STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

Of

EQUITABLE LIFE & CASUALTY INSURANCE COMPANY

Of

Salt Lake City, Utah

As of

December 31, 2012

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February 20, 2014

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2012, has been made of the financial condition and business affairs of:

EQUITABLE LIFE & CASUALTY INSURANCE COMPANY
Salt Lake City, Utah

hereinafter referred to in this report as "the Company" or "Equitable," and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

We have performed the examination of Equitable Life & Casualty Insurance Company. This examination covers the period of January 1, 2010 through December 31, 2012. The examination was conducted under the NAIC's coordinated approach, with the State of Indiana participating.

Examination Procedure Employed

The NAIC Financial Condition Examiners Handbook (Handbook) requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating 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.

Status of Prior Examination Findings

The last examination was completed as of December 31, 2009. Items of significance noted in the prior examination report summary were either adequately addressed by the Company or are identified as repeat exceptions in this report.

SUMMARY OF SIGNIFICANT FINDINGS

The Company did not maintain adequate records of some Board of Directors (Board) actions to provide evidence of the oversight obligation of the Board under Utah Code Annotated (U.C.A.) § 31A-5-407(6) for the proper examination of the affairs of the examinee. Evidence of certain decisions, transactions and other activities under the oversight of the Board were not available. (CORPORATE RECORDS)

SUBSEQUENT EVENTS

On January 2, 2013, at a Special Meeting of the Board of the Company, Christopher M. McDaniel was appointed as President and Chief Executive Officer of the Company for a period of twelve months, subject to further review by the Board.

On February 20, 2013, at a Special Meeting of the Board of the Company, Daren W. Hackett was appointed as Treasurer of the Company to fill out the remaining term of Kristine Christensen who passed away during the year.

On May 20, 2013, at the Annual Meeting of the shareholders of the Company the following persons were elected to the Board of the Company: Earl Roderick Ross, Chairman; Kendall R. Surfass, Vice Chairman; F. Lynn DeBry; Marilyn R. Froelich; and Christopher M. McDaniel.

On May 20, 2013, at the Annual Meeting of the Board of the Company the following persons were elected as the Principal Officers of the Company: Earl Roderick Ross, Chairman; Christopher M. McDaniel, President & Chief Executive Officer; Kendall R. Surfass, Vice Chairman, Vice President, Secretary & General Counsel; and Daren W. Hackett, Treasurer.

On May 20, 2013, at the Annual Meeting of the Board of the Company the following directors were appointed to the following Board Committees:

Steering Committee
Earl Roderick Ross, Chair
Kendall R. Surfass
Christopher M. McDaniel

Executive Committee
Earl Roderick Ross, Chair
Kendall R. Surfass
Christopher M. McDaniel

Audit Committee
F. Lynn DeBry, Chair
E. Rod Ross
Marilyn R. Froelich

Finance & Investment Committee
Earl Roderick Ross, Chair
F. Lynn DeBry
Marilyn R. Froelich

Risk Management Committee
Earl Roderick Ross, Chair
Kendall R. Surfass
Christopher M. McDaniel

The notarized Biographical Affidavit of Daren W. Hackett was executed on May 23, 2013, and subsequently filed with the Utah Insurance Commissioner.

The notarized Biographical Affidavit of Christopher M. McDaniel was executed on May 28, 2013, and subsequently filed with the Utah Insurance Commissioner.

On February 20, 2013, the Board met specifically to address their concern regarding the current state of the transaction between the Chairman Earl Roderick Ross and Christopher McDaniel, which is intended to result in the change of ownership and control of Equitable from Mr. Ross to Mr. McDaniel. A Letter of Intent (LOI) had been executed previously by Mr. McDaniel and Mr. Ross with the understanding that a purchase agreement would be executed reflecting the terms and conditions of the LOI. The parties filed a "Form A" on July 12, 2013, with the Utah Insurance Commissioner for approval of the transaction.

On September 23, 2013, the Form A filed on July 12, 2013 to seek a change of ownership and control of the Company was withdrawn.

On November 26, 2013, Christopher M. McDaniel resigned as President and Chief Executive Officer of the Company and as a member of the Board of Directors of the Company.

On November 27, 2013, at a Special Meeting of the Board of Directors of the Company, Kendall R. Surfass was appointed President of the Company to fill the vacancy caused by the resignation of Christopher M. McDaniel.

On December 4, 2013, at a Special Meeting of the Board of Directors of the Company, William B. Prouty was appointed to the Board of Directors and appointed Chief Executive Officer of the Company to fill the vacancies caused by the resignation of Christopher M. McDaniel. William B. Prouty was appointed to serve on the Steering Committee, the Executive Committee and the Risk Management Committee to fill the vacancies caused by the resignation of Christopher M. McDaniel.

