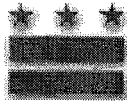


Government of the District of Columbia
Department of Insurance, Securities and Banking



Thomas E. Hampton
Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination - **ACACIA LIFE INSURANCE COMPANY** as of December 31, 2004

ORDER

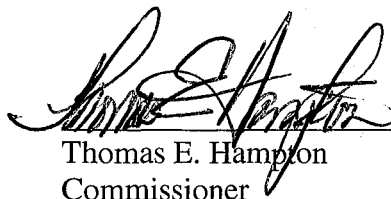
Pursuant to Examination Warrant 2005-3, a Financial Condition Examination of Acacia Life Insurance Company as of December 31, 2004 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 23th day of June, 2006, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.


Thomas E. Hampton
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

ACACIA LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2004

NAIC COMPANY CODE 60038

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Washington, D.C.
March 23, 2006

Honorable Alfred W. Gross
Chair, NAIC Financial Condition (E) Committee
Commissioner, State Corporation Commission, Bureau of Insurance
Commonwealth of Virginia
Post Office Box 1157
Richmond, Virginia 23218

Honorable Julie M. Bowler
Secretary, Northeastern Zone, NAIC
Commissioner, Division of Insurance, Commonwealth of Massachusetts
One South Station, 5th Floor
Boston, Massachusetts 02110

Honorable Eleanor Kitzman
Secretary, Southeastern Zone, NAIC
Director of Insurance, State of South Carolina, Department of Insurance
Post Office Box 100105
Columbia, South Carolina 29202

Honorable Ann W. Benjamin
Secretary, Midwestern Zone, NAIC
Director of Insurance, The Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215

Honorable Gary L. Smith
Secretary, Western Zone, NAIC
Director of Insurance, State of Idaho, Department of Insurance
Post Office Box 83720
Boise, Idaho 83720

Honorable Thomas E. Hampton
Commissioner
Government of the District of Columbia
Department of Insurance, Securities and Banking
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Sirs and Madams:

In accordance with Section 31-1402 of the D. C. Official Code, an association examination has been conducted of the financial condition and activities of

ACACIA LIFE INSURANCE COMPANY

(hereinafter, called "Acacia" or the "Company"), at the primary location of its books and records, 5900 "O" Street, Lincoln, Nebraska 68510, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

This examination, covering the period January 1, 2002 through December 31, 2004, including any material transactions and/or events noted occurring subsequent to December 31, 2004, was conducted under the association plan of the National Association of Insurance Commissioners ("NAIC") by examiners of the District of Columbia Department of Insurance, Securities and Banking ("DISB" or "Department"), representing the Northeastern Zone of the NAIC. The Western, Midwestern and Southeastern Zones were invited to participate, but did not respond to the examination call.

Our examination was conducted in accordance with examination policies and standards established by the DISB and procedures recommended by the National Association of Insurance Commissioners and, accordingly, included such tests of the accounting records and such other examination procedures as we considered necessary under the circumstances.

This examination was conducted in conjunction with the Nebraska Department of Insurance examinations of the financial condition and activities of its domestic insurers, Ameritas Life Insurance Corp. ("Ameritas") and Ameritas Variable Life Insurance Company ("AVLIC"), both affiliates of the Company. As a result of this affiliation, the primary location of the books and records of the Company is located at the location of the offices of Ameritas and AVLIC, and many of the operational functions (e.g., underwriting, claims processing, investments, etc.), of the Company have been partially, or wholly combined with the operations of Ameritas and AVLIC. Because of this combination of operations, we determined that financial examinations of the Company would be more efficient if performed concurrently with examinations of Ameritas and AVLIC. Therefore, a full scope examination of the Company was performed as of December 31, 2004, in conjunction with Nebraska's examinations of Ameritas and AVLIC.

This examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a

determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2002 through 2004. We placed substantial reliance on the audited financial statements for calendar years 2002 and 2003, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2004. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2004, and directed our efforts, to the extent practical, to those areas not covered by the firm's workpapers.

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the eight exception conditions commented upon in the prior Report on Examination of the Company, dated December 17, 2002, which covered the period from January 1, 1998 to December 31, 2001.

We determined that the Company had satisfactorily addressed five of the prior exceptions. The three remaining exceptions are no longer considered exception conditions due to various reasons (e.g., changes in reporting requirements, not within the scope of our current examination due to immateriality, etc.).

HISTORY

General:

The Company was organized in the District of Columbia on October 26, 1866, and chartered by the Congress of the United States of America on March 3, 1869, in the name of Masonic Mutual Relief Association of the District of Columbia. In 1908, the Company's name was changed to the Masonic Mutual Life Association; in 1922 the Company's name was changed to the Acacia Mutual Life Association; and in 1932, the Company's name was changed to Acacia Mutual Life Insurance Company.

On June 30, 1997, the Company was reorganized from a mutual insurer to a stock insurer. As part of this reorganization, a mutual holding company, Acacia Mutual Holding Corporation ("AMHC"), was created. In this holding company structure, AMHC owned 100 percent of an intermediate stock holding company named Acacia Financial

Group, Ltd. ("AFG"). AFG in turn owned 100 percent of the Company, which was renamed Acacia Life Insurance Company.

Effective January 1, 1999, AMHC merged with Ameritas Mutual Insurance Holding Company ("AMIHC"), a Nebraska company. As a result of this merger, accounted for as a pooling of interests, Ameritas Acacia Mutual Holding Company ("AAMHC") was formed. As part of this merger transaction, AFG was merged into Ameritas Holding Company ("AHC"), a wholly-owned intermediate stock holding company subsidiary of AMIHC. As a result of this transaction, AHC became the parent of the Company.

