

**REPORT ON EXAMINATION**  
**OF THE**  
**INDEPENDENCE LIFE AND ANNUITY COMPANY**  
**AS OF**  
**DECEMBER 31, 2012**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

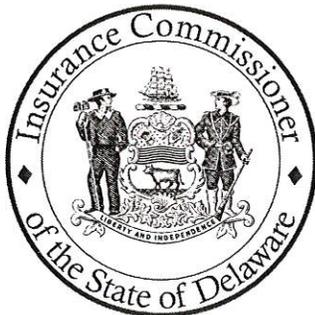
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2012 of the

**INDEPENDENCE LIFE AND ANNUITY COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: *Brandi Biddle*

Date: September 19, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 19<sup>th</sup> day of September, 2013.

\_\_\_\_\_  
Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
INDEPENDENCE LIFE AND ANNUITY COMPANY  
AS OF  
DECEMBER 31, 2012

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

---

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 19<sup>th</sup> day of September, 2013

## TABLE OF CONTENTS

<u>SCOPE OF EXAMINATION</u> .....	1
<u>SUMMARY OF SIGNIFICANT FINDINGS</u> .....	3
<u>COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS</u> .....	3
<u>SUBSEQUENT EVENTS</u> .....	3
<u>HISTORY</u> .....	4
<u>CAPITALIZATION</u> .....	6
<u>CORPORATE RECORDS</u> .....	6
<u>MANAGEMENT AND CONTROL</u> .....	7
<u>HOLDING COMPANY SYSTEM</u> .....	10
<u>INTERCOMPANY AGREEMENTS</u> .....	11
<u>TERRITORY AND PLAN OF OPERATION</u> .....	12
<u>GROWTH OF THE COMPANY</u> .....	13
<u>LOSS EXPERIENCE</u> .....	14
<u>REINSURANCE</u> .....	14
<u>ACCOUNTS AND RECORDS</u> .....	15
<u>STATUTORY DEPOSITS</u> .....	16
<u>FINANCIAL STATEMENTS</u> .....	17
<u>SCHEDULE OF EXAMINATION ADJUSTMENTS</u> .....	24
<u>NOTES TO FINANCIAL STATEMENTS</u> .....	24
<u>SUMMARY OF RECOMMENDATIONS</u> .....	29
<u>CONCLUSION</u> .....	29

## **SALUTATION**

August 2, 2013

Honorable Karen Weldin Stewart, CIR-ML  
Delaware Insurance Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 12.040, dated March 25, 2013, an Association examination has been made of the affairs, financial condition and management of the

### **INDEPENDENCE LIFE AND ANNUITY COMPANY**

hereinafter referred to as “Company” or “ILAC” incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the main administrative office of the Company, located at One Sun Life Executive Park, Wellesley Hills, MA 02481. The report of this examination is submitted herewith.

### **SCOPE OF EXAMINATION**

We have performed an examination of the Company. The last examination of the Company was conducted as of December 31, 2007 by the State of Rhode Island Department of Business Regulation Insurance Division. This examination covers the period since that date through December 31, 2012, and including any material transactions and/or events noted occurring subsequent to December 31, 2012.

This examination was conducted in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook (NAIC Handbook)* and

generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires the examiners perform an examination to evaluate the financial condition and identify prospective risks of the Company. In doing so, the examiners reviewed corporate governance, identified inherent risks of the Company, and evaluated the controls and procedures used to mitigate the identified risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and the Company's compliance with Statutory Accounting Principles and applicable annual statement instructions.

Concurrent with this examination, a statutory exam of the Company's parent, the Sun Life Assurance Company of Canada (U.S.) (SLUS), was conducted as of December 31, 2011. The Company and SLUS are part of the Sun Life Financial Group Insurance Holding Company system and utilize the same accounting, information technology, and primary administrative systems. To improve efficiency of the examination process and avoid duplication of work, the work papers of the SLUS exam were obtained, reviewed and incorporated into the risk assessment process where deemed appropriate.

The Company's external auditor Deloitte & Touche LLP (D&T), made available for review all work papers pertinent to its audit of the SLUS' financial statements for the year ended December 31, 2011. Certain work papers prepared by the external accounting firm were incorporated into the examiners work papers if deemed appropriate and in accordance with the NAIC Handbook.

In addition to items hereinafter incorporated as a part of this report, the following were reviewed without exception and made part of the work papers of this examination.

Fidelity Bonds and Other Insurance  
Officers, Employees and Agents' Welfare  
NAIC Ratios  
Legal Actions  
All Asset & Liability items not mentioned in this report

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings.

### **COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS**

There were no necessary actions needed to comply with the 2007 examination report issued by the State of Rhode Island Department of Business Regulation Insurance Division.

### **SUBSEQUENT EVENTS**

In December 2012, the Board of Directors of SLUS approved the distribution of all the issued and outstanding shares of the Company to an affiliate, Sun Life of Canada (U.S.) Holdings, Inc. (Life Holdco). SLUS received regulatory approval for this distribution, and the Company was distributed effective January 1, 2013.

On December 17, 2012, Sun Life Financial Inc. (SLF) announced the execution of a definitive agreement to sell its domestic U.S. annuity business and certain life insurance businesses to Delaware Life Holdings, LLC, including all the issued and outstanding shares of stock of SLUS, the Company's now previous parent (the "Sale Transaction"). The Sale Transaction has not yet closed by the second quarter of 2013 and is subject to regulatory approvals.

