

Report of Examination of  
**Universal Guaranty Life Insurance Company**  
Columbus, Ohio  
As of December 31, 2014

## Table of Contents

<b>Subject</b>	<b>Page</b>
Salutation .....	1
Description of Company.....	1
Scope of Examination.....	1
Management and Control:	
Board of Directors .....	2
Officers .....	2
Insurance Holding Company System .....	3
Territory and Plan of Operations .....	3
Reinsurance .....	3
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus.....	4
Summary of Operations.....	6
Statement of Changes in the Capital and Surplus Account .....	8
Notes to Financial Statements:	
Investments .....	8
Aggregate Reserves for Life and Accident and Health Contracts.....	8
Conclusion .....	9
Subsequent Events.....	9
Acknowledgement .....	9

Columbus, Ohio  
December 18, 2015

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**Universal Guaranty Life Insurance Company**

an Ohio domiciled, stock life insurance company, hereinafter referred to as the (“Company.”)

**Scope of Examination**

The Department last examined the Company as of December 31, 2009. The Department’s current examination covers the period from and including January 1, 2010 through December 31, 2014.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the ORC Section 3901.07 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination reports but separately communicated to other regulators and/or the Company.

## Management and Control

### Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<b>Name</b>	<b>Principal Occupation</b>
Randall L. Attkisson	Partner, Bluegrass Financial Holdings, LLC
Joseph A. Brinck, II	Chief Executive Officer, Stelter & Brinck, LTD
Jesse T. Correll	Chairman, President and Chief Executive Officer, First Southern Bancorp, Inc.
Ward F. Correll	Director, Cumberland Lake Shell, Inc.
Howard L. Dayton Jr.	Founder, Compass-Finances God's Way
Peter L. Ochs	Founder, Capital III-Private Equity Investment Firm
James P. Rousey	President, The Company

### Officers

As of the examination date, the following officers were serving in the designated position:

<b>Name</b>	<b>Title</b>
Jesse T. Correll	Chief Executive Officer
James P. Rousey	President
Theodore C. Miller	Secretary and Chief Financial Officer
Julie A. Abel	Vice President and Treasurer
Jacob J. Andrew	Vice President

Michael K. Borden	Vice President
Douglas P. Ditto	Vice President
Douglas A. Dockter	Vice President

### **Insurance Holding Company System**

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. Mr. Jesse Correll is the ultimate controlling person. Mr. Correll owns approximately 64% of First Southern Bancorp, Inc. (“FSBI”), directly and by virtue of companies he controls. FSBI owns 99% of First Southern Holdings, LLC (“FSH”), which owns approximately 32% of UTG, Inc. (“UTG”). UTG owns 100% of the Company.

### **Territory and Plan of Operations**

The Company is licensed to operate in 37 states. Management has placed little emphasis on new business production. New business primarily represents sales to existing customers through additional insurance needs or conservation efforts. The Company also provides third party administrative services to non-related entities.

### **Reinsurance**

Reinsurance agreements are maintained with several primary reinsurers for the ceding of life business. The agreements are on a yearly renewable term basis where the Company cedes amounts above its retention limit of \$100,000 with a minimum cession of \$25,000.

### **Financial Statements**

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company’s external auditors, are reflected in the following:

- Statement of Assets, Liabilities, Capital and Surplus
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus  
December 31, 2014**

Bonds	\$ 188,634,364
Preferred stocks	15,893,338
Common stocks	31,394,416
Mortgage loans – first liens	23,161,982
Real estate – properties occupied by the company	1,035,829
Real estate – properties held for sale	10,001,208
Cash, cash equivalents and short term investments	17,022,387
Contract loans	11,104,485
Derivatives	6,250
Other invested assets	<u>39,737,746</u>
Subtotal, cash and invested assets	337,992,005
Investment income due and accrued	2,662,865
Uncollected premiums and agents’ balances	(100,280)
Deferred premiums, agents balances and installments	874,380
Amounts recoverable from reinsurers	312,358
Other amounts receivable under reinsurance contracts	(151,814)
Net deferred tax asset	911,277
Guaranty funds receivable or on deposit	61,072
Due from Unaffiliate	<u>616,937</u>
Total admitted assets	<u>\$ 343,178,800</u>

**Statement of Assets, Liabilities, Capital and Surplus  
December 31, 2014**

Aggregate reserve for life contracts	\$ 256,095,184
Aggregate reserve for accident and health contracts	159,380
Liability for deposit type contracts	11,275,339
Contract claims - life	2,916,049
Contract claims – accident and health	60,226
Policyholder dividends apportioned for payment	469,487
Premiums and annuity considerations received in advance	61,076
Provision for experience rating refund	46,422
Interest maintenance reserve	12,497,251
General expenses due or accrued	2,747,183
Taxes, licenses and fees due or accrued	745,135
Current federal and foreign income taxes	1,941,623
Unearned investment income	209,426
Amounts withheld or retained by company as agent or trustee	3,071,932
Asset valuation reserve	9,445,671
Payable to parent, subsidiaries and affiliates	122,310
Derivatives	23,853
Payable for securities	<u>144,567</u>
Total liabilities	<u>302,032,114</u>
Common capital stock	2,000,000
Gross paid in and contributed surplus	18,655,343
Unassigned funds (surplus)	<u>20,491,343</u>
Total capital and surplus	<u>41,146,686</u>
Total liabilities, capital and surplus	<u>\$ 343,178,800</u>

