

Report of Examination of  
Universal Guaranty Life Insurance Company  
Columbus, Ohio  
As of December 31, 2009

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Columbus, Ohio

April 20, 2011

Honorable Joseph Torti, III  
Deputy Director and Superintendant of Insurance  
Chair, Financial Condition (E) Committee  
National Association of Insurance Commissioners  
Rhode Island Department of Business Regulation  
Division of Insurance Regulation  
1511 Pontiac Avenue, Bldg 69-2  
Cranston, Rhode Island 02920- 4407

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance (“Department”)  
50 West Town Street, Suite 300  
Columbus, Ohio 43215

Dear Sir/Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of the

**Universal Guaranty Life Insurance Company**

an Ohio domiciled, stock life insurance company, hereinafter referred to as the (“Company.”) The examination was conducted at the Company’s home office located at 5250 South 6<sup>th</sup> Street Road, Springfield, Illinois.

A report of this examination is hereby respectfully submitted.

## Scope of Examination

The Department last examined the Company as of December 31, 2004. The current full scope examination covers the intervening period to and including December 31, 2009.

The Department conducted the examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company's financial condition and identify prospective risks including corporate governance, identify and assess inherent risks 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.

During all years under examination, the Certified Public Accounting firm of Brown Smith Wallace, LLC provided an unqualified opinion based on statutory accounting principles. Relevant work performed by Brown Smith Wallace, LLC during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

The Department's life actuary reviewed the relevant work performed by the opining actuary to report on the adequacy of the carried reserves for life contracts, and to comment on any other statutory matters relating to reserves.

## 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:

<u>Name</u>	<u>Principal Occupation</u>
John S. Albin	Farmer
Randall L. Attkisson	Partner, Bluegrass Capital Advisors
Joseph A. Brinck, II	Chief Executive Officer, Stelter & Brinck, LTD

Jesse T. Correll	Chairman, President and Director, First Southern Bancorp, Inc.
Ward F. Correll	President, Cumberland Lake Shell, Inc.
Thomas F. Darden, II	Chief Executive Officer, Cherokee Investment Partners
Howard L. Dayton, Jr.	Founder, Crown Financial Ministries
Daryl J. Heald	Founder, Giving Wisely
Peter L. Ochs	Founder, Capital III- Private Investment Banking firm
William W. Perry	Owner, SES Investments, Ltd. - Oil and Gas Investment Company
James P. Rousey	President, UTG Inc

### **Officers**

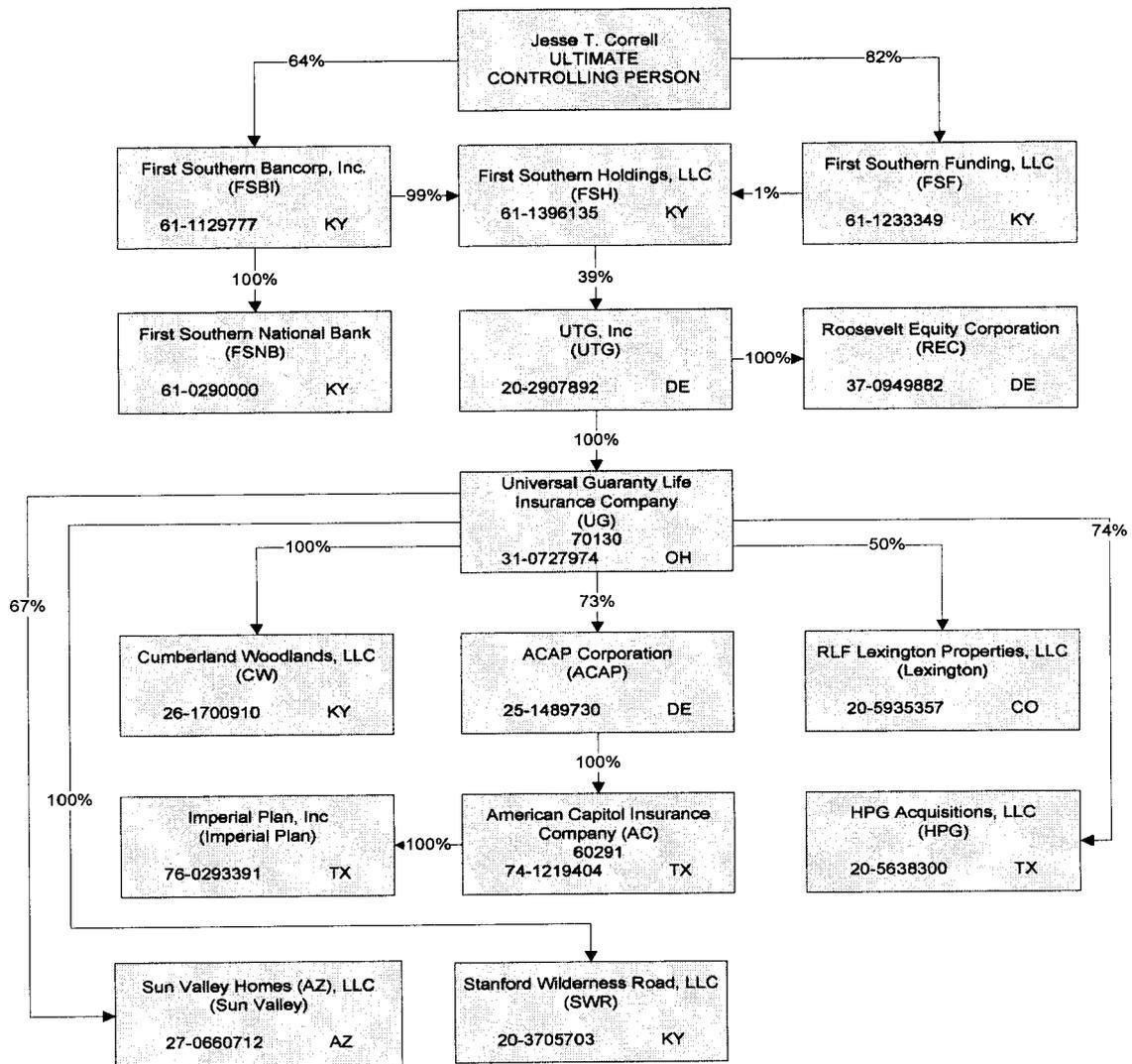
As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

