

EXAMINATION REPORT OF
CENTURION LIFE INSURANCE COMPANY
DES MOINES, IOWA
AS OF DECEMBER 31, 2017

Des Moines, Iowa
May 31, 2019

HONORABLE DOUGLAS OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

CENTURION LIFE INSURANCE COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2017

at the Company's Home Office, 800 Walnut Street, Des Moines, Iowa.

INTRODUCTION

Centurion Life Insurance Company, hereinafter referred to as the "Company", was previously examined as of December 31, 2012. The examination reported herein was conducted solely by examiners for the Iowa Insurance Division. The Company's affiliate, Centurion Casualty Company, was examined concurrently with this examination.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2013 to the close of business on December 31, 2017, including any material transactions and/or events occurring and noted subsequent to the examination date.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires the examination to be planned and performed 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 organization, 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 organization were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2017.

HISTORY

The Company was incorporated on May 10, 1956, as Consumers Life Insurance Company and commenced business on July 1, 1956 under authority granted by the Missouri Insurance Department to write life, accident and health insurance. The name Centurion Life Insurance Company was adopted on August 11, 1976.

Effective May 30, 2005, the Company merged with Crocker Life Insurance Company with Centurion Life Insurance Company being the surviving company. Effective December 31, 2006, the Company was redomiciled from Missouri to Iowa.

Effective May 14, 2014, Financial Life Insurance Company of Georgia merged into the Company.

CAPITAL STOCK AND DIVIDENDS

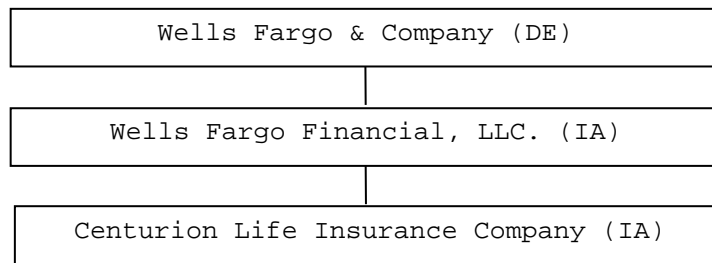
Authorized capital consists of 25,000 shares of common stock, par value of \$100 per share. As of 12/31/17, all 25,000 shares were issued and outstanding resulting in common capital stock of \$2,500,000. Gross paid in and contributed surplus is \$13,112,552. All outstanding stock is held by Wells Fargo Financial, LLC.

There were no dividends paid during the period under review.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined by Chapter 521A, Code of Iowa. Wells Fargo & Company, a Delaware corporation, is the ultimate controlling person for the group. An Insurance Holding Company System Registration Statement was filed annually with the Iowa Insurance Division for each year of the examination period.

A partial chart depicting the organizational structure follows:



MANAGEMENT AND CONTROL

STOCKHOLDERS

The Amended and Restated Bylaws provide that the annual meeting of the stockholders shall be held in each year at such place as shall be fixed by the Board of Directors or by the Chairman of the Board or by the President.

Special meetings of the stockholders may be called by the Board of Directors or by the holder of the shares representing not less than ten percent of all votes entitled to be cast at the proposed special meeting.

Any annual meeting or special meeting of the stockholders may be held at any place, either within or without the State of Iowa. The place of each meeting shall be fixed as provided in the Bylaws, or by a waiver of notice fixing the place of the meeting and signed by all shareholders entitled to vote at such meeting. If no designation is made of the place of a meeting of stockholders, the place of meeting shall be the registered office of the Corporation in the State of Iowa.

Written or printed notice stating the place, day and hour of the meeting and, in case of special meetings, the purpose for which the meeting is called, must be delivered not less than ten days before the date of the meeting, either personally or by mail, to each stockholder of record entitled to vote at such meeting.

A majority of the outstanding shares of the Company entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of the stockholders. The owner of each outstanding share of common stock shall be entitled to one vote on each matter decided.

BOARD OF DIRECTORS

The business and affairs of the Company are vested in a Board of Directors consisting of five or more directors, which number shall be established from time to time by the Board of Directors. The number of directors is currently established at five directors. Directors hold office until the next succeeding annual meeting of the stockholders and until a successor has been elected and qualified, or until death, resignation or removal. Any vacancy on the Board may be filled for the unexpired term by a majority vote of the remaining directors.

