Examination Warrant Number 17-00000-42129-A1

Report of Examination of

United Security Assurance Company of Pennsylvania
Souderton, Pennsylvania

As of December 31, 2017

United Security Assurance Company of Pennsylvania

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Harrisburg, Pennsylvania
April 22, 2019

Honorable Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 17-00000-42129-A1, dated, July 27, 2017, an examination was made of

United Security Assurance Company of Pennsylvania, NAIC Code: 42129

a Pennsylvania domiciled, multi-state stock life, accident and health insurance company, hereinafter referred to as the "Company" or "USAC." The examination was conducted at the Company's home office, located at 673 East Cherry Lane, Souderton, Pennsylvania 18964.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2013. This examination covered the four-year period from January 1, 2014 through December 31, 2017.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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. Statements were prepared by management and are therefore the responsibility of management. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company 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.

Given the Company's substantial reliance on reinsurance relating to 100% ceding of its pre-2015 long-term care business, substantial work was performed regarding investment risk with Vermont domiciled captive insurance company, Vista Life and Casualty Reinsurance Company ("Vista Re").

For each year during the period under examination, the certified public accounting firm of EisnerAmper LLP ("CPA") provided an unmodified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

The Company was incorporated on October 22, 1982, licensed by the Department as a property casualty insurer on March 22, 1983, and commenced business on August 5, 1983.

On January 1, 2005, the property and casualty license became inactive and the Company was licensed as a life and accident & health company.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, (a)(1) Life and Annuities and (a)(2) Accident and Health.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2017, the Company's total capital was $11,614,401, consisting of 2,500,000 capital shares of issued and outstanding common stock with a par value of $1 per share amounting to $2,500,000; $1,005,552 in paid in and contributed surplus; and $8,108,849 in unassigned funds (surplus).

The Company's minimum capital and surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is $1,100,000 in capital and $550,000 in surplus. The Company has met all governing requirements throughout the examination period.

STOCKHOLDER

The Company's sole stockholder is United Security Assurance, Inc. a Pennsylvania corporation. As of the examination date, the ultimate controlling person of the holding company system is Gail M. Haldeman.

One dividend payment was made during the examination period, in 2014, to the stockholder, in the amount of $476,112.

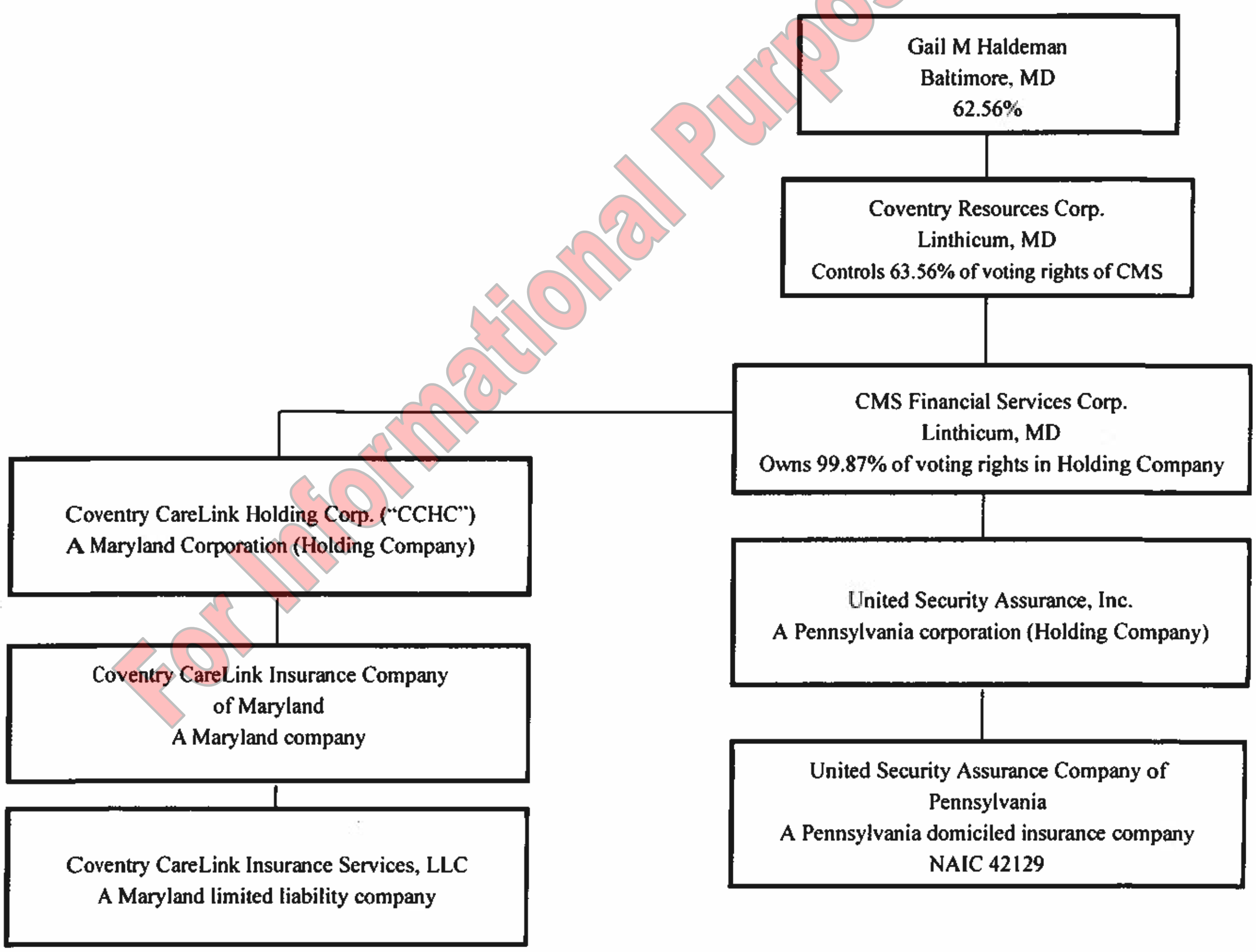
All of the dividends paid during the examination period were properly authorized by the Company's Board of Directors. All dividends paid were considered ordinary dividends.