**Summary of Operations  
As of December 31, 2014**

Premiums and annuity considerations	\$ 7,256,326
Considerations for supplementary contracts with life contingencies	26,414
Net investment income	34,789,455
Amortization of Interest Maintenance Reserve	1,013,156
Commissions and expense allowances on reinsurance ceded	(3,174,537)
Reinsurance experience refund	491
Third party administration income	1,572,838
Miscellaneous	<u>6,581</u>
Total	<u>41,490,724</u>
Death benefits	17,287,656
Matured endowments	348,246
Annuity benefits	538,547
Disability benefits and benefits under accident and health contracts	86,641
Surrender benefits and withdrawals for life contracts	5,958,355
Interest and adjustments on contract or deposit-type contract funds	459,473
Payments on supplementary contracts with life contingencies	146,795
Increase in aggregate reserves	<u>(11,633,237)</u>
Total	<u>13,192,476</u>
Commissions on premiums and deposit-type funds	20,303
Commissions and expense allowances on reinsurance assumed	13,748
General insurance expenses	10,578,801
Insurance taxes, licenses and fees	450,241
Increase in loading on deferred and uncollected premiums	<u>(47,346)</u>
Total	<u>24,208,223</u>
Net gain from operations before dividends to policyholders and before federal income taxes	17,282,501
Dividends to policyholders	<u>441,718</u>

**Summary of Operations**  
**As of December 31, 2014**

Net gain from operations after dividends to policyholders and before federal income taxes	16,840,783
Federal and foreign income taxes incurred	<u>3,040,030</u>
Net gain from operations after dividends to policyholders and before realized capital losses	13,800,753
Net realized capital losses	<u>(1,600,728)</u>
Net income	<u>\$ 12,200,025</u>

**Statement of Changes in the Capital and Surplus Account**  
(In thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and surplus, prior year end	\$ 34,898	\$ 32,243	\$ 33,167	\$ 30,443	\$ 27,350
Net income	12,200	4,843	6,868	582	4,796
Change in net unrealized capital gains (losses)	(4,099)	1,600	(655)	3,364	2,035
Change in net deferred income tax	(681)	(750)	1,124	981	230
Change in non-admitted assets	(159)	223	-	(51)	165
Changes in asset valuation reserve	3,788	(561)	(4,807)	778	(1,408)
Surplus adjustments	-	-	(137)	-	-
Dividends to stockholders	<u>(4,800)</u>	<u>(2,700)</u>	<u>(3,317)</u>	<u>(2,930)</u>	<u>(2,725)</u>
Net change in capital and surplus	<u>6,249</u>	<u>2,655</u>	<u>(924)</u>	<u>2,724</u>	<u>3,093</u>
Capital and surplus, current year end	<u>\$ 41,147</u>	<u>\$ 34,898</u>	<u>\$ 32,243</u>	<u>\$ 33,167</u>	<u>\$ 30,443</u>

**Notes to Financial Statements Investments**

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles ("SSAP") and the NAIC Securities Valuation Office.

**Aggregate Reserves for Life and Accident and Health Contracts**

The Company's Board of Directors appointed Wilfred J. Albracht, FSA, MAAA, consulting actuary to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Albracht prepared an Actuarial Memorandum supporting the Opinion in connection with the preparation of the Company's December 31, 2014 Annual Statement. For each year in the examination period, Mr. Albracht concluded that the Company's aggregate reserves for life and accident and health contracts reported in the Annual Statement meet the requirements of the insurance laws and regulations of the State of Ohio.

Jason Wade, ASA, MAAA, the Department's Life and Annuity Actuary, reviewed the Actuarial Memorandum supporting the Actuarial Opinions provided by Mr. Albracht. Mr. Wade determined that the reserves presented in the Company's 2014 Annual Statement are consistent with requirements of Ohio law.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Assets	\$ <u>343,178,800</u>
Liabilities	302,032,114
Capital and Surplus	<u>41,146,686</u>
Total Liabilities, Capital and Surplus	\$ <u>343,178,800</u>

### Subsequent Events

There have been no subsequent events to the examination date that would have a material effect on the financial condition of the Company.

### Acknowledgement

In addition to the aforementioned and undersigned, Louis Radecky, CPA (inactive), CFE, and Bryan Radecky, CPA, CFE of the Department participated in this examination.

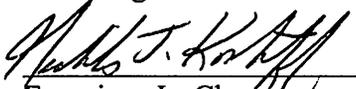
Respectfully,

  
\_\_\_\_\_  
Nicholas J. Kostoff, CPA, CFE  
Examiner-In-Charge  
Office of Risk Assessment  
Ohio Department of Insurance

  
\_\_\_\_\_  
David A. Cook, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2014.

  
Examiner-In-Charge

1/15/16  
Date

  
Assistant Chief Examiner

1/15/16  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 15 day of January 2016.

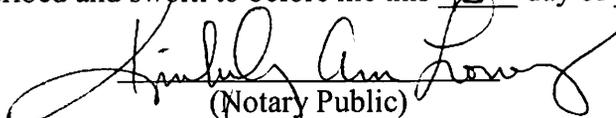
  
(Notary Public)

3-28-2016  
My Commission Expires

**KIMBERLY ANN LOWRY**  
**NOTARY PUBLIC • STATE OF OHIO**  
Recorded in Franklin County  
My commission expires Mar. 28, 2016

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 15 day of January, 2016.

  
(Notary Public)

3-28-2016  
My Commission Expires

**KIMBERLY ANN LOWRY**  
**NOTARY PUBLIC • STATE OF OHIO**  
Recorded in Franklin County  
My commission expires Mar. 28, 2016