On January 20, 2014, at a Special Meeting of the Board of Directors of the Company, a resolution was adopted to increase the size of the Board to seven (7) directors. William A. Adams and Gil C. Rohde, Jr. were appointed to the Board of Directors of the Company. The Compensation Committee was reinstated. E. Rod Ross (Chair), William A. Adams and Gil C. Rohde, Jr. were appointed to serve as members of the Committee.

COMPANY HISTORY

The Company was initially organized on June 5, 1935, as a mutual benefit assessment association. On March 7, 1936, the Company was operating under the name of Equitable Mutual Life Insurance Company of Utah. The name was changed to Equitable Life & Casualty Insurance Company on May 18, 1938. The Company's authorized lines of insurance as of December 31, 2012, were life and disability (accident and health).

On May 20, 1946, the Company was converted to a capital stock legal reserve company. Authorized capital stock of the Company consisted of 500,000 shares of $1.00 par value stock. On May 14, 1979, the articles of incorporation were amended to increase the authorized capital stock to 2,000,000 shares of $1.00 par value stock.

During 1987, the articles of incorporation were amended to provide for 408,000 shares of preferred stock with a par value of $2.00.

During 1997, the Company instituted a succession plan in which it purchased the majority of stock from shareholders directly or indirectly related to Mr. Earl Roderick Ross.

During 2001, the Company amended its articles of incorporation to change the common stock par value from $1.00 to no-par. In addition, the Board retired all common and preferred treasury stock and increased the paid-in capital account of the Company to $2,500,000. The amendment was approved by the Board at a special meeting held on December 17, 2001, and approved by the Utah Insurance Department (the Department) on February 19, 2002.

On May 13, 2002, the Company filed bylaws with the Department that were amended during 1998.

On January 14, 2009, the Board adopted the second amended bylaws, which were approved by the Department on March 11, 2009.

On October 23, 2009, the Board adopted the third amended bylaws which were approved by the Department on October 27, 2009. The changes were as follows:

- Verbiage was changed in Section 3 to address that the Board will meet at least on an annual basis instead of on a regular basis as stated in the second amendment. The third amendment changed Section 14 to add an Audit Committee to the list of committees.
- Section 15 was added to establish a Steering Committee, which may act when the Board is not in session subject to the limitations set by U.C.A. § 31A-5-412.
- Section 16 was added to state that no director or officer shall be liable to the Company or its shareholders for breach of a fiduciary duty.
- Section 17 was added to limit the authority of the Board to act without approval of the shareholders for certain acts. No other amendments to the bylaws or articles of incorporation were noted during the period covered by this examination.

Currently, the Company continues as a closely held Utah domiciled life, accident, and health insurance company.

The Company holds certificates of authority to conduct business in forty-five states and the District of Columbia.

In 2007, Equitable Resolutions, LLC was formed as the exclusive marketing support arm for agents. During the examination period this entity also applied for and received approval as a licensed insurance agency in a number of states, including Utah. In 2012, Equitable Resolutions, LLC was sold to Earl Roderick Ross, as an individual.

Dividends and Capital Contributions

There were no capital contributions or dividends during the period of examination.

Mergers and Acquisitions

There were no mergers or acquisitions during the period of examination.

CORPORATE RECORDS

The Company did not maintain adequate records of certain transactions to provide evidence of the oversight by the Board as required under U.C.A. § 31A-5-407(6). Evidence of certain decisions, transactions and other activities under the oversight of the Board were not available to perform a proper examination of the affairs of the Company. The following transactions are the examples:

- Override Commissions – There was an oral agreement between Mr. Ross, Chairman and CEO, on behalf of the Company and Mr. McDaniel, Chairman & CEO, on behalf of Heartland Financial Group (HFG) in the fall of 2012. Under the oral agreement, HFG receives an override commission ranging from 2% to 10% on all lines of business

produced by the Company. The override commissions were initiated in January 2013 pursuant to the oral agreement.

- Oral Agreement - There was a second oral agreement, entered into between Mr. Ross, Chairman & CEO, on behalf of the Company and Mr. McDaniel, Chairman & CEO, on behalf of HFG. Under the second oral agreement, the Company agreed to provide a payment of $18,000 per month to HFG for the purpose of compensating six (6) marketers of HFG ($3,000 per month for each) for their marketing efforts on behalf of the Company. The marketers of HFG were not employees of the Company. The Company issued a form 1099 to HFG for the payments HFG received for the six (6) marketers.

  It is recommended that the parties properly adopt written agreements in compliance with SSAP 25.

As noted earlier, on November 26, 2013, Mr. McDaniel resigned as President and Chief Executive Officer of the Company and as a member of the Board of Directors of the Company. As a result, both agreements noted above were cancelled. Subsequent to the year end and before the last day of this examination, the Company executed three new agreements with HFG as follows

1. Agency service agreement
2. Producer service agreement
3. Consulting agreement

These agreements were properly executed in accordance with SSAP 25 and the Company appears to be in compliance with this recommendation.