As the Company is party to various related administrative service agreements, certain of these affiliated agreements may be amended or terminated in connection with the Sale Transaction.

On November 15, 2012, the Board of Directors of the Company approved the formation of a wholly-owned subsidiary, Sun Life Financial (U.S.) Reinsurance Company II ("SLDE"), for

the purpose of reinsuring certain individual life policies issued by its affiliate, the United States Branch of Sun Life Assurance Company of Canada. The Delaware Department of Insurance has issued a certificate of authority and a licensing order for SLDE as of December 31, 2012. The initial capitalization of SLDE has not yet occurred and as such, the contemplated reinsurance transactions have not yet transpired.

On February 14, 2013, the security on deposit with the State of Rhode Island of approximately \$5 million was returned due to the Company's redomestication to Delaware.

### **HISTORY**

The Company was incorporated under the Kentucky Insurance Laws on October 11, 1945, and began business on November 23, 1945, as the "Independence Life and Accident Insurance Company of Kentucky."

On January 1, 1953, the Company absorbed an affiliate, the Independence Insurance Company, which had the same management as the Company. On July 23, 1982, the Independent Life and Accident Insurance Company of Florida acquired all outstanding stock of the Company. During 1982 and 1983, all in force business was transferred by reinsurance assumption agreement to the Independent Life and Accident Insurance Company. On April 2, 1984, the Crown Life Insurance Company, domiciled in Canada, purchased 100% of the outstanding shares of the Company, at which time the Company adopted the name Crown America Life Insurance Company.

On December 4, 1989, the Company applied to the Michigan Commissioner of Insurance to re-domesticate to Michigan. On December 27, 1989, the Kentucky Department of Insurance, by letter, stated its intent to recognize the Company as a foreign (Michigan) insurer that is authorized to do business in Kentucky. Final approval of the re-domestication was received from the Kentucky Department of Insurance on January 11, 1990. On January 30, 1990, the

Michigan Commissioner of Insurance approved the restated articles of re-domestication and also issued the final order approving re-domestication, effective December 28, 1989. On December 18, 1985, the Crown Life Insurance Company transferred all of its shares of the Company to Crown America Holding Company. On October 1, 1993, Crown America Holding Company sold all of its shares (2,541,722) of the Company to the Keyport Life Insurance Company (Keyport Life).

On December 28, 1993, the sole stockholder of the Company, Keyport Life, having received the necessary approvals from the States of Michigan and Rhode Island, voted to re-domesticate the Company to the State of Rhode Island. On December 29, 1993, amended articles of incorporation were filed and approved in Rhode Island to complete the re-domestication.

Pursuant to a Stock Purchase Agreement between Crown America Holding Company and Keyport Life, the name of the Company was changed to Keyport America Life Insurance Company, effective January 10, 1994. Subsequently, effective July 13, 1995, the name of the Company was changed to Independence Life and Annuity Company.

Effective after the close of business on October 31, 2001, all of the outstanding shares of Keyport Life and its affiliates, including the Company, were acquired by Life Holdco for approximately \$1.7 billion. Life Holdco is a member of the Sun Life Financial Group Insurance Holding Company System. This transaction was approved by the Director of the Department of Business Regulation of the State of Rhode Island.

On December 31, 2003, the Company became a wholly-owned subsidiary of SLUS, when its parent, Keyport Life, merged with and into SLUS. SLUS is a wholly owned subsidiary of Life Holdco, which is a member of the Sun Life Financial Group Insurance Holding Company

System, incorporated in the State of Delaware. The ultimate parent within the affiliated group is SLF, a publicly-traded Canadian holding company.

On December 10, 2012, the Company re-domesticated to the State of Delaware.

The Company is authorized as a stock insurer to transact the business of life insurance, including annuities, variable annuities, and variable life as defined in 18 Del. C. § 902 "Life insurance" defined" and 18 Del. C. § 903 "Health insurance" defined." The business of the Company includes variable life insurance products and fixed annuities. The Company is in run-off and no new business has been written during the exam period.

### **CAPITALIZATION**

The Certificate of Incorporation provides that the authorized capital stock of the Company shall be 2,500,000 shares of \$1.00 par value common stock. At December 31, 2012, all authorized shares were issued and outstanding, resulting in total capital stock of \$2,500,000.

At December 31, 2012, all the outstanding shares of the Company's common stock were owned by SLUS. In December 2012, the Board of SLUS approved the distribution of all of the issued and outstanding shares of the Company to Life Holdco. Regulatory approval for the distribution was received and the Company was distributed effective January 1, 2013.

During the period under examination, the Company did not receive any capital contributions, did not pay any dividends, did not hold any surplus notes, and had not borrowed any money.

### **CORPORATE RECORDS**

The recorded minutes and written resolutions of the Company's shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including

the authorization of investments as required by 18 Del.C. §1304 “Authorization; record of investments”.

A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C) made by and on behalf of the Company for all years under examination revealed that the Company had complied with the requirements of 18 Del. Admin. Code 1801.