Effective January 1, 2004, the Company merged with its wholly-owned subsidiary, Acacia National Insurance Company, leaving the Company as the surviving entity. This transaction is further discussed in the "Merger" section of this Report.

Capital Stock:

Pursuant to its Articles of Incorporation, the Company is authorized to issue 10,000 shares of no par common capital stock, and 2,000,000 shares of no par, cumulative, non voting preferred capital stock. As of December 31, 2004, the Company had issued 10,000 shares of common capital stock, with a stated par value of \$300 per share (aggregate par value of \$3,000,000) to Ameritas Holding Company.

In addition, the Company had issued 1,000,000 shares of preferred stock, with a stated par value of \$25 per share, to Ameritas Life Insurance Corporation, an affiliate. Since the preferred stock is non-voting, Ameritas Life Insurance Corp. has no controlling interest in the Company. See NOTE 2 in the "Notes to Financial Statements" section of this Report for further comments regarding the Company's preferred stock.

Dividends to Stockholders:

The company did not declare or pay any common stock dividends during our examination period.

The Company declared and paid ordinary cash dividends of \$2,000,000 each in 2002, 2003 and 2004 to its preferred shareholder, Ameritas Life Insurance Corp. These dividends were approved by the Company's board of directors, and the Department was notified of the dividends.

Management:

The following persons were serving as the Company's directors at December 31, 2004:

<u>Name and Address</u>	<u>Principal Occupation</u>
Charles T. Nason, Chairman Bethesda, Maryland	Retired, former Chief Executive Officer, Acacia Life Insurance Company
Haluk Ariturk Bethesda, Maryland	President and Chief Executive Officer, Acacia Life Insurance Company
Patricia A. McGuire Hyattsville, Maryland	President, Trinity University
Floretta D. McKenzie Washington, D.C.	Senior Advisor, American Institute for Research
Edward J. Quinn, Jr. Washington, D.C.	Chairman and Chief Executive Officer, T. W. Perry, Inc.
Donald W. Silby Washington, D.C.	Co-Chairman, Calvert Social Investment Foundation, D. W. Silby & Company
Robert M. Willis Mitchellville, Maryland	Law Offices of Robert M. Willis, Esq.

The following persons were serving as the Company's executive officers at December 31, 2004:

<u>Name</u>	<u>Title</u>
Haluk Ariturk	President and Chief Executive Officer
Jan M. Connolly	Senior Vice President – Operations, Planning and Quality
Robert C. Barth	Senior Vice President, Controller and Chief Accounting Officer
Arnold D. Henkel	Senior Vice President - Individual Distribution
Brian J. Owens	Senior Vice President - Career Distribution
Barry C. Ritter	Senior Vice President - Information Officer
Robert-John H. Sands	Senior Vice President, General Counsel and Corporate Secretary
Janet L. Schmidt	Senior Vice President and Director of Human Resources
Richard W. Vautravers	Senior Vice President - Individual Financial Management
Edward M. Beller	Vice President - Individual Underwriting and New Business
Richard G. Bigler	Vice President - Independent Distribution
David A. Glazer	Vice President - Individual Sales Development
Barry D. Gritton	Vice President - Career Distribution

James Guntow
James E. Harvey
Thomas D. Higley

Vice President - Marketing Operations
Vice President - Individual Financial
Vice President, Financial Actuary, and Appointed
Actuary

William W. Lester
Dennis J. Luchey
Dale K. Niebuhr
Andrew S. White

Vice President and Treasurer
Vice President - Human Resources
Vice President - Audit Services
Vice President - Fixed Income Securities

As of December 31, 2004 the Company's board of directors had established the following committees:

Operating Committee:

Haluk Ariturk	Brian J. Owens
Robert C. Barth	Barry C. Ritter
Richard G. Bigler	Robert-John H. Sands
Arnold D. Henkel	Richard W. Vautravers
William W. Lester	

Investment and Finance Committee:

Haluk Ariturk	Edward J. Quinn, Jr.
Patricia A. McGuire	Donald W. Silby

In addition, although the Company has no audit committee of its own, the Ameritas Acacia Mutual Holding Company ("AAMHC") Audit Committee serves as the Company's audit committee, and includes three of the Company's board members. The Acacia Life board members who serve on the AAMHC's Audit Committee are listed below.

AAMHC Audit Committee

(partial listing – only those members representing Acacia Life):

Patricia A. McGuire	Robert M. Willis
Donald W. Silby	

Conflicts of Interest:

Directors and officers of the Company regularly respond to conflict of interest questionnaires. Any possible conflicts disclosed are scrutinized further by Company officials. Our review of the responses to the questionnaires completed for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact the Company. Furthermore, no potential conflicts of interest were noted during our examination that were not already disclosed in the completed questionnaires.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and committees for the period under examination, and for the period subsequent to December 31, 2004, up to the date of our Report, for which minutes were available. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

Merger:

On April 30, 2003, the Company's board of directors adopted an Agreement and Plan of Merger that provided for the Company's wholly-owned subsidiary, Acacia National Life Insurance Company, to be merged with and into the Company, with the Company as the surviving entity. This merger was accounted for as a statutory equity merger, in accordance with applicable statutory accounting provisions. The effective date of the merger was December 31, 2003. The Agreement and Plan of Merger was submitted to and approved by the Department. See NOTE 5 in the "Notes to Financial Statements" section of this Report for further comments regarding this merger.

AFFILIATED COMPANIES

The Company is a member of the Ameritas Acacia Mutual Holding Company system. Within this group, there are several insurance companies, each specializing in various products or jurisdictions. Ameritas Life Insurance Corp. is a leading provider of group dental indemnity insurance, and also writes individual life insurance and group eye-care business. Ameritas Variable Life Insurance Company markets variable universal life, variable and fixed deferred annuity products and single and flexible premium variable universal life products.