INSURANCE HOLDING COMPANY SYSTEM

The Company meets the requirements for filing an Insurance Company Holding System Annual Registration Statement, in compliance with 40 P.S. § 991.1404, and the statement was filed on behalf of the Company by United Security Assurance, Inc. ("USAI").

The Company is owned 100% by USAI, which is 99.87% controlled by CMS Financial Services Corp. ("CMS") CMS is 63.56% controlled by Coventry Resources Corp., which is 62.56% controlled by Gail M. Haldeman. There are no other individuals that own a controlling share of any of these entities.

Members of the holding company system include the following entities briefly described below:



- Coventry Resources Corp., a Maryland corporation, is the ultimate holding company for the group.

- CMS, a Maryland corporation, operates as an intermediate-level holding company, owning 99.87% of the outstanding capital stock of USAI.
- USAI, a Pennsylvania corporation, operates as an intermediate-level holding company, owning 100% of the outstanding capital stock of the Company. USAI provides real estate administrative services to USAC under a management services agreement.
- USAC is a Pennsylvania stock life and accident & health insurance company.
- Coventry CareLink Insurance Services, LLC ("CCIS"), a Maryland company, operates as a licensed Third Party Administrator. CCIS performs premium billing, and claims management services for USAC.
- Coventry CareLink Insurance Company of Maryland ("CCIC"), a Maryland corporation, operates as an intermediate-level holding company, is the sole member of CCIS. CCIC was licensed as an insurance company in the state of Maryland, but has since surrendered its license.
- Coventry CareLink Holding Corp. ("CCHC"), a Maryland corporation, operates as an intermediate-level holding company, owning 100% of the outstanding capital stock of CCIC. CCHC provides administrative services to USAC under a management services agreement.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of December 31, 2017:

Name and Address	**Principal Occupation**
Cleaveland Dale Miller* Baltimore, MD	Attorney Semmes, Bowen, & Semmes
Henry Scarborough Holloway* Darlington, MD	Farmer
Gregory Scott Landes* Telford, PA	Independent Insurance Agent
William Jay Neugroschel Ellicott City, MD	President and Chief Executive Officer United Security Assurance Company of PA
Gail MacGregor Haldeman Baltimore, MD	Retired
Martha Cecelia Stephens Media, PA	Vice President United Security Assurance Company of PA
Matthew Grajewski Wilmington, DE	Controller United Security Assurance Company of PA

* Independent committee members

The Company has three classes of directors, with a different class elected each year.

The Company has a conflict of interest policy that covers all employees, officers, and directors. Applicable policies are explained in the Company's Code of Business Conduct and

Ethics as well as the Employee Handbook. Members of the Board and officers of the Company are required to sign annual conflict of interest disclosures.

COMMITTEES

As of December 31, 2017, the following committees were appointed by the Board and were serving in accordance with the Company's by-laws:

Investment Committee

Cleaveland Miller
William Neugroschel
Martha Stephens

Compensation, Actuarial, Audit, and Nominations ("CAANS") Committee

Cleaveland Miller
Henry Holloway
Gail Haldeman
J. Gary Langmuir

The examiner determined that the Company's CAANS Committee was not in compliance with 40 P.S. §§ 991.1405(c)(4) and (4.1), that requires the Board to establish a committee comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee is charged with the responsibilities for recommending the selection of the Company's independent outside auditors and external actuaries, recommending the compensation of officers, and nominating candidates for election of directors by the shareholders.

Gail Haldeman is a beneficial owner of a controlling interest in the voting stock of the Company through majority ownership and voting interests in the Company's upstream holding companies.

It is recommended that the Company's Board of Directors take actions to ensure that its CAANS Committee meets the independence requirements of 40 P.S. § 991.1405.

OFFICERS

As of the examination date, December 31, 2017, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	Title
William Jay Neugroschel	President/CEO
Martha Cecelia Stephens	Vice President, Operations
Matthew Grajewski	Treasurer/Controller
Patricia Clymer	Secretary

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Stockholder Meetings were held in compliance with the Company's by-laws.
- The members of the Board of Directors were elected at the Annual Stockholder Meetings in compliance with the Company's by-laws.
- Quorums were present at all stockholder, directors and committee meetings.
- The actions of the Company's directors and officers were ratified by the Company's stockholder.
- The Company's officers were appointed at the Annual Organizational Meeting of the Board of Directors.
- The Company's investment and reinsurance transactions were approved by the Board of Directors or a committee thereof.
- The actions of the Investment Committee were ratified regularly by the Board of Directors;
- All directors regularly attended Board Meetings.

ARTICLES OF INCORPORATION

There were no changes or amendments to the Company's Articles of Incorporation during this examination period.

BY-LAWS

There were no changes or amendments to the Company's by-laws during this examination period.

SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements, which includes intercompany and related-party agreements. The following significant agreements were in place during the examination period:

Managing General Agent Agreement with CCIS

Effective November 26, 2007, the Company is party to a managing general agent agreement with affiliate CCIS. Under this agreement, CCIS acts as a managing general agent for the Company's LifeStyle Solutions and LifeStyle Solutions Select products, and certain acquired blocks of business. Compensation to CCIS is based on a percentage of new and renewal premiums. An amendment effective February 19, 2015 added a clause requiring settlement of amounts due within 30 days of monthly presentation, with interest accrued at 7.5% per annum on unpaid balances.

The terms of this agreement are in compliance with the fair and reasonable standard in 40 P.S. § 991.1405(a)(1)(i).

CCIS is a licensed agent in Pennsylvania in compliance with 40 P.S. § 322.2.

Life, Annuities, & Long Term Care Administrative Services Agreement with CCIS

Effective July 1, 2008, the Company is party to an administrative services agreement with affiliate CCIS. Under this agreement, CCIS provides policy and claims administrative services for the Long-Term Care books of business the Company acquired, including MedAmerica, Trigon Insurance Company, Capital Blue Cross, National States Insurance Company, American Life Insurance Company, Pennsylvania Life Insurance Company and Great Republic Life Insurance Company. Compensation to CCIS is based on the number of active policies, percentage of premiums collected and percentage of claims paid.

The terms of this agreement are in compliance with the fair and reasonable standard in 40 P.S. § 991.1405(a)(1)(i).

Management Services Agreement with USAI

Effective October 9, 2007, the Company is party to a management services agreement with USAI. Under this agreement, USAI provides certain assets and services, including office space, development and maintenance of information technology systems, office equipment, insurance, secretarial, clerical, and other administrative and management services. Compensation to USAI is a fixed monthly fee.

The terms of this agreement are in compliance with the fair and reasonable standard in 40 P.S. § 991.1405(a)(1)(i).

Employee Lease Agreement with CCHC

Effective February 1, 2011, the Company is party to an employee lease agreement, with CCHC. Under this agreement, CCHC provides certain employees to perform all administrative services, including billing and collection, policy administration, record keeping, and claim adjudication for certain of the Company's products and acquired blocks of business. Compensation to CCHC is based on a percentage of new and renewal premiums.

The terms of this agreement are in compliance with the fair and reasonable standard in 40 P.S. § 991.1405(a)(1)(i).

Management Agreement with CMS Financial Services Corp.

Effective October 9, 2007, the Company is party to a management services agreement with CMS. Under this agreement, CMS provides the following various administrative services to the Company:

- Operational Process Development

- Regulatory Procedures Development
- General Management Services
- Actuarial and Financial Services Forecasting
- Information Technology services
- Reinsurance Services
- Master Contract Services
- Credit Rating Improvement
- Financial Oversight, Reporting, and Budgeting
- Facilities Negotiations

Compensation to CMS is based on a percentage of direct costs plus any indirect costs determined to be incurred related to agreement services.

This agreement was amended effective June 1, 2010, whereby CMS assigned its required services under the agreement to be performed by CCHC. CCHC assumed all of the agreement obligations and none of the agreement terms were modified.

The terms of this agreement are in compliance with the fair and reasonable standard in 40 P.S. § 991.1405(a)(1)(i).

REINSURANCE

CEDED

On August 2, 2016, the Company consummated a coinsurance transaction with Vermont domiciled captive insurance company Vista Re. Under the terms of the transaction, the Company ceded a 100% quota share of its long-term care and home health care insurance business issued prior to January 1, 2015, that was not previously subject to a reinsurance arrangement. The treaty was effective March 31, 2016. As part of this transaction, a subordinated surplus note in the amount of $12.5 million was issued by the protected cell to support minimum capital requirements within the agreement. This contribution was a key element used to seek the Department's non-objection to the treaty and attempt to cure the Company's hazardous financial condition. The reinsurance under this agreement remains in force so long as the liability of the Company under the reinsured policies remains in force.

Under the initial reinsurance settlement, the Company ceded $145,316,009 in policyholder reserve liabilities to Vista Re. The Company paid Vista Re $158,467,008 for the transfer of the reserves, including an initial premium of $12,000,000. The difference between cash and reserves transferred to Vista Re of $13,150,999 was charged to operations for the year ending December 31, 2016, in accordance with Statement of Statutory of Accounting Practices ("SSAP") SSAP No. 61R, Life, Deposit-Type and Accident and Health Reinsurance.

The transaction was funded through the sales of bonds by the Company, which resulted in realized gains of $20,189,864 for the year ending December 31, 2016. Under terms of the coinsurance agreement, Vista Re is required to maintain a trust account for the Company's benefit equal to or greater than 102% of the reserves associated with the reinsured policies. The reinsurer is also required to maintain minimum paid-in capital and surplus in excess of minimum Risk-Based Capital ("RBC") thresholds:

- 500% of Authorized Control Level RBC through December 31, 2020
- 400% of Authorized Control Level RBC through December 31, 2025
- 300% of Authorized Control Level RBC through extinguishment of liabilities

The Company used reinsurance intermediary Wealth Protection Specialists, LLC ("WPS") as an agent for negotiation of the transaction with Vista Re. The Company executed a written agreement with WPS, specifying the responsibilities of each party, as required by 40 P.S. § 321.3. However, WPS was not licensed in the State of Pennsylvania as a non-resident reinsurance intermediary as required by 40 P.S. § 321.2(a). Therefore, the Company is in violation of 40 P.S. § 321.5(a) which requires an insurer to not engage the services of a reinsurer broker to act on its behalf unless that broker is in compliance with 40 P.S. § 321.2(a).