### **MANAGEMENT AND CONTROL**

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of the Board of Directors. The bylaws, as amended and restated as of December 10, 2012, provide that the number of directors is established by the Board of Directors, to consist of not less than three directors with the authorized number determined by resolution of the Board or by stockholders at the annual meeting. Directors are elected annually and hold office until the next annual meeting of shareholders or until their successors have been elected and qualified. The number of directors constituting a quorum for the transaction of business is not less than one-third of the Board, but in any event not less than two.

At December 31, 2012, the members of the Board of Directors together with their principal business affiliations were as follows:

<b>Name</b>	<b>Principal Occupation</b>
Scott Michael Davis	Senior Vice President and General Counsel for Sun Life Financial U.S. Operations
Kenneth Allen McCullum	Senior Vice President and General Manager, Life and Annuities Inforce Management for Sun Life Financial U.S. Operations
Donald Gregory Lawrence	Vice President and General Manager, NAIC and Capital Management for Sun Life Financial U.S. Operations
Larry Richard Madge	Senior Vice President and Chief Financial Officer for Sun Life Financial U.S. Operations

Fred Mehrdad Tavan

Vice President, Chief Actuary for Sun Life Financial  
U.S. Operations

The minutes of the meetings and written resolutions of the shareholder and Board of Directors during the period under examination were read and noted. Attendance at meetings, election of directors and officers, and approval of investment transactions were also noted.

Receipt by the Board of Directors of the Report on Examination as of December 31, 2007 was noted in the minutes of the Board of Directors.

### Committees

Article 3, Section 3.10 of the amended and restated bylaws, states: "The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation."

As of December 31, 2012, the Board had one designated committee, the Officer Appointment Committee, which was to oversee all appointments of officers except for principal officers. The sole member appointed to this committee was Kenneth Allen McCullum.

During the period covered by this examination, the Company did not have a designated audit committee. Because the Company had fewer than 1,000 policyholders and \$1,000,000 in direct premiums, the Company was exempt from the audit committee designation and other requirements of 18 Del. Admin. Code 301. The full Board of Directors did perform the functions of an audit committee, however, none of the Board members were considered independent.

Officers

Article 5, Section 5.01 of the Company's bylaws states: "The officers of the corporation shall include a president, a secretary and a treasurer. The board of directors may also appoint a chairman, one or more vice-presidents, and such other officers as are from time to time desired. Any number of offices may be held by the same person, unless the certificate of incorporation or these by-laws otherwise provide."

At December 31, 2012, the Company's principal officers and their respective titles were as follows:

<b>Name</b>	<b>Principal Occupation</b>
Kenneth Allen McCullum	President
Scott Michael Davis	Senior Vice President and General Counsel
Fred Mehrdad Tavan	Vice President and Chief Actuary
Stephen Clarkson Peacher	Executive Vice President and Chief Investment Officer
Larry Richard Madge	Senior Vice President and Chief Financial Officer and Treasurer
Kerri Riley Ansello	Senior Counsel and Secretary
David James Healy	Senior Vice President, Sun Life Financial U.S. Operations
Sean Nigel Woodroffe	Vice President, Human Resources

In addition to the above officers, additional vice presidents, assistant vice presidents and other officers were also appointed.

Articles of Incorporation and bylaws

The Company amended its Articles of Incorporation on December 10, 2012 to reflect the Delaware registered office location and to change the number of authorized shares to 5,000,000 with a par value of \$1. The Company also amended its bylaws on December 12, 2012 due to the re-domestication to Delaware. The Board of Directors approved these changes.

## HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001(4) “Insurance Holding Company System.” The Company’s Holding Company Registration Statements were properly filed for the years under examination. The immediate parent of the Company at December 31, 2012 was SLUS. In December 2012, the Board of Directors of SLUS approved the distribution of all of the issued and outstanding shares of the Company to an affiliate, Life Holdco. Regulatory approval was obtained, but the distribution was not effective until January 1, 2013.

### Organization Chart

The following abbreviated presentation of the holding company system reflects the identities and interrelationships between the Company, SLUS, affiliated insurers, and other members of the holding company system as of December 31, 2012:

<u>Company</u>	<u>Domicile</u>	<u>% own</u>
Sun Life Financial Inc.	Canada	
Sun Life Global Investments Inc.	Canada	100%
Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc.	Delaware	100%
Sun Life Financial (U.S.) Holdings, Inc.	Delaware	100%
Sun Life Financial (U.S.) Investments LLC	Delaware	100%
Sun Life of Canada (U.S.) Holdings, Inc.	Delaware	100%
Sun Life Assurance Company of Canada (U.S.)	Delaware	100%
7101 France Avenue Manager, LLC	Delaware	100%
7101 France Avenue, LLC	Delaware	100%
Clarendon Insurance Agency, Inc.	Massachusetts	100%
<b>Independence Life and Annuity Company</b>	<b>Delaware</b>	<b>100%</b>
SL Investment DELRE Holdings 2009-1, LLC	Delaware	100%
SLF Private Placement Investment Company I, LLC	Delaware	100%
Sun Life Insurance and Annuity Company of New York	New York	100%
SLNY Private Placement Investment Company I, LLC	Delaware	100%
Sun MetroNorth, LLC	Delaware	100%

As noted, the structure did change on January 1, 2013 as the Company’s stock was distributed to Life Holdco.

## **INTERCOMPANY AGREEMENTS**

The Company is party to several intercompany agreements and transactions, which were disclosed in the Form B filings with the Delaware Insurance Department.

