STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION
OF
FARMERS NEW WORLD LIFE INSURANCE COMPANY
MERCER ISLAND, WASHINGTON
NAIC CODE 63177
DECEMBER 31, 2006

Participating States:
Washington

Order No. 08-96
Farmers New World Life
Insurance Company
Exhibit A

SALUTATION

Seattle, Washington
June 30, 2008

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building – Capital Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

The Honorable Alfred E. 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 NM Morris Chavez, Superintendent
New Mexico Insurance Division
Secretary, Western Zone
PO Drawer 1269
Santa Fe, NM 87504-1269

Dear Commissioners and Superintendent:

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

Farmers New World Life Insurance Company
of
Mercer Island, Washington

hereinafter referred to as "FNWL" or "the Company", at its home office located at 3003 77th Avenue Southeast, Mercer Island, Washington 98040-2837. This report is respectfully submitted showing the condition of the Company as of December 31, 2006.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Farmers New World Life of Mercer Island, Washington. This report shows the financial condition and related corporate matters as of December 31, 2006.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

6-30-08

Date

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2002 through December 31, 2006 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. In addition, the certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2006 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. Annual Statement Errors

The results of the examination disclosed several instances in which the Company's filing of the 2006 NAIC Annual Statement did not conform to the AP&P and the NAIC Annual Statement Instructions. While the Company needs to correct these deficiencies, none of the following items were material to the financial statements and no examination adjustments were necessary.

a. **Notes to Financial Statements, No. 10** - The Company did not disclose the amounts due from or due to related parties on the NAIC Annual Statements for the period under examination. This is required by the NAIC Annual Statement Instructions and SSAP No. 25, Paragraphs 17-18.

b. **Liabilities, Surplus, and Other Funds** - The Company reported a liability of $25,386,790 on line 24.7: Funds held under coinsurance. This amount represents premiums received from policyholders as of December 31, 2006 but not yet paid to reinsurers. This does not meet the definition of funds held under coinsurance. Per the NAIC Annual Statement Instructions, the Company should have reported this amount on line 9.3 which is Other amounts payable on reinsurance.

c. **Schedule of Assets, Liabilities, Surplus, and Other Funds** – The Company reported an asset in the amount of $5,199,795 for the Servicemans Group Life Insurance (SGLI) receivable on page 2 line 13.1, Unallocated premiums and agent's balances. This amount should have been reported on page 2, line 14.3, Other amounts receivable under reinsurance contracts.

d. **Statement of Actuarial Opinion** - The Statement of Actuarial Opinion incorrectly stated that $0 was allocated to the Asset Valuation Reserve (AVR). It should have stated that $14,298,000 was allocated to the AVR. This error does not affect the financial statements.

The Company is instructed to comply with RCW 48.05.250 by filing 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.

2. Intercompany Allocations

The Memorandum of the Oral Administrative Services and Expense Sharing Agreement (Agreement) between FNWL and Farmers Group, Inc. (FGI) states: "Costs will be allocated utilizing time analysis methods, statistical means or other methodology deemed appropriate by the parties. Such allocation methods shall be reviewed and mutually agreed to by FGI and FNWL on an annual basis in the FNWL budgeting process." The Agreement also states that the amounts payable shall be determined and settled by FGI and FNWL monthly or as soon after the end of each month as can reasonably be performed. The Company settles the investment advisory charges once per year, which is not in accordance with the Agreement. The Company was unable to provide documentation to substantiate that expenses were allocated utilizing time analysis methods, statistical means or other methodology, or that the allocation methods were mutually agreed to by FGI and FNWL as required by the Agreement. We were therefore unable to verify that the charges allocated to FNWL were fair and reasonable, as required by RCW 48.31B.030 (1)(a), or that the method of allocation was in compliance with SSAP No. 70.

The Company is instructed to comply with RCW 48.31B.030(1)(a) and SSAP No. 70 by maintaining documentation of the methods used to allocate expenses by parties involved in the intercompany billings and clearly and accurately disclosing the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges or fees. The Company is also instructed to adhere to the terms of its intercompany contracts by documenting the review and approval of the allocation methods once per year and by settling balances according to the Agreement terms.

3. Custodial Agreement Deficiencies

Although the Company responded in its 2006 NAIC Annual Statement General Interrogatories, 24.01, that its custodial agreement with JPMorgan Chase Bank (JPMorgan) complied with the FCEH, it did not contain several provisions required by the FCEH. In addition, the Company's undisclosed custodial agreement with BNY did not contain all provisions required by the FCEH.

