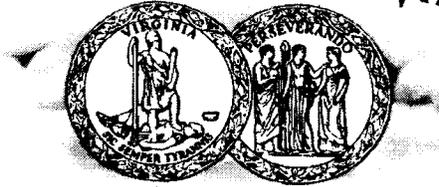


EXAMINATION REPORT
of
SHENANDOAH LIFE INSURANCE COMPANY
Roanoke, Virginia
as of
December 31, 2012

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Shenandoah Life Insurance Company as of December 31, 2012, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 6th day of September, 2013

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
June 21, 2013

Honorable Sharon P. Clark
Secretary – Southeastern Zone
Kentucky Department of Insurance
Frankfort, Kentucky

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Dear Commissioners:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, a National Association of Insurance Commissioners ("NAIC") Association Examination of the records and affairs of the

SHENANDOAH LIFE INSURANCE COMPANY
Roanoke, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is hereby submitted for your consideration.

DESCRIPTION

The Company is a stock life insurance company and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. This is the first examination of the Company post receivership (see "History" section). This examination covers the period from May 8, 2012 through December 31, 2012, and was conducted by representatives from the Virginia State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") representing the Southeastern Zone of the NAIC. Notice was provided to all zones of the current examination.

HISTORY

The Company was originally chartered as a capital-stock life insurance company on December 23, 1914, and operated as such until November 29, 1955. On that date, the Company was authorized by the Commission to convert to a mutual company. On February 12, 2009, the Company was placed in receivership by the Commission.

Effective May 8, 2012, the Company was acquired by United Prosperity Life Insurance Company ("United Prosperity") pursuant to a Rehabilitation Plan ("Plan") approved by the Commission on October 20, 2011. This Plan included the conversion of the Company from a mutual company to a stock company pursuant to the Stock Purchase Agreement. In accordance with the Stock Purchase Agreement, United Prosperity made a capital contribution of \$32.5 million in cash in exchange for all of the outstanding stock of the demutualized company. In addition, the Company issued a \$27.5 million surplus note to Prosperity Life Insurance Group, LLC ("Prosperity"). On the same date, United Prosperity (now named Smart Insurance Company), with approval from the Arizona Insurance Department, made an extraordinary dividend of all of the outstanding stock of the Company to its parent, Prosperity Insurance Group, Inc. (now named Smart Insurance Company Holdings, Inc.). Prosperity Insurance Group, Inc. made a simultaneous dividend of the Company's stock to its parent, Prosperity. On May 29, 2012, the Bureau issued a Letter of Concurrence stating that the dividend transactions did not constitute a change of control. At December 31, 2012, Prosperity owns 100% of the stock of the Company.

MANAGEMENT AND CONTROL

The bylaws of the Company provide that the business and affairs of the Company shall be managed by a board of not fewer than five and not more than nine members. A majority of the directors shall constitute a quorum for the transaction of business.

The officers of the Company shall consist of a President, a Treasurer, and a Secretary. The Board of Directors shall elect such Senior Vice Presidents and Vice Presidents and such other officers as the Board of Directors deem necessary. The President shall be the Chief Executive Officer and shall supervise and control the business and affairs of the Company.

At December 31, 2012, the Board of Directors, Officers and standing committee members of the Company were as follows:

Directors

Principal Business Affiliation

Hans L. Carstensen III

President and Chief Executive Officer
Shenandoah Life Insurance Company
Roanoke, Virginia

Craig A. Huff

Co-Chief Executive Officer
Reservoir Capital Group, LLC
New York, New York

Heidi E. Hutter

Manager
Black Diamond Holdings, LLC
Austin, Texas

Jose O. Montemayor

Manager
Black Diamond Holdings, LLC
Austin, Texas

Jay A. Novik

Manager
Black Diamond Holdings, LLC
Austin, Texas

Matthew T. Popoli

Senior Managing Director
Reservoir Capital Group, LLC
New York, New York

Gregg M. Zeitlin

Senior Managing Director
Reservoir Capital Group, LLC
New York, New York

Officers

Title

Hans L. Carstensen III

President and Chief Executive Officer

Michael W. Coffman

Senior Vice President, Chief
Financial Officer and Treasurer

Kathleen M. Kronau

Senior Vice President, General Counsel
and Secretary

Paulus W. Moore, Jr.

