

EXAMINATION REPORT
of
SHENANDOAH LIFE INSURANCE COMPANY
Roanoke, Virginia
as of
December 31, 2015

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



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

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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, 2015, 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 16th day of March, 2017

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
December 16, 2016

Honorable Mike Chaney
Secretary – Southeastern Zone
Mississippi Insurance Department
Jackson, Mississippi

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, we have performed an examination of the financial condition, records and affairs of

SHENANDOAH LIFE INSURANCE COMPANY
Roanoke, Virginia

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

SCOPE OF THE EXAMINATION

The last examination of the Company was made by representatives of the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2012. The current examination covers the three year period from January 1, 2013 through December 31, 2015.

This examination was conducted in accordance with the NAIC Financial Condition Examiners' Handbook (Handbook). The Handbook requires that the Bureau 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.

The coordinated examination of Prosperity Life Insurance Group, LLC ("Prosperity") and its affiliates was led by the New York Insurance Department. The Bureau and the Arizona Insurance Department participated in the group examination.

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.

This examination report includes significant findings of fact 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 report but separately communicated to other regulators and/or the Company.

HISTORY

The Company is a life insurance company and 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, which has subsequently been paid off. 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. 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, 2015, 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, 2015, the Board of Directors, Officers and standing committee members of the Company were as follows:

<u>Directors</u>	<u>Principal Business Affiliation</u>
Michael Akker	President Prosperity Life Insurance Group New York, New York
Anurag Chandra	Chief Executive Officer Prosperity Life Insurance Group New York, New York
Heidi E. Hutter	Manager Black Diamond Holdings, LLC Austin, Texas
Jose O. Montemayor	Manager Black Diamond Holdings, LLC Austin, Texas
Matthew T. Popoli	Senior Managing Director Reservoir Capital Group, LLC New York, New York
Anthony Z. Xu	Managing Director Reservoir Capital Group, LLC New York, New York

Officers**Title**

Anurag Chandra	Chief Executive Officer
Michael Akker	President
Robert M. Damante	Executive Vice President – Finance
Kathleen M. Kronau	Senior Vice President, General Counsel and Secretary
Ralph Meola	Senior Vice President, Chief Actuary and Chief Risk Officer
Subodh Kesri	Vice President – Corporate Development
Russell Johnson	Vice President – Internal Audit
Steve Hilbish	Vice President – Investments
W. Dillon Key	Vice President – Mortgage Loans and Real Estate
Michal Ryduchowski	Vice President – Product Development and M&A Actuary
Paulus W. Moore, Jr.	Vice President, Information Systems and Services
Marci Chrisley	Treasurer

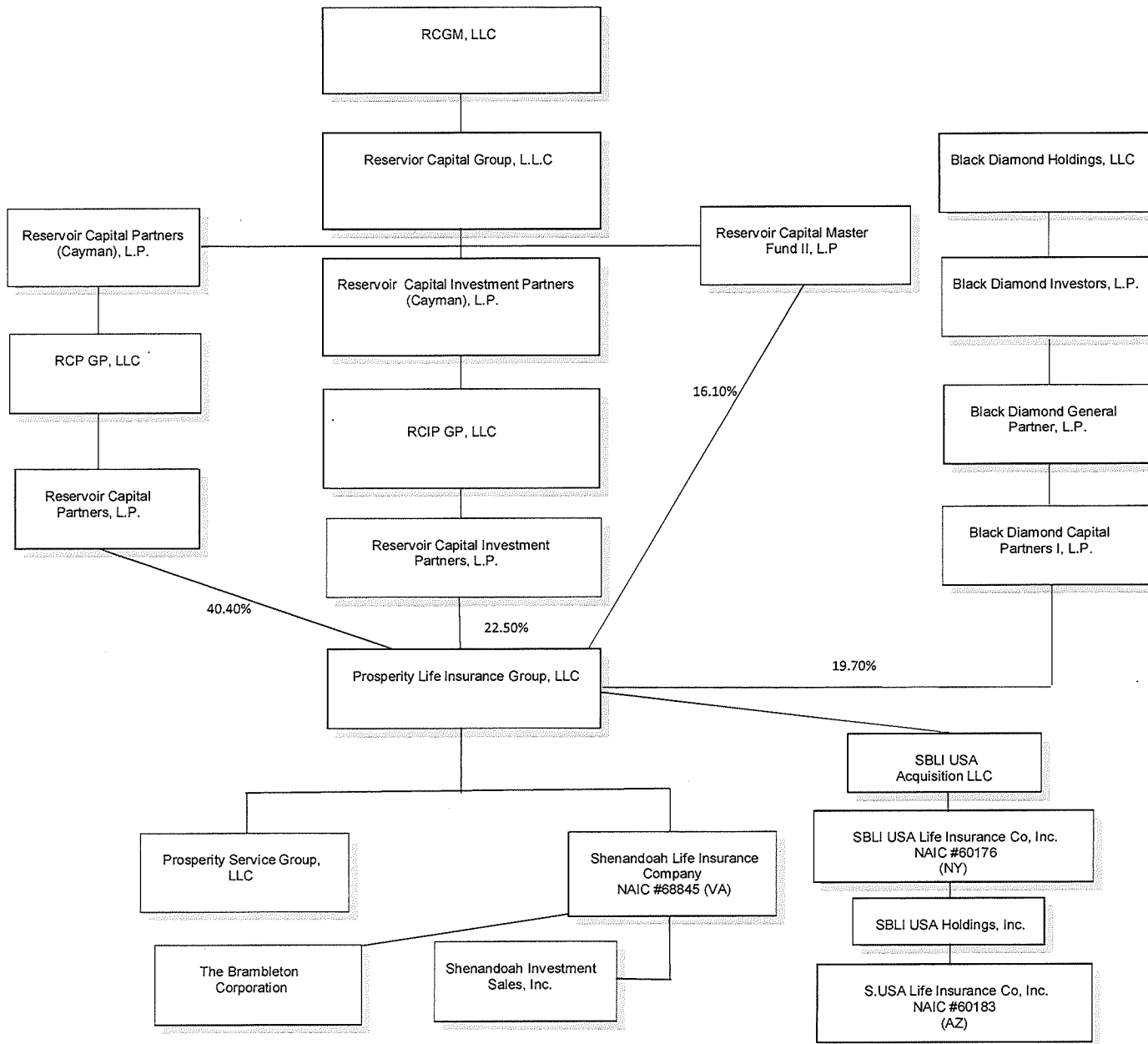
Corporate Governance and Nominating Committee