It is recommended that the Company only use reinsurance intermediaries who are licensed in Pennsylvania or in another state having a substantially similar law.

The examination team observed that the $12.5 million contribution came from an entity controlled by Eli Global and was directly invested in entities controlled by Eli Global subsequent to consummation of the reinsurance agreement. At December 31, 2016 and 2017, Vista Re's financial statements, as filed with the Vermont Department of Financial Regulation, indicated that its trust assets, along with the $12.5 million in surplus in the protected cell, were primarily invested in repurchase agreements. These repurchase agreements were further classified as short-term investments in Vista Re's audited financial statements, based on a stated term of 364 days and notwithstanding an agreement to roll the agreements in perpetuity. From discussions with Company management and Vista Re's management, the Department became aware that investments underlying the repurchase agreements had substantially different characteristics than short-term investments. The Department also became aware that the underlying investments were concentrated in the privately held entities of a single ultimate controlling person ("Eli Global").

Given the potential material adverse impact that Vista Re's trust assets have on the Company's solvency and adequacy of reserves estimates, the Department and the Company requested information from Vista Re to gain a further understanding of assets underlying the repurchase agreements. The Department also assessed the potential default risk related to these assets.

The Department concluded that the portfolio of assets underlying the repurchase agreements have a high concentration risk, lack suitability as trust assets, have significant potential for defaults that would impact all the Eli Global related entities, and result in substantial loss severities. This assessment is based on the examination team's understanding of the repurchase agreements and the characteristics of the underlying investments. The examination team's overall default risk assessment is within the range of 40% to 60% as of December 31, 2017. This equates to a default reserve range of $69 million to $103 million.

The Company disagreed with the Department's initial assessment and conclusions regarding Vista Re's trust assets and the associated default risk. The Company also reported to the Department that it is working with Vista Re to improve the liquidity and quality of the trust assets, including plans to diversify those assets away from a concentration in the Eli Global-affiliated entities. A definitive timeline for the Company to do so was not provided to the Department during examination fieldwork.

The Company's plans, to be approved by the Department, will need to divest those assets associated with Eli Global-affiliated companies, with proceeds of the divestiture to be invested in assets consistent with the requirements of Pennsylvania Law, including but not limited to, 40 P.S. § 442.1 and Pa. Code 31, Chapter 163.

The Department has strongly encouraged Company management to ensure that proposed structural changes to the Vista Re trust assets are completed in a timely manner and comply with Pennsylvania Laws and SSAPs in order to take the reinsurance credit for this treaty. If the Company cannot provide a plan that is acceptable to the Department, the Department will request that the Company unwind the treaty or account for the treaty using deposit accounting. At that point, the Department will assess the current financial condition of the Company and pursue appropriate regulatory actions, as deemed necessary.

In order for the Company to take full reinsurance credit, it is requested that the Company provide a plan to the Department by July 22, 2020, to correct the non-compliance issues related to the assets contained in the Vista Re trust account.

Subsequent to this examination, and because the nature of the assets is continually evolving, the Department will continue to evaluate changes in the Vista Re trust assets through regulatory oversight, additional reporting requirements, and the initiation of a limited-scope financial examination.

ASSUMED

The Company has entered into various assumed reinsurance arrangements as further described below.

On September 23, 2008, the Company entered into an assumption agreement with MedAmerica Insurance Company:

Reinsured:	MedAmerica Insurance Company
Type of contract:	100% quota share basis indemnity reinsurance
Intermediary:	None
Effective date:	July 1, 2008
Term:	Until all policies are directly assumed or recaptured
Business covered:	Long-Term Care Policies
Cedant's retention:	None
Reinsurance limits:	100% of business assumed

The underlying agreement contains an appropriate insolvency clause and it did provide for transfer of risk. The Department approved this agreement.

On November 11, 2009, the Company entered into an assumption agreement with National States Insurance Company:

Reinsured:	National States Insurance Company
Type of contract:	100% quota share basis indemnity reinsurance
Intermediary:	None
Effective date:	July 1, 2009
Term:	Until all policies are directly assumed or recaptured
Business covered:	Long-Term Care Policies
Cedant's retention:	None
Reinsurance limits:	100% of business assumed

The underlying agreement contains an appropriate insolvency clause and it did provide for transfer of risk. The Department approved this agreement.

On April 2, 2012, the Company entered into an assumption agreement with American Life Insurance Company:

Reinsured:	American Life Insurance Company
Type of contract:	100% quota share basis indemnity reinsurance
Intermediary:	None
Effective date:	April 2, 2012
Term:	Until all policies are directly assumed or recaptured
Business covered:	Industrial Life, Whole Life, Single Premium Life, Accident and Health, Group Vision, and Annuity Policies
Cedant's retention:	None
Reinsurance limits:	100% of business assumed

The underlying agreement contains an appropriate insolvency clause and it did provide for transfer of risk. The Department approved this agreement.

On February 8, 2012, the Company entered into an assumption agreement with Pennsylvania Life Insurance Company:

Reinsured:	Pennsylvania Life Insurance Company
Type of contract:	100% quota share basis indemnity reinsurance
Intermediary:	None
Effective date:	January 2, 2012
Term:	Until all policies are directly assumed or recaptured
Business covered:	Whole Life
Cedant's retention:	None
Reinsurance limits:	100% of business assumed

The underlying agreement contains an appropriate insolvency clause and it did provide for transfer of risk. The Department approved this agreement.

