

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



**FINANCIAL EXAMINATION
OF
GREAT REPUBLIC LIFE INSURANCE COMPANY
SEATTLE, WASHINGTON
NAIC CODE 67482
DECEMBER 31, 2004**

Participating States:
Washington

Order No. G 07-22
Great Republic Life Insurance Company
Exhibit A

SALUTATION

Seattle, Washington
March 23, 2007

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

The Honorable Mr. Kent Michie, Commissioner
Utah Department of Insurance
Secretary, Western Zone
Utah Department of Insurance
3110 State Office Building
Salt Lake City, UT 84114-1201

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
302-14th Avenue SW
Olympia, WA 98504

Dear Commissioners and Director:

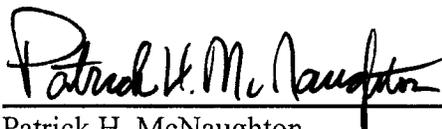
In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

GREAT REPUBLIC LIFE INSURANCE
COMPANY
of
Seattle, Washington

hereinafter referred to as "GRLIC" or "the Company", at its home office located at 1900 W. Nickerson Street, Seattle, Washington. The following report on the examination is respectfully submitted showing the condition of the Company as of December 31, 2004.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Great Republic Life Insurance Company of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2004.



Patrick H. McNaughton
Chief Examiner

3-23-2007

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2002 through December 31, 2004 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administration Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report.

INSTRUCTIONS

The examiners reviewed the Company's filed 2004 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review.

1. Adequate Reserve Provision, Accurate Accounting, and Complete Records

- The Company booked a contract reserve increase of \$300,000 that was identified by its consulting actuary for the year ended, December 31, 2004. The Company made this adjustment in the Third Quarter of 2005 during the examination. Our examination has adjusted the contract reserves as of December 31, 2004 as Examination Adjustment No. 1.
- In addition, the OIC actuary determined that the aggregate reserves for life contracts, health contracts, and life and health contract claims, plus various other asset and liability accounts were misstated. All of these OIC actuarial adjustments are included in Examination Adjustment No. 3, which requires charges to surplus for an additional \$2,552,433.
- The Company was unable to supply critical historical files for some business originating with other companies and purchased by GRLIC. These files included application documents, original policy copies, and correspondence referenced in other documents.

- Contrary to RCW 48.23.450, an annuity reserve was restated to an amount less than its minimum present value based upon its credited prior year values. The prior year cash value as of February 1, 2001 was reversed and recomputed from its policy inception date at the minimum statutory rate of 3% . This was not in compliance with the policy terms.
- The Company does not accrue for its CPA, actuarial, and legal fees. Because of this, its professional expenses are under-accrued by \$125,000 at December 31, 2004 and \$67,000 at December 31, 2003, resulting in a net overstatement of the 2004 income by \$57,000 and an additional \$68,000 overstatement of Surplus. See Examination Adjustment No. 2.
- Amounts held for agents' account, Page 3, line 18, was overstated by \$20,449 and was actually commissions payable to agents, which should be reported on line 10, Commissions to agents due and accrued. This was an instruction on the previous examination report.
- Page 25, line 23, columns 7 and 8 show -0- for industrial policies in force. The Company had 3 industrial policies in force for the total amount of \$1,500.
- The Company reported -0- cost containment expenses on Schedule H, Line 4 when it had \$81,330 of such expenses.

Pursuant to RCW 48.05.280, "Every insurer shall keep full and adequate accounts and records of its assets, obligations, transactions and affairs". RCW 48.23.450 requires the maintenance of appropriate annuity benefit reserves. RCW 48.05.073 requires the filing of financial statements in accordance with AP&P and WAC 284-07-050(2) requires adherence to the NAIC Annual Statement Instructions and the AP&P.

GRLIC is instructed to record the \$2,552,433 correction included under Examination Adjustment No. 3 in addition to the \$300,000 correction included in Examination Adjustment No. 1 that the Company has already booked. In addition, GRLIC must record the \$125,000 of professional expenses shown under Examination Adjustment No. 2, charging general expenses for \$57,000 and surplus for \$68,000. The Company should also properly record and report any future actuarial adjustments directed by its actuary and accrue for all incurred expenses.