<b><u>Name</u></b>	<b><u>Title</u></b>
Jesse T. Correll	Chief Executive Officer
James P. Rousey	President
Theodore C. Miller	Secretary and Chief Financial Officer
Jacob J. Andrew	Vice President and Treasurer
Douglas A. Dockter	Vice President
Michael K. Borden	Vice President
Douglas P. Ditto	Vice President
Kendra A. Lynn	Vice President

## Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in Section 3901.32 of the ORC. 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 39% of UTG Inc. (UTG). UTG owns 100% of the Company.

The following is the insurance holding company system as reported in the Company's 2009 Annual Statement:



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

The Company is licensed 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, Surplus and Other Funds

Statement of Operations

Statement of Changes in the Capital and Surplus Account

**Statement of Assets  
December 31, 2009**

**Admitted Assets**

Cash and invested assets:	
Bonds	\$ 103,437,991
Preferred stocks	10,814,043
Common stocks	26,425,438
Mortgage loans – first liens	53,711,833
Real estate – occupied by the company	1,477,247
Real estate – held for sale	8,638,099
Cash and short-term investments	27,721,713
Contract loans	11,012,460
Other invested assets	17,702,209
Aggregate write-ins for invested assets	1,036,190
Total cash and invested assets	<u>261,977,223</u>
Investment income due and accrued	946,690
Uncollected premiums and agents' balances	(819,332)
Deferred premiums, agents' balances and installments	811,827
Amounts recoverable from reinsurers	1,030,502
Other amounts receivable under reinsurance contracts	84,828
Current federal and foreign income tax recoverable	620,470
Guaranty funds receivable or on deposit	23,661
Receivables from parent, subsidiaries and affiliates	169,504
Aggregate write-ins for other than invested assets	164,324
Total admitted assets	<u><u>\$ 265,009,697</u></u>

**Statement of Liabilities, Surplus and Other Funds**  
**December 31, 2009**

**Liabilities:**

Aggregate reserve for life contracts	\$ 206,158,841
Aggregate reserve for accident and health contracts	348,351
Liability for deposit-type contracts	10,454,094
Contract claims – life	1,715,902
Contract claims – accident and health	63,811
Policyholder dividends apportioned for payment	609,679
Premiums and annuity considerations received in advance	78,512
General expenses due or accrued	247,847
Taxes, licenses and fees due or accrued	417,538
Net deferred tax liability	628,372
Unearned investment income	202,353
Amounts withheld or retained by company as agent or trustee	285,652
Amounts held for agents' account	21,697
Liability for benefits for employees and agents	28,819
Asset valuation reserve	6,799,143
Aggregate write-ins for liabilities	9,599,216
Total liabilities	<u>237,659,827</u>

**Capital and surplus:**

Common capital stock	2,000,000
Gross paid in and contributed surplus	18,655,343
Unassigned funds	6,694,527
Total capital and surplus	<u>27,349,870</u>
Total liabilities, capital and surplus	<u>\$ 265,009,697</u>