Matthew T. Popoli, Chairman
 Heidi E. Hutter
 Jose O. Montemayor
 Anthony Z. Xu

Audit Committee

Heidi E. Hutter, Chairman
Jose O. Montemayor
Matthew T. Popoli
Anthony Z. Xu

The Company has the authority to issue 1,000 shares of common stock with a par value of \$2,500 each. At December 31, 2015, 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 to Prosperity in the amount of \$27,500,000. Principal was to be due in amortized payments of \$1,000,000 per year beginning on June 30, 2017, and the surplus note was to mature 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 was to accrue on the note at 9.75% per annum and was to be due quarterly in arrears on June 30, September 30, December 31 and March 31.

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.

DIVIDENDS TO STOCKHOLDERS

On March 31, 2014, the Company paid an ordinary cash dividend of \$12,500,000. In April 2015 the Company paid an ordinary stockholder dividend of \$15,800,000. This dividend consisted of an April 6, 2015 cash payment of \$12,680,000 and a transfer of the Company's interest in SBLI USA Acquisition LLC on April 8, 2015, valued at \$3,120,000. These aforementioned dividends were paid to the Company's sole shareholder, Prosperity. Because these dividends were considered ordinary, they did not require prior approval of the Bureau.

TERRITORY AND PLAN OF OPERATION

At December 31, 2015, the Company had an active license to transact business in the following jurisdictions:

Alabama	Indiana	Mississippi	Pennsylvania
Arizona	Iowa	Missouri	South Carolina
Arkansas	Kansas	Nebraska	Tennessee
Colorado	Kentucky	New Jersey	Texas
Delaware	Louisiana	New Mexico	Virginia
District of Columbia	Maryland	North Carolina	West Virginia
Georgia	Michigan	Ohio	Wisconsin
Illinois	Minnesota	Oklahoma	

In the Commonwealth of Virginia, the Company is authorized to write life, credit life, annuities, accident and sickness, credit accident and sickness, and managed care health 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. At December 31, 2015, the Company was writing a very small amount of new business in some of its licensed jurisdictions.

GROWTH OF THE COMPANY

The following data represents the growth of the Company for the ten-year period ending December 31, 2015. 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>
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
2013	1,278,807,467	1,197,741,329	81,066,138
2014	1,204,439,048	1,118,984,546	85,454,502
2015	1,131,843,341	1,043,967,035	87,876,306

Insurance in Force (in thousands)

<u>Year</u>	<u>Ordinary</u>	<u>Group</u>	<u>Total</u>
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
2013	7,281,188	2,033	7,283,221
2014	6,812,126	1,710	6,813,836
2015	6,367,174	1,329	6,368,503

*The Company was placed in receivership on February 12, 2009. The last examination prior to receivership was conducted as of December 31, 2006. The information for these respective years was obtained directly from the Company's Annual Statement filed with the Bureau and was not subject to examination.