Vice President, Information Systems
and Services

Mary Ann H. Peltier

Senior Vice President and Chief Actuary

Corporate Governance Committee

Gregg M. Zeitlin, Chairman
Craig A. Huff
Heidi E. Hutter
Matthew T. Popoli

Investment Committee

Craig A. Huff, Chairman
Jay A. Novik
Matthew T. Popoli
Gregg M. Zeitlin

Audit Committee

Heidi E. Hutter, Chairman
Jose O. Montemayor
Matthew T. Popoli
Gregg M. Zeitlin

Compensation Committee

Matthew T. Popoli, Chairman
Jose O. Montemayor
Jay A. Novik

The Company has the authority to issue 1,000 shares of common stock with a par value of \$2,500 each. At December 31, 2012, all 1,000 shares of common stock were issued and outstanding and held by Prosperity. By virtue of its ownership, the Company is a member of an insurance holding company system pursuant to Section 38.2-1322 of the Code of Virginia. The following chart summarizes the Company's relationship with selected entities within the holding company system:

SURPLUS NOTES

On May 8, 2012, the Company issued a surplus note in the amount of \$27,500,000. The surplus note was issued for cash to Prosperity. Principal is due in amortized payments of \$1,000,000 per year beginning on June 30, 2017, and the surplus note matures on May 8, 2042. Payment of principal and interest on the surplus note may be made only from available surplus and only with the approval of the Bureau. Interest accrues on the note at 9.75% per annum and is due quarterly in arrears on June 30, September 30, December 31 and March 31. Interest in the amount of \$1,777,486 was approved for payment by the Bureau and paid by the Company during 2012.

DIVIDENDS TO STOCKHOLDERS

During the period under review, the Company did not pay any dividends.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Company maintained fidelity coverage of \$1,500,000. Additionally, the Company maintained general liability, commercial property, directors and officer's liability, workers compensation and other coverages usual and customary to the nature of its business.

OFFICERS AND EMPLOYEES BENEFIT PLANS

The Company has both a funded qualified and unfunded non-qualified defined benefit pension plan. Effective January 15, 2010, the Company froze the accruals of all future benefits under these plans. This resulted in a \$4,265,721 curtailment which reduced the projected benefit obligation. During 2012, the Company's non-qualified plan was partially settled which resulted in a \$1,739,625 gain. At December 31, 2012, the accrued benefit liability of the defined benefit pension plan is \$7,149,438.

The Company maintains a qualified defined contribution plan covering substantially all home office employees. Participants in the plan may contribute a percentage of their pre-tax compensation to the plan up to limits defined in the plan document. The Company will contribute an amount equal to 100% of such participant's pre-tax contributions that are not in excess of 3% of participant compensation and 50% of such participant pre-tax contributions in excess of 3% up to 5% of participant compensation. Company contributions to the plan were \$236,610 in 2012.

The Company also has non-qualified deferred compensation plans and excess benefits arrangements for officers, agents and directors. The total deferral as of December 31, 2012, was \$789,660 with (\$2,340,276) charged to operations in 2012.

In addition to the plans cited above, the Company makes available to its employees other traditional benefits such as health, life and disability income insurance.

TERRITORY AND PLAN OF OPERATION

At December 31, 2012, the Company had an active license to transact business in the following jurisdictions:

| | | | |
|----------------------|-----------|----------------|----------------|
| Alabama | Illinois | Maryland | South Carolina |
| Arkansas | Iowa | Minnesota | Tennessee |
| Delaware | Kansas | New Jersey | Texas |
| District of Columbia | Kentucky | North Carolina | Virginia |
| Georgia | Louisiana | Pennsylvania | |

In the Commonwealth of Virginia, the Company is authorized to write life, credit life, annuities, accident and sickness and credit accident and sickness insurance. The Company has authority to write one or more of these lines in other states. The current business plan on file with the Bureau calls for the Company to explore opportunities to write new business, subject to market conditions, however at December 31, 2012, as well as at the end of the examination fieldwork, the Company is not currently writing new business in any of the licensed jurisdictions.

GROWTH OF THE COMPANY

The following data represents the growth of the Company for the ten-year period ending December 31, 2012. The data is compiled from the Company's filed Annual Statements, previous examination reports, and the current examination report.