Acacia has two wholly-owned subsidiaries, Enterprise Resources, LLC and Acacia Financial Corporation. Enterprise Resources, LLC is an insurance general agency. Acacia Financial Corporation is a financial institutions holding company which directly and indirectly owns a number of its own subsidiaries. Majority owned subsidiaries of Acacia Financial Corporation include Acacia Federal Savings Bank and Calvert Group, Ltd. Acacia Federal Savings Bank is a federally chartered savings bank providing full banking services, primarily to customers in the Washington D.C. area. Calvert Group, Ltd. provides investment advisory, distribution, administrative and transfer agency services to the Calvert Group of mutual funds.

Acacia Financial Corporation and its subsidiaries operate independent of the Company, and, other than limited administrative transactions, there are no significant

business relationships or transactions between the Company and Acacia Financial Corporation and its subsidiaries.

In addition, during 2004, the Company's board of directors voted to establish the Acacia Charitable Foundation, a 501(c)(3) exempt private foundation, and voted to fund the Foundation with \$5 million from the proceeds of the 2004 sale of the Company's home office building. The stated mission of the Foundation is to serve as an entity that will allow the Company and other companies in the Acacia Group of companies to receive and distribute charitable contributions to non-profit organizations, particularly those in the Washington, D.C. area. The Foundation is controlled by the Company through common directors and officers and the Company provides occasional, incidental support to the Foundation.

The Company also directly or indirectly owns approximately 14 percent of AMAL Corporation, which wholly-owns Ameritas Variable Life Insurance Company.

Effective January 1, 2006, the Company's ultimate parent, Ameritas Acacia Mutual Holding Company, and The Union Central Life Insurance Company merged. This transaction has no effect on the Company as of December 31, 2004. See the "Subsequent Events" section of this Report for further comments regarding this merger.

The Company's holding company structure as of December 31, 2004, is depicted in the following chart:

ORGANIZATIONAL CHART

	<u>Domiciliary Jurisdiction</u>
Ameritas Acacia Mutual Holding Company	Nebraska
Ameritas Holding Company (100%)	Nebraska
Ameritas Life Insurance Corp. (100%) (NAIC # 61301)	Nebraska
First Ameritas Life Insurance Corporation of New York (100%) (NAIC # 60033)	New York
Veritas Corporation (100%)	Nebraska
Pathmark Administrators, Inc. (100%)	Nebraska
Ameritas Investment Advisors, Inc. (100%)	Nebraska
AMAL Corporation ⁽¹⁾	Nebraska
Ameritas Investment Corporation (100%)	Nebraska
The Advisors Group, Inc. (100%)	Delaware
Ameritas Variable Life Insurance Company (100%) (NAIC # 97977)	Nebraska
Acacia Life Insurance Company (100%) ⁽²⁾ (NAIC # 60038)	District of Columbia
Enterprise Resources, LLC (100%)	District of Columbia
Acacia Financial Corporation (AFCO) (100%)	Maryland
Acacia Federal Savings Bank (AFCO 85.21%, Ameritas Life 14.79%)	Delaware
Acacia Service Corporation (100%)	Virginia
Calvert Group, Ltd. (100%)	Delaware
Calvert Asset Management Company (100%)	Delaware
Calvert Shareholder Services, Inc. (100%)	Delaware
Calvert Administrative Services Company (100%)	Delaware
Calvert Distributors, Inc. (100%)	Delaware
Acacia Realty Corporation (100%)	District of Columbia
Acacia Charitable Foundation (controlled)	Maryland

(1) Ownership of AMAL Corporation: Ameritas Life Insurance Corp. 52%; AmerUs Life Insurance Company (Iowa) 34%; Acacia Life Insurance Company 11%; Acacia Financial Corporation 3%.

(2) Ameritas Life Insurance Corp. owns 100% of the Company's issued and outstanding preferred stock but has no controlling interest in the Company because the preferred stock is non-voting.

INTERCOMPANY AGREEMENTS

The Company has entered into numerous agreements and cost-sharing arrangements (collectively referred to as agreements) with affiliated companies. We reviewed these agreements and the significant ones are described below.

Under some of these agreements, the Company provides services to affiliates. During 2004, the Company received reimbursement totaling approximately \$7,000,000 for services provided to its affiliates under these agreements.

Under other agreements, the Company is provided services by its affiliates. The Company incurred costs totaling approximately \$12,000,000 in 2004 for services provided by affiliates.

During our examination, we noted that there was no central file or list of intercompany agreements. We also noted that although the Company filed a consolidated income tax return for 2004, the Company was not party to a consolidated tax allocation agreement. See additional comments regarding these conditions in the "Comments and Recommendations" section of this Report, under the caption "Affiliated Transactions".

Administrative Service Agreement:

The Company entered into an Administrative Service Agreement, dated December 29, 1998, with Ameritas Life Insurance Company ("Ameritas"). Under this agreement, Ameritas provides certain administrative, policy administration, underwriting, premium processing, customer service, claims administration, reinsurance processing, product filing, agent licensing and compensation, and information management support services to Acacia. The agreement provides that Acacia shall pay to Ameritas the fair and reasonable costs of such services, which shall from time to time be agreed upon by the parties, through their respective boards and committees.

Ameritas Holding Company Service Agreement:

Effective April 1, 2004, the Company became party to the "Ameritas Holding Company Service Agreement" (the "Agreement"). Numerous other companies in the Ameritas Acacia holding company group are also parties to this Agreement. Under terms of this Agreement, Ameritas Holding Company agrees to provide the Company with various support and services, including, but not limited to general and executive management, strategic planning, e-business infrastructure, human resources and payroll. Parties to the Agreement agree to pay, on a monthly basis, the fair and reasonable costs of support and services provided by Ameritas Holding Company, as agreed by the parties on an annual basis.