REINSURANCE

Ceded:

The Company has several reinsurance agreements in effect for reinsurance ceded at December 31, 2015. 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 LTD 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, 2015, 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>Company</u>	<u>State of Domicile</u>	<u>Type</u>	<u>Reserve Credit</u>
<u>Life</u>			
American United Life Insurance Company	Indiana	CO/YRT	\$2,524,508
Canada Life Insurance Company	Michigan	CO/YRT	10,172,722
Employers Reassurance Corporation	Kansas	CO/YRT	1,302,003
Hannover Life Reassurance Company of America	Florida	CO	3,398,300

<u>Company</u>	<u>State of Domicile</u>	<u>Type</u>	<u>Reserve Credit</u>
<u>Life</u>			
Reinsurance Group of America, Inc.	Missouri	CO/YRT	\$51,881,233
SCOR Global LifeUSA Reinsurance Company	Kansas	CO/YRT	3,320,689
Swiss Re Life & Health America, Inc.	Connecticut	CO/YRT	39,877,140
<u>Accident and Health</u>			
Hartford Life and Accident Insurance Company	Connecticut	Group LTD	2,276,059
Union Security Insurance Company	Kansas	Group LTD	4,920,360

The total reserve credit taken by the Company for ceded business at December 31, 2015 is \$121,803,917, or 11.3% of the total reported aggregate reserves.

Assumed:

At December 31, 2015, 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, 2015 is \$158,907, or approximately .015% of the total reported life reserves.

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Company for the period ending December 31, 2015. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2015.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$944,904,532		\$944,904,532
Stocks:			
Preferred stocks	6,750,000		6,750,000
Common stocks	1,190,671	40,162	1,150,509
Mortgage loans on real estate:			
First liens	73,019,487		73,019,487
Cash and short-term investments	24,726,165		24,726,165
Contract loans	27,232,542	10,154	27,222,388
Other invested assets	14,739,085		14,739,085
Receivable for securities	110,545		110,545
	<hr/>	<hr/>	<hr/>
Subtotals, cash and invested assets	\$1,092,673,027	\$50,316	\$1,092,622,711
Investment income due and accrued	9,199,850		9,199,850
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	(372,857)		(372,857)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	13,830,042		13,830,042
Reinsurance:			
Amounts recoverable from reinsurers	2,196,206		2,196,206
Other amounts receivable under reinsurance contracts	267,020		267,020
Current federal income tax recoverable and interest thereon	2,431,248		2,431,248
Net deferred tax asset	21,573,282	11,633,314	9,939,968
Guaranty funds receivable or on deposit	346,355		346,355
Electronic data processing equipment and software	984,914	775,549	209,365
Furniture and equipment	289,841	289,841	0
Receivables from parent, subsidiaries and affiliates	1,045,070		1,045,070
Other amounts receivable	290,689	162,326	128,363
Aggregate write-ins for other than invested assets	396,675	396,675	0
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$1,145,151,362</u>	<u>\$13,308,021</u>	<u>\$1,131,843,341</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$955,400,871
Aggregate reserve for accident and health contracts	259,075
Liability for deposit-type contracts	17,816,242
Contract claims:	
Life	5,016,124
Accident and health	247,599
Dividends apportioned for payment	424,008
Premiums and annuity considerations for life and accident and health contracts received in advance	231,907
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	367,788
Interest Maintenance Reserve	29,159,261
Commissions to agents due or accrued	162,993
General expenses due or accrued	2,688,705
Taxes, licenses and fees due or accrued, excluding federal income taxes	157,305
Unearned investment income	824,151
Amounts withheld or retained by company as agent or trustee	611,292
Amounts held for agents' account	4,194
Remittances and items not allocated	272,570
Miscellaneous liabilities:	
Asset valuation reserve	7,513,789
Reinsurance in unauthorized reinsurers	95
Funds held under reinsurance treaties with unauthorized reinsurers	647,758
Payable to parent, subsidiaries and affiliates	53,678
Funds held under coinsurance	18,002,875
Aggregate write-ins for liabilities	4,104,755
Total liabilities	<u>\$1,043,967,035</u>
Common capital stock	\$2,500,000
Gross paid in and contributed surplus	30,000,000
Unassigned funds (surplus)	<u>55,376,306</u>
Total capital and surplus	<u>\$87,876,306</u>
Total liabilities, capital and surplus	<u><u>\$1,131,843,341</u></u>

