COMMONWEALTH OF PUERTO RICO

OFFICE OF THE COMMISSIONER OF INSURANCE

UNIVERSAL LIFE INSURANCE COMPANY

REPORT ON EXAMINATION
AS OF
DECEMBER 31, 2013
NAIC CODE 60041

CASE NO. EX-2014-10

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Examiner In Charge
INSRIS-PR, LLC

Table of Contents

September 15, 2015

Honorable Ángela Weyne Roig
Commissioner
Commonwealth of Puerto Rico
Office of the Commissioner of Insurance
Guaynabo, Puerto Rico

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Order Number EX-2014-10, dated August 29, 2014, a financial examination has been made of the affairs, financial condition and management of the

UNIVERSAL LIFE INSURANCE COMPANY

hereinafter referred to as "Company" or "ULIC", incorporated under the laws of the Commonwealth of Puerto Rico. The examination was carried out in the main offices of the Company located at Metro Office Park, Street 1, Lot 10, Guaynabo, Puerto Rico. The report on this examination is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2008, by the Office of the Commissioner of Insurance of Puerto Rico. This examination covered the period of January 1, 2009 through December 31, 2013, and encompassed a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2013. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners* (NAIC) *Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the Commonwealth of Puerto Rico. The NAIC 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. The examination also included 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. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Deloitte & Touche LLP. Certain auditor work papers of their 2013 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

The examination of the Company was conducted concurrently with the examination of the Company's immediate parent, Universal Insurance Company (UIC).

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

Fidelity Bond and Other Insurance
Pensions
Statutory Deposits

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during the examination.

Extraordinary dividends

The Company did not notify the Office of Commissioner of Insurance of an extraordinary dividend declared and paid in December 2012 in the amount of $1,900,000. This is not in compliance with Rule 83, Section 19(b).

Bylaws

The Company's bylaws, Article IV, Section 1, state"...Board of Directors which shall be comprised of seven directors." As of the examination date, the Company had only six (6) directors. This is not in compliance with Article IV, Section 1 of the Company's bylaws.

Prior Examination Recommendations

The Company was in compliance with recommendations made in the prior December 31, 2008 Report on Examination.

HISTORY

The Company was incorporated and organized on April 16, 1993, and commenced business under the dispositions of the Code of Insurance of Puerto Rico on September 14, 1994, as Eastern America Life Insurance Company. The Company's present name was adopted in 1997. Initially, the Company concentrated on the sale of credit life insurance to serve as a complement to other lines of business offered by UIC, an affiliate property and casualty company at the time. Effective January 1, 2008, the Company sold its individual accident and health business, which had been one of its core lines of business until 2006, in response to unfavorable past results and an overall strategic shift in its core lines of business. The Company's current core segment, measured by net premiums, is individual annuities, which represent about 85% of its net premiums written. The Company distributes its products through a mix of independent agents, general agents, brokers, and financial institutions. Variable annuity products are offered through broker-dealers.

Over the past several years the Company has modified its product portfolio and currently specializes in individual annuities, while also writing individual life, credit life, credit accident and health, group life and group accident and health insurance (primarily disability income). The Company has become the individual annuities market leader in Puerto Rico and is the only local carrier issuing variable annuities with unique tax advantages to Puerto Rico residents.

During 2012, the Company was transferred to UIC by its ultimate parent, Universal Insurance Group, Inc. (UIG). UIC received 100% of the outstanding stocks of the Company through a capital contribution in the amount of $36,519,650. The transfer and capital contribution were approved by the Commissioner of Insurance of Puerto Rico on June 27, 2012, with the effective date of the transaction as January 1, 2012.

DIVIDENDS TO STOCKHOLDERS

Dividends in common stock are paid as declared by the Board of Directors of the Company. Under Article 29.340 of the Insurance Code of Puerto Rico, the maximum amount of dividends which the Company may pay to shareholders without approval of the Commissioner of Insurance is restricted to statutory surplus limitations. Such ordinary dividends declared during the examination period were $1,000,000 for the period ended December 31, 2011, $1,100,000 for the period ended December 31, 2012, and $1,000,000 for the period ended December 31, 2013.