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Unassigned Surplus</u> |
|-------------|----------------------------|--------------------|-------------------------------|
| 2003 | \$1,248,379,477 | \$1,153,798,393 | \$ 94,581,084 |
| 2004 | 1,406,524,689 | 1,289,168,340 | 117,356,349 |
| 2005 | 1,527,683,600 | 1,408,507,851 | 119,175,749 |
| 2006 | 1,583,908,602 | 1,463,048,012 | 120,860,590 |
| 2007* | 1,664,854,647 | 1,539,064,840 | 125,789,807 |
| 2008* | 1,610,753,446 | 1,589,262,644 | 21,490,802 |
| 2009* | 1,428,653,193 | 1,428,252,084 | 401,109 |
| 2010* | 1,439,202,515 | 1,424,198,256 | 15,004,259 |
| 2011* | 1,432,126,756 | 1,416,501,814 | 15,624,942 |
| 2012 | 1,379,868,229 | 1,292,696,254 | 87,171,975 |

Insurance in Force (in thousands)

| <u>Year</u> | <u>Ordinary</u> | <u>Group</u> | <u>Total</u> |
|-------------|-----------------|--------------|--------------|
| 2003 | \$8,738,833 | \$2,862,647 | \$11,601,480 |
| 2004 | 9,910,275 | 2,587,980 | 12,498,255 |
| 2005 | 11,196,153 | 2,625,728 | 13,821,881 |
| 2006 | 12,261,192 | 2,742,370 | 15,003,562 |
| 2007* | 12,310,193 | 2,700,929 | 15,011,122 |
| 2008* | 11,753,859 | 2,678,231 | 14,432,090 |
| 2009* | 10,134,103 | 693,443 | 10,827,546 |
| 2010* | 9,189,837 | 229,649 | 9,419,486 |
| 2011* | 8,546,829 | 2,996 | 8,549,825 |
| 2012 | 7,879,227 | 2,493 | 7,881,720 |

* The previous examination was conducted as of December 31, 2006. The Company was placed in receivership on February 12, 2009 and remained in receivership until May 8, 2012. The information for these respective years was obtained directly from the Annual Statement or Annual Reports filed by the Company and was not subject to examination.

REINSURANCE

Ceded:

The Company has several reinsurance agreements in effect for reinsurance ceded at December 31, 2012. The Company reinsures mortality risks via conventional yearly renewable term (YRT) and coinsurance (CO) treaties, using either quota share or excess of specified retentions. These treaties are generally on an automatic basis with the option for facultative submission on risks that are not automatic. The majority of the policies reinsured are individual traditional life and universal life, including supplementary benefits such as disability waiver of premium and accidental death benefits. The Company does reinsure some accident and health business (group long term disability and individual disability and Medicare supplemental insurance) and group life (disability). Both the group LTD and individual disability business is reinsured with a third party. The Company's retention limits for life and waiver of premium policies are as follows:

| <u>Issue Age</u> | <u>Standard – Table D</u> | <u>Table E – Table H</u> | <u>Table I and Above</u> |
|------------------|---------------------------|--------------------------|--------------------------|
| 0 – 60 | \$300,000 | \$250,000 | \$200,000 |
| 61+ | 250,000 | 200,000 | 150,000 |

The Company's retention limit for accidental death benefits is \$150,000. At December 31, 2012, the Company does not currently have catastrophic coverage.

Outlined below are the major reinsurers to which the Company cedes business and the amount of reserve credit taken at year-end.

| <u>Life</u> | <u>Company</u> | <u>State of Domicile</u> | <u>Type</u> | <u>Reserve Credit</u> |
|-------------|--|--------------------------|-------------|-----------------------|
| | American United Life Insurance Company | Indiana | CO/YRT | \$2,593,389 |
| | Canada Life Insurance Company | Michigan | CO/YRT | 11,617,717 |
| | Employers Reassurance Corporation | Kansas | CO/YRT | 1,357,130 |
| | Generali USA Life Reassurance Company | Missouri | CO/YRT | 3,400,342 |
| | Hannover Life Reassurance Company of America | Florida | CO | 2,875,586 |
| | Reinsurance Group of America, Inc. | Missouri | CO/YRT | 54,803,873 |
| | Swiss Re Life & Health America, Inc. | Connecticut | CO/YRT | 47,514,070 |

Accident and Health

| | | | |
|--|-------------|-----------|-----------|
| Hartford Life and Accident Insurance Company | Connecticut | Group LTD | 4,224,720 |
| Union Security Insurance Company | Kansas | Group LTD | 7,705,379 |

The total reserve credit taken by the Company for ceded business at December 31, 2012 is \$139,206,804, or 10.71% of the total reported aggregate reserves.

