

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



**FINANCIAL EXAMINATION**

*of*

**SYMETRA NATIONAL LIFE INSURANCE COMPANY  
BELLEVUE, WASHINGTON**

**NAIC CODE 90581  
DECEMBER 31, 2005**

Participating State:  
Washington

**SALUTATION**

Seattle, Washington  
February 27, 2008

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 Morris Chavez, Superintendent  
New Mexico Insurance Division  
Secretary, Western Zone  
PO Drawer 1269  
Sante Fe, NM 87504-1269

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

Dear Commissioners and Superintendent:

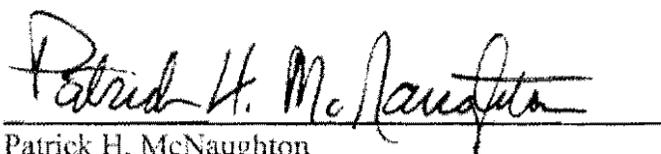
In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an association examination was made of the corporate affairs and financial records of

SYMETRA NATIONAL LIFE INSURANCE  
COMPANY  
of  
Bellevue, Washington

hereinafter referred to as "SNLIC" or "the Company", at its home office located at 777 108<sup>th</sup> Avenue NE, Suite 1200, Bellevue, Washington. This report is respectfully submitted showing the condition of the Company as of December 31, 2005.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of Symetra National Life Insurance Company of Bellevue, Washington. This report shows the financial condition and related corporate matters as of December 31, 2005.



Patrick H. McNaughton  
Chief Examiner

2-27-2008

Date

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## SCOPE OF EXAMINATION

This examination covers the period January 1, 2001 through December 31, 2005 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 Company's 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 2005 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 NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review.

### **1. Annual Statement Error**

The Company has an endorsement form with mortality charges based on a substandard version of a unisex (80% male) variation of the 1980 CSO mortality table with separate rates for smokers and nonsmokers that was not mentioned in the description of non-guaranteed elements as required in Exhibit 5, Interrogatory 3, of the 2005 NAIC Annual Statement

**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. Deficiencies in the 2005 Actuarial Opinion and Supporting Memorandum**

The 2005 Statement of Actuarial Opinion and Supporting Memorandum provided by the Company's actuary did not include the following language as required by the Washington Administrative Code as noted below:

- a. WAC 284-07-380(1)(c) - A description of other personnel (experts) used to develop the cash flow testing reserve analysis;
- b. WAC 284-07-380(2)(a)(i) - The date of the letter to the Commissioner;
- c. WAC 284-07-380(2)(f)(iv) - The language "with any exceptions noted below" as it pertained to the cash flow testing reserve which increased from 250,000 for 2004 to 1,750,000 for 2005;
- d. WAC 284-07-390(2)(a)(i) - Adequate product descriptions for its universal life, traditional life, whole life products and term products;
- e. WAC 284-07-390(2)(a)(iii) - Specification of the reserve bases and methods;
- f. WAC 284-07-390(2)(b)(i) Specification of portfolio descriptions of the assets: including a risk profile disclosing the quality, distribution, and types of assets;
- g. WAC 284-07-390(2)(b)(iv) Specifications of asset valuation bases;
- h. WAC 284-07-390(2)(d)(iii) Specifications of mortality rates;
- i. WAC 284-07-400(1)(c) - Description of the aggregation of reserves and supporting assets on the basis of one of three methods;
- j. WAC 284-07-400(3)(iii) - Disclosure of the method used for selecting particular assets or allocated portions of assets in support of the interest maintenance reserve and the asset valuation reserve.

**The Company is instructed to comply with WAC 284-07-380, WAC 284-07-390, and WAC 284-07-400 by including the required language in future Actuarial Opinions and Supporting Memorandums.**

## **3. Full and Adequate Records**

The Company was unable to produce schedules of premiums, death benefits, and cash values for selected individual policies. The Company was not always able to provide adequate supporting documentation nor an adequate response to examination requests for detailed reserve information or the methodology used to calculate the reserves. Information that was provided, while sometimes timely, was not always timely enough in order for the examiners to complete their examination objectives within standard timeframes.