2. Annual Statement Errors

In preparing its 2004 NAIC Annual Statement, GRLIC did not follow the NAIC Annual Statement Instructions in the following areas:

- Accident & Health Premiums Due & Unpaid shown on page 2, line 12.2 should be on line 12.1.
- Life Insurance Premiums Deferred on in force business shown on page 2, line 12.1 should be on line 12.2.
- The amount reported as Funds Held Under Coinsurance, page 3, line 24.7 represents premiums owed to reinsurers and should be reported as such on line 9.3.
- The NAIC Annual Statement Instructions for Notes to Financial Statements #32 requires disclosure of annuity actuarial reserves and deposit-type contract funds. The Company erroneously stated that annuity reserves are immaterial and did not provide the required information.
- The Company incorrectly reported the balance of deferred premiums in its Notes to Financial Statements #33.
- The Company incorrectly reported advance premiums without recognition of the mode loading and reported advance accident & health premiums as unearned premiums.
- Exhibit 6, Aggregate Reserve for Accident and Health Contract Reserves, requires attaching a statement concerning the valuation standard used in calculating this reserve. This was not included by the Company in the NAIC 2004 Annual Statement.
- Exhibit 5, Interrogatory #3 asks if the Company has contracts that contain non-guaranteed elements. The Company did have contracts containing non-guaranteed elements and incorrectly responded with “no.”
- On page 28, the “Exhibit of Number of Policies...”, and related information, does not disclose the number of Accident and Health policies, as required by that form.

The Company is instructed to comply with RCW 48.05.250 which requires the filing of its financial statements in the general form and context approved by the NAIC, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

3. Policy Rates and Servicing Inadequacies

Rate changes were instituted for some Medicare supplement policies without properly filing the new rates with the OIC. These deficiencies are contrary to RCW 48.05.280, which requires insurers to keep full and adequate records of its affairs. The use of unfiled rates is contrary to RCW 48.19.010(2), which requires that rates and rate modifications be filed with the OIC before they are used.

In accordance with RCW 48.19.010(2), the Company is instructed to file with the OIC any new or modified rates before using them. In addition, any unfiled rates in use should revert back to the last amounts and effective dates properly filed with the OIC and any resulting overcharges should be refunded with interest. All proposed future rate changes shall be properly filed with the OIC in advance of their effective dates.

COMMENTS AND RECOMMENDATIONS

1. Business Contingency Plan

The Company does not have a formal, written, business contingency plan that addresses the continuation of all significant business activities.

It is recommended that GRLIC comply with NAIC Guidelines and implement a business contingency plan to address the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event normal business activities are disrupted.

2. Disaster Recovery Plan

GRLIC does not have a formal, written, tested disaster recovery plan for the resumption of operations in the event of a disruption of normal operations.

It is recommended that GRLIC comply with NAIC guidelines and write, test and implement a disaster recovery plan that includes appropriate escalation procedures to resolve operational failures in a timely manner.

3. Conflict of Interest

There is no written conflict of interest (COI) policy and the COI statement used by the Company is designed only to preclude any self-interested transactions related to insurance sales or investment transactions. Officers and employees are required to execute a disclosure statement which divulges any personal financial benefits from Company premium or investment transactions.

The COI policy should require disclosure of any self-interested transactions by officers or employees and the COI statement should assert that the policy is being followed. Potential self-interested transactions could involve vendor kickbacks or financial interests in such vendors or in other parties who have dealings with the Company. The COI policy should also require disclosure of any employment relationship by members of the officers or employee's family.

It is recommended that GRLIC construct such a policy and require at least annual execution of an appropriate disclosure statement.

4. Protection of Check Stock and Confidential Documents

The bank check stock is accessible by any employee. This makes it possible for someone to issue fraudulent checks. Also, confidential documents, such as outdated claims files, are included with normal trash, raising the possibility of unauthorized access and use of private data.

In order to safeguard the Company's cash, the checks should be kept in a secure location and periodically verified. Confidential documents should be shredded or otherwise disposed of in a secure manner.

5. Election of Board Of Directors' (BOD) Members

According to the BOD minutes, the Company does not elect BOD members in accordance with its By-Laws.

It is recommended that the Company comply with its By-Laws, which are its governing regulations. If there are good reasons to act contrary to the existing By-Laws when electing BOD members, then the By-Laws should be officially changed to conform to the actual practices.