Holding Company Oversight Service Agreement:

Effective November 10, 1999, the Company ("Acacia") and Ameritas Life Insurance Corp. ("Ameritas") entered into a "Holding Company Oversight Service Agreement" (the "Agreement") with Ameritas Holding Company ("AHC"). Under terms of this Agreement, Ameritas and Acacia agree to provide AHC with various support and services, including, but not limited to, general and executive management, and strategic planning.

In addition, under terms of the Agreement, AHC shall provide direct oversight over Ameritas and Acacia personnel as those personnel provide support and services to AHC.

According to the agreement, allocated costs shall be reimbursed by AHC at the fair and reasonable cost of such services. In addition, Ameritas and Acacia agree to pay AHC for AHC's oversight of Ameritas and Acacia personnel as those personnel provide support and services to AHC.

Investment Management Agreement:

Effective March 19, 1999, the Company entered into an "Investment Management Agreement" (the "Agreement") with Ameritas Investment Advisors, Inc. ("Manager"). Under terms of this Agreement, Manager makes all investment decisions regarding the Company's assets placed under Manager's direction, in accordance with the Company's investment guidelines. The Company's Investment and Finance Committee has oversight authority over Manager as regards the Company's assets under Manager's direction. Manager does not have custody of any of the Company's assets, which are held by the Company's custodian. Compensation to Manager shall be a percentage of the value of all assets in the managed account.

Marketing Management Services Agreements:

The Company provides and receives marketing support to and from Ameritas Life Insurance Corp. and Ameritas Variable Life Insurance Company under a number of agreements.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond issued to its ultimate parent, Ameritas Acacia Mutual Holding Company. The fidelity bond protects against loss from any fraudulent or dishonest acts by any employees, and provides coverage of \$20,000,000 in the aggregate and \$10,000,000 for a single loss with a single loss deductible of \$500,000. The fidelity bond meets the minimum coverage recommended by the National

Association of Insurance Commissioners for the Company and its insurance subsidiaries on a consolidated basis.

In addition, the Company has other insurance coverage in-force at December 31, 2004, including automobile, property and liability, workers' compensation, umbrella liability, general liability, and directors and officers liability. Based upon our review, the Company's insurance coverage for these risks appeared adequate.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Company employees are eligible for various benefits, including insurance and retirement plans, offered to employees of the Ameritas Acacia Group. Group life, medical, long term disability, vision and dental benefits are offered. In addition, employees may participate in the Ameritas Acacia Retirement Focus Savings Plan, a 401(k) savings plan. The Company also offers certain executives the opportunity to participate in an excess contribution plan. Costs of the employee insurance and retirement plans are paid directly by the Company or through intercompany expense allocations. As of December 31, 2004 the Company had accrued a liability totaling \$19,357,132 for employee benefits.

There is no employee stock ownership plan for the Company's stock.

STATUTORY DEPOSITS

The Company has deposited funds, for the benefit of all policyholders, with the District of Columbia Department of Insurance, Securities and Banking, as of December 31, 2004. These funds meet the provisions of Sections 31-4315 and 31-4316 of the District of Columbia Insurance Code:

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>
U.S. Treasury securities	\$ 5,000,000	\$5,096,680

The Company also has funds on deposit, in the form of United States Treasury Bonds, with other jurisdictions in which it is licensed. These funds, which are for the benefit of the policyholders in the respective jurisdictions, are as follows as of December 31, 2004:

<u>Jurisdiction</u>	<u>Par Value</u>	<u>Market Value</u>
Arkansas	\$ 125,000	\$ 125,185
Florida	1,220,000	1,477,050
Georgia	150,000	175,246
Massachusetts	500,000	630,494
Nevada	200,000	200,296
New Mexico	200,000	200,296

North Carolina	1,125,000	1,126,665
South Carolina	150,000	150,222
Virginia	<u>600,000</u>	<u>751,032</u>
Totals held by other jurisdictions	<u>\$ 4,270,000</u>	<u>\$ 4,836,486</u>

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004 the Company is licensed to write business in 47 states and the District of Columbia. The Company wrote direct business in all of these jurisdictions in 2004. The Company is not licensed in the states of Alaska, Maine, or New York. The Company's major lines of business are ordinary individual life and individual annuity products, distributed through an agency system consisting of both employee and independent producers.

Life insurance policies written directly by the Company during 2004 represented approximately 83 percent, or \$67,640,283 of the total \$81,311,332 of direct premiums. Individual annuities represented approximately 17 percent (\$13,628,091) of total direct business.

INSURANCE PRODUCTS AND RELATED PRACTICES

The District of Columbia Department of Insurance, Securities and Banking Market Conduct Unit conducted an examination of the market conduct affairs of the Company for the three-year period ending December 31, 2003. The market conduct examination included reviews of the Company's sales and advertising, agent licensing, underwriting practices, policy forms, rating, claims processing, and complaint handling practices and procedures. Our review of the market conduct report did not disclose any findings that would have a significant impact on the financial condition of the Company.

The scope of our examination did not include market conduct procedures, including, but not limited to, market conduct procedures in the following areas:

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
 - Claims Processing (Timeliness)
 - Complaints

REINSURANCE

Assumed Reinsurance:

The Company is primarily a direct writer and does not assume significant amounts of business. During 2004, the Company assumed premiums totaling approximately \$2.6 million. The majority of this business, approximately \$2.1 million, was assumed by the Company from an affiliate, Ameritas Variable Life Insurance Company.

Ceded Reinsurance:

The Company ceded business to numerous reinsurers under a number of reinsurance agreements, primarily yearly renewable term. During 2004, the Company ceded premiums totaling approximately \$36 million, and as of December 31, 2004, the Company reported reserve credits for ceded business totaling approximately \$32 million.