The previous examination report as of December 31, 2009, dated September 15, 2010, was distributed to the Board on November 18, 2010.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Company indicated the number of directors shall be not less than three (3) or more than twenty-five (25). A majority of the directors are residents of the state of Utah and manage the business and affairs of the corporation per the requirements of U.C.A. § 31A-5-407(2) and (6).

The following persons served as directors of the Company as of December 31, 2012:

Name and Location	Title and Principal Occupation
Earl Roderick Ross – Salt Lake City, Utah	Chairman & CEO
Kendall Ray Surfass – Park City, Utah	Vice Chairman, Vice President, Secretary & General Counsel
Larry Aldred Thomas – Park City, Utah	President & Chief Marketing Officer
Robert Elliot Anderson – Brooklyn Park, Minnesota	Chief Operating Officer
Francis Lynn DeBry – Salt Lake City, Utah	Retired Certified Public Accountant
Marilyn Rose Froelich – Fargo, North Dakota	Finance and Investment Consultant

As of December 31, 2012, the Company's bylaws provide for the Principal Officers to consist of Chief Executive Officer, President, up to five (5) Vice Presidents, Secretary, and Treasurer. Other Officers and Assistant Officers, as necessary may be elected or appointed by the Board. Principal Officers of the Corporation shall be held by at least three (3) separate natural persons. The offices of CEO and President shall be held by members of the Board of the Company.

The Principal Officers of the Company as of December 31, 2012, were as follows:

Name and Location	Title and Principal Occupation
Earl Roderick Ross – Salt Lake City, Utah	Chairman & CEO
Larry Aldred Thomas – Park City, Utah	President
Kendall Ray Surfass – Park City, Utah	Vice President, Secretary & General Counsel
Kristine Shewell Christensen – Stansbury Park, Utah	Treasurer
Robert Elliott Anderson – Brooklyn Park, Minnesota	Chief Operating Officer

Committees and the respective committee members of the Company as of December 31, 2012, were as follows:

Steering Committee

Name and Location	Title and Principal Occupation
Earl Roderick Ross – Salt Lake City, Utah	Chairman & CEO – Chair
Kendall Ray Surfass – Park City, Utah	Vice President, Secretary & General Counsel
Larry Aldred Thomas – Park City, Utah	President & Chief Marketing Officer
Robert Elliot Anderson – Brooklyn Park, Minnesota	Chief Operating Officer

Executive Committee

Name and Location	Title and Principal Occupation
Earl Roderick Ross – Salt Lake City, Utah	Chairman & CEO – Chair
Kendall Ray Surfass – Park City, Utah	Vice President, Secretary & General Counsel
Larry A. Thomas – Park City, Utah	President & Chief Marketing Officer
Robert E. Anderson – Brooklyn Park, Minnesota	Chief Operating Officer

Audit Committee

Name and Location	Title and Principal Occupation
Earl Roderick Ross – Salt Lake City, Utah	Chairman & CEO
Francis Lynn DeBry – Salt Lake City, Utah	Retired Certified Public Accountant – Chair
Larry Aldred Thomas – Park City, Utah	President & Chief Marketing Officer
Marilyn Rose Froelich – Fargo, North Dakota	Finance & Investment Consultant
Richard Klar, Jr. – Heber City, Utah	Corporate Actuary - Participant
Kristine Christensen – Stansbury Park, Utah	Treasurer – Participant
David Munk – Salt Lake City, Utah	Chief Audit & Budget Officer –

	Participant
Daren Hackett – Salt Lake City, Utah	Controller - Participant

Risk Management Committee

Name and Location	Title and Principal Occupation
Earl Roderick Ross – Salt Lake City, Utah	Chairman & CEO - Chair
Kendall Ray Surfass – Park City, Utah	Vice President, Secretary & General Counsel
Robert Elliot Anderson – Brooklyn Park, Minnesota	Chief Operating Officer
David Munk – Salt Lake City, Utah	Chief Audit & Budget Officer – Participant
Steve Patrick – Salt Lake City, Utah	Strategic Development - Participant

Finance and Investment Committee

Name and Location	Title and Principal Occupation
Earl Roderick Ross – Salt Lake City, Utah	Chairman & CEO - Chair
Larry Aldred. Thomas – Park City, Utah	President & Chief Marketing Officer
Francis Lynn DeBry – Salt Lake City, Utah	Retired Certified Public Accountant
Marilyn Rose Froelich, Fargo, North Dakota	Finance & Investment Consultant
Kristine Christensen – Stansbury Park, Utah	Treasurer – Participant
Richard Klar, Jr. – Heber City, Utah	Corporate Actuary - Participant
David W. Munk – Salt Lake City, Utah	Chief Audit & Budget Officer – Participant
Daren Hackett – Salt Lake City, Utah	Controller - Participant