Pursuant to Puerto Rico Regulations, Rule 83 Section 19(b), an insurer may not pay extraordinary dividends or make any other extraordinary distribution to shareholders until thirty (30) days after notifying the Commissioner of Insurance and the Commissioner of Insurance has not disapproved such payment or has expressly approved the extraordinary dividend within the thirty (30) day period. The Company declared a $1,900,000 extraordinary dividend for the period ended December 31, 2012; however, the Company did not notify the Office of Commissioner of Insurance of the extraordinary dividend. This is not in compliance with Section Rule 83, Section 19(b).

MANAGEMENT AND CONTROL

Board of Directors

The following individuals, elected by unanimous vote, constitute the Company's current Board of Directors as of December 31, 2013:

Name	Principal Business Affiliation
Monique Miranda-Merle	CEO and President, Universal Insurance Group, Inc.
Jorge J. Amadeo Sr.	President, Eastern America Insurance Agency
Rafael Rodríguez	Consultant, Eastern America Insurance Agency
José Medina	Vice President, Marketing Universal Insurance Group, Inc.
Jorge L. Padilla	CFO, Universal Insurance Group, Inc.
Plinio Pérez Marrero	External Lawyer

Officers

The following were elected by unanimous vote of the Board of Directors as Officers of the Company as of December 31, 2013:

Name	Title
José C. Benítez	President
Josely Vega	Secretary
Maritere Jiménez	Treasurer
Richard Schiavo	Executive Vice President

Corporate Records

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the Board of Directors, committees, and shareholders were reviewed for the period under examination. The Company was not in compliance with its bylaws as Article IV, Section 1 states "The Board of Directors which shall be comprised of seven directors." As of the examination date, the Company had only six (6) directors.

Conflict of Interest

The conflict of interest policy was reviewed during the period under examination. The Company has a conflict of interest policy that is in compliance with Article 29.230 of the Insurance Code of Puerto Rico.

Investment Plan

Article 6.040 of the Insurance Code of Puerto Rico provides, among other things, that all investments acquired and held under this Chapter shall be acquired and owned under the supervision and direction of the Board of Directors of the insurer. The Board of Directors shall certify in writing, through a formal resolution to be adopted at least once a year, that all investments have been made pursuant to the standards, limitations and investment goals established by the Board, or by a committee authorized by the Board with the responsibility to administer the investments of the insurer. Review of the Board of Directors minutes noted that the Company did certify in writing through a formal resolution that all investments were made pursuant to standards, limitations and investment goals established by the Board.

Board of Directors and Committee Minutes

The recorded minutes of the meetings of the Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Chapter 29 of the Insurance Code of Puerto Rico.