TERRITORY AND PLAN OF OPERATIONS

The Company writes individual accident and health insurance policies with specialties in long-term care, covering nursing home confinements with optional home health care coverage, as well as stand-alone home health care policies. The Company also offers short-term home health care policies, including a short-term home health care policy with a rider for short-term facility confinement, and whole life. The majority of the Company's in-force premium is related to the long-term care business.

The Company is licensed in the following jurisdictions:

Alaska	Arizona	Arkansas
California	Colorado	Delaware
District Columbia	Florida	Georgia
Idaho	Illinois	Indiana
Kansas	Kentucky	Louisiana
Maryland	Michigan	Minnesota
Mississippi	Missouri	Montana
Nebraska	Nevada	North Carolina
North Dakota	Ohio	Oklahoma
Oregon	Pennsylvania	South Carolina
South Dakota	Tennessee	Texas
Utah	Virginia	Washington
West Virginia	Wisconsin	

The Company's authority to issue new policies was suspended in the following jurisdictions during the examination period:

Florida - 2014
Minnesota - 2015
California - 2016
Idaho - 2016
Michigan - 2016
Ohio - 2016
Virginia - 2016

The following chart illustrates the amount of direct, assumed and ceded premium written by line of business as of December 31, 2017:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
December 31, 2017				
Ordinary life	$ 301,073	$ 0	$ 301,073	4.1%
Group accident and health	(5,556)	(1,206)	(4,350)	-0.1%
Other accident and health	32,093,019	25,027,204	7,065,815	96.0%
Totals	$ 32,388,536	$ 25,025,998	$ 7,362,538	100.0%

Pennsylvania and Texas accounted for approximately 15% and 17%, respectively of the Company's direct premiums during 2017. Premiums are generated through the sales and marketing efforts of approximately 2,400 independent agents and agencies.

SIGNIFICANT OPERATING RATIOS AND TRENDS

The following table indicates changes in the Company's financial position during the period covered by this examination:

	2017	2016	2015	2014
Admitted Assets	$ 23,871,815	$ 20,590,998	$ 155,007,280	$ 151,298,206
Liabilities	$ 12,257,414	$ 9,357,969	$ 151,777,701	$ 140,620,484
Capital and Surplus Funds	$ 11,614,401	$ 11,233,029	$ 3,229,579	$ 10,677,721
Net Premiums Written	$ 7,362,538	$ 12,377,137	$ 32,889,490	$ 31,847,575
Benefits to Members	$ 1,019,087	$ 7,240,214	$ 21,532,398	$ 22,177,477
Net Investment Income	$ 742,153	$ 2,112,270	$ 7,473,343	$ 7,348,001
Net Income	$ 280,997	$ 7,069,698	$ (6,552,528)	$ (3,505,312)

Since the prior examination, the Company has experienced the following changes in its total number of certificates in-force, the overall amount of insurance in-force, and the average amount of insurance in-force per policy:

	Certificates In Force	Insurance In Force	Average Policy In Force
Ordinary Life			
December 31, 2017	4,416	$ 20,345,000	$ 4,607
December 31, 2013	4,732	20,842,000	4,404
Net Increase/(decrease)	(316)	$ (497,000)	$ 203
Industrial Life			
December 31, 2017	12	$ 12,000	$ 1,000
December 31, 2013	28	33,000	1,179
Net Increase/(decrease)	(16)	$ (21,000)	$ (179)
Ordinary Accident and Health			
December 31, 2017	3,436	$ 7,194,295	$ 2,094
December 31, 2013	17,893	31,793,705	1,777
Net Increase/(decrease)	(14,457)	$(24,599,410)	$ 317
Group Accident and Health			
December 31, 2017	2	$ 9,583	$ 4,792
December 31, 2013	21	32,378	1,542
Net Increase/(decrease)	(19)	$ (22,795)	$ 3,250

During 2016, the Company consummated the coinsurance transaction with Vista Re (see Reinsurance - Ceded at page 8 of this report). Under the terms of this transaction, the Company began ceding a 100% quota share of its long-term care and home health care insurance business issued prior to January 1, 2015, that was not previously subject to a reinsurance arrangement.

PENDING LITIGATION

Based on a review of the Company's legal expenses and litigation files, it appears that there is no material current, pending, or threatened litigation at December 31, 2017, other than claim litigation, which is considered normal in the course of the Company's business.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2017, and the results of its operations for the period under examination, are reflected in the following statements:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
Comparative Statement of Income;
Comparative Statement of Capital and Surplus; and
Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

** For years 2016 and 2017, no adjustments were made to reinsurance credit for trust assets and no reserves were added for default risk.