**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 which includes administering its policies according to the policy provisions and RCW 48.03.030(1) which requires that these records and documentation be provided to the Commissioner (or designee) in a timely manner.**

#### **4. Minimum Aggregate Reserve Test for Life Insurance**

RCW 48.74.050(1) states "In no event may a company's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, issued on or after July 10, 1982, be less than the aggregate reserves calculated in accordance with the methods set forth in RCW 48.74.040, RCW 48.74.070, and RCW 48.74.080 and the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for such policies." Most of the SNLIC universal life business has a nonforfeiture rate that is less than the valuation rate. A reserve deficiency was identified when reserves were evaluated using the lower nonforfeiture interest rate, however, overall reserves were within a reasonable range.

**SNLIC is instructed to comply with RCW 48.74.050(1) and use a valuation rate in calculating reserves that is less than the nonforfeiture rate.**

### **COMMENTS AND RECOMMENDATIONS**

NONE

### **COMPANY PROFILE**

#### **Company History**

The Company was incorporated on September 4, 1979 as a stock life insurance company under the laws of the state of Washington and commenced business on September 5, 1979.

Symetra Financial Corporation (SFC), a holding company, acquired Safeco Corporation's life/health operations on August 2, 2004. The name was changed to Symetra National Life Insurance Company on September 1, 2004. SFC is privately owned by an investor group co-led by White Mountains Insurance Group, Ltd., and Berkshire Hathaway, Inc.

#### **Territory and Plan of Operation**

As of December 31, 2005, the Company is authorized to transact business in thirty-nine states and the District of Columbia, but has not sold any new business since 1988.

### Growth of Company

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

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	
2001	\$18,165,662	\$4,655,600	\$13,150,062	
2002	17,353,201	4,794,854	12,558,346	
2003	16,642,921	4,877,605	11,765,316	
2004	17,190,355	6,388,046	10,802,309	
2005	16,495,886	6,680,955	9,814,931	

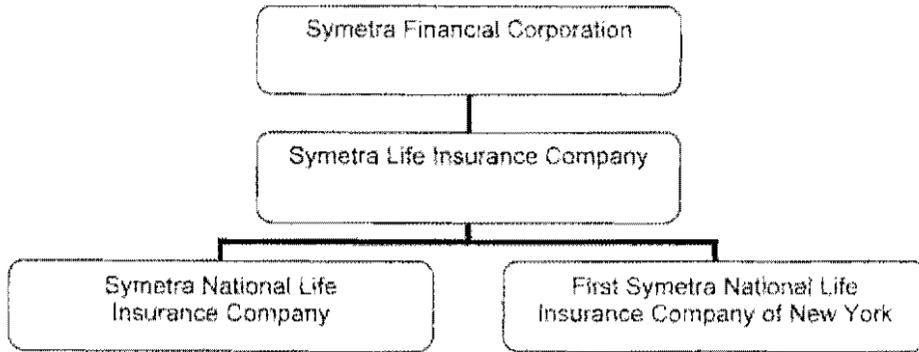
<u>Year</u>	<u>Premiums</u>	<u>Net Investment Income</u>	<u>Death Benefits</u>	<u>Surrender Benefits</u>
2001	\$546,016	\$1,435,541	\$249,382	\$49,653
2002	516,818	1,278,283	308,154	67,298
2003	472,221	1,075,605	366,502	75,623
2004	449,449	951,110	206,565	103,782
2005	409,017	850,715	123,564	76,937