JPMorgan Chase Bank, N.A. Custodial Agreement, dated June 24, 2007

- The agreement does not state that securities shall be withdrawable upon demand of the Company.

BNY Securities Lending Agreement, dated May 24, 2005

- The agreement does not state that FNWL's customer account will be labeled in the name of FNWL, nor does it state that FNWL's securities held by BNY will be separately identified on BNY's records as being owned by FNWL.
- The agreement does not state that securities, other than those held to meet deposit requirements, are withdrawn upon demand by FNWL.
- The agreement does not require BNY to reimburse FNWL losses caused by BNY's ordinary negligence or employee misconduct.
- The agreement does not require that, in the event of a loss of securities for which BNY is obligated to indemnify FNWL, BNY shall promptly replace the securities or the value of said securities and the value of any loss of rights or privileges resulting from said loss of securities.
- The agreement states that BNY is not liable for acts beyond its "control" whereas the FCEH requires the term "reasonable control." The agreement also erroneously includes BNY's inability to obtain labor, material, equipment, services, or transportation as being beyond BNY's control. The FCEH does not define these scenarios as being beyond a custodian's reasonable control.
- In the event BNY gains entry into a clearing corporation through an agent, the agreement does not require BNY to enter into a written agreement subjecting the agent to the same liability as BNY for the loss of securities.
- The agreement does not require BNY to provide written notice to the OIC within three business days if the custodial agreement has been terminated or 100% of the account assets in any one custody account have been withdrawn.
- The agreement does not require that, on reasonable notice, FNWL, or an independent accountant selected by FNWL or the OIC, be allowed to examine BNY's records relating to FNWL's securities.
- The agreement does not require BNY and its agents, upon reasonable request, to send to FNWL all internal control reports received from a clearing corporation which the clearing corporation permits to be redistributed, or such reports prepared by BNY's outside auditors.

- The agreement does not require BNY to maintain records sufficient to verify certain information relied upon by FNWL in preparation of its annual statement and supporting schedules.
- The agreement does not require BNY to provide, upon written request from the OIC or FNWL, the appropriate affidavits, with respect to FNWL's securities held by BNY.
- The agreement does not require BNY to secure and maintain insurance protection in an adequate amount.
- The agreement does not require loaned securities be held by a qualified custodian under RCW 48.13.450(6).

The Company is instructed to comply with RCW 48.05.250 by filing a true annual statement. The Company is instructed to follow NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is instructed to correct all of the deficiencies noted above and execute revised or amended custodial agreements.

4. Incomplete Accounts and Records

Several sampled policy files were missing various information such as policy acceptance letters, specification pages, and copies of the policy contract. The policy files did not contain full and adequate accounts and records of the Company's transactions and affairs, as required by RCW 48.05.280.

The Company is instructed to comply with RCW 48.05.280 by keeping full and adequate accounts and records of its assets, obligations, transactions and affairs.

5. Securities Lending

The Company incorrectly included collateral of $337,018,097 within Aggregate write-ins for other than invested assets and Aggregate write-ins for liabilities, respectively on the NAIC Annual Statement. In accordance with Paragraph 56 of SSAP No. 91 (Accounting for Transfers and Servicing Assets and Extinguishments Liabilities), the Company should not reflect the collateral in the Company's balance sheet as an asset, and should not establish a liability for the return of the collateral when the pledged collateral is not available for the general use (restricted). The collateral is not available for general use (restricted) according to the Company's security lending agreement with Bank of New York.

The Company is instructed to comply with RCW 48.05.250 by filing 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.

6. NAIC Actuarial Guidelines

a. Variable Annuities

For variable annuities, FNWL's methodology ignores the potential of a free partial withdrawal immediately at the valuation date which is not in accordance with NAIC Actuarial Guidelines XXXIII and XXXIV. Additionally, there are errors in the durational premium data imported into the valuation system from the administration feed, which has resulted in the system's calculation algorithm being incorrectly applied to the different premium and surrender charge records.

b. Traditional Premium Paying Polices Reserve Calculations

The Company's terminal reserves for premium paying traditional life policies are somewhat lower, and at some early durations even negative, due to the manner in which its vendor purchased software calculates the initial expense allowance using continuous functions. While Actuarial Guideline XVIII permits the use of continuous functions in the calculation of the initial expense allowance, the resulting outcomes for terminal reserves should be consistent with those underlying the Commissioners Reserve Valuation Method (CRVM) as described in RCW 48.74.040 for curtate calculations. Additionally, the net deferred premiums (based on net rather than gross premiums) are also affected.