Approximately \$22 million of the Company's ceded premiums related to one agreement. Our review of this agreement disclosed no unusual provisions.

ACCOUNTS AND RECORDS

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). Our review did not disclose any significant deficiencies in these records.

The Company utilizes the electronic data processing systems of its affiliates, Ameritas Life Insurance Corp. ("Ameritas") and Ameritas Variable Life Insurance Company ("AVLIC"), for various applications. The controls in place over these systems were reviewed as part of the aforementioned coordinated examinations of these companies performed in conjunction with the Nebraska Department of Insurance.

The primary location of the Company's books and records is in Lincoln, Nebraska. In addition, the location of the Company's statutory home office and main administrative office is Bethesda, Maryland. Section 31-5204 of the D.C. Official Code requires that a domestic insurer maintain its principal office within the District. However, during 2004, the Company received permission from the Department to maintain its statutory home office and main administrative office in Bethesda, Maryland.

FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Company as of December 31, 2004, as determined by this examination:

<u>STATEMENT</u>	<u>PAGE(S)</u>
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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

ASSETS

	<i>Assets</i>	<i>Nonadmitted Assets</i>	<i>Net Admitted Assets</i>	<i>Examination Adjustments Increase (Decrease)</i>	<i>Net Admitted Assets Per Examination</i>
Bonds	\$ 1,116,215,739	\$	\$ 1,116,215,739	\$	\$ 1,116,215,739
Preferred stocks	2,247,462		2,247,462		2,247,462
Common stocks	156,990,332		156,990,332		156,990,332
Mortgage loans on real estate:					
First liens	201,465,487		201,465,487		201,465,487
Cash (\$3,288,858), cash equivalents (\$2,998,370) and short-term investments (\$17,911,110)	24,198,338		24,198,338		24,198,338
Contract loans	58,793,713	45,548	58,748,165		58,748,165
Other invested assets	40,288,483		40,288,483		40,288,483
Subtotals, cash and invested assets	\$ 1,600,199,554	\$ 45,548	\$ 1,600,154,006	\$	\$ 1,600,154,006
Investment income due and accrued	17,848,094	28,104	17,819,990		17,819,990
Premiums and considerations:					
Uncollected premiums and agents' balances in course of collection	1,297,187	103,335	1,193,852		1,193,852
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,078,966		4,078,966		4,078,966
Reinsurance:					
Amounts recoverable from reinsurers	2,200,091		2,200,091		2,200,091
Other amounts receivable under reinsurance contracts	1,175,661		1,175,661		1,175,661
Current federal and foreign income tax recoverable and interest thereon	9,133,197		9,133,197		9,133,197
Net deferred tax asset	34,019,060	25,175,386	8,843,674		8,843,674
Guaranty funds receivable or on deposit	49,408		49,408		49,408
Electronic data processing equipment and software	7,277	6,637	640		640
Receivables from parent, subsidiaries and affiliates	820,041		820,041		820,041
Other assets nonadmitted	1,932,361	1,932,361			
Aggregate write-ins for other than invested assets	22,863,439	21,011,636	1,851,803		1,851,803
Totals	\$ 1,695,624,336	\$ 48,303,007	\$ 1,647,321,329	\$	\$ 1,647,321,329

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts (NOTE 1)	\$ 1,210,043,367
Aggregate reserve for accident and health contracts	665,489
Liability for deposit-type contracts	96,905,930
Contract claims:	
Life	5,624,482
Policyholders' dividends and coupons due and unpaid	13,909
Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts:	
Dividends apportioned for payment	13,302,800
Premiums and annuity considerations received in advance	208,471
Other amounts payable on reinsurance including \$(0) assumed and \$6,484,310 ceded	6,484,310
Interest Maintenance Reserve	4,154,814
General expenses due or accrued	2,957,545
Taxes, licenses and fees due or accrued, excluding federal income taxes	775,939
Unearned investment income	2,561
Amounts withheld or retained by company as agent or trustee	6,259,276
Remittances and items not allocated	5,968,354
Liability for benefits for employees and agents if not included above	19,357,132
Asset valuation reserve	33,624,824
Payable to parent, subsidiaries and affiliates	2,926,307
Aggregate write-ins for liabilities	733,448
	<hr/>
Total liabilities	\$ 1,410,008,958
	<hr/>
Common capital stock	\$ 3,000,000
Preferred capital stock (NOTE 2)	25,000,000
Gross paid in and contributed surplus	84,664,794
Unassigned funds (surplus)	124,647,577
	<hr/>
Total surplus	\$ 209,312,371
	<hr/>
Total capital and surplus	\$ 237,312,371
	<hr/>
Total liabilities, capital and surplus	\$ 1,647,321,329
	<hr/>