On June 25, 1998, the Company entered into a Guaranty Agreement with its former parent, Keyport Life, whereby Keyport Life guaranteed the payment of obligations in connection with any insurance policies or annuity contracts issued by the Company. As stated previously, Keyport Life was merged into SLUS as of December 31, 2003. As successor by the merger with Keyport Life, SLUS and the Company entered into an Amended and Restated Guarantee on November 11, 2001, which effectively supersedes the 1998 agreement.

As a result of the merger between SLUS and Keyport Life, the Company entered into an existing Tax Allocation Agreement with Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc. and certain of its direct and indirect subsidiaries under which a method of income tax allocation for all parties is determined. Allocation is based upon separate return calculations with current credit (benefit) given for losses and tax attributed that are utilized by the consolidated group. Intercompany balances are settled on a quarterly basis, with a final true-up after filing of the federal income tax return.

Effective October 1, 1993, the Company entered into a Principal Underwriter Agreement with Clarendon Insurance Agency, Inc. (Clarendon), a Massachusetts general distributor, registered broker-dealer, and wholly-owned direct subsidiary of SLUS, whereby Clarendon provides underwriting and distribution services in connection with certain single premium variable life policies issued by the Company.

Effective October 31, 2001, the Company entered into an Investment Advisory Agreement with Sun Capital Advisers, LLC (Sun Capital) under which Sun Capital acts as

investment manager for certain of the Company's portfolios. Sun Capital is a Delaware investment advisor and a wholly-owned indirect subsidiary of SLF.

Effective October 31, 2001, an Administrative Services Agreement was entered into between the Company and SLUS, whereby SLUS provides personnel, facilities and actuarial, legal and other administrative services to the Company on a cost-reimbursement basis. The agreement was amended on December 1, 2006 to change the settlement terms from quarterly to monthly, and to provide more detailed payment information. The agreement was also amended October 1, 2011 to implement security measures. All other terms of the 2001 agreement remain in full force effect.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2012, the Company was licensed to transact multiple lines of insurance business in 49 states and the District of Columbia. No new jurisdictions were added during the examination period.

Upon the Company's acquisition by Keyport Life in 1993, the existing block of business consisted of 2,800 individual variable life policies issued between 1985 and 1988. The number of those policies in force has declined by 72% since the acquisition to 772 policyholders as of December 31, 2012.

Individual deferred annuities were issued after 1995 as non-participating contracts. The Company had also issued individual supplementary contracts with and without life contingencies.

Currently, there are no plans for any additional products.

### **GROWTH OF THE COMPANY**

The following information was extracted from copies of the Company's filed Annual Statements, for each year indicated, and covers the period from the Company's last examination.

<b><u>Year</u></b>	<b><u>Net Admitted Assets</u></b>	<b><u>Total Liabilities</u></b>	<b><u>Total Capital and Surplus</u></b>	<b><u>Premiums and Annuity Considerations</u></b>	<b><u>Net Income / (Loss)</u></b>
2012	\$128,478,108	\$64,292,045	\$64,186,063	\$(403,249)	\$2,402,317
2011	126,019,977	64,201,719	61,818,258	(436,075)	4,059,581
2010	126,461,240	67,882,678	58,578,562	(420,262)	2,762,567
2009	125,888,063	70,457,054	55,431,009	(549,934)	2,565,922
2008	131,606,779	78,897,712	52,709,067	(780,015)	(608,824)

Since year-end 2008, net admitted assets have decreased by \$3.1 million or 2.4% while total liabilities decreased by \$14.6 million or 19%. During the exam period, the Company continued to manage the run-off business. Death, terminations and surrenders accounted for the decrease in liabilities, while the Company has remained invested in a quality bond portfolio. Contract loans have decreased due to policy surrenders.

During the examination period, total capital and surplus increased \$11.5 million or 21.8%. The increase in capital and surplus was primarily due to increases in net income being driven by capital gains. The majority of the Company's revenue is derived from net investment income and separate account fee income. The improvement of the markets during the exam period has led to an increase in capital gains.

There is no premium income for the Company during the exam period because it has been in run off and no new insurance policies have been written. The number of policyholders has decreased to 772 as of December 31, 2012 from 1,708 as of year-end 2007. The negative premium and annuity consideration amounts reflect ceding of premium under the Company's sole reinsurance contract.

**LOSS EXPERIENCE**

Reserves and contract claim liabilities during the exam period were as follows:

	<u>Aggr. Reserves for Life Contracts</u>	<u>Liability for Deposit- type Contracts</u>	<u>Contract Claims: Life</u>
December 31, 2007	\$ 36,851,362	\$ 0	\$164,132
December 31, 2008	34,308,440	0	270,993
December 31, 2009	27,309,903	26,614	206,450
December 31, 2010	25,322,564	20,530	200,450
December 31, 2011	25,614,765	14,082	306,616
December 31, 2012	<u>22,626,262</u>	<u>7,246</u>	<u>189,701</u>
Increase (Decrease)	<u>\$(14,225,100)</u>	<u>\$ 7,246</u>	<u>\$ 25,569</u>

The decrease of reserves is generally a result of the continued run-off of the Company's business. Specifically, the decrease is primarily related to separate account transfers and a decrease in reserves due to deaths and terminations.