The Company is instructed to ensure that the reserves are calculated in accordance with NAIC Actuarial Guidelines XXXIII and XXXIV, and to ensure that the CRVM initial expense allowance for traditional life business is calculated in accordance with NAIC Actuarial Guideline XVIII. This is in compliance with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P which includes Actuarial Guidelines – Appendix C. Additionally, the Company must ensure that data input into its valuation system is correct. Due to immateriality, no examination adjustments were necessary.

7. Advance Premiums

The Company incorrectly classifies modal premiums received for amounts attributable to modal premium due dates after the valuation date but prior to the next policy anniversary as advance premiums. This does not adhere to SSAP 51 No. 25 which defines advance premiums as those premiums received by the reporting entity prior to the valuation date but which are due on or after the next policy anniversary date.

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

8. Substandard Reduced Paid-Up Policies

The Company does not use substandard mortality tables for reserves on substandard paid up polices. This is inconsistent with the paragraph required by WAC 284-07-380(2)(f)(v) in the Company's actuarial opinion.

The Company is instructed to allow for the substandard mortality, as appropriate, for the valuation of its reduced paid up policies originally issued to substandard lives. This recognition of the additional mortality is required with the opinion statement pursuant to WAC 284-07-380(2)(f)(v). Due to immateriality, no examination adjustment was necessary.

9. Indeterminate Premium Universal Life

The Company does not test the reserves on Indeterminate Premium Universal Life to see if the basic policy reserves calculation pursuant to WAC 284-84-030 is sufficient to cover a scale of cash surrender values in accordance with WAC 284-84-050(2).

Pursuant to WAC 284-84-050(2), the Company is instructed to perform tests to ensure that the policy reserves on Indeterminate Premium Universal Life is sufficient to cover a scale of cash surrender values. Due to immateriality, no examination adjustment was necessary.

COMMENTS AND RECOMMENDATIONS

1. Indeterminate Premium Universal Life Policies – Non-Forfeiture Benefits

The Company's Indeterminate Premium Universal Life Policies provide for non-forfeiture benefits (Reduced Paid-Up and Extended Term Insurance) originating from minimum surrender values to be calculated at a guaranteed rate of 7%. Under RCW 48.74.030 (3)(b) these benefits would be valued at lower rates of interest following conversion to the non-forfeiture benefits which would result in a negative financial impact on the statutory books in the year of conversion. To the extent that the conversion activity is minor as is currently the case, the impact is inconsequential. However, should the level of this activity increase significantly, there could be a significant, adverse financial impact to the Company, which would be reversed in subsequent years as the policies that convert to reduced paid-up and extended term insurance run off the books.

It is recommended that the Company consider incorporating testing for the non-forfeiture options in its cash flow testing projection model. It should also consider sensitivity testing for these options to reflect outcomes in situations such as shock premium increases in low interest rate environments and anti-selection

between healthy and unhealthy policy-owners in terms of reduced paid up or extended term options.

2. Structured Settlements

In calculating the structured settlement reserves, the valuation uses interest rates that are in some cases higher than rates available on investments backing the structured settlement liabilities. In view of the long term nature of its obligations under structured settlements, the Company, as recommended by NAIC Actuarial Guideline IX-B should recognize the yield on the supporting assets in conjunction with any other allocated assets in establishing the liability for structured settlements

In view of the long term nature of its obligations under structured settlements, the Company, as suggested by NAIC Actuarial Guideline IX-B, should recognize the yield on the supporting assets in conjunction with any other allocated assets such as those supporting the Interest Maintenance Reserve (IMR) in establishing the reserves for structured settlements.

COMPANY PROFILE

Company History

The Company was incorporated as a Washington stock insurance company on February 21, 1910, as New World Life Insurance Company. In 1954, FGI, a Nevada Corporation, acquired a controlling interest in the Company and later changed the name to Farmers New World Life Insurance Company. During 1977 and 1978, FGI acquired all of the remaining stock of FNWL. In 1988, ultimate control of FGI was acquired by British American Tobacco Industries p.l.c. (BAT) of London, England. In September 1988, the financial operations of BAT merged with Zurich Insurance Company to forn Zurich Financial Services (ZFS) headquartered in Zurich, Switzerland.

Territory and Plan of Operation

As of December 31, 2006, the Company was authorized to transact business in the District of Columbia and all states except New York.

The Company concentrates its activities in the individual life insurance and annuity markets. Principal lines of business include traditional and universal whole life products, as well as term life insurance. Additionally, FNWL issues flexible and single premium deferred annuities, single premium immediate annuities, equity-indexed annuities, variable universal life insurance, and variable annuity products.