Comparative Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31,

	2017	2016	2015	2014
Bonds	$ 18,870,986	$ 17,239,814	$ 147,538,956	$ 145,684,373
Cash, cash equivalents and short-term investments	2,810,468	2,107,605	4,411,064	1,411,738
Contract loans	69,652	65,350	68,592	66,370
Receivable for securities	0	6,875	0	0
Subtotal, cash and invested assets	21,751,106	19,419,644	152,018,612	147,162,481
Investment income due and accrued	221,023	201,673	2,187,700	2,117,438
Premiums and considerations	110,005	143,652	152,802	176,590
Amounts recoverable from reinsurers	876,929	601,694	8,078	6,423
Current federal and foreign income tax recoverable and interest thereon	533,131	80,705	241,456	241,456
Net deferred tax asset	0	0	0	439,226
Receivable from parent, subsidiaries and affiliates	351,429	85,350	0	59,373
Aggregate write-ins for other than invested assets	28,192	58,280	398,632	1,095,219
Total	$ 23,871,815	$ 20,590,998	$ 155,007,280	$ 151,298,206
Aggregate reserve for life contracts	$ 4,149,625	$ 4,098,152	$ 4,049,895	$ 3,882,267
Aggregate reserve for accident and health contracts	5,786,979	3,066,989	137,198,723	126,477,885
Contract claims:				
Life	73,704	73,704	73,704	73,704
Accident and health	421,631	102,831	8,050,000	7,300,000
Premiums and annuity considerations received in advance	282,711	462,619	520,848	455,361
Contract liabilities not included elsewhere:				
Interest maintenance reserve	312,777	401,052	378,144	414,675
Commissions to agents due or accrued	4,053	9,616	15,033	22,200
Commissions and expense allowances payable on reinsurance assume	0	(18)	83	27
General expenses due or accrued	318,234	208,011	238,689	261,360
Taxes, licenses and fees due or accrued	685,073	634,085	648,516	661,549
Amounts withheld or retained by company as agent or trustee	2,540	515	5,597	25,564
Amounts held for agents' account	166,258	183,793	205,414	247,902
Remittances and items not allocated	25,308	33,078	23,099	35,158
Miscellaneous liabilities:				
Asset valuation reserve	0	0	273,158	608,641
Payable to parent, subsidiaries and affiliates	7,257	45,074	30,169	41,518
Aggregate write-ins for liabilities	21,264	38,468	66,629	112,673
Total liabilities	12,257,414	9,357,969	151,777,701	140,620,484
Common capital stock	2,500,000	2,500,000	2,500,000	2,500,000
Gross paid in and contributed surplus	1,005,552	1,005,552	1,005,552	1,005,552
Unassigned funds (surplus)	8,108,849	7,727,477	(275,973)	7,172,169
Surplus	9,114,401	8,733,029	729,579	8,177,721
Total capital and surplus	11,614,401	11,233,029	3,229,579	10,677,721
Totals	$ 23,871,815	$ 20,590,998	$ 155,007,280	$ 151,298,205

Comparative Statement of Income
For the Year Ended December 31,

	2017	2016	2015	2014
Premiums and annuity considerations for life and A&H contracts	$ 7,362,538	$ 12,377,137	$ 32,889,490	$ 31,847,575
Net investment income	742,153	2,112,270	7,473,343	7,348,001
Amortization of interest maintenance reserve (IMR)	85,672	118,450	139,486	162,110
Commissions and expense allowances on reinsurance ceded	7,310,206	7,044,936	5,161	6,704
Miscellaneous Income:				
Aggregate write-ins for miscellaneous income	22,133	28,311	46,196	75,252
Totals	15,522,702	21,681,104	40,553,676	39,439,642
Death benefits	259,408	323,691	192,744	188,583
Disability benefits and benefits under accident and health contracts	722,350	6,854,220	21,300,101	21,922,466
Surrender benefits and withdrawals for life contracts	37,329	62,303	39,553	66,428
Increase in aggregate reserves for life and A&H policies and contracts	2,771,465	2,056,699	10,890,122	6,248,778
Totals	3,790,552	9,296,913	32,422,520	28,426,255
Commissions on premiums, annuity considerations & deposit-type funds (direct)	4,948,618	5,427,848	6,216,355	6,507,055
Commissions and expenses allowances on reinsurance assumed	919	996	1,455	1,640
General insurance expenses	5,523,785	6,273,105	6,818,795	6,626,096
Insurance taxes, licenses and fees	1,463,842	1,097,127	1,066,019	1,224,744
Increase in loading on deferred and uncollected premiums	4,058	23,752	6,690	(2,580)
Aggregate write-ins for deductions	112,358	12,610,977	323,925	310,310
Totals	15,844,132	34,730,718	46,855,759	43,093,520
Net gain from operations before dividends to policyholders and federal income taxes	(321,430)	(13,049,614)	(6,302,083)	(3,653,878)
Net gain from operations after dividends to policyholders and before federal income taxes	(321,430)	(13,049,614)	(6,302,083)	(3,653,878)
Federal and foreign income taxes incurred (excluding tax on capital gains)	(602,427)	70,552	0	(148,566)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	280,997	(13,120,166)	(6,302,083)	(3,505,312)
Net realized capital gains or (losses) less capital gains tax (excluding gains/losses transferred to the IMR)	0	20,189,864	(250,445)	0
Net income	$ 280,997	$ 7,069,698	$ (6,552,528)	$ (3,505,312)

Comparative Statement of Capital and Surplus
For the Year Ended December 31,

	2017	2016	2015	2014
Capital and surplus, December 31, previous year	$ 11,233,030	$ 3,229,579	$ 10,677,721	$ 16,180,909
Net income	280,997	7,069,698	(6,552,528)	(3,505,312)
Change in net unrealized capital gains or (losses)	0	435,326	(435,326)	0
Change in net deferred income tax	0	0	(1,989,858)	(586,082)
Change in nonadmitted assets	100,375	225,269	1,194,086	229,378
Change in reserve on account of changes in valuation basis (increase) or decrease	0	0	0	(1,008,043)
Change in asset valuation reserve	0	273,158	335,484	(157,017)
Dividends to stockholders	0	0	0	(476,112)
Net change in capital and surplus for the year	381,372	8,003,451	(7,448,142)	(5,503,188)
Capital and surplus, December 31, current year	$ 11,614,402	$ 11,233,030	$ 3,229,579	$ 10,677,721