**REINSURANCE**

For 2012, the Company reported the following distribution of net premiums written:

Direct business	\$ 0
Reinsurance assumed (from affiliates)	0
Reinsurance assumed (from non-affiliates)	<u>0</u>
Total direct and assumed	\$0
Reinsurance ceded (to affiliates)	0
Reinsurance ceded to (non-affiliates)	<u>(403,249)</u>
Net premiums written	<u>\$(403,249)</u>

The Company had the following reinsurance agreement in effect as of December 31, 2012:

Ceded

Effective October 1, 1993, the Company entered into an Automatic Reinsurance Agreement with an unaffiliated reinsurer whereby the Company reinsures on a yearly renewable term basis, the mortality risk on variable life insurance contracts issued between 1985 and 1988. Under the terms of this agreement, the Company reinsures 50% of the amount issued on each

policy, up to a maximum retention of \$50,000. All amounts in excess of \$100,000 per life are 100% reinsured. Effective July 1, 2006, this reinsurance agreement was terminated for all new business.

## **ACCOUNTS AND RECORDS**

### **Accounting System and Information**

The accounts and records of the Company are processed and maintained by personnel and information systems located in the home office of its former parent, SLUS. The initial data entry for claims also occurs in the home office.

During this exam, the accounts and records reviewed during the examination included an evaluation of SLUS's operational, organizational and application controls. The areas evaluated included computer and accounting systems, organizational structure, and the information processing structure. A high-level assessment of the internal control structure and process for SLUS's accounting and computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review, which were performed by the consulting firm of INS Services, Inc., did not reveal any material deficiencies in SLUS's internal control structure over general computer controls. Based on work performed, the overall strength of risk mitigation strategies and controls related to information systems at SLUS was deemed to be sufficient for those policies and procedures that had been in place during the period under examination.

Because the Company and SLUS utilize the same accounting, information technology, and primary administrative systems, to improve efficiency of the exam process and avoid duplication of work, electronic copies of the SLUS exam work papers were obtained, reviewed and incorporated into the risk assessment process where deemed appropriate.

Based on the examination review of the filed Annual Statements, observations, and subsequent discussions with management, the accounting system and procedures generally conformed to insurance accounting practices and requirements.

#### Independent Accountants

An external accounting firm is not required to audit and issue an opinion on the statutory-basis financial statements of the Company. However, SLUS's financial statements are audited each year by the firm of D&T of Boston, MA. In recent years, D&T has issued an unqualified opinion. As noted, the Company and SLUS utilize the same accounting, information technology and primary administrative systems. Thus, the examiners reviewed D&T's 2011 work papers, and incorporated their work and findings as deemed pertinent to the current examination.

#### Actuarial Opinion

The Company's loss reserves and related actuarial items were reviewed by Steven H. Schoen, FSA, MAAA, who issued a statement of actuarial opinion based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet were fairly stated and met the requirements of the Insurance Laws of the State of Delaware.

### **STATUTORY DEPOSITS**

The following statutory deposits were on file with the following states:

State	Deposits For the Benefit of All Policyholders		All Other Special Deposits	
	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Arizona			\$ 299,665	\$ 289,689
Arkansas			99,888	96,563
Delaware			1,696,156	1,760,745
Georgia			34,961	33,797
New Mexico			172,357	227,297
North Carolina			399,553	386,252
Rhode Island	\$ 4,994,408	\$ 4,828,150		
South Carolina			124,860	120,704
Virginia			105,881	102,357
<b>TOTAL DEPOSITS</b>	<b>\$4,994,408</b>	<b>\$4,828,150</b>	<b>\$ 2,933,321</b>	<b>\$ 3,017,404</b>

### **FINANCIAL STATEMENTS**

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2012, as determined by this examination, along with supporting exhibits as detailed below:

**General Account:**

- Assets
- Liabilities, Surplus and Other Funds
- Summary of Operations
- Capital and Surplus Account
- Reconciliation of Capital and Surplus for the Examination Period

**Separate Accounts:**

- Assets
- Liabilities and Surplus

**Schedule of Examination Adjustments**

The narratives on the individual accounts, with the exception of the reserve related balances, are presented on an “exception basis” in the Notes to the Financial Statements section of this report.

**General Account**  
**Assets**  
**As of December 31, 2012**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 68,782,497		\$ 68,782,497
Cash	489,010		489,010
Cash equivalents and short-term investments	1,457,661		1,457,661
Contract Loans	18,070,934		18,070,934
Investment income due and accrued	951,814		951,814
Premiums and considerations:			-
Uncollected premiums and agents' balances	-		-
Deferred premiums, agents' balances and installments			-
Reinsurance:			-
Amounts recoverable from reinsurers	954		954
Other amounts receivable under reinsurance contracts	-		-
Current federal and foreign income tax recoverable & interest	-		-
Net deferred tax asset	412,704	236,865	175,839
Receivable from parent, subsidiaries and affiliates	-		-
Management fee receivable	7,979		7,979
Total Assets excluding Separate Accounts	<u>\$ 90,173,553</u>	<u>\$ 236,865</u>	<u>\$ 89,936,688</u>
From Separate Accounts	<u>38,541,420</u>	<u>-</u>	<u>38,541,420</u>
Total	<u><u>\$ 128,714,973</u></u>	<u><u>\$ 236,865</u></u>	<u><u>\$ 128,478,108</u></u>