COMPANY PROFILE

Company History

The Company was incorporated on July 14, 1965 as a stock life insurance company under the laws of the state of Washington and commenced business on May 4, 1966, using the name Pacific Reserve Life Insurance Company. On January 1, 1968, the Company's name was changed to Great Republic Life Insurance Company. On March 17, 1978, Empire Insurance Agency, Inc., a Seattle, Washington corporation, acquired control of GRLIC. It is licensed to transact life insurance business in seven states, but its Arizona Certificate of Authority was suspended effective October 21, 1996. GRLIC primarily writes nursing home and home health long term care insurance.

Capitalization

Pursuant to RCW 48.05.340, the Company is subject to the capital and surplus requirements in effect prior to June 9, 1994 and is required to maintain \$400,000 of paid-in capital stock and \$100,000 of additional surplus. The Company's capital and surplus exceeded these amounts during the period under examination before examination adjustments. However, the examination adjustments have reduced the total capital and surplus to a negative (\$416,116). See Examination Adjustment No. 1.

Territory and Plan of Operation

GRLIC is authorized to conduct business in the states of Alaska, Idaho, Nevada, Oregon, Utah and Washington with three-quarters of its premium income generated in Washington State. The Company is also licensed in Arizona, but its Certificate of Authority was suspended due to its capital deficiency and continued operating losses.

Growth of Company

The Company's development, as reported in its filed NAIC Annual Statements, is illustrated below.

	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2002	\$18,036,524	\$14,597,580	\$3,438,944
2003	18,236,901	14,925,322	3,311,579
2004	18,367,788	15,806,471	2,561,317

	<u>Premiums</u>	<u>Net Investment Income</u>	<u>Disability Benefits</u>
2002	\$2,435,855	\$913,504	\$2,078,988
2003	2,286,035	803,876	1,835,952
2004	2,067,566	791,823	1,790,401

Life Insurance in Force by State

Alaska	\$ 120,000
Arizona	4,495,604
Idaho	645,000
Nevada	1,195,000
Oregon	2,192,119
Utah	1,740,000
Washington	<u>6,700,000</u>
Total	<u>\$17,087,723</u>

AFFILIATED COMPANIES

The Company is a member of a holding company system regulated pursuant to RCW Chapter 48.31B. Empire Insurance Agency, Inc. (Empire) owns all of GRLIC's common stock and GRLIC's President, Patricia D. Pritchett, owns all of Empire's common stock.

Intercompany Contracts

GRLIC has a Tax Allocation Agreement with its parent, Empire.

MANAGEMENT AND CONTROL

Ownership

The Company's President, Patricia D. Pritchett, is its ultimate controlling person.

Board of Directors

As of December 31, 2004, the Company had a five-member Board of Directors (BOD) consisting of the following:

<u>Name</u>	<u>Principal Occupation</u>
Patricia D. Pritchett	President – GRLIC
Kyle G. Ewing	Mortgage Broker
James W. Pritchett	Orthopedic Surgeon
Constance Taylor	Property Manager
Jeannie Mathews	Registered Nurse

Officers

The officers as of December 31, 2004 were:

<u>Name</u>	<u>Title</u>
Patricia D. Pritchett	President
Kyle Gordon Ewing	Secretary
Scott David Blount	Treasurer

Committees

The Company has no committees.

Conflict of Interest

There is no conflict of interest (COI) policy and the COI statement is designed only to preclude any self-interested transactions related to insurance sales or investment transactions. See Comments and Recommendations No. 3. All employees signed this statement for the period under examination.

Fidelity Bond and Other Insurance

Fidelity bonds and other insurance were reviewed in relation to the property and liability claims that may arise in the ordinary course of business. GRLIC has all the standard types of coverage normally maintained by companies of its type. Additionally, the Company's fidelity bonds and other insurance meet or exceed all statutory and/or NAIC minimum guidelines to protect its assets and policyholders.

Officers', Employees', and Agents' Welfare and Pension Plans

The Company has a Salary Reduction Simplified Employee Pension Plan (SARSEP Plan). Under the SARSEP Plan, eligible employees are allowed to voluntarily defer up to 15% of their compensation. The deferrals are then invested through an IRA Custodian. There are no employer contributions. Other benefits include life and accidental death insurance and medical insurance at no cost to the employee.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. There have been no changes to the Articles of Incorporation or By-laws since the last examination.

MORTALITY AND LOSS

GRLIC provided copies of its actuarial work papers and reserve reports as of December 31, 2004. Tests were performed on the underlying data, methods, and calculations as deemed necessary. Valuation reports and procedures were tested to determine whether accurate and complete in-force information as of December 31, 2004 was represented in the valuation reports and work papers. A sampling of contracts and payments was taken from active life and disabled life reserve reports, premium collection records and paid claims reports. Life and annuity reserves, records, and payments were also extensively examined and tested.