Biographical Affidavits

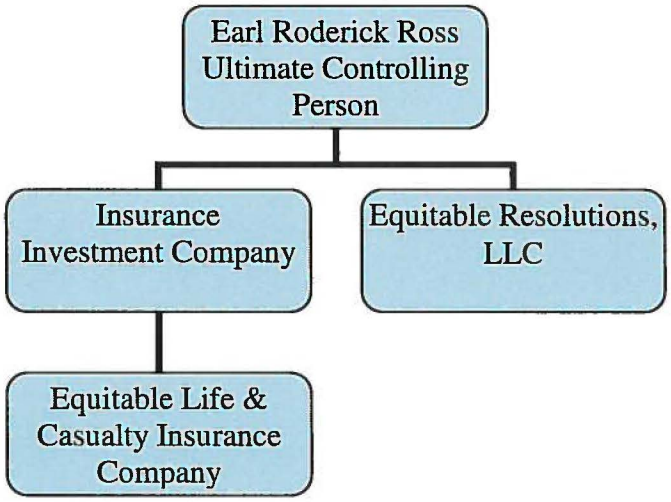
Pursuant to the requirements of the Commissioner under Utah Code 31A-5-410(1) (a) (ii), notarized biographical affidavits are to be filed immediately for any changes in key management of staff of the Company and reported to the Commissioner.

The notarized Biographical Affidavit of Marilyn Rose Froelich was executed on June 19, 2012, and subsequently filed with the Utah Insurance Commissioner.

Holding Company

As of December 31, 2012, the Company is ninety-five percent owned by Insurance Investment Company. Mr. Earl Roderick Ross is the ultimate controlling person. The companies operate independently and there are no cost sharing agreements among the companies.

An organizational chart illustrating the holding company system follows:



On March 26, 2012 the Board, at a Special Meeting, approved by resolution the sale of Equitable Resolutions, LLC to Earl Roderick Ross, as an individual. The Sales Agreement between Earl Roderick Ross, an individual, and the Company, was executed on March 31, 2012, and reported to the Commissioner on April 30, 2012 pursuant to Utah Code 31A-5-414. With this transaction Equitable Resolutions, LLC was removed from the holding company system.

FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for the Company's size and premium volume is not less than $1,000,000. As of the examination date, the Company participated in fidelity bond coverage of $1,000,000. The Company also had additional insurance protection against loss from commercial liability, property, and director and officer errors or omissions.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's employees participate in a 401k defined contribution plan. The plan permits up to 100% deferral of salaries on an elective basis. Company discretionary contributions are 3% of base compensation. The Company does not offer a defined benefit pension, and no unfunded liability provision is necessary. The plan benefits administered by a trustee are paid as the obligations are incurred.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write Life and Accident and Health in the following states:

Alabama	Indiana	Nebraska	South Dakota
Arizona	Iowa	Nevada	Tennessee
Alaska	Kansas	New Hampshire	Texas
Arkansas	Kentucky	New Mexico	Utah
Colorado	Louisiana	North Carolina	Vermont
Connecticut	Maine	North Dakota	Virginia
Delaware	Maryland	Ohio	Washington
District of Columbia	Massachusetts	Oklahoma	West Virginia
Georgia	Michigan	Oregon	Wisconsin
Hawaii	Mississippi	Pennsylvania	Wyoming
Idaho	Missouri	Rhode Island	
Illinois	Montana	South Carolina	

The Company's marketing plan encompasses an independent agency system that sells insurance products in forty-five states and the District of Columbia. The Company's products are available through approximately 6,310 licensed independent insurance agents nationwide, with 266 resident agents and 196 non-resident agents appointed in the State of Utah. Effective January 6, 2010, the Company no longer writes Long Term Care business.

GROWTH OF COMPANY

The following exhibit depicts the Company's financial results throughout the examination period:

	2012	2011	2010
Total admitted assets	$242,346,347	$230,618,149	$215,770,779
Total liabilities	215,422,575	199,698,146	186,312,777
Policyholder surplus	26,923,772	30,920,003	29,458,002
Net income	(2,086,340)	1,434,984	(5,382,422)
Net premiums written	115,430,944	110,343,300	110,434,670

The Company reported negative net income in 2010. This was caused primarily due to strengthening of long term care reserves. A negative income for 2012 resulted from various examination adjustments.