**Liabilities, Surplus and Other Funds  
As of December 31, 2012**

<u>Liabilities, Surplus and Other Funds</u>		<u>Notes</u>
Aggregate reserves for life contracts	\$ 22,626,262	1
Aggregate reserves for accident & health contracts	-	
Liability for deposit type contracts	7,246	
Contract Claims:		
Life	189,701	2
Contract liabilities not included elsewhere:		
Provision for experience rating refunds	-	
Other amounts payable on reinsurance	32,100	
Interest maintenance reserve	2,860,288	
Commissions to agents due or accrued	-	
Commissions and expense allowances payable on reinsurance assumed	-	
General expenses due or accrued	-	
Transfers to Separate Accounts due or accrued	(412,977)	
Taxes, licenses and fees	174,169	
Remittances and items not allowed	34	
Miscellaneous liabilities:		
Asset valuation reserve	256,286	
Reinsurance in unauthorized companies	-	
Payable to parent, subsidiaries and affiliates	17,516	
Total liabilities excluding Separate Accounts	25,750,625	
From Separate Accounts	38,541,420	
Total Liabilities	\$ 64,292,045	
Common capital stock	\$ 2,500,000	
Preferred capital stock	-	
Surplus notes	-	
Gross paid-in and contributed surplus	22,720,031	
Aggregate write-ins for special surplus funds	-	
Unassigned funds	38,966,032	
Surplus	\$ 64,186,063	
Total Liabilities, Capital and Surplus	\$ 128,478,108	

**Summary of Operations  
As of December 31, 2012**

Premiums and annuity considerations for life and accident and health contracts	\$ (403,249)
Consideration for supplementary contracts with life contingencies	-
Net investment income	3,470,742
Amortization of interest maintenance reserve	193,414
Commissions and expense allowances on reinsurance ceded	-
Reserve adjustments on reinsurance ceded	-
Miscellaneous income:	
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	1,028,865
Aggregate write-ins for miscellaneous income	160,093
Totals	<u>\$ 4,449,865</u>
Death benefits	\$ 1,655,358
Annuity benefits	-
Disability benefits and benefits under accident and health contracts	-
Surrender benefits and withdrawals for life contracts	4,160,381
Interest and adjustments on contract or deposit-type contract funds	16,261
Payments on supplementary contracts with life contingencies	31,222
Increase in aggregate reserve for life and accident and health contracts	<u>(2,988,503)</u>
Totals	\$ 2,874,719
Commissions on premiums, annuity considerations and deposit-type contract funds	-
Commissions and expense allowances on reinsurance assumed	-
General insurance expenses	186,507
Insurance taxes, licenses and fees, excluding federal income taxes	111,916
Increase in loading on deferred and uncollected premiums	-
Net transfers to or (from) Separate Accounts net of reinsurance	(2,061,822)
Aggregate write-in for deductions	-
Total	<u>\$ 1,111,320</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$ 3,338,545
Dividends to policyholders	-
Net gain from operations after dividends to policyholders and before federal income taxes	3,338,545
Federal and foreign incomes taxes incurred	<u>968,331</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	2,370,214
Net realized capital gains (losses)	<u>32,103</u>
Net Income (Loss)	<u>\$ 2,402,317</u>

**Capital and Surplus Account  
As of December 31, 2012**

Capital and Surplus, December 31, prior year	<u>\$ 61,818,258</u>
Net income (loss)	2,402,317
Change in net unrealized capital gains or (losses)	
less capital gains tax	-
Change in net unrealized foreign exchange capital gain (loss)	-
Change in net deferred income tax	(137,404)
Change in nonadmitted assets	77,681
Change in liability for reinsurance in unauthorized companies	-
Change in asset valuation reserve	25,211
Surplus (contributed to) withdrawn from Separate Accounts during period	-
Cumulative effect of changes in accounting principles	127,680
Capital Changes:	
Paid In	(41,722)
Surplus Adjustment:	
Paid In	41,722
Dividends to stockholders	-
Aggregate write-in for gains and losses in surplus	<u>(127,680)</u>
Net change in capital and surplus for the year	<u>2,367,805</u>
Capital and surplus, December 31, current year	<u><u>\$ 64,186,063</u></u>

**Reconciliation of Capital and Surplus  
From December 31, 2007 to December 31, 2012**

Capital and Surplus, December 31, 2007		<u>\$ 53,250,680</u>
Net income (Loss)		11,181,563
Additions:		
Change in net unrealized capital gains	45,300	
Change in net deferred income tax	983,489	
Change in nonadmitted assets	1,971,617	
Change in asset valuation reserve	138,422	
Cumulative effect of changes in accounting principles	127,680	
Surplus Adjustment: Paid-in	41,722	
Aggregate write in for gains and losses	297,290	
Total Additions		<u>3,605,520</u>
Deductions:		
Change in net unrealized capital gains	(45,300)	
Change in net deferred income tax	(2,176,650)	
Change in non-admitted assets	(1,009,241)	
Change in asset valuation reserve	(281,497)	
Capital Changes: Paid In	(41,722)	
Aggregate write-ins for gains and losses in surplus	(297,290)	
Total Deductions		<u>(3,851,700)</u>
Capital and Surplus, December 31, 2012		<u>\$ 64,186,063</u>