### Life Insurance in Force By State

<u>State</u>	<u>Amount</u>	<u>State</u>	<u>Amount</u>
Alabama	\$1,124,924	Missouri	3,913,944
Alaska	106,166	Montana	215,336
Arizona	344,187	Nebraska	80,125
Arkansas	428,739	Nevada	698,158
California	5,309,732	New Hampshire	0
Colorado	658,159	New Jersey	155,242
Connecticut	1,191,484	New Mexico	851,709
Delaware	20,031	New York	235,367
District of Columbia	0	North Carolina	1,028,967
Florida	2,034,201	North Dakota	0
Georgia	2,027,588	Ohio	680,294
Hawaii	20,031	Oklahoma	390,111
Idaho	765,732	Oregon	1,539,256
Illinois	2,394,966	Pennsylvania	100,156
Indiana	746,164	Rhode Island	10,016
Iowa	60,094	South Carolina	555,867
Kansas	821,981	South Dakota	0
Kentucky	710,719	Tennessee	3,115,382
Louisiana	752,707	Texas	2,199,648
Maine	(1,900,879)	Utah	158,814
Maryland	3,597,152	Vermont	0
Massachusetts	60,094	Virginia	1,307,147
Michigan	132,068	Washington	5,965,914
Minnesota	367,289	West Virginia	25,043
Mississippi	535,836	Wisconsin	1,101,849
		Wyoming	10,016
		Canada	0
		Aggregate Other Alien	77,077
		Total	<u>\$46,724,603</u>

## AFFILIATED COMPANIES

The following abridged organization chart illustrates the Company's direct line affiliates within the organization.



### **Intercompany Contracts**

The Company was a party to various intercompany contracts with affiliates. Significant contracts in force at December 31, 2005 were: Federal Income Tax Allocation Agreement, used to determine allocation of federal income tax; Services and Shared Expense Agreement, used for allocation of expenses performed by affiliates; and Investment Management Agreement, used to charge the Company for investment services performed by an affiliate.

## MANAGEMENT AND CONTROL

### **Ownership**

The Company is a member of a holding company system regulated pursuant to RCW Chapter 48.31B. SLIC owns 100% of SNLIC's common stock.

## **Board of Directors**

As of December 31, 2005, the Company was controlled by a seven-member Board of Directors (BOD) all from within the Company.

<u>Name</u>	<u>Principal Occupation</u>
Alyn D. Close	Senior VP, Marketing, SLIC
George C. Pagos	VP, General Counsel, Secretary, SLIC
Jennifer V. Davies	Senior VP, Enterprise Development, SLIC
Randall H. Talbot	President – SLIC
Roger F. Harbin	Executive VP, Chief Operating Officer, SLIC
Oscar C. Tengtio	Executive VP, Chief Financial Officer, SLIC
Margaret A. Meister	VP, Chief Actuary – SLIC

## **Officers**

Officers as of December 31, 2005 were:

<u>Name</u>	<u>Title</u>
Randall H. Talbot	President
George C. Pagos	Secretary
Colleen M. Murphy	Treasurer
Margaret A. Meister	Chief Actuary

## **Committees**

The Company has no committees.

## **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 having the appearance of 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. SNLIC has all the standard types of coverage normally maintained by companies of its type. Additionally, SNLIC's

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**

The Company does not employ any staff. All work is performed by SLIC employees through the Services and Shared Expense Agreement.

### **CORPORATE RECORDS**

Corporate records were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. The By-laws and Articles of Incorporation were changed to reflect the name change and change in location of the office and principle place of business.

### **MORTALITY AND LOSS**

SNLIC provided copies of its actuarial workpapers and reserve reports as of December 31, 2005. Tests were performed on the underlying data, methods, and calculations as deemed necessary. A sample of contracts and payments was made from active life and disabled life reserve reports, premium collection records and paid claims reports to verify data integrity. When selections were tested for completeness and accuracy, it was determined that the calculations and record keeping were inadequate as referenced in this report. As referenced in this report SNLIC could not produce schedules of premiums, death benefits and cash values for selected individual policies. The Company was also unable to duplicate its reserve calculations in a timely manner. These conditions resulted in time constraints requiring the OIC to retain Deloitte Consulting LLP (Deloitte Consulting) to complete the statutory actuarial review of certain Annual Statement assets and liabilities for the period ending December 31, 2005.