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and accident and health contracts	\$44,834,471
Considerations for supplementary contracts with life contingencies	1,753,351
Net investment income	49,986,757
Amortization of Interest Maintenance Reserve	7,995,780
Commissions and expense allowances on reinsurance ceded	3,206,224
Reserve amounts on reinsurance ceded	(3,182,766)
Aggregate write-ins for miscellaneous income	107,606
	\$104,701,423
Death benefits	\$52,509,017
Matured endowments	264,427
Annuity benefits	21,651,619
Disability benefits and benefits under accident and health contracts	3,479,305
Surrender benefits and withdrawals for life contracts	43,313,055
Group conversions	(2,506)
Interest and adjustments on contract or deposit-type contract funds	738,281
Payments on supplementary contracts with life contingencies	2,458,877
Increase in aggregate reserves for life and accident and health contracts	(57,499,159)
	\$66,912,916
Commissions on premiums, annuity considerations and deposit-type contract funds	\$2,612,307
Commissions and expense allowances on reinsurance assumed	7,253
General insurance expenses	14,985,079
Insurance taxes, licenses and fees, excluding federal income taxes	1,968,839
Increase in loading on deferred and uncollected premiums	(158,431)
Aggregate write-ins for deductions	544,619
	\$86,872,582
Net gain from operations before dividends to policyholders and before federal income taxes	\$17,828,841
Dividends to policyholders	375,967
	\$17,452,874
Net gain from operations after dividends to policyholders and before federal income taxes	\$17,452,874
Federal income taxes incurred	(1,456,551)
	\$18,909,425
Net gain from operations after federal income tax and before realized capital gains	\$18,909,425
Net realized capital gains	2,068,699
	\$20,978,124

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Capital and surplus, December 31, prior year	<u>\$87,171,975</u>	<u>\$81,066,138</u>	<u>\$85,454,502</u>
Net income	\$12,564,569	\$18,313,847	\$20,978,124
Change in net unrealized capital gains (losses)	304,393	54,455	(1,692)
Change in net deferred income tax	(2,646,896)	(2,982,532)	(6,880,118)
Change in nonadmitted assets	1,038,254	4,108,006	3,223,045
Change in liability for reinsurance in unauthorized and certified companies	(281)	281	(95)
Change in asset valuation reserve	6,915,884	516,775	(269,929)
Change in surplus notes	(27,500,000)		
Cumulative effect of changes in accounting principles	303,829		
Dividends to stockholders		(12,500,000)	(15,800,000)
Aggregate write ins for gains and losses in surplus	<u>2,914,411</u>	<u>(3,122,468)</u>	<u>1,172,469</u>
Net change in capital and surplus	<u>(\$6,105,837)</u>	<u>\$4,388,364</u>	<u>\$2,421,804</u>
Capital and surplus, December 31, current year	<u><u>\$81,066,138</u></u>	<u><u>\$85,454,502</u></u>	<u><u>\$87,876,306</u></u>

CASH FLOW**CASH FROM OPERATIONS**

Premiums collected net of reinsurance	\$48,054,776
Net investment income	49,772,482
Miscellaneous income	29,911
Total	<u>\$97,857,169</u>
Benefit and loss related payments	128,001,791
Commissions, expenses paid and aggregate write-ins for deductions	23,382,567
Dividends paid to policyholders	382,639
Total	<u>\$151,766,997</u>
Net cash from operations	<u>(\$53,909,828)</u>

CASH FROM INVESTMENTS

Proceeds from investments sold, matured or repaid:	
Bonds	\$311,221,064
Stocks	67,000
Mortgage loans	29,722,229
Real estate	3,960,265
Other invested assets	448,690
Net gains on cash, cash equivalents and short-term investments	2,986
Total investment proceeds	<u>\$345,422,234</u>
Costs of investments acquired (long-term only):	
Bonds	\$265,259,741
Stocks	5,000,000
Mortgage loans	6,100,000
Miscellaneous applications	908,073
Total investments acquired	<u>\$277,267,814</u>
Net (decrease) in contract loans and premium notes	<u>(\$845,590)</u>
Net cash from investments	<u>\$69,000,010</u>

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided (applied):	
Net deposits on deposit-type contracts and other insurance liabilities	(1,184,489)
Dividends to stockholders	(12,680,000)
Other cash provided	454,716
Net cash from financing and miscellaneous sources	<u>(\$13,409,773)</u>

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

Net change in cash, cash equivalents and short-term investments	\$1,680,409
Cash, cash equivalents and short-term investments:	
Beginning of year	23,045,756
End of year	<u>\$24,726,165</u>

SUBSEQUENT EVENTS

On April 26, 2016 the Company paid an ordinary stockholder dividend of \$9,400,000 to Prosperity.

On May 11, 2016, A.M. Best assigned Prosperity a financial strength rating of A- (Excellent) and an insurer credit rating of "a-" to the Company with a " stable" outlook.

On August 1, 2016 the Company paid an ordinary stockholder dividend of \$9,500,000 to Prosperity.

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, 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 'J. E. Bunce', with a long horizontal flourish extending to the right.

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



MICHAEL AKKER
President

Office: (212) 356-0345

March 7, 2017

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, 2015**

Dear Mr. Smith,

Please accept this letter as acknowledge of receipt of the Draft Examination Report by the Virginia Bureau of Insurance.

Please provide 5 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,

A handwritten signature in cursive script that reads "Michael Akker".

Michael Akker