**Summary of Operations**  
**As of December 31, 2009**

Premiums and annuity considerations	\$ 8,954,781
Considerations for supplementary contracts with life contingencies	189,174
Net investment income	10,603,288
Amortization of Interest Maintenance Reserve	(43,922)
Commissions and expense allowances on reinsurance ceded	269,473
Aggregate write-ins for miscellaneous income	1,432,281
Total	<u>21,405,075</u>
Death benefits	11,104,361
Matured endowments	68,699
Annuity benefits	310,291
Disability benefits and benefits under accident and health contracts	73,328
Surrender benefits and withdrawals for life contracts	6,509,185
Interest and adjustments on contract or deposit-type contract funds	478,302
Payments on supplementary contracts with life contingencies	166,439
Increase in aggregate reserves	(1,188,098)
Total	<u>17,522,507</u>
Commissions on premiums and deposit-type funds	40,671
Commissions and expense allowances on reinsurance assumed	17,343
General insurance expenses	3,416,928
Insurance taxes, licenses and fees	310,500
Increase in loading on deferred and uncollected premiums	(23,818)
Total	<u>21,284,131</u>
Net gain from operations before dividends to policyholders and federal income taxes	120,944
Dividends to policyholders	582,287
Net gain from operations after dividends to policyholders and before federal income taxes	(461,343)
Federal and foreign income taxes incurred	(7,998)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital losses	(453,345)
Net realized capital gains	656,974
Net income	<u>\$ 203,629</u>

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

	2005	2006	2007	2008	2009
<b>Capital and surplus December 31, previous year</b>	\$ 21,860	\$ 25,646	\$ 31,210	\$ 30,131	\$ 27,483
Net income	5,114	5,163	4,662	4,825	204
Net unrealized capital gains (losses)	(395)	387	525	(6,511)	(650)
Change in net deferred income tax	1,022	(1,664)	67	716	(778)
Change in nonadmitted assets	(1,090)	1,295	(1,132)	(862)	1,386
Change in asset valuation reserve	(865)	1,483	(2,201)	2,184	(295)
Paid in surplus		4,000			
Dividends to stockholders		(5,100)	(3,000)	(3,000)	
Net change in capital and surplus	3,786	5,564	(1,079)	(2,648)	(133)
<b>Capital and surplus December 31, current year</b>	<u>\$ 25,646</u>	<u>\$ 31,210</u>	<u>\$ 30,131</u>	<u>\$ 27,483</u>	<u>\$ 27,350</u>

**Notes to Financial Statements**

**Investments**

The Company's investments in ISHARES Trust Barclays 20+Year and Vanguard Total Bond Market ETF were in not in compliance with ORC 3907.14 (S) (7):

On April 11, 2011, the Company took the necessary steps in order to comply with ORC 3907.14 (S) (7) which resulted in a net realized capital loss of \$274,000.

**Aggregate reserves for life and accident and health contracts**

The Company has an outside actuary, Wilfred J. Albracht, FSA, MAAA, certify the aggregate reserves for life and accident and health contracts for the years covered by the examination. The Department's actuary, Pete Weber, FSA, MAAA, reviewed the detailed calculations for the life and accident and health reserves as of December 31, 2009.

On the basis of the above-mentioned analysis, it was determined that the aggregate reserves for life and accident and health contracts are adequate and consistent with requirements of the ORC as of December 31, 2009.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

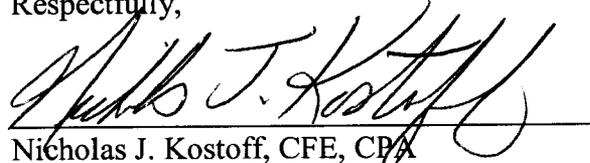
Total Admitted Assets	<u>\$ 265,009,697</u>
Liabilities	\$ 237,659,827
Surplus as Regards Policyholders	<u>27,349,870</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 265,009,697</u>

### Acknowledgement

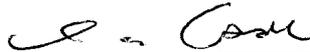
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Jeff Ferris, CFE, AES; Ryan Gibson, CFE, FLMI; Vicky Hugo, CFE, CPA; Floyd Meeks, CFE, CPA, AES; Methuselah Nyangoro, CPA; and Peter Weber, FSA, MAAA.

Respectfully,



Nicholas J. Kostoff, CFE, CPA  
Examiner-In-Charge  
Ohio Department of Insurance



David A. Cook, CFE  
Assistant Chief Examiner  
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, 2009.)

Nicholas J. Kostoff  
Examiner-In-Charge

4/21/11  
Date

David A. Cook  
Assistant Chief Examiner

4/21/11  
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 21 day of April, 2011.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2012~~  
My Commission Expires

State of Ohio

County of Franklin

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 21 day of April, 2011.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2012~~  
My Commission Expires