During the course of the examination, the OIC actuary also performed such testing of the Company's reserving methodologies and philosophies as was deemed necessary to form an opinion with respect to the items reported. The actuary relied upon the Company's listings and summaries of in-force policies and contracts.

The overall examination emphasis was to review the data, methods, assumptions, or other bases used to compute the reported NAIC Annual Statement items, and to determine whether the reported amounts are sufficient and in compliance with Washington law.

In general, numerous deficiencies, errors, and omissions were uncovered during the review process. When selections were tested for completeness and accuracy, it was determined that the calculations and record keeping were often inadequate, arbitrary, or erroneous. Actuarial conventions, data retention principles, and Washington State regulations were ignored or otherwise not observed. Accordingly, the testing was enlarged in order to evaluate whether, and to what extent, the reported amounts were erroneous, resulting in the following actuarial adjustments (presented in the manner of the effect on the surplus account):

Uncollected premiums receivable	(\$11,579)
Deferred premiums receivable	7,339
Life contracts reserve	(40,954)
Health contracts reserve	(2,586,501)
Contract claims – life	2,000
Contract claims – health	(45,052)
Premiums and annuity payments received in advance	(95,728)
General expenses due and accrued	(81,958)
Total effect on surplus (reduction)	<u>(\$2,852,433)</u>

See Instruction No. 1 and Examination Adjustment Nos. 1 & 3.

REINSURANCE

GRLIC has no reinsurance for any of its life policies, but has two reinsurance contracts covering different aspects of its long-term care business. Under each contract, the Company cedes a 50% quota share of coverage written under a specified group of GRLIC policy forms. Both of these contracts meet the minimum Washington State wording requirements, reimburse for premium taxes and agents' commissions, and afford an allowance for administrative expenses.

STATUTORY DEPOSITS

The Company has the following statutory deposit:

<u>State</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Washington	\$1,086,000	\$1,130,316	\$1,079,035

ACCOUNTING RECORDS AND INFORMATIONS SYSTEMS

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. GRLIC is audited annually by a local certified public accounting firm and received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

Systems development, acquisition and maintenance controls were reviewed and the controls in place were evaluated.

Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the controls exercised to maintain data security.

GRLIC does not have a formal, written disaster recover plan and does not have a written business contingency plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC guidelines. See Comments and Recommendation Nos. 1 & 2.

SUBSEQUENT EVENTS

Due to examination adjustments contained in this report, the adequacy of GRLIC's surplus is not in compliance with the Washington State minimum capital and surplus requirements pursuant RCW 48.05.340. On April 12, 2006, the OIC ordered the Company to provide a current Risk-Based Capital report by May 30, 2006. GRLIC has requested a hearing relating to this order. Additionally, on April 12, 2006, an order to cease writing new business, and a 90 day notice to cure the deficiency in statutory minimum capital was issued to the Company.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and comments were corrected except for the misclassification of Commissions Due and Accrued. This has been included in Instruction No. 1 of this report.