**Separate Accounts**  
**Assets**  
**As of December 31, 2012**

	General Account		
	Basis	Fair Value Basis	Total
Bonds		-	-
Preferred stocks		-	-
Common stocks	\$ -	\$ 38,541,420	\$ 38,541,420
Mortgage loans on real estate		-	-
Real estate		-	-
Cash and cash equivalents		-	-
Derivatives		-	-
Other invested assets		-	-
Investment due and accrued		-	-
Receivable for securities		-	-
Total	\$ -	\$ 38,541,420	\$ 38,541,420

**Liabilities and Surplus  
As of December 31, 2012**

	General Account Basis	Fair Value Basis	Total	Notes
Aggregate Reserve for life, annuity and accident and health contracts	\$ -	\$ 38,128,443	\$38,128,443	3
Liability for deposit-type contracts		-	-	
Interest maintenance reserve		-	-	
Other transfers to general account due or accrued	-	412,977	412,977	
Remittances and items unallocated		-	-	
Derivatives		-	-	
Payable for securities		-	-	
Aggregate write-in for liabilities		-	-	
Total Liabilities	<u>\$ -</u>	<u>\$ 38,541,420</u>	<u>\$38,541,420</u>	
Unassigned funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total	<u><u>\$ -</u></u>	<u><u>\$ 38,541,420</u></u>	<u><u>\$38,541,420</u></u>	

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

There were no examination adjustments.

**NOTES TO FINANCIAL STATEMENTS**

Reserve Liabilities

As of December 31, 2012, the Company held General Account (GA) and Separate Account Reserves (SA) reserves primarily for variable life insurance. GA reserves were also held for smaller blocks of deferred annuities and supplementary contracts.

INS Consultants, Inc. (Consulting Actuary) performed an actuarial examination as of December 31, 2012.

Certificate of Reserve Valuation

As part of the annual certificate of reserve valuation procedure conducted for the Delaware Insurance Department, the Consulting Actuary reviewed the reserves and liabilities

reported in Exhibits 5 and 7 of the Company's December 31, 2012 GA Annual Statement and in Exhibit 3 of the Company's December 31, 2012 SA Annual Statement. During that process, the Company workpapers supporting these reserves and liabilities were reviewed and found to be in order. The Consulting Actuary's reconciliation work from that procedure has been relied upon for the current examination.

Asset Adequacy/Cash Flow Testing Analysis

The examination included a review of the asset adequacy testing (AAT) as required by the Actuarial Opinion Memorandum Regulation (AOMR) for 2012. As a result of AAT, the Company's appointed actuary concluded that no additional AAT reserves were required as of December 31, 2012. This conclusion was accepted by the Consulting Actuary.

Summary

The balance sheet items enumerated in the actuarial examination scope appear fairly stated and are calculated using valuation parameters, which appear to be free of errors. Based on the above discussion and analysis, the Consulting Actuary has concluded that the December 31, 2012 balance sheet items covered in the examination scope appear fairly stated and have been accepted for the purpose of this report.

(1) General Account: Aggregate reserves for life contracts (\$22,626,262)

This liability is reported on Page 3, Line 1 and in Exhibit 5 of the Annual Statement. The reserve breakdown of Exhibit 5, by type of benefit, is as follows:

<u>Reserve Segment</u>	<u>Total Gross</u>	<u>Reinsurance Ceded</u>	<u>Total Net</u>
Life Insurance	\$ 21,221,905	\$ -	\$ 21,221,905
Annuities	250,083	0	250,083
Supplementary Contracts	307,332	0	307,332
Miscellaneous Reserves	846,942	0	846,942
Totals	<u>\$ 22,626,262</u>	<u>\$ -</u>	<u>\$ 22,626,262</u>

The aggregate reserve is held primarily for variable life insurance.

As part of the annual certificate of reserve valuation procedure, the Consulting Actuary reviewed the December 31, 2012 reserves. During that process, valuation files and summary work papers were reviewed and found to be in order. Reserves were reconciled from the summary work papers to Exhibit 5 with no exception. The Actuarial Opinion was reviewed and found to be in order.

The primary risks associated with Exhibit 5 business are adverse mortality, asset default, interest rate volatility and mismatching of asset and liability cash flows. These risks were further reviewed by evaluating the 2012 Actuarial Opinion. Based on that review, the Consulting Actuary accepted the Company's conclusion that additional reserves as the result of AAT were not required.

A brief description of each component comprising this liability follows:

Life Insurance

The Exhibit 5 life insurance reserve consists entirely of variable life insurance and is comprised of:

<u>Reserve Item</u>	<u>Reserve</u>
Policy Loans	\$ 18,279,205
Fixed Account	2,942,700
Total	<u>\$ 21,221,905</u>

The Company's valuation files and work papers supporting the above reserves were reviewed and found to be in order. The Consulting Actuary performed a trend analysis of the Exhibit 5 life reserves covering the years 2008 through 2012 and found the trends to be reasonable.

The GA portion of the life reserve is for variable life insurance contracts issued from 1985 through 1988 and consists of the fixed account option and policy loans. Additional reserves for these products are held in the miscellaneous reserve section of Exhibit 5 and in Exhibit 3 of

the SA Annual Statement. All variable life insurance policies provide for variable insurance amounts that change based on underlying fund performance. However, the actual insurance benefit will never be lower than the guaranteed minimum death benefit.