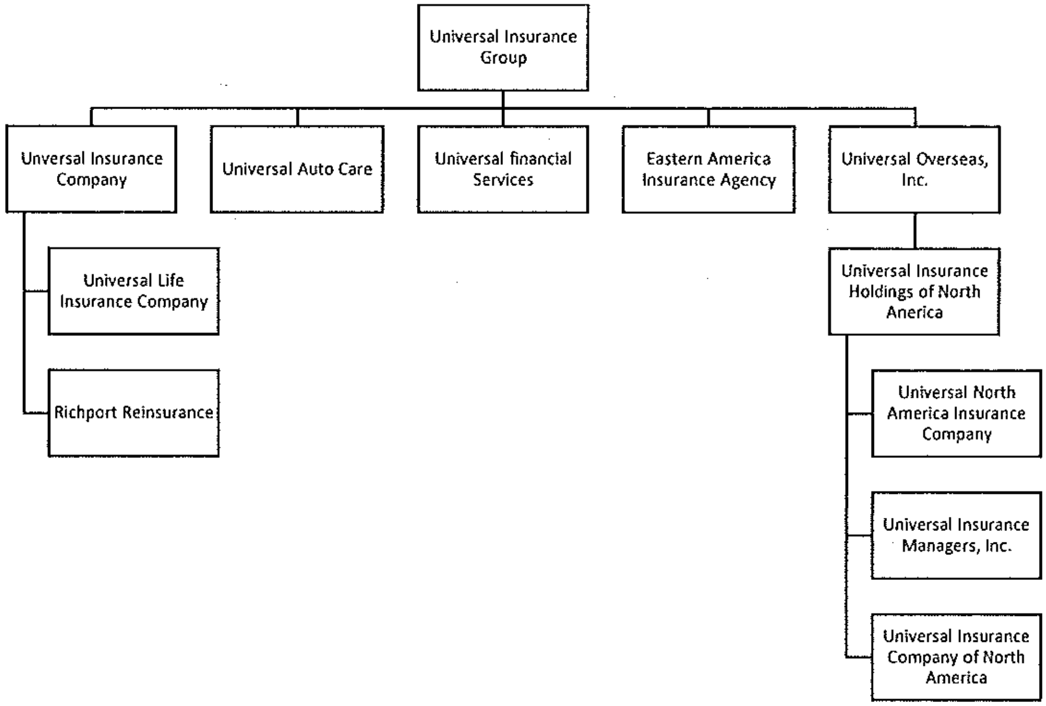
HOLDING COMPANY

The Company is a wholly owned subsidiary of Universal Insurance Company (UIC) and a member of the Universal Insurance Group (UIG). The ultimate controlling person of the UIG is Luis Miranda Casañas. UIG is owned by the following individuals or entities:

- Luis Miranda Casañas (50%)
- José Andreu García - voting trustee (26.9%)
- Ismael Ruiz (0.5%)
- Plinio Pérez Marrero (3.3%)
- Naranjales, Inc. (19.3%)

Organizational Chart

An organizational chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2013, follows:



Insurance is the major business segment within the holding company system. Property and casualty business accounts for approximately 74% of the overall revenue in the group, with the remaining 26% to life and annuity business. Puerto Rico is the largest segment by revenue within the holding company system. Puerto Rico accounts for approximately 60% of the total group's revenue, with the remaining 40% to business in the United States. For the group, the major lines of business are distributed as follows:

- Homeowners 37%
- Annuities 23%
- Auto 19%
- Commercial Multi-Peril 8%
- Fire 4%.

AFFILIATED AGREEMENTS

The Company entered into an agreement with Universal Financial Services, Inc. (UFS) on March 1, 2007, for UFS to provide investment advisory services. The cost for investment advisory services provided by UFS during 2013 amounted to $307,663. The Company also entered into an agreement with UFS on March 1, 2007, for UFS to sell variable annuity products for the Company. Commission expense charged by UFS during 2013 amounted to $116,798. In addition, the Company provides administrative services to UFS pursuant to an administrative services agreement. During 2013, the Company charged fees to UFS for these services in the amount of $144,000.

SEPARATE ACCOUNTS

The Company has established nonguaranteed separate accounts with varying investment objectives, which are segregated from the Company's general account and are maintained for the benefit of separate account contract holders. For the period ended December 31, 2013, the Company maintained nonguaranteed separate accounts with assets of approximately $365.6 million. These separate account assets were invested in underlying mutual funds and stated at fair value.

For the period ended December 31, 2013, total reserves for these separate accounts were approximately $348.6 million. Liability for nonguaranteed separate accounts represents contract holders' interest in the separate account assets, including accumulated net investment income and realized and unrealized gain and losses on those assets. Amounts assessed against the contract holders for mortality, administrative, and other services are included as part of revenues in the statutory-basis statements of income.

REINSURANCE

Assumed

The Company does not assume any business.

Ceded

The Company cedes business to reinsurers under various agreements, which cover mostly equity-indexed and variable annuities, life, and accident and health insurance risks. These reinsurance arrangements provide greater diversification of business and minimize the Company's exposure to large or volume-related risks.

Effective January 1, 2006, the Company entered into an agreement to reinsure individual term-life coverage on an excess of loss basis with retention of the first $50,000 and ceded up to $500,000.

Effective March 1, 2007, the Company entered into an agreement to reinsure 60% of the principal and 100% of the interest payment portion of the equity-indexed deferred annuities and 60% of the variable deferred annuities. The form of reinsurance is on a straight-coinsurance basis for equity-indexed deferred annuities and modified coinsurance for the variable deferred annuities.