REINSURANCE

Ceded

As of December 31, 2012, the Company was a party to life and accident and health reinsurance contracts with reinsurers authorized to conduct business in Utah. Below is a description of the significant treaties in place as of the date of examination:

Long Term Care

The Company has five (5) treaties with reinsurers that provide a significant amount of reinsurance on Long Term Care policies. A summary of each treaty is provided below:

- ReliaStar Corporation reinsures Policy Forms 650 (ten year benefit period plan) and 750 (four year, ten year and unlimited benefit period plans). Employer's Reassurance Corporation reinsures Policy Form 650 (four year plan only). The treaties with ReliaStar and Employer's Reassurance both provide reinsurance on a 90/10 excess two year basis. Specifically, the Company pays a reinsurance premium to the reinsurer, which is equal to a certain percentage of the Company's gross earned premiums for the plans mentioned above. In return, the reinsurer pays 90% of the claims for long term care stays in excess of two years. The Company retains 10% of this excess two year risk, and 100% of the risk on claims for stays of two years or less. For example, on a four year plan, the Company pays a reinsurance premium to ReliaStar equal to 21.3% of gross premiums. Then, for any claimant who stays in a long term care facility for five years, the Company pays 100% of claims for the first two years and 10% of the claims in excess of two years, while ReliaStar pays 90% of the claims beyond two years.
- IOA Re and Munich American Reassurance Corporation reinsure all policies within Plan 2002. The excess two year claims are reinsured identically to the scenario above. However, the first two years of risk are reinsured on an 80/20 coinsurance arrangement, with the Company paying the reinsurer 20% of the premium for up to a two year benefit period, in return for the reinsurer paying for 20% of the claims for stays up to two years.
- For Policy Form 2020, the Company cedes 50% of the premiums collected and claims to RGA. Starting with 2009 and subsequent issues, RGA reinsures on a 70/30 coinsurance basis with the Company retaining 30% of the risk. The Company ceased selling Policy Form 2020 (the EquiCare product) in January 2010.

Life

The Company has three main treaties, one on Policy Form 393 with Cigna Re, another on Policy Form 1002 and one on its Legacy Life product, Policy Form 1004. Policy Form 393 is reinsured for death claims in excess of $5,000 face amounts, for issue ages 0-65. On Policy Form 1002, which is reinsured with Munich American Reassurance Corporation, face amounts over $25,000 up to $50,000 are reinsured on an 80/20 basis. For example, on a $40,000 face amount, the Company retains the first $25,000 and retains an additional 20% of the excess over $25,000 ($3,000 in this example), while the reinsurer holds $12,000. On face amounts over $50,000, the Company retains $30,000, and 100% of the excess is reinsured. Policy Form 1004 is reinsured with Optimum Re on a 60/40 coinsurance basis. The Company retains 40% of the face amount up to a maximum of $30,000.

The Company has ceded reinsurance to Oxford Life Insurance Company on Policy Form 1002, marketed as A Little More Life, on a 100% coinsurance basis for all premiums and claims. An initial ceding allowance and expense allowances are paid under the terms of the treaty. The Company receives an administrative allowance and administers all policies in force.

Medicare Supplement

The Company has ceded reinsurance to Aetna Life Insurance Company (Aetna) on Policy Forms 2050 and 2070 (Medicare Supplement Plans A, F and N), effective October 12, 2012. This includes business written by the Company beginning June 1, 2010 that was in force as of October 1, 2012. The treaty provides coinsurance based on actual premiums and claims with Aetna assuming 95% of all premiums and claims and the Company retaining 5% of all premiums and claims. Ceding and expense allowances are paid according to a schedule within the treaty. The Company administers all of the policies in its capacity as a third party administrator.

Hospital Indemnity

The Company has a coinsurance reinsurance treaty with Mutual of Omaha under Policy Form ELCHI, a hospital indemnity plan. The treaty provides coinsurance based on actual premiums and claims, up to $15,000,000, with Mutual of Omaha assuming 70% of all premiums and claims up to $10,000,000 and the Company retaining 30% of all premiums and claims up to $5,000,000. Ceding and expense allowances are paid according to a schedule within the treaty.

Assumed

The Company has assumed reinsurance Medicare Supplement business from Heartland National Life Insurance Company (Heartland). The Company does not currently have any plans to assume additional business from other companies. The Heartland treaty provides for coinsurance based on actual premiums and claims paid. The Company assumes 95% of all premiums and claims subject to a limit of $20,000,000 in annualized premiums. Heartland retains 5% of all premiums and claims. Ceding and expense allowances are paid according to a schedule attached to the treaty. The Company administers all policies underwritten by this agreement, acting in the capacity as a third party administrator.

ACCOUNTS AND RECORDS

The Company's accounting, investment, policy and claim records are kept and are available at the Company's home office at 3 Triad Center, Salt Lake City, Utah.

The Company utilizes automated systems to maintain accounts and records. There are separate systems used for the general ledger (IBS), claims (proprietary system), policies (proprietary system), investments (Clearwater) and other business functions. Controls for data transfers to the general ledger from the other systems are mostly automated. All systems are housed at the home office in Salt Lake City, Utah.

Our review disclosed two significant deficiencies in these records, which was noted under "Corporate Records." More deficiencies are further discussed in the "Summary of Recommendations" section of this Report.

Larson and Rosenberger, LLP, an independent certified public accounting firm, audited the Company's records during the period covered by this examination. Audit reports and workpapers prepared by the CPA for the year 2012 were made available for the examiners' use.