Growth of Company

The Company's growth, as reported in its NAIC Annual Statements, is illustrated below:

	Assets	Liabilities	Capital and Surplus
2002	$6,049,234,651	$5,070,365,047	$978,869,604
2003	6,428,057,736	5,375,918,673	1,052,139,063
2004	6,828,278,964	5,733,697,731	1,094,581,233
2005	6,744,360,028	6,109,781,233	634,578,790
2006	6,966,390,093	6,297,838,287	668,551,806

	Premiums	Net Investment Income	Disability Benefits
2002	$783,697,965	$346,034,689	$2,186,685
2003*	($3,735,222)	344,756,368	2,379,354
2004	653,175,246	357,671,694	2,246,323
2005	653,515,279	347,118,295	3,189,042
2006	659,505,131	326,190,392	3,188,324

*Note: In the fourth quarter of 2003, FNWL entered in to a modified coinsurance arrangement with Kemper Investors Life Insurance Company (KILICO) that transferred some of its annuity business. SSAP 61 requires the Company to reduce premium income by the amounts paid to the reinsurer. The Company ceded premiums for the current and prior years which exceeded the amount of direct and assumed premiums in 2003.

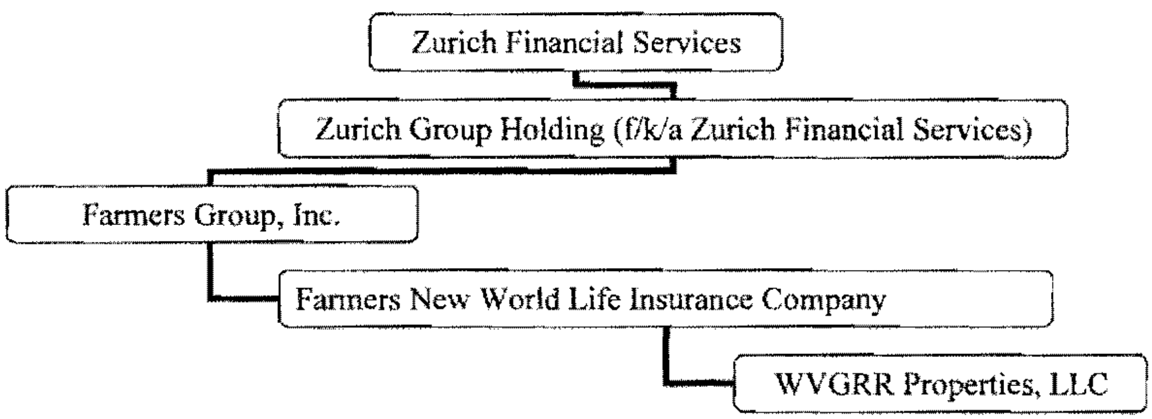
Ordinary Life Insurance in Force by Jurisdiction

JURISDICTION	AMOUNT	JURISDICTION	AMOUNT
Alabama	$1,718,578,163	Montana	1,140,154,491
Alaska	60,716,093	Nebraska	1,309,013,910
Arizona	10,571,860,160	Nevada	4,803,154,268
Arkansas	2,240,345,442	New Hampshire	38,508,701
California	64,463,827,106	New Jersey	168,110,007
Canada	1,244,147	New Mexico	2,799,048,394
Colorado	9,189,109,429	New York	214,686,424
Connecticut	67,779,432	North Carolina	287,974,390
Delaware	19,504,222	North Dakota	255,640,596
District of	12,830,363	Ohio	2,862,651,623
Florida	695,623,617	Oklahoma	6,083,169,110
Georgia	361,836,848	Oregon	6,871,290,233
Hawaii	116,072,733	Pennsylvania	197,021,686
Idaho	1,828,605,146	Rhode Island	10,549,286
Illinois	9,245,470,948	South Carolina	99,792,247
Indiana	1,840,675,172	South Dakota	667,508,486
Iowa	869,708,505	Tennessee	1,988,113,778
Kansas	2,800,480,934	Texas	31,781,695,645
Kentucky	115,364,643	Utah	4,181,477,616
Louisiana	128,414,177	Vermont	18,557,532
Maine	23,548,237	Virginia	1,788,893,646
Maryland	187,844,784	Washington	9,186,457,219
Massachusetts	127,039,284	West Virginia	32,434,772
Michigan	2,191,915,362	Wisconsin	1,972,228,499
Minnesota	5,945,756,019	Wyoming	661,463,979
Mississippi	87,712,931	Others	186,366,668
Missouri	5,004,461,897		
		TOTAL	**$199,522,289,000**

Affiliated Companies

FNWL is a wholly-owned subsidiary of FGI, a management and insurance holding company, whose companies specialize in personal lines business including full coverage personal automobile and homeowners insurance. FGI is ultimately owned by ZFS, a global insurance organization headquartered in Switzerland. FNWL owns 100% of WVGRR, Properties, LLC, a real estate joint venture.