FINANCIAL STATEMENTS

Assets, Liabilities, Surplus and Other Funds

Summary of Operations

Reconciliation of Surplus for the Period Since the Last Examination

Analysis of Changes in the Financial Statements as a Result of the Examination

**GREAT REPUBLIC LIFE INSURANCE COMPANY
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2004**

	<u>BALANCE PER COMPANY</u>	<u>REF</u>	<u>EXAM ADJ</u>	<u>BALANCE PER EXAM</u>
<u>Assets</u>				
Bonds	\$14,616,259			\$14,616,259
Preferred Stocks	300,000			300,000
Common Stock	225,801			225,801
Cash and short term investments	2,650,906			2,650,906
Contract loans	28,928			28,928
Subtotals, cash and invested assets	<u>17,821,894</u>		<u>\$0</u>	<u>17,821,894</u>
Investment income due and accrued	204,777			204,777
Premiums and considerations:				
Uncollected premiums and agents' balance				
In course of collection	24,814	3	(11,579)	13,235
Deferred premiums, agents' balances and installments booked but deferred and not yet due	15,974	3	7,339	23,313
Amount recoverable from reinsurers	220,640			220,640
Other amounts receivable under reinsurance contracts	32,539			32,539
Net deferred tax asset	10,651			10,651
Guaranty funds receivable or on deposit	36,499			36,499
Total Assets	<u><u>\$18,367,788</u></u>		<u><u>(\$4,240)</u></u>	<u><u>\$18,363,548</u></u>
<u>Liabilities</u>				
Aggregate reserve for life contracts	\$2,135,243	3	\$40,954	\$2,176,197
Aggregate reserve for health contracts	13,097,615	1&3	2,586,501	15,684,116
Contract claims - life	18,500	3	(2,000)	16,500
Contract claims - health	113,610	3	45,052	158,662
Premiums and annuity considerations received in advance	1,448	3	95,728	97,176
Interest Maintenance Reserve	26,469			26,469
Commissions to agents due and accrued	16,076			16,076
General expenses due or accrued	91,696	2&3	206,958	298,654
Taxes, licenses and fees due or accrued	4,816			4,816
Amounts withheld or retained by company as agent	2,519			2,519
Amounts held for agents account	23,644			23,644
Asset valuation reserve	89,527			89,527
Funds held under coinsurance	185,308			185,308
Total Liabilities	<u><u>\$15,806,471</u></u>		<u><u>\$2,973,193</u></u>	<u><u>\$18,779,664</u></u>

GREAT REPUBLIC LIFE INSURANCE COMPANY
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS (Continued)
DECEMBER 31, 2004

	<u>BALANCE PER COMPANY</u>	<u>REF</u>	<u>EXAM ADJ</u>	<u>BALANCE PER EXAMINATION</u>
<u>SURPLUS AND OTHER FUNDS</u>				
Common capital stock	\$1,000,000			\$1,000,000
Gross Paid in and contributed	1,816,290			(1,161,143)
Unassigned funds (surplus)	<u>(254,973)</u>	1&2&3	<u>(\$2,977,433)</u>	<u>(3,232,406)</u>
Capital and surplus	<u>2,561,317</u>		<u>(2,977,433)</u>	<u>(416,116)</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$18,367,788</u></u>		<u><u>(\$4,240)</u></u>	<u><u>\$18,363,548</u></u>

GREAT REPUBLIC LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
YEAR ENDED
DECEMBER 31, 2004

	<u>BALANCE PER COMPANY</u>	<u>REF</u>	<u>EXAM ADJ</u>	<u>BALANCE PER EXAMINATION</u>
<u>INCOME</u>				
Premiums and annuity considerations	\$2,067,566			\$2,067,566
Net investment income	791,823			791,823
Amortization of Interest Maintenance Reserve	8,066			8,066
Commissions and expense allowance on reinsurance	223,142			223,142
Aggregate write-ins for miscellaneous income	35			35
TOTAL INCOME	<u>3,090,632</u>		<u>\$0</u>	<u>3,090,632</u>
<u>BENEFITS</u>				
Death Benefits	65,500			\$65,500
Disability benefits	1,790,401	1	300,000	2,090,401
Surrender Benefits	40,329			40,329
Increase in aggregate reserves for life and health policies and contracts	803,900			803,900
TOTAL BENEFITS	<u>2,700,130</u>		<u>300,000</u>	<u>3,000,130</u>
<u>EXPENSES</u>				
Commissions on premiums and annuity considerations	357,260			357,260
General insurance expenses	741,252	2	57,000	798,252
Insurance taxes, licenses and fees, excl. federal income taxes	108,977			108,977
Increase in loading	152			152
TOTAL EXPENSES AND BENEFITS	<u>3,907,771</u>		<u>357,000</u>	<u>4,264,771</u>
Net gain from operations before dividends to policyholders and income taxes	(817,139)		(357,000)	(1,174,139)
Less Federal income taxes incurred (excl. tax on capital gain)	0			0
Net gain from operations after dividends to policyholders and income taxes but before realized capital gains (losses)	(817,139)		(357,000)	(1,174,139)
Net realized capital gains or (losses) less capital gains tax	40,037			40,037
NET INCOME	<u>(\$777,102)</u>		<u>(\$357,000)</u>	<u>(\$1,134,102)</u>