Effective March 1, 2008, the Company entered into an agreement to reinsure group life and group accidental death and dismemberment coverage on an excess of loss basis with retention of the first $25,000 and ceded up to $500,000 on an automatic basis.

Effective September 1, 2008, the Company entered into an agreement to reinsure long-term disability and short-term disability coverage. The form of reinsurance is on a quota-share basis with retention of 25% of the contractual liability, with 75% ceded.

Effective April 13, 2009, the Company entered into an agreement to reinsure individual simplified issue term-life coverage. The form of reinsurance is on an excess of loss basis with retention of the first $50,000 and ceded up to $250,000 on an automatic basis and a minimum ceded amount of $5,000.

Effective August 1, 2013, the Company entered into a catastrophe coverage reinsurance agreement. The form of reinsurance is on an excess of loss basis with retention of the first $200,000 per each loss occurrence and ceded up to a maximum of $100,000 per covered life and $2,500,000 per catastrophe.

The reinsurance contracts were reviewed and complied with NAIC guidelines with respect to the insolvency clause, arbitration clause, transfer of risk, reporting, and settlement deadlines as stated in SSAP No. 62 of the NAIC Accounting Practices and Procedures Manual.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in San Juan, Puerto Rico where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the year 2013 in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by Esteban Paez, FSA, MAAA, of Towers Watson.

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ending December 31, 2013, as determined by this examination, with supporting detailed exhibits below.

Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account

Assets

As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 364,161,799	$ -	$ 364,161,799
Preferred stocks	437,800		437,800
Common stocks	13,676,469		13,676,469
Mortgage loans			
Real estate			
Cash, cash equivalents, and short-term investments	20,348,569		20,348,569
Contract loans			
Derivatives			
Other invested assets			
Receivables for securities	491,549		491,549
Investment income due and accrued	4,125,210		4,125,210
Uncollected premiums and agents balances in the course of collection	3,518,962	319,461	3,199,501
Amounts recoverable from reinsurers	56,944	375	56,569
Other amounts receivable under reinsurance contracts	742,007		742,007
Net deferred tax asset	624,688		624,688
Electronic data processing equipment and software	89,764	61,099	28,665
Furniture and equipment	153,741	153,741	
Receivables from parent, subsidiaries and affiliates			
Health care and other amounts receivable			0
Aggregate write-ins for other than invested assets	439,248	400,268	38,980
Total assets excluding Separate Accounts	$ 408,866,750	$ 934,944	$ 407,931,806
From Separate Accounts	365,608,321		365,608,321
Total	$ 774,475,071	$ 934,944	$ 773,540,127

Liabilities, Surplus and Other Funds

December 31, 2013

Aggregate reserves for life contracts	$ 368,618,567 (1)
Aggregate reserves for accident and health contracts	5,688,603 (1)
Contract claims:	
Life	2,913,930
Accident and health	1,599,721
Policyholders' dividends due and unpaid	
Provision for policyholders' dividends	
Premiums and annuity considerations received in advance	27,403
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	1,520,897
Interest Maintenance Reserve (IMR)	670,981
Commissions to agents due or accrued	1,848,629
General expenses due or accrued	755,929
Transfers to Separate Accounts due or accrued	(7,035,815)
Taxes, licenses and fees due or accrued	638,061
Miscellaneous liabilities:	
Asset Valuation Reserve (AVR)	894,707
Payable to parent, subsidiaries, and affiliates	300,189
Payable for securities	26,188
Aggregate write-ins for liabilities	295,839
TOTAL Liabilities excluding Separate Accounts Business	378,763,829
From Separate Accounts Statement	365,406,309
TOTAL LIABILITIES	744,170,138
Common capital stock	2,500,000
Gross paid in and contributed surplus	20,650,000
Unassigned funds (surplus)	6,219,989
Capital and surplus	$ 29,369,989
TOTALS	$ 773,540,127