The following is an abbreviated organizational chart:



Intercompany Contracts

The Company was a party to various intercompany contracts with affiliates. Significant contracts in force at December 31, 2006 were: Administrative Services Agreement used to allocate charges for services performed by or paid for by an affiliate; Agreement for Reimbursement of Marketing and Agency Expenses, used to allocate and reimburse affiliates for marketing and agency expenses; Tax Sharing Agreement, used to allocate taxes among affiliates; and the Memorandum of the Oral Administrative Services and Expense Sharing Agreement, used to allocate various expenses to the Company that were paid for or performed by an affiliate. (See Instruction No. 2.)

MANAGEMENT AND CONTROL

Ownership

FNWL is a wholly-owned subsidiary of FGI, a management and insurance holding company whose companies specialize in personal lines business including full coverage personal automobile and homeowners insurance. FGI is ultimately owned by ZFS, a global insurance organization headquartered in Switzerland. ZFS is the ultimate controlling person.

Board of Directors (BOD)

Members of the BOD as of December 31, 2006:

Jerry Joseph Carnahan
Paul Norman Hopkins
Michael Walter Keller
Ryan Ray Larson
Constantine Paul Patsis
James Innes Randolph
Gary Ralph Severson
John Francis Sullivan, Jr.
Oscar Clemente Tengtio
Peter Viktor Eckert

Officers

Officers as of December 31, 2006:

Name	Title
Constantine Paul Patsis	CEO & President
Oscar Clemente Tengtio	VP & Chief Financial Officer
Brian Frederick Kreger	VP, General Counsel, & Secretary
Ryan Ray Larson	VP & Chief Actuary
Laszlo George Heredy	VP & Chief Investment Officer
Michael Walter Keller	VP & Chief Marketing Officer
James Innes Randolph	VP & Assistant Secretary
Pierre Christophe Rene Wauthier	VP & Assistant Treasurer

Committees

The Company has the following committees of the BOD:

- Audit Committee
- Risk and Compliance Committee
- Executive Committee
- Investment Committee

Conflict of Interest
The Company has a policy that requires all employees, directors, and officers to complete a conflict of interest statement annually. The purpose of the statement is to detect any activities or participation on the part of an employee or director that could possibly be interpreted as a conflict of interest. Our review did not reveal any exceptions.

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. FNWL has all the standard types of coverage normally maintained by companies of its type. Additionally, the fidelity bonds and other insurance meet or exceed the NAIC minimum guidelines to protect its assets and policyholders.

Officers', Employees', and Agents' Welfare and Pension Plans
FGI sponsors a qualified, non-contributory defined benefit pension plan. The benefits are based on years of service and the employee's compensation during the last 5 years of employment. FGI's funding policy is to make sufficient contributions to the pension plan to fully provide for employees' benefits at the time of retirement. In addition, the Company provides postretirement benefits to retired employees through a plan also sponsored by FGI.

The Company has no legal obligation for benefits under these plans. FGI charges the Company an allocated share of such contributions based on characteristics of the population of plan participants. The Company was allocated and contributed $5,100,000 and $5,000,000 for pension costs for 2006 and 2005, respectively. Pension plan liabilities are only recorded by FGI.

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 By-laws since the last examination. The Articles of Incorporation were amended on May 1, 2007 to change the number and makeup of the BOD, to define the existence of the Company as perpetual and unlimited, and to give the BOD authority to make or amend the By-Laws of the Company, subject to the power of the stockholders.

MORTALITY AND LOSS

FNWL provided copies of its actuarial workpapers and reserve reports as of December 31, 2006. Tests were performed on the underlying data, methods, and calculations as deemed necessary. Valuation reports and procedures were tested to establish that accurate and complete in-force information as of December 31, 2006 was represented in the valuation reports and workpapers. A sampling of contracts and payments was taken from active life and disabled life reserve reports, premium collection records and paid claims reports. The samples were tested for completeness and accuracy and it was determined that the Company's calculations were based on accurate and complete demographic data.

During the course of the examination, the OIC actuary 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 OIC actuary relied upon the Company's listings and summaries of in-force policies and contracts.

The general examination emphasis was to review the methods, assumptions or other bases used to determine the actuarial items reported on the NAIC Annual Statement, and to determine whether the reported amounts were within a reasonable range and in compliance with Washington law.