Assumed:

At December 31, 2012, the Company has several indemnity reinsurance agreements in effect for reinsurance assumed. The Company assumes individual life, including disability benefits, business via YRT treaties from American United Life Insurance Company, Employers Reassurance Corporation and Lincoln National Life Insurance Company. Additionally, the Company has a YRT retrocession agreement with Puritan Life Insurance Company which covers individual life business produced by agents affiliated with Puritan Financial Group, Inc. under the Independent Marketing Organization Contract and General Agents Agreements. The total reserve associated with the Company's assumed business at December 31, 2012 is \$289,181, or approximately one-quarter of 1% of the total reported life reserves.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period May 8, 2012 through December 31, 2012. Assets were verified and liabilities were established at December 31, 2012.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Corporation, assess corporate governance, identify and assess inherent risks within the Corporation, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

FINANCIAL STATEMENTS

There follows a statement of financial condition of the Company at December 31, 2012; a summary of operations for the year ended December 31, 2012; a reconciliation of capital and surplus for the period January 1, 2012 to December 31, 2012; and a statement of cash flows for the year ending December 31, 2012. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

| | <u>Assets</u> | Nonadmitted <u>Assets</u> | Net Admitted <u>Assets</u> |
|--|------------------------|------------------------------|-------------------------------|
| Bonds | \$1,115,812,317 | | \$1,115,812,317 |
| Stocks: | | | |
| Preferred stocks | 5,000,000 | | 5,000,000 |
| Common stocks | 2,511,111 | 40,042 | 2,471,069 |
| Mortgage loans on real estate: | | | |
| First liens | 164,405,947 | | 164,405,947 |
| Real Estate: | | | |
| Properties occupied by the company | 2,190,507 | | 2,190,507 |
| Properties held for sale | 790,500 | | 790,500 |
| Cash and short-term investments | 9,131,750 | | 9,131,750 |
| Contract loans | 29,742,575 | 33,208 | 29,709,367 |
| Other invested assets | 5,479,095 | | 5,479,095 |
| | <hr/> | <hr/> | <hr/> |
| Subtotals, cash and invested assets | \$1,335,063,802 | \$73,250 | \$1,334,990,552 |
| Investment income due and accrued | 11,012,306 | | 11,012,306 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in course of collection | (290,577) | | (290,577) |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 17,773,854 | | 17,773,854 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 1,401,660 | | 1,401,660 |
| Other amounts receivable under reinsurance contracts | 317,216 | | 317,216 |
| Net deferred tax asset | 34,031,939 | 19,858,262 | 14,173,677 |
| Guaranty funds receivable or on deposit | 354,351 | | 354,351 |
| Electronic data processing equipment and software | 1,258,053 | 1,228,724 | 29,329 |
| Furniture and equipment | 195,725 | 195,725 | 0 |
| Other amounts receivable | 424,824 | 321,366 | 103,458 |
| Aggregate write-ins for other than invested assets | 2,403 | | 2,403 |
| | <hr/> | <hr/> | <hr/> |
| Total assets | <u>\$1,401,545,556</u> | <u>\$21,677,327</u> | <u>\$1,379,868,229</u> |