Elected and qualified directors serving at December 31, 2017 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Jeffrey O. Fink Plymouth, MN	Vice President Wells Fargo	2018
David C. Florian Marvin, NC	Senior Vice President Wells Fargo	2018
Alan M. Holck Des Moines, IA	Vice President Centurion Life Insurance Company	2018
Suphian Kalokoh Waxhaw, NC	President Centurion Life Insurance Company	2018
Chris L. Livingston Charlotte, NC	Chief Financial Officer, Reinsurance Wells Fargo	2018
Bruce A. Miller Ankeny, IA	Vice President, Treasurer Centurion Life Insurance Company	2018

The annual meeting of the directors is held after and at the same place as each annual meeting of the stockholders. Other regular meetings may be held at such time and place as fixed by resolution or motion adopted by the Board of Directors. Special meetings may be held within or without the State of Iowa whenever called by order of

the Chairman of the Board, the President or by a majority of the Directors then in office. Written notice stating the place, date and hour of the special meeting, either email or facsimile, shall be delivered to each director. A majority present constitutes a quorum for the transaction of business.

COMMITTEES

The Board of Directors, by resolution adopted by a majority vote of Directors then in office, may designate one or more committees. Each committee shall consist of two or more Directors elected or appointed by the Board of Directors. As of December 31, 2017, the Investment Committee was the only direct committee appointed.

OFFICERS

The Amended and Restated Bylaws state that the officers of the Company shall be a President, a Secretary, and a Treasurer, and such other officers as the Board of Directors deems advisable (which may include a Chairman of the Board of Directors, one or more Vice Presidents, one or more Assistant Secretaries, and one or more Assistant Treasurers). Officers need not be residents of the State of Iowa or Directors or stockholders of the Company. Any two or more offices may be held by the same person, except where prohibited by law.

Elected officers serving as of December 31, 2017 were as follows:

<u>Name</u>	<u>Title</u>
David C. Florian	Chairman
Suphian Kalokoh	President
Chris L. Livingston	Senior Vice President
Beth E. Mack	Secretary
Bruce A. Miller	Vice President and Treasurer
Scott E. Casady	Vice President
James E. Cypert Jr.	Vice President
Jeffrey O. Fink	Vice President
Lawton H. Hatley, III	Vice President
Sean Heenan	Vice President
Alan M. Holck	Vice President
Jason K. Lee	Vice President
Kevin Maher	Vice President
George I. McLanahan	Vice President

Compensation for the above officers is provided through their employment with the parent company, Wells Fargo & Co.

CONFLICT OF INTEREST STATEMENTS

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors, or key employees which is in, or likely to, conflict with the official duties of such person. A review of the statements for the years under examination disclosed no material conflicts.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended during the period under review. The recorded minutes of the stockholders and Board of Directors meetings were read and noted.

The results of the examination report, for the period ending December 31, 2012, were reported at the annual meeting of the Board of Directors on March 5, 2014.

RELATED PARTY AGREEMENTS

On December 20, 2005, CGT Insurance Company LTD., an affiliate of Centurion Life Insurance Company established a standby letter of credit with Wells Fargo Bank, N.A. (WFBNA), in the amount of \$3,000,000 in favor of Centurion Life Insurance Company.

Wells Fargo Financial, Inc. rents certain real estate from Centurion Life Insurance Company at a rental fee based upon the Company's investment in the properties and all permanent improvements thereon. Proceeds under the terms of the lease agreements for this property during 2017 amounted to \$52,941.

Effective March 1, 2016, the Company and WFBNA entered into an Asset Management Agreement and an International Swaps and Derivatives Association, Inc. (ISDA) 2002 Master Agreement for purposes of WFBNA managing the Company's investment portfolio. Effective July 1, 2017, an amendment was made to the ISDA Master agreement to allow interest rate swaps. Effective August 14, 2017, an amendment was made to the Asset Management Agreement to allow the asset manager to delegate certain duties to sub-managers.

Effective August 1, 2017, the Company entered into a Master Intercompany Services Agreement, Letter of Accession, Intermediate Addendum and Service Level Agreement (SLAs) with its affiliate WFBNA. The agreements allow for certain shared services to be provided to the Company as a service recipient by WFBNA and its affiliates.

Effective December 1, 2017, the Company entered into an Employee Leasing Agreement with its affiliate Wells Fargo Insurance, Inc. (WFII) for the services of certain employees.

Effective December 12, 2017, the Affiliate Tax Settlement Policy was updated, between Wells Fargo & Company (WFC) and its affiliates, including Centurion Life Insurance Company, for purposes of tax settlement, tax returns and tax payment.