In the OIC Actuary's opinion reserves were within a reasonable range, and subject to his findings as noted in Instructions No. 6-9 and Comments and Recommendations No.1 and 2, the methods, assumptions and methodologies used by the Company were appropriate, and all material relevant assets and liabilities on the NAIC Annual Statement were reported in accordance with accepted methods and principles.

REINSURANCE

FNWL entered into eleven new ceded reinsurance agreements during the examination period with eight reinsurers. Nine of the agreements are co-insurance treaties, one is a facultative yearly renewable term (YRT) treaty and one is a modified co-insurance agreement with an affiliate. In addition, FNWL assumed structured settlement business from various insurance companies.

Reinsurance agreements were found to be in compliance with Washington State reinsurance statutes. All but one of the reinsurers are authorized in the state of Washington. The Company holds a valid letter of credit for the unauthorized reinsurer. The treaties are properly classified in Schedule S of the 2006 NAIC Annual Statement. The Company has controls in place to adequately monitor its reinsurance program including the financial condition of the reinsurers. FNWL utilizes the services of a reinsurance intermediary to solicit, negotiate, and place reinsurance cessions on its behalf.

STATUTORY DEPOSITS

The Company had the following statutory deposits as of December 31, 2006:

State	Par Value	Market Value
Arkansas	$159,682	$172,653
Georgia	52,310	59,436
Massachusetts	532,274	575,510
New Hampshire	559,893	600,625
New Mexico	124,253	126,563
North Carolina	447,915	480,500
Washington	2,050,787	2,119,678
TOTAL	**$3,927,114**	**$4,134,965**

ACCOUNTING RECORDS AND INFORMATIONS SYSTEMS

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of PriceWaterhouseCoopers. The Company 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.

The management of FNWL is sufficiently knowledgeable of information system issues and provides direction and oversight through its Information Systems (IS) Steering Committee. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. The IS department maintains written documentation for the system development life cycle, systems design standard manual, programming standards manual, and the document standards manual.

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 internal controls exercised to maintain data security. The Company has sufficient internal controls in place to monitor system activity and processes.

FNWL has a formal, written disaster recovery plan for the restoration of the IS and a formal, written business continuity 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.

SUBSEQUENT EVENTS

There were no material events adversely impacting the Company between the examination date and the last day of our fieldwork.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions were corrected.

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 Financial Statement Resulting from the Examination

FARMERS NEW WORLD LIFE INSURANCE COMPANY
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2006

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	NOTES
Assets				
Bonds	$5,409,592,658	$0	$5,409,592,658	
Preferred stocks	25,324,010		25,324,010	
Mortgage loans on real estate-first liens	160,418		160,418	
Real estate-properties held for production of income	60,614,205		60,614,205	
Cash and short term investments	103,576,942		103,576,942	
Contract loans	255,399,055		255,399,055	
Other invested assets	93,491,521		93,491,521	
Aggregate write-ins for invested assets	4,407,826		4,407,826	
Subtotals, cash and invested assets	5,952,566,635	0	5,952,566,635	
Investment income due and accrued	65,642,955		65,642,955	
Premiums and considerations:				
Uncollected premiums and agents' balance in course of collection	6,938,976		6,938,976	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	124,483,930		124,483,930	
Amount recoverable from reinsurers	23,885,790		23,885,790	
Other amounts receivable under reinsurance contracts	20,095,603		20,095,603	
Current federal & foreign income tax recoverable	2,270,898		2,270,898	
Net deferred tax asset	15,364,650		15,364,650	
Guaranty funds receivable or on deposit	1,660,658		1,660,658	
Electronic data processing equipment and software	83,762		83,762	
Receivables from parent, subsidiaries, and affiliates	2,006,314		2,006,314	
Aggregate write-ins for other than invested assets	343,437,719	(337,018,097)	6,419,622	1
Total assets excluding separate accounts, segregated	6,558,437,890	(337,018,097)	6,221,419,793	
From separate accounts, segregated accounts, and protected cell accounts	407,952,203		407,952,203	
Total Assets	**$6,966,390,093**	**($337,018,097)**	**$6,629,371,996**	

FARMERS NEW WORLD LIFE INSURANCE COMPANY
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS (Continued)
DECEMBER 31, 2006