SUMMARY OF OPERATIONS

Premiums and annuity considerations	\$ 49,359,922
Considerations for supplementary contracts with life contingencies	1,295,096
Net investment income	87,732,680
Amortization of Interest Maintenance Reserve	227,649
Commissions and expense allowances on reinsurance ceded	6,500,262
Charges and fees for deposit-type contracts	238,094
Aggregate write-ins for miscellaneous income	<u>6,617,136</u>
 Total	 \$ <u>151,970,839</u>
 Death benefits	 \$ 28,529,023
Matured endowments	830,438
Annuity benefits	2,007,985
Disability benefits and benefits under accident and health contracts	1,020,950
Surrender benefits and withdrawals for life contracts	76,113,733
Interest and adjustments on contract or deposit-type contract funds	5,006,155
Payments on supplementary contracts with life contingencies	2,511,461
Increase in aggregate reserves for life and accident and health contracts	<u>(26,545,925)</u>
 Total	 \$ 89,473,820
Commissions on premiums, annuity considerations, and deposit-type contract funds	5,197,421
Commissions and expense allowances on reinsurance assumed	1,363
General insurance expenses	34,465,004
Insurance taxes, licenses and fees, excluding federal income taxes	6,763
Increase in loading on deferred and uncollected premiums	35,631
Net transfers to (from) Separate Accounts net of reinsurance (NOTE 3)	(6,117)
Aggregate write-ins for deductions	<u>3,526,058</u>
Total	\$ <u>132,699,943</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$ 19,270,896
Dividends to policyholders	<u>13,076,462</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 6,194,434
Federal and foreign income taxes incurred	<u>(3,419,373)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains	\$ 9,613,807
Net realized capital gains (NOTE 4)	<u>41,359,220</u>
 Net income	 \$ <u><u>50,973,027</u></u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2001	\$	138,418,325
Net income, 2002	\$	8,973,013
Change in net unrealized capital gains or (losses)		9,310,166
Change in net deferred income tax		370,352
Change in non-admitted assets and related items		(2,079,660)
Change in asset valuation reserve		(1,167,286)
Dividends to stockholders		(2,000,000)
Aggregate write-ins for gains and losses in surplus		1,273,529
Change in capital and surplus for the year, 2002	\$	14,680,114
Capital and surplus, December 31, 2002	\$	153,098,439
Net loss, 2003	\$	(4,497,982)
Change in net unrealized capital gains or (losses)		23,383,464
Change in net deferred income tax		4,424,595
Change in non-admitted assets and related items		(3,376,719)
Change in asset valuation reserve		6,984,101
Dividends to stockholders		(2,000,000)
Aggregate write-ins for gains and losses in surplus		(5,107,758)
Change in capital and surplus for the year, 2003	\$	19,809,701
Capital and surplus, December 31, 2003	\$	172,908,140
Net income, 2004	\$	50,973,027
Change in net unrealized capital gains (losses)		28,264,077
Change in net deferred income tax		(7,112,293)
Change in non-admitted assets and related items		3,716,963
Change in asset valuation reserve		(7,464,639)
Dividends to stockholders		(2,000,000)
Aggregate write-ins for gains and losses in surplus		(1,972,904)
Change in capital and surplus for the year, 2004	\$	64,404,231
Capital and surplus, December 31, 2004	\$	237,312,371

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of our examination.

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the five-year period ended December 31, 2004, was as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Assets (NOTE 5)	\$ 1,647,321,329	\$ 1,606,828,549	\$ 1,032,832,967	\$ 1,021,450,788	\$ 990,929,324
Liabilities (NOTE 5)	1,410,008,958	1,433,920,409	879,734,528	883,032,463	880,132,748
Capital and surplus	237,312,371	172,908,139	153,098,439	138,418,325	110,796,576
Premiums and annuity considerations (NOTES 5 and 6)	49,359,922	93,159,545	36,339,056	69,632,023	70,188,505
Net investment income (NOTE 5)	87,732,680	90,893,543	59,663,476	61,939,553	65,862,725
Net income (loss)	50,973,027	(4,497,982)	8,973,013	8,329,496	14,008,632

NOTE: Amounts presented in the preceding financial statements for years ended December 31, 2000, 2002 and 2003 are from the Company's Annual Statements, as filed with the Administration. Amounts for the years ended December 31, 2001 and 2004 are amounts per examination.

NOTES TO FINANCIAL STATEMENTS

Note 1: Reserves

The Company reported "Aggregate reserve for life contracts" totaling \$1,210,043,367. The assumptions and methodologies utilized by the Company to compute this reserve, and the adequacy of the reserve as of December 31, 2004, were reviewed as part of our examination. As part of our review, we relied on the Company's Appointed Actuary, who concluded that the assumptions and methodologies used to compute this reserve appeared appropriate, and the reserve appeared sufficient to meet the minimum requirements of the laws of the District of Columbia. The reserve was shown net of estimated amounts recoverable from reinsurance companies under the Company's reinsurance agreements. If the reinsurers were not able to meet their obligations under these agreements, the Company would be liable for any defaulted amounts. As of December 31, 2004, reserve credits taken for cessions to reinsurers totaled \$32,476,963.

In addition, the assumptions and methodologies utilized by the Company to compute the "Aggregate reserve for life contracts", and the adequacy of this reserve as of December 31, 2004, were reviewed by an independent actuary utilized as part of our examination, and were determined to be reasonable and adequate.

Note 2: Preferred Stock

In December 1999, the Company issued 1,000,000 shares of no-par preferred stock, with both a stated value and a liquidation value of \$25 per share, to Ameritas Life Insurance Corp. an affiliate. The preferred stock is non-voting, is redeemable beginning in 2005, and pays 8 percent cumulative dividends. As of December 31, 2004, there were no dividends in arrears.

The shares are redeemable in equal installments of 100,000 shares annually (at the liquidation value of \$25 per share) through 2014, with the final redemption to be made on or by January 1, 2015. On June 1, 2005, the Company redeemed 100,000 shares of the preferred stock for \$2,500,000.

Holders of the preferred stock have preference in liquidation over any other classes of preferred stock (no other classes have been issued through the date of this Report) and are entitled to payments of \$25 per outstanding share plus cumulative accrued and unpaid dividends in the event of liquidation.

Note 3: Separate Accounts

As of December 31, 2004 and December 31, 2003, the Company reported \$0 and \$211,032 separate account assets and liabilities, respectively, and during 2004, the

Company reported transactions totaling \$6,117 between the separate account and the general account. Historically, the Company has not written separate account business. The Company's December 31, 2003 separate accounts balances and 2004 transactions from the separate account to the general account arose as a result of separate account business initially written by the Company's former subsidiary, Acacia National Life Insurance Company, which was merged into the Company effective December 31, 2003. As of December 31, 2004, the Company no longer had separate account assets or liabilities, and for periods subsequent to December 31, 2004, the Company anticipates no transactions between the separate account and the general account.