For most interest sensitive or variable products, the maximum potential financial impact is the difference between the account value and the reserve because the account value is usually considered to be the reserve ceiling for such products.

Based on the above analysis, the Consulting Actuary concluded that the Exhibit 5 reserve for life contracts appears reasonable.

#### Annuities

The annuity reserve represents nine deferred annuity contracts issued in 1995 and 1996. The Company's valuation files and work papers supporting the above reserves were reviewed and found to be in order. The Consulting Actuary performed a trend analysis of the Exhibit 5 annuity reserves covering the years 2008 through 2012 and found the trends to be reasonable.

The reserve for these contracts is equal to the account value. Based on the above analysis, the Consulting Actuary concluded that the Exhibit 5 reserve for annuity contracts appears reasonable.

#### Supplementary Contracts

This reserve represents supplementary contracts in payout status that involve life contingencies (SCWLC). SCWLC provide for the payment of contractual amounts at specified intervals until the later of the death of the annuitant(s) or the end of any guaranteed period. The contractual amounts, specified intervals, and guaranteed periods are determined at issue of the contracts. The Consulting Actuary did not identify any specific reserve related risk factors for these contracts.

The SCWLC reserve represents two contracts issued in 1996 and 1998. The Company's valuation files and work papers supporting the above reserves were reviewed and found to be in order. The Consulting Actuary performed a trend analysis of the Exhibit 5 SCWLC reserves covering the years 2008 through 2012 and found the trends to be reasonable.

Based on the above analysis, the Consulting Actuary concluded that the Exhibit 5 reserve for supplementary contracts appears reasonable.

Miscellaneous Reserves

Miscellaneous reserves are comprised entirely of reserves held for guaranteed minimum death benefits associated with variable life insurance contracts.

The Consulting Actuary performed a trend analysis of the Exhibit 5 miscellaneous reserves covering the years 2008 through 2012 and found the trends to be reasonable. The miscellaneous reserves were considered immaterial. Based on the above analysis, the Consulting Actuary concluded that the above Exhibit 5 miscellaneous reserves appear reasonable.

(2) Contract claims - Life (\$189,701)

The liability for Contract claims: Life is reported by the Company on Page 3, Line 4.1 and in Exhibit 8, Part 1, columns 2 through 8, of the December 31, 2012 Annual Statement. The liability consists of the following:

<u>Liability Type</u>	<u>Total Gross</u>	<u>Reinsurance Ceded</u>	<u>Total Net</u>
Incurred but unreported (IBNR)	262,766	73,065	189,701

This liability has few complicated reserving issues and the liability amounts appear to be based on reasonable methodologies. A trend analysis of the above amounts was performed and produced reasonable results.

Based on the above discussion and analysis, the Consulting Actuary concluded that the liability for deposit-type contracts as reported on Page 3, Line 4.1 and in Exhibit 8 of the

Company's December 31, 2012 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

(3) Separate Account: Aggregate reserves for life contracts (\$38,128,443)

This liability is reported on Page 3, Line 1 and in Exhibit 3 of the 2012 SA Annual Statement. The entire reserve is for variable life insurance.

Because the investment risk is borne by the contract owners, the primary cash flow risks to the Company under the life segments relate to the adequacy of mortality and expense charges. The ability of reserves to cover this risk is best evaluated by asset adequacy analysis. An important examination focus was the review of the 2012 Actuarial Opinion. Based on that review, the Consulting Actuary accepted the Company's conclusion that additional actuarial reserves are not required.

Reserves for life policies in the SA Annual Statement represent contract owner funds held in various investments, such as mutual funds, which are made available to contract owners. The Consulting Actuary performed a trend analysis of the SA Exhibit 3 life reserves covering the years 2008 through 2012 and found the trends to be reasonable.

Based on the above discussion and analysis, the Consulting Actuary concluded that the SA Exhibit 3 life insurance reserve appears reasonable.

### **SUMMARY OF RECOMMENDATIONS**

No examination report recommendations were noted as a result of this examination.

### **CONCLUSION**

The following schedule shows a comparison of the results from the December 31, 2007 examination to the 2012 Annual Statement balances, with changes between:

<u>Description</u>	<u>December 31, 2007</u>	<u>December 31, 2012</u>	<u>Increase (Decrease)</u>
Assets	\$ 162,386,640	\$ 128,478,108	\$ (33,908,532)
Liabilities	\$ 109,135,960	\$ 64,292,045	\$ (44,843,915)
Common Capital Stock	\$ 2,541,722	\$ 2,500,000	\$ (41,722)
Surplus Notes	-	-	-
Gross paid in and contributed surplus	22,678,309	22,720,031	41,722
Aggregate Write-in for special surplus funds	-	-	-
Unassigned funds (surplus)	28,030,649	38,966,032	10,935,383
Total Capital and Surplus	\$ 53,250,680	\$ 64,186,063	\$ 10,935,383
Total Liabilities, Capital and Surplus	\$ 162,386,640	\$ 128,478,108	\$ (33,908,532)

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, D&T, and the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,




---

Bethaney Ryals, CFE  
 Examiner-In-Charge  
 State of Delaware  
 Northeastern Zone, NAIC