FIDELITY BONDS AND OTHER INSURANCE

Wells Fargo & Company, along with its subsidiaries as named insureds, is protected by a blanket bond which covers the fidelity of each officer and employee up to \$150,000,000 for any one occurrence. The bond is written by an authorized insurer with a closed expiration date. It was noted that the coverage meets the NAIC's suggested minimum amount of fidelity insurance for the Company.

EMPLOYEE WELFARE

Except for a small number of individuals, all services for the operations of the Company are performed by employees of Wells Fargo & Company and its affiliates. Because of this, the Company does not provide or contribute directly to any employee welfare or pension plan. All employee benefits are provided by Wells Fargo & Company and its affiliates.

REINSURANCE

Assumed

The Company assumed credit life and credit disability sold by Wells Fargo Financial, Inc. as part of the consumer finance business. The Company ceased new business for these contracts in 2010.

The Company assumed accidental death and dismemberment business on an excess of loss, quota share, and coinsurance basis through a non-affiliate, many of these contracts have run-off.

Ceded

CLI ceded certain credit life and credit disability to an affiliate. This agreement was terminated August 31, 2018.

STATUTORY DEPOSIT

The Company had securities on deposit with the Iowa Insurance Division in excess of the minimum statutory requirement.

TERRITORY AND PLAN OF OPERATION

The Company provided directly or through reinsurance arrangement, credit life and credit disability insurance to Wells Fargo and its affiliated companies. The Company ceased new business for credit life and credit disability in 2010 after Wells Fargo Financial Inc. discontinued its consumer lending operations. The Company provided deferred annuities through independent third party marketing firms which was also discontinued in 2010. The Company reinsured Accidental Death through non-affiliated third parties however, many of these contracts have run-off. The Company is licensed in 47 states, the District of Columbia, Guam and the Northern Mariana Islands.

The five states with the largest direct premium writings in 2017 were:

<u>State</u>	<u>Direct Premium Collected</u>	<u>Percentage of Total</u>
Iowa	\$ 28,714	15.43%
Alabama	27,355	14.70%
Nebraska	25,097	13.49%
Missouri	21,247	11.42%
South Dakota	19,333	10.39%
Total all states	\$186,086	100%

GROWTH OF COMPANY

The following historical financial data, as taken from the Company's annual statements for the years indicated, displays its growth:

<u>Year</u>	Total Admitted <u>Assets</u>	Capital and <u>Surplus</u>	Life Insurance <u>In Force</u>
2013	\$1,209,042,625	\$397,335,925	\$56,423,304,000
2014	1,259,284,336	251,230,709	73,669,099,000
2015	1,262,580,616	293,940,939	70,163,837,000
2016	1,288,219,897	317,731,649	66,276,696,000
2017	1,249,214,976	793,660,930	113,196,000

<u>Year</u>	Group A & H <u>Premium</u>	Credit A & H <u>Premium</u>	Ordinary Life Insurance <u>Premium</u>	Credit Life <u>Premium</u>
2013	\$1,277,083	\$5,244,332	\$194,269,473	\$3,761,960
2014	265,607	4,083,567	307,034,794	2,618,055
2015	57,296	3,168,998	173,743,294	1,995,164
2016	1,410	2,524,014	168,694,793	1,567,032
2017	(29,552)	2,053,428	33,966,514	1,254,354

ACCOUNTS AND RECORDS

Trial balances of the Company's general ledger accounts were prepared for each year under examination and were found to be in agreement with the office copies of the filed annual statements for those years. Cash receipts and disbursements were tested to the extent deemed necessary.

During the course of the examination, no statutory violations or differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2017, were identified.