Summary of Operations
December 31, 2013

Premiums and annuity considerations for life and accident and health contracts	$ 140,695,831
Considerations for supplementary contracts with life contingencies	
Net investment income	14,116,626
Amortization of Interest Maintenance Reserve (IMR)	237,220
Commissions and expense allowances on reinsurance ceded	5,357,406
Reserve adjustments on reinsurance ceded	50,583,526
Miscellaneous Income:	
Income from fees associated with investment management	2,692,397
Aggregate write-ins for miscellaneous income	1,066,825
TOTALS	214,749,831
Death benefits	4,282,336
Disability benefits and benefits under accident and health contracts	2,401,683
Surrender benefits and withdrawals for life contracts	34,906,791
Increase in aggregate reserves for life and accident and health contracts	65,228,343
TOTALS	106,819,153
Commissions on premiums, annuity considerations, and deposit type contract funds	15,375,944
General insurance expenses	5,800,724
Insurance taxes, licenses and fees	587,743
Net transfers to or (from) Separate Accounts net of reinsurance	82,749,318
TOTALS	211,332,882
Net gain from operations before dividends to policyholders and federal income taxes	3,416,949
Dividends to policyholders	
Net gain from operations after dividends to policyholders and before federal income taxes	3,416,949
Federal and foreign income taxes incurred	
Net income before dividends to policyholders and before federal income taxes	3,416,949
Net realized capital gains (losses)	159,304
Net income	$ 3,576,253

Capital and Surplus Account
December 31, 2013

Surplus as regards policyholders, December 31, 2012	$ 27,624,392
Net income	3,576,253
Change in net unrealized capital gains or (losses)	(4,198,583)
Change in net deferred income tax	629,788
Change in nonadmitted assets	112,708
Change in asset valuation reserve	230,651
Other changes in surplus in Separate Accounts Statement	(30,220)
Surplus adjustment: Paid in	2,425,000
Dividends to stockholders	(1,000,000)
Surplus as regards policyholder, December 31, 2013	$ 29,369,989

NOTES TO FINANCIAL STATEMENTS

Liabilities:

General Account

Aggregate reserve for accident and health contracts	$5,688,603
Contract claims: life	2,913,930
Contract claims: accident and health	1,599,721
Transfers to Separate Accounts due or accrued (Net)	(7,035,815)
Uncollected premiums and agents' balances in the course of collection	3,199,501
Separate Accounts	
Aggregate reserve for life, annuity and accident and health contracts	$ 348,600,422
Other transfers to general account due and accrued	16,805,888

An independent review of aggregate reserves was performed by INS Consultants, Inc. (INS), Philadelphia, Pennsylvania. Reserves were reviewed by INS for compliance with standard valuation laws, applicable National Association of Insurance Commissioners Actuarial Guidelines, and Model Regulations.

The balance sheet items enumerated above appear to be calculated using valuation parameters, which appear to be free of any material error and valuation files that appear to be complete. Based on the above discussion and analysis, INS concluded that the December 31, 2013, balance sheet items covered in the examination scope appear fairly stated and have been accepted for the purpose of this report.

SUBSEQUENT EVENTS

The Company had no significant events occur subsequent to the examination date.

SUMMARY OF RECOMMENDATIONS

We recommend that the Company not pay extraordinary dividends to shareholders until thirty (30) days after notifying the Commissioner of Insurance and the Commissioner of Insurance has not disapproved such payment or has expressly approved within the 30-day period in accordance with Rule 83, Section 19(b).

We recommend that the Company adhere to its bylaws regarding the number of required directors, or amend its bylaws to allow for a number of directors that will comply with the number of directors that the Company maintains.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Universal Life Insurance Company as of December 31, 2013, consistent with the insurance laws of Puerto Rico.

In addition to the undersigned, James M. Perkins, CFE, Staff Examiner, INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, Senior Manager and David Gordon, CISA, CIA, CFE (Certified Fraud Examiner) IT Specialist, both of INS Services, Inc., and Joseph C. Higgins, FSA, MAAA, Actuary, of INS Consultants, Inc., participated in the examination.

Respectfully submitted,

Donald W. Sirois, CPA, CFE
Examiner-In-Charge
INSRIS-PR, LLC