STATUTORY DEPOSITS

The Company's statutory deposit requirement was $400,000 pursuant to U.C.A. § 31A-5-211(2)(a) for life insurance companies. The examination confirmed the Company maintained a statutory deposit in the State

of Utah consisting of US Treasury Notes with a market value of $ 3,707,703 and a par value of $3,200,000, which was adequate to cover Utah's required deposit for the benefit of Utah policyholders and to meet other states' deposit requirements. Separate statutory deposits were held for the benefit of the policyholders only in those states as listed below:

State	Book Adjusted Carrying Value	Market Value
Arkansas	$ 245,760	$ 281,778
Georgia	48,066	56,582
Massachusetts	98,919	111,821
Missouri	699,473	809,928
New Hampshire	245,759	281,777
New Mexico	245,713	272,483
North Carolina	499,609	548,400
South Carolina	197,838	223,642
Virginia	392,778	396,940
Total	$2,673,915	$2,983,351

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

Equitable Life & Casualty Insurance Company
BALANCE SHEET (ASSETS)
As of December 31, 2012

		Net Admitted Assets
Bonds	$	200,749,941
Mortgage loans on real estate:		
First liens		11,118,501
Real estate		275,423
Properties held for sale		901,172
Cash and short term investments		14,426,533
Contract loans		181,110
Investment income due accrued		2,085,869
Uncollected premiums and agents' balances in the course of collection		316,505
Deferred premiums, agents' balances and installments booked but deferred and not yet due		1,214,886
Reinsurance:		
Amounts recoverable from reinsurers		6,591,019
Other amounts receivable under reinsurance contracts		2,255,698
Current federal and foreign income tax recoverable (Note 4)		300,496
Net deferred tax asset		932,801
Guaranty funds receivable or on deposit		154,302
Electronic data processing equipment and software		133,890
Aggregate write-ins for other than invested assets		708,201
Total Assets	$	242,346,347

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Equitable Life and Casualty Insurance Company
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)
As of December 31, 2012

		Current Year
Aggregate reserve for life contracts	$	8,584,452
Aggregate reserve for accident and health contracts (Note 4)		184,501,365
Liability for deposit-type contracts		284,947
Contract claims:		
Life		400,000
Accident and health		7,645,602
Provision for policyholders' dividends and coupons payable the following calendar year:		
Dividends apportioned for payment		363
Coupons and similar benefits		360
Premiums and annuity considerations for life and accident and health contracts received in advance		19,986
Other amounts payable on reinsurance		6,727,944
Interest maintenance reserve (IMR)		430,718
General expenses due or accrued		2,802,615
Taxes, licenses and fees due or accrued, excluding federal income taxes		616,975
Unearned investment income		1,322
Amounts withheld or retained by Company as agent or trustee		198,474
Amounts held for agents' account		1,010,655
Remittances and items not allocated		207,324
Asset valuation reserve (AVR)		867,049
Aggregate write-ins for liabilities		1,122,424
Total Liabilities	$	215,422,575
SURPLUS AND OTHER FUNDS		
Common capital stock	$	2,500,000
Aggregate write-ins for special surplus funds (Note 3)		0
Unassigned funds (surplus) (Notes 3)		24,423,772
Surplus		24,423,772
Total Capital and Surplus		26,923,772
Total of Liabilities, Surplus, and Other Funds	$	242,346,347

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Equitable Life and Casualty Insurance Company
SUMMARY OF OPERATIONS
For the Year Ended December 31, 2012

		Current Year
Premiums and annuity considerations for life and accident and health contracts	$	111,117,059
Net investment income		9,907,785
Amortization of interest maintenance reserve (IMR)		83,834
Commissions and expense allowances on reinsurance ceded		7,710,357
Aggregate write-ins for miscellaneous income		1,341,223
Total Revenues	$	130,160,258
Death benefits		1,618,230
Mature endowments		14,339
Disability benefits		72,702,296
Coupons, guaranteed annual pure endowments and similar benefits		334
Surrender benefits and withdrawals for life contracts		118,227
Interest and adjustments on contract or deposit-type contract funds		(16,555)
Increase in aggregate reserves for life and accident and health contracts (Note 4)		13,479,469
Total benefits and reserves	$	87,916,340
Commissions on premiums, annuity considerations and deposit-type contract funds		19,546,290
Commissions and expense allowances on reinsurance assumed		1,761,560
General insurance expenses (Notes 1 and 2)		19,524,311
Insurance taxes licenses and fees, excluding federal income taxes		3,509,847
Increase in loading on deferred and uncollected premiums		(16,380)
Aggregate write-ins for deductions		4,630
Total expenses	$	132,246,598
Net loss from operations before dividends to policyholders and federal income taxes	$	(2,086,340)

Equitable Life and Casualty Insurance Company
SUMMARY OF OPERATIONS (Cont.)
For the Year Ended December 31, 2012