SUBSEQUENT EVENTS

The Company declared an extraordinary dividend of \$525,000,000 to be paid to its parent, Wells Fargo Financial, LLC, on or before December 31, 2018.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2017, and the assets and liabilities as of that date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Non Admitted</u>	<u>Admitted</u>
Bonds	\$ 887,011,567		\$ 887,011,567
Real estate- Properties held for sale	396,003		396,003
Cash and short-term investments	340,628,758		340,628,758
Receivables for securities	11,212,397		11,212,397
Investment income due and accrued	9,597,926		9,597,926
Uncollected premiums in course of collection	290,000		290,000
Net deferred tax asset	1,746,000	1,675,000	71,000
Receivable from parent, subsidiaries and affiliates	7,225		7,225
Insurance Examiners Deposits	<u>100</u>	<u> </u>	<u>100</u>
Total Assets	<u>\$1,250,889,976</u>	<u>\$ 1,675,000</u>	<u>\$1,249,214,976</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts			\$ 200,474,621
Aggregate reserve for accident and health contracts			89,776
Contract claims:			
Life			293,000
Accident and health			221,472
Provision for experience rating refunds			57,918
Interest maintenance reserve			22,777,050
General expenses due or accrued			44,818
Taxes, licenses and fees			83,570
Current federal and foreign income taxes			206,123,484
Amounts withheld or retained by company as agent or trustee			34,028
Remittances and items not allocated			9,250
Asset valuation reserve			6,979,100
Funds held under reinsurance treaties with unauthorized reinsurers			12,642
Payable to parent, subsidiaries and affiliates			17,448
Aggregate write-ins for liabilities:			
Collateral & related accrued interest on derivatives			17,800,344
Accrued interest on derivatives			535,525
Total Liabilities			<u>\$ 455,554,046</u>
Common capital stock			\$ 2,500,000
Gross paid in and contributed capital			13,112,552
Unassigned funds (surplus)			<u>778,048,378</u>
Total Capital and Surplus			<u>\$ 793,660,930</u>
Total Liabilities, Surplus and Other Funds			<u>\$ 1,249,214,976</u>

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and accident and health contracts	\$ 37,244,744
Net investment income	34,188,616
Amortization of interest maintenance reserve	6,363,788
Commissions and expense allowances on reinsurance ceded	2,636
Insurance Commission Reinsurance Fees	6,030,000
Miscellaneous	493
Total	<u>\$ 83,830,277</u>
Death benefits	153,239,300
Annuity benefits	7,889,342
Disability benefits and benefits under accident and health contracts	484,691
Surrender benefits and withdrawals for life contracts	19,933,969
Increase in aggregate reserves for life and accident and health contracts	<u>(695,051,077)</u>
Total	<u>\$(513,503,775)</u>
Commissions and expense allowances on reinsurance assumed	30,985,744
General insurance expenses	617,794
Insurance taxes, licenses and fees	145,340
Regulatory fines and penalties	1,410
Modco Adjustments	<u>(167,294,475)</u>
Total	<u>\$(649,047,962)</u>
Net gain from operations before federal income taxes	\$ 732,878,239
Federal and foreign income taxes incurred	243,592,303
Net gain from operations before realized capital gains or (losses)	489,285,936
Net realized capital gains (losses) less capital gains tax	<u>21,731</u>
Net income	<u>\$ 489,307,667</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, prior year	<u>\$ 317,731,649</u>
Net income	\$ 489,307,667
Change in net deferred income tax	(11,855,000)
Change in nonadmitted assets and related items	(1,675,000)
Change in asset valuation reserve	151,614
Net change in capital and surplus for the year	<u>\$ 475,929,281</u>
Capital and surplus, December 31, current year	<u>\$ 793,660,930</u>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$ 37,322,297	
Net investment income	34,441,147	
Miscellaneous income	<u>6,033,129</u>	
Total		\$ 77,796,573
Benefit and loss related payments	\$ 200,579,123	
Commissions, expenses paid and aggregate write-ins	(135,551,794)	
Federal income taxes paid (recovered)	<u>36,871,715</u>	
Total		<u>101,899,044</u>
Net cash from operations		\$ (24,102,471)

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$191,909,469	
Miscellaneous proceeds	<u>(2,732,402)</u>	
Total investment proceeds		\$ 189,177,067
Cost of investments acquired (long-term only):		
Bonds	\$271,355,047	
Miscellaneous applications	<u>11,212,397</u>	
Total investments acquired		<u>282,567,444</u>
Net cash from investments		<u>\$(93,390,378)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):		
Other cash provided (applied)	<u>\$3,687,526</u>	
Net cash from financing and miscellaneous sources		<u>\$ 3,687,526</u>

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments		\$ (113,805,322)
Cash and short-term investments:		
Beginning of year		<u>454,434,075</u>
End of year		<u>\$ 340,628,753</u>

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

In addition to the undersigned, Bob Wong, CFE, CISA, Randy Guzman and Tessa Lemons, examiners for the Iowa Insurance Division, participated in the examination and preparation of this report.

Respectfully submitted,

/s/ Amanda Theisen
Amanda Theisen, CFE
Insurance Company Examiner Specialist
Iowa Insurance Division
State of Iowa