LIABILITIES, SURPLUS AND OTHER FUNDS

| | |
|--|-------------------------------|
| Aggregate reserve for life contracts | \$1,159,892,336 |
| Aggregate reserve for accident and health contracts | 379,975 |
| Liability for deposit-type contracts | 27,355,254 |
| Contract claims: | |
| Life | 6,738,716 |
| Accident and health | 465,065 |
| Dividends apportioned for payment | 450,000 |
| Premiums and annuity considerations for life and accident and health contracts received in advance | 210,240 |
| Contract liabilities not included elsewhere: | |
| Other amounts payable on reinsurance | 580,907 |
| Interest Maintenance Reserve | 45,636,568 |
| Commissions to agents due or accrued | 200,088 |
| General expenses due or accrued | 4,314,504 |
| Taxes, licenses and fees due or accrued, excluding federal income taxes | 354,562 |
| Current federal income taxes | 1,049,726 |
| Unearned investment income | 957,252 |
| Amounts withheld or retained by company as agent or trustee | 169,972 |
| Amounts held for agents' account | 4,734 |
| Remittances and items not allocated | 217,562 |
| Miscellaneous liabilities: | |
| Asset valuation reserve | 14,676,518 |
| Funds held under reinsurance treaties with unauthorized and certified reinsurers | 831,794 |
| Funds held under coinsurance | 21,678,866 |
| Payable for securities | 998,815 |
| Aggregate write-ins for liabilities | 5,532,800 |
| Total liabilities | <u>\$1,292,696,254</u> |
| Common capital stock | \$2,500,000 |
| Surplus notes | 27,500,000 |
| Gross paid in and contributed surplus | 30,000,000 |
| Unassigned funds (surplus) | <u>27,171,975</u> |
| Total capital and surplus | <u>\$87,171,975</u> |
| Total liabilities, capital and surplus | <u><u>\$1,379,868,229</u></u> |

SUMMARY OF OPERATIONS

| | |
|---|---------------|
| Premiums and annuity considerations for life and accident and health contracts | \$61,586,911 |
| Considerations for supplementary contracts with life contingencies | 1,082,812 |
| Net investment income | 56,485,978 |
| Amortization of Interest Maintenance Reserve | 7,005,467 |
| Commissions and expense allowances on reinsurance ceded | 4,602,298 |
| Reserve amounts on reinsurance ceded | (8,491,172) |
| Aggregate write-ins for miscellaneous income | 16,087,876 |
| | <hr/> |
| Total | \$138,360,170 |
| | <hr/> |
| Death benefits | \$48,267,920 |
| Matured endowments | 354,083 |
| Annuity benefits | 40,662,613 |
| Disability benefits and benefits under accident and health contracts | 5,741,593 |
| Surrender benefits and withdrawals for life contracts | 133,340,521 |
| Group conversions | (13,157) |
| Interest and adjustments on contract or deposit-type contract funds | 1,072,620 |
| Payments on supplementary contracts with life contingencies | 2,466,672 |
| Increase in aggregate reserves for life and accident and health contracts | (142,763,902) |
| | <hr/> |
| Total | \$89,128,963 |
| | <hr/> |
| Commissions on premiums, annuity considerations and deposit-type contract funds | 4,972,883 |
| Commissions and expense allowances on reinsurance assumed | 37,577 |
| General insurance expenses | 12,333,525 |
| Insurance taxes, licenses and fees, excluding federal income taxes | 2,139,739 |
| Increase in loading on deferred and uncollected premiums | (377,391) |
| Aggregate write-ins for deductions | 1,037,926 |
| | <hr/> |
| Total | \$109,273,222 |
| | <hr/> |
| Net gain from operations before dividends to policyholders and before federal income taxes | \$29,086,948 |
| Dividends to policyholders | 511,734 |
| | <hr/> |
| Net gain from operations after dividends to policyholders and before federal income taxes | \$28,575,214 |
| Federal income taxes incurred | 1,159,693 |
| | <hr/> |
| Net gain from operations after federal income tax and before realized capital gains | \$27,415,521 |
| Net realized capital gains | 635,396 |
| | <hr/> |
| Net income | \$28,050,917 |
| | <hr/> <hr/> |

RECONCILIATION OF CAPITAL AND SURPLUS

| | <u>2012</u> |
|--|----------------------------|
| Capital and surplus, December 31, prior year | <u>\$15,624,942</u> |
| Net income | \$28,050,917 |
| Change in net unrealized capital gains (losses) | (1,416,597) |
| Change in net deferred income tax | (23,109,742) |
| Change in nonadmitted assets | 31,553,158 |
| Change in asset valuation reserve | (1,877,682) |
| Change in surplus notes | 7,500,000 |
| Cumulative effect of changes in accounting principles | (794,489) |
| Capital changes: Paid in | 2,500,000 |
| Surplus adjustment: Paid in | 30,000,000 |
| Aggregate write ins for gains and losses in surplus | <u>(858,532)</u> |
| Net change in capital and surplus | <u>\$71,547,033</u> |
| Capital and surplus, December 31, current year | <u><u>\$87,171,975</u></u> |