The purpose of the review was to:

- Determine if the methods and underlying assumptions used to calculate statutory reserves as of December 31, 2005 were reasonable and appropriate;
- Determine if the statutory reserves as of December 31, 2005 made a reasonable provision for the required liabilities as of that date; and,
- Determine if the statutory reserves as of December 31, 2005 were in compliance with applicable state of Washington statutory reserve requirements as of December 31, 2005.

Based on the above review, Deloitte Consulting found that SNLIC's universal life business has a nonforfeiture rate that is less than the valuation rate which is in violation of RCW 48.74.050 (See Instruction No. 4). With the exception of this instruction, the reserve methodology appears reasonable and appropriate and meets the valuation requirements of the state of Washington.

### REINSURANCE

The Company did not cede or assume any business during the examination period.

### STATUTORY DEPOSITS

The Company has the following statutory deposits as of December 31, 2005:

<u>State</u>	<u>Market Value</u>	<u>Statement Value</u>
Georgia	\$48,754	\$50,274
New Mexico	151,353	150,173
North Carolina	393,809	400,803
Oklahoma	150,000	150,000
Virginia	100,000	100,000
Washington	1,511,442	1,516,214

### ACCOUNTING RECORDS AND INFORMATION 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 Ernst and Young. 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 except as indicated. (See Instruction No. 1)

The management of the Company is sufficiently knowledgeable of the information systems (IS) process. Systems development, acquisition, and maintenance controls were evaluated to gain assurance that appropriate controls are in place. 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. Sufficient internal controls are in place and monitored by the Company. The Company's IS Department has the ability to recover

from an incident or disaster and has documented these procedures in a detailed, written disaster recovery plan.

#### **SUBSEQUENT EVENTS**

No material subsequent events were disclosed during the examination.

#### **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

All previous report instructions and comments were addressed.

#### **FINANCIAL STATEMENTS**

Assets, Liabilities, Surplus and Other Funds

Summary of Operations

Reconciliation of Surplus For the Period Since the Last Examination

**SYMETRA NATIONAL LIFE INSURANCE COMPANY**  
**ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**DECEMBER 31, 2005**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
<u>ASSETS</u>			
Bonds	\$13,957,933	\$0	\$13,957,933
Preferred Stock	486,720		486,720
Cash and Short Term Investments	1,368,039		1,368,039
Contract Loans	184,803		184,803
Receivable for Securities	68,037		68,037
Subtotal, Cash and Invested Assets	<u>16,065,532</u>		<u>16,065,532</u>
Investment income due and accrued	178,562		178,562
Uncollected Premiums and agents' balances	6,384		6,384
Deferred Premiums, Agents' Balances	72,288		72,288
Net Deferred Tax Asset	28,086		28,086
Guaranty Funds Receivable	7,273		7,273
Receivable from parent, subsidiaries and affiliates	<u>137,761</u>		<u>137,761</u>
<b>TOTAL ASSETS</b>	<u><u>\$16,495,886</u></u>		<u><u>\$16,495,886</u></u>
<u>LIABILITIES</u>			
Aggregate Reserve for life policies and contracts	\$6,352,512		\$6,352,512
Liability for deposit-type contracts	63		63
Contract claims: Life	25,747		25,747
Premiums and annuity considerations received in advance	5,695		5,695
Interest Maintenance Reserve	110,600		110,600
Commissions to agents due or accrued	739		739
General expenses due or accrued	7,226		7,226
Taxes, licenses and fees due or accrued excl. FIT	14,704		14,704
Current federal and foreign income taxes	109,009		109,009
Unearned Investment Income	6,571		6,571
Amounts withheld or retained by company	284		284
Remittances and items not allocated	232		232
Asset Valuation Reserve	47,385		47,385
Aggregate write-ins for liabilities	<u>188</u>		<u>188</u>
<b>TOTAL LIABILITIES</b>	<u>6,680,955</u>	<u>0</u>	<u>6,680,955</u>
<u>SURPLUS AND OTHER FUNDS</u>			
Common capital stock	2,500,000		2,500,000
Gross Paid in and contributed	4,500,000		4,500,000
Unassigned funds (surplus)	2,814,931		2,814,931
Capital and surplus	<u>9,814,931</u>		<u>9,814,931</u>
<b>TOTAL LIABILITIES, SURPLUS AND OTHER FUNDS</b>	<u><u>\$16,495,886</u></u>	<u><u>\$0</u></u>	<u><u>\$16,495,886</u></u>