GREAT REPUBLIC LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2004

	<u>BALANCE PER COMPANY</u>	<u>REF</u>	<u>EXAM ADJ</u>	<u>BALANCE PER EXAMINATION</u>
Capital and Surplus Account				
Capital and Surplus, December 31, Previous Year	\$3,311,580			\$3,311,580
Net income	(777,102)	1&2	(\$357,000)	(1,134,102)
Other	(1)	3	(2,620,433)	(2,620,434)
Change in net unrealized capital gains	15,479			15,479
Change in net deferred income tax	266,736			266,736
Change in non-admitted assets and related items (Note #A1)	(213,110)			(213,110)
Change in asset valuation reserve (Note #A2)	(42,265)			(42,265)
Net change in capital and surplus for the year	<u>(750,263)</u>		<u>(2,977,433)</u>	<u>(3,727,696)</u>
Capital and Surplus, December 31, 2004	<u>\$2,561,317</u>		<u>(\$2,977,433)</u>	<u>(\$416,116)</u>

**GREAT REPUBLIC LIFE INSURANCE COMPANY
LIFE INSURANCE COMPANY
RECONCILIATION OF SURPLUS
FOR THE PERIOD SINCE THE LAST EXAMINATION**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Capital and Surplus, December 31, Previous Year	\$3,311,576	\$3,438,944	\$3,556,700
Net income	(777,102)	(67,335)	(167,945)
Change in net unrealized capital gains (losses)	15,479		(3,600)
Change in net deferred income tax	266,736	(76,126)	
Change in non-admitted assets and related item	(213,110)	63,355	(19,211)
Change in asset valuation reserve	(42,265)	(47,262)	73,000
Cumulative effect of changes in accounting principles			
Other - Rounding	3		
Net change in capital and surplus	<u>(750,259)</u>	<u>(127,368)</u>	<u>(117,756)</u>
Capital and surplus end of period	<u>\$2,561,317</u>	<u>\$3,311,576</u>	<u>\$3,438,944</u>

GREAT REPUBLIC LIFE INSURANCE COMPANY
Analysis of Changes in Financial Statements Resulting from the Examination
As of December 31, 2004

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAMINATION</u>	<u>EXAMINATION</u> <u>ADJUSTMENT</u> <u>REFERENCE</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>	<u>TOTALS</u>
Capital and Surplus, December 31, 2004 - Per NAIC Annual Statement					\$ 2,561,317
 <u>ASSETS</u>					
Uncollected premiums	\$24,814	\$13,235	3	(\$11,579)	
Deferred premiums	15,974	23,316	3	7,339	
 <u>LIABILITIES</u>					
General Expenses Accrued	91,696	298,654	2	(206,958)	
Aggregate Reserve for Health	13,097,615	15,684,116	1&3	(2,586,501)	
Aggregate Reserve for Life	2,135,243	2,176,197	3	(40,954)	
Life Claim Liability	18,500	16,500	3	2,000	
Health Claim Liability	113,610	158,662	3	(45,052)	
Advance Premiums	\$1,448	\$96,876	3	(\$95,728)	
 Rounding Change in surplus					 <u>(2,977,433)</u>
 Capital and Surplus, December 31, 2004 - Per Examination					 \$ <u>(416,116)</u>

NOTES TO THE FINANCIAL STATEMENTS

The Company has no permitted practices or orders from the state of Washington.

Adjustment 1 Increase in reserves required by Company actuary.

Adjustment 2 To accrue for professional expenses.

Adjustment 3 Increase in reserves required by OIC actuary.

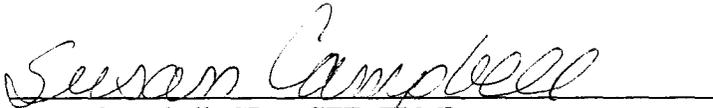
See Examination Instruction No. 1

ACKNOWLEDGEMENT

The cooperation and assistance of the officers and employees of the Company during the examination are hereby acknowledged.

In addition to the undersigned, Juanita Turley, CPA; Roy Olson, FSA, MAAA; Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner and John Jacobson, AFE, CISA all from the Washington State Office of the Insurance Commissioner participated in the examination and the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Susan Campbell". The signature is written in black ink and is positioned above a solid horizontal line.

Susan Campbell, CPA, CFE, FLMI

Examiner in Charge

Washington State Office of the Insurance Commissioner

AFFIDAVIT

State of Washington)
) ss
County of King)

Susan Campbell, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

Susan Campbell
Susan Campbell, CPA, CFE, FLMI
Examiner in Charge
State of Washington

Subscribed and sworn to before me on this 23rd day of March, 2007.

Allen J. ...
Notary Public in and for the
State of Washington