CASH FLOW**CASH FROM OPERATIONS**

| | |
|---|------------------------|
| Premiums collected net of reinsurance | \$64,630,956 |
| Net investment income | 63,947,295 |
| Miscellaneous income | (3,839,387) |
| Total | <u>\$124,738,864</u> |
| Benefit and loss related payments | 244,953,527 |
| Commissions, expenses paid and aggregate write-ins for deductions | 32,459,972 |
| Dividends paid to policyholders | 2,414,146 |
| Federal income taxes paid | 1,803,641 |
| Total | <u>\$281,631,286</u> |
| Net cash from operations | <u>(\$156,892,422)</u> |

CASH FROM INVESTMENTS

| | |
|--|------------------------|
| Proceeds from investments sold, matured or repaid: | |
| Bonds | \$981,335,765 |
| Stocks | 6,418,211 |
| Mortgage loans | 24,635,437 |
| Other invested assets | 5,359,450 |
| Net gains on cash, cash equivalents and short-term investments | 29,646 |
| Total investment proceeds | <u>\$1,017,778,509</u> |
| Costs of investments acquired (long-term only): | |
| Bonds | \$921,037,191 |
| Real estate | 30,712 |
| Miscellaneous applications | 779,583 |
| Total investments acquired | <u>\$921,847,486</u> |
| Net increase in contract loans and premium notes | <u>\$2,596,539</u> |
| Net cash from investments | <u>\$93,334,484</u> |

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

| | |
|--|---------------------|
| Cash provided (applied): | |
| Surplus notes, capital notes | \$23,500,000 |
| Capital and paid in surplus, less treasury stock | 32,500,000 |
| Net deposits on deposit-type contracts and other insurance liabilities | 2,890,048 |
| Other cash (applied) | (329,513) |
| Net cash from financing and miscellaneous sources | <u>\$58,560,535</u> |

**RECONCILIATION OF CASH, CASH EQUIVALENTS AND
SHORT-TERM INVESTMENTS**

| | |
|---|--------------------|
| Net change in cash, cash equivalents and short-term investments | (\$4,997,403) |
| Cash, cash equivalents and short-term investments: | |
| Beginning of year | <u>14,129,153</u> |
| End of year | <u>\$9,131,750</u> |

SUBSEQUENT EVENTS

On April 17, 2013, the Company's Board of Directors voted to redeem the surplus note issued to Prosperity prior to its maturity date and at the earliest date practicable. Prosperity, as holder of the surplus note, consented to an early redemption of the note and waiver of the notice required by the note. On April 29, 2013, the Company received approval from the Bureau for the full redemption of the note plus accrued interest. On May 1, 2013, the Company paid Prosperity the principal amount of \$27,500,000 plus accrued interest of \$223,438.

On June 19, 2013, Paul Mistretta was hired to replace Hans Carstensen III as President and Chief Executive Officer of the Company.

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Bryan Almond, Darrin Bailey, CFE, Craig Chupp, FSA, MAAA, Chris Collins, CFE, Jack Drean, CFE, Kevin Knight, CFE, Hai Nguyen and Michael Peterson participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'John E. Bunce', with a long horizontal line extending to the right.

John E. Bunce, CFE
Assistant Chief Examiner
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC



**SHENANDOAH LIFE
INSURANCE COMPANY**

PAUL L. MISTRETTA
President and Chief Executive Officer

Office: (540) 985-4200
Fax: (540) 857-5900

STATE CORP COMMISSION
BUREAU OF INSURANCE
13 SEP -4 AM 8:10

August 29, 2013

VIA FIRST CLASS MAIL

Virginia State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

Attention: David H. Smith, Chief Examiner

**RE: Shenandoah Life Insurance Company
Examination Report as of December 31, 2012**

Dear Mr. Smith,

The intention of this letter is to acknowledge receipt of the completed Examination Report by the Virginia Bureau of Insurance.

Please provide 35 copies of the finalized report for the Company's present and future needs.

If anything further is needed from Shenandoah Life Insurance Company in regards to this examination report, please let me know.

Sincerely,

Paul L. Mistretta