Note 4: Realized Capital Gains

The Company reported "Net realized capital gains" (after capital gains taxes) totaling \$41,359,221. The majority of this amount arose from the 2004 sale of the Company's former home office building in Washington, D.C.

Note 5: Merger

As previously noted in the "Merger" section of this Report, the Company's wholly-owned subsidiary, Acacia National Life Insurance Company ("Acacia National"), was merged with and into the Company, effective December 31, 2003, with the Company as the surviving entity. As a result of this transaction, the Company's assets and liabilities as of December 31, 2003 and 2004, as well as its investment income for those years, increased significantly over what the Company reported in 2002 and prior years due to the merger of Acacia National's assets and liabilities into the Company's. (The merger had an immaterial effect on the Company's surplus as of December 31, 2004.) In addition, the Company's 2003 "Premiums and annuity considerations" reflect amounts for the Company and Acacia National combined.

Note 6: 2002 Premiums and Annuity Considerations

The Company entered into a reinsurance agreement, effective in 2002, under which it ceded 90 percent of certain in-force universal life business. As a result of this transaction, the Company's 2002 "Premiums and annuity considerations" decreased significantly over what the Company reported in 2001 and prior years.

COMMENTS AND RECOMMENDATIONS

Affiliated Transactions:

The Company has entered into numerous agreements and cost-sharing arrangements (collectively referred to as intercompany agreements) with affiliated companies.

In accordance with Section 31-706 of the District of Columbia Insurance Code (the "Code"), transactions involving management agreements, service contracts, and cost-sharing arrangements involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the Commissioner in writing of its intention to enter into such a transaction at least 30 days prior thereto.

Our review of the Company's intercompany agreements disclosed the following:

1. No Central File or List of Intercompany Agreements:

Procedures and controls over the Company's intercompany agreements were not adequate. Specifically, no one individual or area in the Company was responsible for maintaining a central file or list of all such agreements that existed. As a result of this condition, the Company could not readily determine or provide the intercompany agreements that were in effect.

We recommend the Company institute control procedures that will ensure all intercompany agreements are centrally maintained and are readily available for review by the examiners.

2. Federal Income Tax Recoverable:

The Company reported federal income taxes recoverable totaling \$9,133,197 in its 2004 Annual Statement. This amount was due from the Company's parent and related to the Company's participation in a 2004 consolidated holding company federal income tax return. However, the Company did not have a consolidated tax allocation agreement with its parent and affiliates specifying the basis and methodologies for the consolidated income tax transactions.

Pursuant to Statement of Statutory Accounting Principles Number 10 ("SSAP No. 10"), in order to admit income taxes recoverable related to a consolidated income tax return, the recoverables must be pursuant to a written income tax allocation agreement. Therefore, the recoverable amount totaling \$9,133,197 should have been a nonadmitted asset as of December 31, 2004. However, for purposes of our examination, we admitted this amount because it was settled timely during 2005, and because the Company entered into a tax sharing agreement, effective January 1, 2005, beginning for tax year 2005. (This

agreement was submitted to and approved by the Department in November 2004.)

We recommend that the company adhere to the aforementioned provisions of SSAP No. 10, and nonadmit future receivables arising from participation in consolidated income tax filings that are not covered by a consolidated tax allocation agreement.

3. Transactions with Acacia Federal Savings Bank:

During 2004, the Company paid certain expenses on behalf of its indirect subsidiary, Acacia Federal Savings Bank ("AFSB"), and the Company was then reimbursed by AFSB. During 2004, the Company paid expenses on behalf of AFSB totaling approximately \$3.7 million, and as of December 31, 2004, the Company reported a receivable balance due from AFSB totaling approximately \$750,000. However, these transactions were not covered by a joint expense allocation or service agreement.

During our examination, management explained its position that these transactions were executed pursuant to the "Ameritas Holding Company Service Agreement" (the "Agreement"), which is summarized above in the "Intercompany Agreements" section of this report. Both the Company and AFSB are parties to this Agreement. However, our review disclosed that the terms of this Agreement provide for Ameritas Holding Company to provide services to all other parties to the Agreement, but the Agreement does not provide for all other parties to provide services to each other.

We recommend that the Company enter into transactions with affiliates only if the transactions are covered by agreements that have been submitted to and approved by the Department.

Additional Comments and Recommendations:

In addition to the above comments and recommendations, during our examination, we made a number of other suggestions and recommendations to the Company with regard to record keeping and other procedures relating to its operations.

SUBSEQUENT EVENTS

Subsequent Merger of Ameritas Acacia Mutual Holding Company:

Effective January 1, 2006, the Company's ultimate parent, Ameritas Acacia Mutual Holding Company, merged with The Union Central Life Insurance Company ("Union Central"), an Ohio domestic. The merger, accounted for as a pooling of interests, was accomplished by Union Central's formation of a mutual holding company, which was then merged with Ameritas Acacia Mutual Holding Company. The newly formed entity is named UNIFI Mutual Holding Company. Subsequent to the merger, the Company continues to be a wholly-owned subsidiary of Ameritas Holding Company, which is a wholly-owned subsidiary of UNIFI Mutual Holding Company. This transaction has no effect on the Company as of December 31, 2004.