Comparative Statement of Cash Flow
For the Year Ended December 31,

	2017	2016	2015	2014
Cash from Operations				
Premiums collected net of reinsurance	$ 7,213,316	$ 12,303,305	$ 32,976,230	$ 31,888,151
Net investment income	742,727	4,054,052	7,395,683	7,263,393
Miscellaneous Income	7,332,339	7,073,247	51,357	81,956
Total	15,288,382	23,430,604	40,423,270	39,233,500
Benefit and Loss related Payments	975,524	151,921,175	20,785,709	20,283,587
Commissions, expenses paid and aggregate write-ins for deductions	11,893,766	25,406,693	14,468,809	14,632,370
Federal and foreign income taxes paid (recovered)	(150,001)	(90,199)	0	100,000
Total deductions	12,719,289	177,237,669	35,254,518	35,015,957
Net Cash from Operations	2,569,093	(153,807,065)	5,168,752	4,217,543
Cash from Investments				
Proceeds from investments sold, matured or repaid:				
Bonds	161,502	157,164,021	7,671,927	7,654,981
Miscellaneous applications	6,875	0	0	0
Total investment proceeds	168,377	157,164,021	7,671,927	7,654,981
Cost of investments acquired (long-term only):				
Bonds	1,815,291	6,108,075	10,102,482	11,336,302
Miscellaneous applications	0	6,875	0	0
Total investments acquired	1,815,291	6,114,950	10,102,482	11,336,302
Net increase (decrease) in policy loans and premium notes	4,302	(3,242)	2,222	(6,194)
Net cash from investments	(1,651,216)	151,052,313	(2,432,777)	(3,675,127)
Cash from Financing and Miscellaneous Sources				
Cash provided (applied):				
Dividends to stockholders	0	0	0	476,112
Other cash provided or (applied)	(215,013)	451,293	263,351	(45,705)
Net cash from financing and miscellaneous sources	(215,013)	451,293	263,351	(521,817)
Reconciliation of cash and short-term investments:				
Net change in cash and short-term investments	702,864	(2,303,459)	2,999,326	20,599
Cash and short-term investments:				
Beginning of the year	2,107,606	4,411,065	1,411,739	1,391,140
End of the year	$ 2,810,470	$ 2,107,606	$ 4,411,065	$ 1,411,739

SUMMARY OF EXAMINATION CHANGES

There were no changes made to the Company's financial statements as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2017, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	$ 18,870,986	86.8 %
Cash	977,382	4.5 %
Cash equivalents	1,833,086	8.4 %
Contract loans	69,652	0.3 %
Totals	$ 21,751,106	100.0 %

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	$ 16,939,042	89.8 %
2 - high quality	1,931,944	10.2 %
3 - medium quality	0	0.0 %
4 - low quality	0	0.0 %
5 - lower quality	0	0.0 %
6 - in or near default	0	0.0 %
Totals	$ 18,870,986	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	$ 133,939	0.7 %
2 to 5 years	1,349,937	7.2 %
6 to 10 years	2,886,394	15.3 %
11 to 20 years	5,502,919	29.2 %
over 20 years	8,997,797	47.7 %
Totals	$ 18,870,986	100.1 %

As shown above, the Company's invested assets are concentrated in a portfolio of high-quality bonds, comprising 86.8% of the Company's total invested assets. Cash and cash equivalent holdings provide the Company with liquidity and account for 12.9% of invested assets.

The Company has a written investment policy as required by 40 P.S. § 504.l(c). The investment policy is reviewed and approved by the Board on an annual basis. The primary goal of the Company's investment policy is to obtain a favorable return on invested assets representing policy reserves, capital, and surplus through investment in high quality income producing and long-term capital growth-oriented assets. The Company was following its investment policy at December 31, 2017.

The Company uses an external independent professional investment manager, Conning Asset Management Company, to manage its investment portfolio.

During the period under examination, the Company held invested assets under a custodial agreement with Univest Bank and Trust. The custodial agreement was found to be compliant with the provisions of 31 Pa. Code § 148a.3.

LIABILITIES

POLICYHOLDER AND CLAIM RESERVES

The Company's aggregate reserves as of December 31, 2017, have been summarized as follows:

		Amount	Percentage
Life insurance contracts	$	4,149,625	39.8 %
Accident and health contracts		5,786,979	55.5 %
Contract claims-Life		73,704	0.7 %
Contract claims-A&H		421,631	4.0 %
Total	$	10,431,939	100.0 %

James G. Stoltzfus, FSA, MAAA, of Milliman, Inc. ("Milliman") has been the Company's appointed actuary since April 24, 2008. For each year in the examination period, the appointed actuary issued an Opinion concluding that the Company's reserves made an adequate provision for its policies and contracts obligations. The Company's appointed actuary also opined that the December 31, 2017 reserves and related actuarial values:

a.) Are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles,

b.) Are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions,

c.) Meet the requirements of the insurance laws and regulations of the Commonwealth of Pennsylvania and are at least as great as the minimum aggregate amounts required by the state in which this Statement of Actuarial Opinion is filed,

d.) Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end, and

e.) Include provision for all actuarial reserves and related annual statement items which ought to be established.

The Department engaged the actuarial services of RRC to perform a risk-focused review of the Company's policyholder and claims reserves in conjunction with this examination. The actuarial scope of work included additional analysis to quantify potential default risk related to trust assets underlying the Company's coinsurance agreement with Vista Re. RRC reviewed supporting actuarial documentation and workpapers of reserve analyses prepared by both the Company and Milliman.

The actuarial review concluded that there are inconsistencies between the reinsurance treaty and the actual practice of its implementation subsequent to its inception. The reinsurance agreement as written, appears to transfer all significant risks, since Vista Re holds the assets that comply with 40 P.S. § 442.1(b) in support of the liabilities in a reinsurance trust account. The trust has investment guidelines, and Vista Re agreed to hold an additional $12.5 million in surplus in the protected cell to further support the business.