		Current Year
Net loss from operations before dividends to policyholders and federal income taxes	$	(2,086,340)
Dividends to policyholders		(718)
Net gain from operations after dividends to policyholders and before federal income taxes		(2,087,058)
Federal and foreign income taxes incurred		(312,406)
Net gain from operations after dividends and taxes and before realized capital gains (losses)		(2,616,090)
Net realized capital gains (losses)		131,112
Net Income (Loss)	$	(2,268,352)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Equitable Life and Casualty Insurance Company
RECONCILIATION OF CAPITAL AND SURPLUS
2009 through 2012

	Per Exam 2009	2010	2011	Per Exam 2012
Capital and surplus prior reporting year	$ 38,077,517	$ 30,040,104	$ 29,458,002	$ 30,920,003
Net income (or loss)	(1,471,128)	(5,382,422)	1,434,984	(2,268,352)
Change in net unrealized gains and losses	0	0	0	0
Change in net deferred income tax	(7,535,385)	2,509,714	6,094,616	(825,246)
Change in non-admitted assets (Notes 1, 2 and 5)	8,314,990	(969,593)	(5,262,840)	(1,018,315)
Change in asset valuation reserve (AVR)	(286,043)	(81,257)	(214,105)	(147,456)
Change in surplus notes	0	0	0	0
Cumulative effect of changes in accounting principles	0	0	0	0
Transferred from capital	(4,620)	(6,293)	(3,150)	(3,465)
Change in surplus as a result of reinsurance	0	3,347,749	(584,878)	266,603
Aggregate write-ins for gains and losses in surplus	(7,055,227)	0	(2,625)	0
Net change in capital and surplus	(8,037,413)	(582,102)	1,462,001	(3,996,231)
Capital and surplus end of reporting year	$ 30,040,104	$ 29,458,002	$ 30,920,003	$ 26,923,772

COMMENTS ON FINANCIAL STATEMENTS

The following reclassifications or adjustments were made as a result of this examination:

Note 1- Outstanding Loans – Loans in the amount of $1,339,894 should be written-off due to non-performance as follows:

Loan 1	$ 837,016
Loan 2	130,378
Loan 3	162,500
Loan 4	210,000
Total	$1,339,894

General expenses – reported balance	$17,916,933
Examination adjustment (Note 1)	1,339,894
Examination adjustment (Note 2)	267,484
General expenses - examined balance	$19,524,311

Change in non-admitted – reported balance	$(3,060,394)
Examination adjustment (Note 1)	1,339,894
Examination adjustment (Note 2)	267,484
Examination adjustment (Note 4)	434,701
Change in non-admitted - examined balance	$(1,018,315)

See Loans to the officers under "Summary of Recommendation" for more details.

Note 2 – Agent Debit Balances

As of December 31, 2012, the Company had $267,484 of agent debit balances that are uncollectible. These advances were sent to a collection agency and remain unpaid to date. As a result, this is written-off as follows:

General expenses – reported balance	$17,916,933
Examination adjustment (Note 1)	1,339,894
Examination adjustment (Note2)	267,484
General expenses - examined balance	$19,524,311

See agent debit balances under "Summary of Recommendation" for more details.

Note 3 - Aggregate Write-ins for Special Surplus Funds

As of December 31, 2012, the aggregate write-ins for special surplus funds in amount of ($24,293,254) were incorrectly reported. This amount has been reclassified to unassigned funds.

Aggregate write-ins for special surplus funds – reported balance	$(24,293,254)
Examination adjustment	24,293,254
Aggregate write-ins for special surplus funds - examined balance	$ 0

Unassigned funds – reported balance	$ 52,061,755
Examination adjustment (Note 3)	(24,293,254)
Examination adjustment (Note 4)	(2,694,099)
Examination adjustment (Note 5)	(650,630)
Unassigned funds – examined balance	$ 24,423,772

See aggregate write-ins for special surplus funds under "Summary of Recommendation" for more details.

Note 4 – Aggregate Reserves for Accident and Health Contracts

As of December 31, 2012, Long Term Care (LTC) reserves were determined by the examination actuary to be understated in the amount of $2,694,099.

LTC benefits expense – reported balance	$ 10,785,370
Examination adjustment	2,694,099
LTC benefits expense – examined balance	$ 13,479,469

Aggregate reserves for A&H contracts – reported balance	$181,807,266
Examination adjustment	2,694,099
Aggregate reserves for A&H contracts – examined balance	$184,501,365

Current federal income tax recoverable	$83,870
Examination adjustment caused by the tax impact of the actuarial adjustment	216,626
Examined balance	$300,496

Change in non-admitted – reported balance	$ (3,060,394)
Examination adjustment (Note 1)	1,339,894
Examination adjustment (Note 2)	267,484
Examination adjustment caused by the tax impact of the actuarial adjustment	434,701
Change in non-admitted - examined balance	$ (1,018,315)

See aggregate write-ins for special surplus funds under "Summary of Recommendation" for more details.