CONCLUSION

Our examination disclosed that as of December 31, 2004 the Company had:

Admitted Assets	<u>\$1,647,321,329</u>
Liabilities and Reserves	<u>\$1,410,008,958</u>
Common Capital Stock	\$ 3,000,000
Preferred Capital Stock	\$ 25,000,000
Gross Paid In and Contributed Surplus	84,664,794
Unassigned Funds (Surplus)	<u>124,647,577</u>
Total Capital and Surplus	<u>\$ 237,312,371</u>
Total Liabilities, Capital and Surplus	<u>\$1,647,321,329</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company at December 31, 2004, and the accompanying statement of income properly presents the statutory results of operations for the period then ended. The supporting financial statements properly present the information prescribed by the D.C. Official Code and the National Association of Insurance Commissioners.

Chapters 20 ("RISK-BASED CAPITAL") and 44 ("DOMESTIC LIFE COMPANIES") of Title 31 ("Insurance and Securities") of the D.C. Official Code specify the level of capital and surplus required for the Company. We concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

SIGNATURES

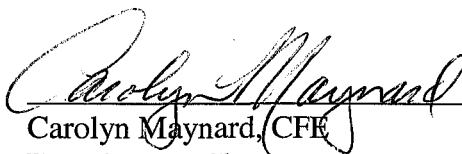
In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Chidinma Ukairo, District of Columbia Department of Insurance, Securities and
Banking
Edward S. Fossa, CFE, CIE, Huff, Thomas and Company

Certain actuarial portions of this examination were completed by Daniel Eckstein, ASA, of the Nebraska Department of Insurance.

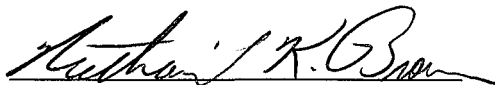
In addition, the electronic data processing review and computer assisted data analysis was performed by Lisa Peterson, CFE, AES, CISA, of the Nebraska department of Insurance.

Respectfully submitted,



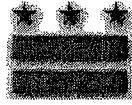
Carolyn Maynard, CFE
Examiner-In-Charge
Huff, Thomas and Company
Representing the District of Columbia Department
of Insurance, Securities and Banking

Under the Supervision of,



Nathaniel Kevin Brown, CFE
Supervising Examiner
District of Columbia Department of Insurance,
Securities and Banking

Government of the District of Columbia
Department of Insurance, Securities and Banking



Thomas E. Hampton
Commissioner

May 25, 2006

Haluk Ariturk
President and Chief Executive Officer
Acacia Life Insurance Company
7315 Wisconsin Avenue
Bethesda, Maryland 20814

Dear Mr. Ariturk:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination of the affairs and financial condition of the **Acacia Life Insurance Company** as of December 31, 2004.

Please call our attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled "Comments and Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there are no "Comments and Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

All of your comments concerning these matters must be in writing and shall be furnished to this Department within **thirty (30) days from the date of this letter (June 26, 2006)**.

Sincerely,



Philip Barlow

Associate Commissioner for Insurance

Enclosure



ACACIA

SM LIFE INSURANCE COMPANY

Administrative Offices: 5900 O Street Lincoln, NE 68510 402-467-1122

June 23, 2006

Sean O'Donnell, Chief Examiner
Government of the District of Columbia
Department of Insurance, Securities and Banking
810 First Street, N.E. Suite 701
Washington, DC 20002

Re: Report on Examination - Acacia Life Insurance Company as of December 31, 2004
Comments and Recommendations

Dear Mr. O'Donnell,

The following recommendations were made in connection with the above-mentioned examination for Acacia Life Insurance Company.

1. We recommend the Company institute control procedures that will ensure all intercompany agreements are centrally maintained and are readily available for review by the examiners.

Company response:

The Company will hold accountable a position within the Company to maintain a central file for all intercompany agreements. This position will work with examiners in the future to provide any requested intercompany agreements.

2. We recommend that the company adhere to the aforementioned provisions of SSAP No. 10, and nonadmit future receivables arising from participation in consolidated income tax filings that are not covered by a consolidated tax allocation agreement.

Company response:

The Company will adhere to current and future SSAP No. 10 provisions as they apply to the Company.

3. We recommend that the Company enter into transactions with affiliates only if the transactions are covered by agreements that have been submitted to and approved by the Department.

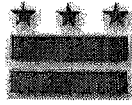
Company response:

The Company will change the accounting for the Acacia Federal Savings Bank (AFSB) transactions, so that in the future these transactions are between Ameritas Holding Company and AFSB or as prescribed in executed and approved agreements. The Company will continue to submit all intercompany agreements to the Department for approval.

Sincerely,

Robert C. Barth
Senior Vice President, Controller, and Chief Accounting Officer

Government of the District of Columbia
Department of Insurance, Securities and Banking



Thomas E. Hampton
Commissioner

June 23, 2006

Haluk Ariturk
President and Chief Executive Officer
Acacia Life Insurance Company
7315 Wisconsin Avenue
Bethesda, Maryland 20814

Dear Mr. Ariturk:

We are in receipt of a response, dated June 23, 2006, from Robert C. Barth, Senior Vice President, Controller and Chief Accounting Officer, which addresses the corrective action taken by Acacia Life Insurance Company to comply with the recommendations made in the Report on Examination as of December 31, 2004, dated March 23, 2006.

The June 23, 2006 letter adequately addresses the recommendations made in the Report. During our next examination of the Company, we will review the implementation of the corrective actions taken.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available, and will be forwarded electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to each of the participating zone examiners, to the National Association of Insurance Commissioners, and to each state in which the Company is licensed, according to your Annual Statement.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention here at the Department.

Haluk Arıturk
Acacia Life Insurance Company
June 23, 2006
Page 2 of 2

Please contact me at 202-442-7785 if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "P. Sean O'Donnell". The signature is written in a cursive style with a large, stylized "P" and "O".

P. Sean O'Donnell
Chief Financial Examiner

Enclosures