,662,980
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax	(2,457,235)		(2,457,235)
Net Income	\$10,205,745	\$0	\$10,205,745
CAPITAL AND SURPLUS ACCOUNT			
Capital and Surplus, December 31, Prior Year	\$26,732,497	\$0	\$26,732,497
Net Income	10,205,745		10,205,745
Change in net unrealized capital gains (losses) less capital gains tax of \$24,990	46,409		46,409
Change in net deferred income tax	(21,243,559)		(21,243,559)
Change in nonadmitted assets	21,325,151		21,325,151
Change in asset valuation reserve	1,059,080		1,059,080
Aggregate write-ins for gains and losses in surplus	(5,210,086)		(5,210,086)
Net change in Capital and Surplus	6,182,740	0	6,182,740
Capital and Surplus, December 31, Current Year	\$32,915,237	\$0	\$32,915,237

Western United Life Assurance Company
Four Year Reconciliation of Surplus
As of December 31,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and Surplus, December 31, Prior Year	<u>\$26,732,497</u>	<u>\$26,092,919</u>	<u>\$27,248,853</u>	<u>\$26,143,945</u>
Net Income or (loss)	10,205,745	2,294,855	2,685,687	(10,018,383)
Change in net unrealized capital gains (losses)	46,409	(670,267)	421,732	2,583,165
Change in net deferred income tax	(21,243,559)	(2,904,570)	(3,811,655)	(6,424,695)
Change in non-admitted assets	21,325,151	(5,435,211)	4,075,763	7,049,221
Change in asset valuation reserve	1,059,080	1,135,816	(1,333,658)	(109,333)
Aggregate write-ins for gains and losses in surplus	<u>(5,210,086)</u>	<u>6,218,955</u>	<u>(3,193,803)</u>	<u>8,024,933</u>
Net change in Capital and Surplus	<u>6,182,740</u>	<u>639,578</u>	<u>(1,155,934)</u>	<u>1,104,908</u>
Capital and Surplus, December 31, Current Year	<u><u>\$32,915,237</u></u>	<u><u>\$26,732,497</u></u>	<u><u>\$26,092,919</u></u>	<u><u>\$27,248,853</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. Permitted Accounting Practices

On December 20, 2011, the OIC renewed a permitted practice that allowed the Company to continue to admit a certain piece of real property beyond the five year disposal time frame. This permitted accounting practice is applicable from January 1, 2012 through and including December 31, 2012. The effect of this permitted accounting practice increases capital and surplus by \$9,785,000 as of December 31, 2012 and December 31, 2011 over what would otherwise be reported in accordance with Washington prescribed practices. The statements of operations – statutory basis were not affected by this permitted accounting practice which had no effect upon the capital and surplus, operations, or Risk Based Capital score that would otherwise have been reported under NAIC Statements of Statutory Accounting Principles (SSAP). This permitted practice was extended on January 11, 2013 for the period January 1, 2013 through and including December 31, 2013 and expires on December 31, 2013 unless renewed.

On December 20, 2011, the OIC renewed a similar permitted practice that allows the Company to continue to admit two commercial real properties beyond the five year disposal time frame. This permitted accounting practice is applicable from January 1, 2012 through and including December 31, 2012. The effect of this permitted accounting practice increases capital and surplus by \$408,500 as of December 31, 2012 and \$786,250 as of December 31, 2011 over what would otherwise be reported in accordance with Washington prescribed practices. The statements of operations – statutory basis were not affected by this permitted accounting practice. Because SSAPs do not contain a similar provision, the use of this permitted accounting practice has no effect upon the capital and surplus, operations, or Risk Based Capital score that would otherwise be reported under SSAP. This permitted practice was extended on January 11, 2013 for the period January 1, 2013 through and including December 31, 2013 and expires on December 31, 2013 unless renewed.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees 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; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Timothy F. Hays, CPA, JD, Investment Specialist; Scott Fitzpatrick, FSA, MAAA, Life Actuary; Susan Campbell, CPA, CFE, FLMI, ARA, Life Field Supervising Examiner and Reinsurance Specialist; Katy Bardsley, CPA, CFE, Financial Examiner; Keith Henderson, CPA, Financial Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



Youngjae Lee, CPA, CFE
Examiner-in-Charge
State of Washington