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	NOTES
Liabilitites				
Aggregate reserve for life contracts	$4,866,983,408	$0	$4,866,983,408	
Aggregate reserve for health contracts	481,158		481,158	
Liability for deposit-type contracts	440,957,780		440,957,780	
Contract claims - life	41,367,345		41,367,345	
Contract claims - accident & health	428,631		428,631	
Premiums and annuity considerations received in advance	2,835,055		2,835,055	
Contract liabilities not included elsewhere:Other accounts payable on reinsurance	26,257,830		26,257,830	
Interest maintenance reserve	36,281,528		36,281,528	
Commissions to agents due and accrued	1,828,798		1,828,798	
Commissions and expense allowances payable on reinsurance assumed	22,954		22,954	
General expenses due or accrued	22,846,586		22,846,586	
Transfers to separate accounts due or accrued	(35,405,046)		(35,405,046)	
Taxes, licenses and fees due or accrued	5,415,247		5,415,247	
Unearned investment income	661,444		661,444	
Amounts withheld or retained by company as agent or trustee	799,139		799,139	
Amounts held for agents account	6,122,053		6,122,053	
Remittances and items not allocated	35,732,697		35,732,697	
Misc liabilities-asset valuation reserve	28,806,399		28,806,399	
Payable to parent, subsidiaries and affiliates	16,037,031		16,037,031	
Funds held under coinsurance	25,386,790		25,386,790	
Aggregate write-ins for liabilities	366,039,257	(337,018,097)	29,021,160	1
Total liabilities exclnding separate Account	5,889,886,084		5,889,886,084	
From separate accounts statement	407,952,203		407,952,203	
Total Liabilities	**6,297,838,287**	**(337,018,097)**	**5,960,820,190**	
Common capital stock	6,599,833		6,599,833	
Gross paid in and contributed	3,199,470		3,199,470	
Unassigned funds (surplus)	658,752,503		658,752,503	
Capital and surplus	668,551,806	0	668,551,806	
Total Liabilities, Surplus, and Other Funds	**$6,966,390,093**	**($337,018,097)**	**$6,629,371,996**	

FARMERS NEW WORLD LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
YEAR ENDED DECEMBER 31, 2006

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Income			
Premiums and annuity considerations	$659,505,131	$0	$659,505,131
Net investment income	326,190,392		326,190,392
Amortization of interest maintenance reserve	6,771,361		6,771,361
Commissions and expense allowance on reinsurance	77,240,478		77,240,478
Reserve adjustments on reinsurance ceded	(70,150,567)		(70,150,567)
Income from fees associated with investment management	4,905,021		4,905,021
Aggregate write-ins for miscellaneous income	16,223,377		16,223,377
Total Income	1,020,685,193	0	1,020,685,193
Benefits			
Death benefits	169,130,980		169,130,980
Matured endowments (excluding guarantee annual pure endowments)	443,034		443,034
Annuity benefits	22,345,755		22,345,755
Disability benefits	3,188,324		3,188,324
Coupons, guaranteed annual pure endowments and similar benefits	1,781,524		1,781,524
Surrender benefits	242,501,257		242,501,257
Group conversions	(31,457)		(31,457)
Interest and adjustments on contracts or deposit-type contract funds	22,854,531		22,854,531
Payments on supplementary contracts with life contingencies	41,269		41,269
Increase in aggregate reserves for life and health policies and contracts	62,035,292		62,035,292
Total Benefits	524,290,509	0	524,290,509
Expenses			
Commissions on premiums and annuity considerations	93,572,990		93,572,990
Commission and expense allowances on reinsurance assumed	289,765		289,765
General insurance expenses	150,610,902		150,610,902
Insurance taxes, licenses and fees, excl. federal income taxes	19,663,988		19,663,988
Increase in loading	1,657,387		1,657,387
Net transfers to or (from) separate accounts net of reinsurance	44,632,055		44,632,055
Total Expenses and Benefits	834,717,596	0	834,717,596
Net gain from operations before dividends to policyholders and income taxes	185,967,597		185,967,597
Federal and foreign income taxes incurred (excluding tax on capital gains)	59,533,487		59,533,487
Net gain from operations after dividends to policy holders and federal income taxes and before realized capital gains or losses	126,434,110		126,434,110
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR)	15,765,348		15,765,348
Net Income	$142,199,458	$0	$142,199,458

FARMERS NEW WORLD LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS, Continued
YEAR ENDED DECEMBER 31, 2006

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Capital and Surplus Account			
Capital and Surplus, December 31, Previous Year	$634,578,790	$0	$634,578,790
Net income	142,199,458		142,199,458
Change in unrealized capital gains (losses)	(3,309,048)		(3,309,048)
Change in net deferred income tax	(10,732,127)		(10,732,127)
Change in non-admitted assets and related items	18,165,459		18,165,459
Change in asset valuation reserve	(5,730,367)		(5,730,367)
Change in surplus as a result of reinsurance	(6,620,359)		(6,620,359)
Dividends to stockholders	(100,000,000)		(100,000,000)
Net change in capital and surplus for the year	33,973,016		33,973,016
Capital and Surplus, December 31, 2006	$668,551,806	$0	$668,551,806