Note 5 - Capital and Surplus

Notes 1 through 3 noted above have no impact on the Company's capital and surplus as reported in the Company's annual statement as of December 31, 2012. Note 4 has the following impact on the surplus:

Capital and surplus December 31, 2012 – reported balance	$30,268,501
Examination adjustment to reserve	(2,694,099)
Tax impact of the actuarial adjustment*	(650,630)
Capital and surplus December 31, 2012 – examined balance	$26,923,772

*The total of $650,630 decrease in capital & surplus is the net effect from a $1,301,957 decrease in gross Deferred Tax Asset (negative impact to Capital & Surplus) and a $434,701 decrease in non-admit Deferred Tax Asset (positive impact to Capital & Surplus) and a $216,626 increase in federal tax recoverable (another positive impact to Capital & Surplus).

See actuarial adjustment and recommendations under "Summary of Recommendation" for more details.

As of December 31, 2012, the Company's minimum capital requirement was $400,000 as defined by U.C.A. 31 A-5-211(2) (a). As defined by U.C.A. 31A-17 Part 6, the Company had total adjusted capital of $26,923,722 which exceeded the Company action level risk-based capital (RBC) requirement of $20,969,092 by $5,954,630.

SUMMARY OF RECOMMENDATIONS

Outstanding Loans

The following issues were noted as it pertains to outstanding loans:

- Effective May 7, 2008, Heartland Financial Group (HFG), an independent agency for the Company borrowed $500,000 from the Company. Pursuant to the terms of the Loan Agreement, the final payment was due December 31, 2012. To date, no payments have been made on this loan and the loan is currently in default. As of December 31, 2012, accrued interest on the loan was $337,016.
- Effective March 9, 2006, under an Installment Promissory Note, the Company and HFG received an advance against the future agency commissions. To date, the Company has not received any payments for the Installment Promissory Note. The unpaid balance and interest were $130,378 as of December 31, 2012.
- During 2007, the Company recorded a receivable of $162,500 without documentation of terms or documentation of from whom the funds were due. The receivable is uncollectible.
- In addition to the loans noted above, one former executive officer and one current executive officer had unsecured outstanding loans to the Company in the combined amount of $210,000 as of December 31, 2012. No payments have been made on these loans since their inception.

The total of the above amounts is $1,339,894.

Recommendation:

Due to the extended period of time that these loans have remained unpaid, there is a high probability regarding un-collectability. Although the Company has reported the four loans as non-admitted assets, in accordance with the provisions of SSAP 5R, the Company should write-off the uncollectable receivables and charge the amount to income. *(See comments on financial statements Note 1 above for the adjustment)*

Subsequent to the year end the loan in the amount of the amount of $162,500 was written-off. The loans in the amount of $210,000 were also written-off by issuing form 1099 to each officer.

Agent Debit Balances

As of December 31, 2012, the Company had $267,484 of agent debit balances that are uncollectible. These advances were sent to a collection agency and remain unpaid to date.

Recommendation:

Since these amounts are uncollectable, it is recommended that these amounts be written-off. *(See comments on financial statements Note 2 above for the adjustment)*

Subsequent to the year end this amount was written off.

Aggregate Write-ins for Special Surplus Funds

As of December 31, 2012, the aggregate write-ins for special surplus funds in amount of ($24,293,254) were incorrectly reported.

Recommendation:

This amount should be reclassified to Unassigned Funds. *(See comments on financial statements Note 3 above for the adjustment)*

Subsequent to the year end this amount was reclassified.

Actuarial Adjustment and Recommendations

As of December 31, 2012, the examination actuary noted the following:

- Properly calculate LTC reserves as those were understated in the amount of $2,694,099.
- Properly recognize the effects of contractual inflation provisions beyond the valuation date in the determination of Additional Contract Reserves (ACR) for LTC contracts.
- Provide additional documentation and support for how the salvage factor values are applied based on the characteristics and parameters of generic policy groups in the determination of ACR for LTC contracts.
- Properly recognize the effects of contractual inflation provisions beyond the valuation date in the determination of Disabled Lives Reserves (DLR) for LTC contracts.

Recommendation:

It is recommended that the Company comply with the above actuarial recommendation. *(See comments on financial statements Note 4 above for the adjustment)*

Subsequent to the year end the LTC reserves were increased in the amount of $2,694,099.

ACKNOWLEDGEMENT

Joseph C. Higgins, FSA, MAAA of INS Consultants Inc., performed the actuarial phases of the examination. In addition, Donald Catmull, CFE Assistant Chief Examiner, and Cory Starley Financial Examiner, participated in the examination. David Daulton, CFE, Patrick Huth, CFE, and Brandon Thomas, HISP, MCM of The Thomas Consulting Group, participated in the examination representing the Indiana Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

Neeraj Gupta

Neeraj Gupta, CFE, Examiner-in-Charge
INS Regulatory Insurance Services, Inc.
Representing the Utah Insurance Department