However, subsequent to the agreement inception, the assets in the trust were invested in securities that, according to the examination team, do not meet the investment guidelines for the trust assets, and do not meet the requirements of 40 P.S. § 442.1 (b). The $12.5 million was invested in underlying assets concentrated in the privately held entities of Eli Global; and, therefore, do not support the coinsurance agreement's minimum capital requirements in substance or effect.

The coinsurance agreement and potential issues with trust account assets are discussed above in the Reinsurance section of this report. The assets, including the protected cell surplus, have significant default and liquidity risk. It appears the actual implementation of the treaty is inconsistent with the treaty language; and, therefore, credit for reinsurance should be limited in consideration of the examination team's overall default risk assessment. In addition, certain of the Company's assumptions regarding asset adequacy are not reasonable or are unsupported with regards to its long-term care and home health care insurance ceded to Vista Re.

The RRC actuarial review further concluded that due to the Company's potential exposure to material default and liquidity risks with the underlying investments associated with the reinsurance cessions, those risks are not sufficiently considered in the establishment of reserves. Had these risks been considered, the Department concluded that the Company's reserves are significantly understated at December 31, 2017.

The Company disagrees with the Department's assessment methodology and conclusions regarding Vista Re's trust assets and the associated default risk. As such, the Company did not make adjustments to its asset adequacy assumptions, nor reserve estimates as of December 31, 2017.

The Department accepts the work and conclusions of RRC. However, given the disagreement with the Company regarding default risk in the Vista Re trust assets, and proposed improvements to the liquidity and quality of trust assets, the Department is not making a financial statement adjustment for reserve differences at this point in time.

The Department will require a corrective action plan be submitted for approval and will also initiate a limited scope financial examination of the Company to monitor changes to investments and asset allocation.

SUBSEQUENT EVENTS

Effective June 19, 2018, A.M. Best reinstated its coverage of the Company and assigned a financial strength rating of C- (weak) with a stable outlook. A.M. Best had previously withdrawn from rating the Company during September 2017.

The ultimate controlling person of Vista Re's trust assets is the focus of a Federal criminal investigation, and a related grand jury subpoena was issued to the North Carolina Department of Insurance on September 11, 2018.

Effective June 18, 2018, Wilmington Trust, NA resigned as custodian of Vista Re's trust assets, and Vista Re entered into a bank custodian relationship with Fifth Third Bank.

During August 2018, Vista Re eliminated the repurchase agreement structure and began holding underlying assets directly through the bank custodian relationship with Fifth Third Bank. These underlying investments were previously held within a separate trust account. There is no material change to the default and liquidity risks mentioned in this report as a result of this change.

Effective November 15, 2018, an amendment was made to the Company's coinsurance agreement with Vista Re. This amendment allows the Company to directly hold a portion of trust assets in a separate funds withheld account established at the Company's primary bank. Per the Company, at December 31, 2018, the funds withheld account was fully funded at $9.4 million. As the funds withheld assets are no longer held within the Vista Re trust account and are reported by the Company to be cash-equivalent holdings, a default risk assessment as of December 31, 2018 or subsequent would need to consider the impact of assets controlled by the Company.

Effective March 2019, Egan Jones, the firm that provided the ratings of Vista Re's loans with Eli Global, withdrew the ratings of certain securities comprising approximately 40% of the amount reported in the trust account as of the examination date. This withdrawal further magnifies the uncertainty associated with the value and liquidity of the trust assets, and the ability of the Company to take reinsurance credit for the ceded losses under the Vista Re treaty.

RECOMMENDATIONS

PRIOR EXAMINATION

There were no findings or recommendations made in the prior report of examination.

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. ***It is recommended that the Company's Board of Directors take actions to ensure that its CAANS Committee meets the independence requirements of 40 P.S. § 991.1405.*** (See Committees page 5.)
2. ***It is recommended that the Company only use reinsurance intermediaries who are licensed in Pennsylvania or in another state having a substantially similar law.*** (See Reinsurance - Ceded page 9).
3. ***In order for the Company to take full reinsurance credit, it is requested that the Company provide a plan to the Department by July 22, 2020, to correct the non-compliance issues related to the assets contained in the Vista Re trust account.*** (See Reinsurance - Ceded page 10).

CONCLUSION

As a result of this examination, the financial condition of United Security Assurance Company, as of December 31, 2017, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 23,871,815	100.0 %
Liabilities	$ 12,257,414	51.3 %
Capital and Surplus	11,614,401	48.7 %
Total liabilities, capital and surplus	$ 23,871,815	100.0 %

Since the previous examination, made as of December 31, 2013, the Company's assets decreased by $124,004,099, its liabilities decreased by $119,437,591, and its surplus decreased by $4,566,508. No adjustments have been made to these reported financial statement balances related to potential default risk in the Vista Re trust assets.

This financial examination was conducted by: David Smith, CISA, of the Department; LeeAnne Creevy, CISA, Steve Skenyon, CISA, Tricia Matson, FSA, MAAA, Duncan Szeto, FSA, MAAA, Andy Rarus, ASA, MAAA, Veronika Cooper, FSA, MAAA, Ed Toy, Clarissa Crisp, CFE, Patrick Tracy, CFE and Darin Benck, CFE, all of RRC representing Pennsylvania, with the latter in charge.

Respectfully,

Melissa L. Greiner

Melissa L. Greiner
Director
Bureau of Financial Examinations

Robert A Woronko

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