FARMERS NEW WORLD LIFE INSURANCE COMPANY
RECONCILIATION OF SURPLUS
FOR THE PERIOD SINCE THE LAST EXAMINATION

Capital and Surplus Account	2006	2005	2004	2003	2002
Capital and Surplus, December 31, Previous Year	$634,578,790	$1,094,581,233	$1,052,139,063	$978,869,604	$1,074,659,549
Net income	142,199,458	175,286,983	164,163,783	99,703,035	64,635,148
Change in net unrealized capital gains (losses)	(3,309,048)	(7,561,597)	(10,014,861)	39,607,704	(2,248,856)
Change in net deferred income tax	(10,732,127)	(5,941,816)	(10,559,257)	(22,542,904)	27,213,559
Change in non-admitted assets and related items	18,165,459	(9,344,343)	11,739,791	93,583,823	(93,107,644)
Change in reserve on account of change in valuation basis (increase) or decrease				(3,266,697)	
Change in asset valuation reserve	(5,730,367)	4,084,835	10,848,128	(37,916,527)	22,717,848
Change in surplus as a result of reinsurance	(6,620,359)	(6,863,203)	(6,135,414)	24,101,025	
Dividends to stockholders	(100,000,000)	(610,500,000)	(117,600,000)	(120,000,000)	(115,000,000)
Aggregate write-ins for gains and losses in surplus		836,698			
Net change in capital and surplus for the year	33,973,016	(460,002,443)	42,442,170	73,269,459	(95,789,945)
Capital and Surplus, December 31, 2006	$668,551,806	$634,578,790	$1,094,581,233	$1,052,139,063	$978,869,604

FARMERS NEW WORLD LIFE INSURANCE COMPANY
ANALYSIS OF CHANGES IN FINANCIAL STATMENT RESULTING FROM THE EXAMINATION
DECEMBER 31, 2006

	Per Annual Statement	Per Examination	Notes	Increase (Decrease) in Surplus	Total
Capital and surplus 12/31/2006 Per Annual Statement					**$668,551,806**
Assets					
Aggregate write-ins for other than invested assets	$343,437,719	6,419,622	1	($337,018,097)	
Liabilities					
Aggregate write-ins for liabilities	366,039,257	29,021,160	1	337,018,097	
Change in surplus					**0**
Capital and Surplus, 12/31/2006 per examination					**$668,551,806**

NOTES TO FINANCIAL STATEMENTS

1. Security Lending Collateral

The Company incorrectly included security lending collateral and the liability for the collateral of $337,018,097 within Aggregate write-ins for invested assets and Aggregate write-ins for liabilities, respectively. In accordance with Paragraph 56 of SSAP No. 91 (Accounting for Transfers and Servicing Assets and Extinguishments Liabilities), the Company should not reflect the collateral in the Company's balance sheet as an asset, and should not establish a liability for the return of the collateral when the pledged collateral is not available for the general use of the transferor (restricted).

Based upon SSAP No. 91, Paragraph 56, the collateral for securities lending and the liability for the collateral balance should be zero. (See Instruction No. 5.)

ACKNOWLEDGEMENT

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Susan Campbell, CPA, CFE, FLMI, Life Field Supervisor and Reinsurance Specialist; Tarik Subbagh, CPA, CFE, Insurance Examiner; Zairina Othman, Insurance Examiner; Cynthia Clark, Insurance Examiner; Richard Bologna, Insurance Examiner; Roy Olson, FSA, MAAA, Life Actuary; Shiraz Jetha, FSA, FCIA, MAAA, Actuary; H. Lee Michelson, FSA, MAAA, CLU, Associate Actuary; and John Jacobson, AFE, CISA, AES, Automated Examination Specialist; all from the Washington State Office of the Insurance Commissioner participated in the examination and the preparation of this report.

Respectfully submitted,

Adrienne C. DeBella, CPA, CFE
Examiner-in-Charge
State of Washington

<u>**AFFIDAVIT**</u>

STATE OF WASHINGTON }
} ss
COUNTY OF KING }

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

She attests that the examination of Farmers New World Life Insurance was performed in a manner consistent with the standards and procedures required or prescribed by the Office of the Insurance Commissioner of the State of Washington and the National Association of Insurance Commissioners (NAIC).

Adrienne C. DeBella, CPA, CFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 30th day of June, 2008.

Notary Public in and for the
State of Washington

COLLEEN JANSEN
COMMISSION EXPIRES
NOTARY
PUBLIC
5-17-12
STATE OF WASHINGTON