**SYMETRA NATIONAL LIFE INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2005**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
<b><u>INCOME</u></b>			
Premiums and annuity considerations	\$409,017	\$0	\$409,017
Net investment income	850,715		850,715
Amortization of interest maintenance reserve	19,287		19,287
Aggregate write-ins for miscellaneous income	7,500		7,500
<b>TOTAL INCOME</b>	<b>1,286,519</b>	<b>0</b>	<b>1,286,519</b>
<b><u>BENEFITS</u></b>			
Death Benefits	123,564		123,564
Disability benefits	6,530		6,530
Surrender Benefits	76,937		76,937
Interest and adjustments on contracts	391		391
Increase in aggregate reserves for life, accident and health contracts	1,353,569		1,353,569
<b>TOTAL BENEFITS</b>	<b>1,560,991</b>	<b>0</b>	<b>1,560,991</b>
<b><u>EXPENSES</u></b>			
Commissions on premiums, annuity, and deposit-type contract	3,676		3,676
General insurance expenses	272,303		272,303
Insurance taxes, licenses and fees, excl. federal income tax	99,848		99,848
Increase in loading	784		784
<b>TOTAL EXPENSES AND BENEFITS</b>	<b>1,937,602</b>	<b>0</b>	<b>1,937,602</b>
Net gain from operations before dividends to policyholders and income taxes	(651,083)		(651,083)
Less federal income taxes incurred (excl. tax on capital gains)	280,969		280,969
Net gain from operations after dividends to policyholders and federal income taxes but before realized capital gains (losses)	(932,052)		(932,052)
Net realized capital gains or (losses) less capital gains tax	(4,048)		(4,048)
<b>NET INCOME</b>	<b>(\$936,100)</b>	<b>\$0</b>	<b>(\$936,100)</b>
<b><u>Capital and Surplus Account</u></b>			
Capital and Surplus, December 31, 2004	\$10,802,309		\$10,802,309
Net income	(936,100)		(936,100)
Change in net deferred income tax	556,677		556,677
Change in non-admitted assets and related items	(596,172)		(596,172)
Change in asset valuation reserve	(11,781)		(11,781)
Net change in capital and surplus for the year	(987,376)	0	(987,376)
<b>Capital and Surplus, December 31, 2005</b>	<b>\$9,814,933</b>	<b>\$0</b>	<b>\$9,814,933</b>

**SYMETRA NATIONAL LIFE INSURANCE COMPANY  
RECONCILIATION OF SURPLUS  
FOR THE PERIOD SINCE THE LAST EXAMINATION**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Capital and Surplus, December 31, Previous Year	\$10,802,309	\$11,765,314	\$12,558,346	\$13,510,062	\$13,752,923
Net income	(936,100)	119,186	306,626	280,676	1,066,028
Change in net deferred income tax	556,677	70,305	(149,291)	(7,281)	3,620
Change in non-admitted assets and related item	(596,172)	(59,620)	147,196	(1,115)	(3,034)
Change in asset valuation reserve	(11,781)	7,124	(41,728)	126,004	(30,834)
Cumulative effect of changes in accounting principles	0	0	0	0	71,359
Dividends to Stockholders	0	(1,100,000)	(1,255,835)	(1,350,000)	(1,350,000)
Net change in capital and surplus for the year	(987,376)	(965,005)	(793,032)	(951,716)	(242,861)
Capital and surplus on December 31, current year	<u>\$9,814,933</u>	<u>\$10,802,309</u>	<u>\$11,765,314</u>	<u>\$12,558,346</u>	<u>\$13,510,062</u>

## NOTES TO FINANCIAL STATEMENTS

The Company has a special consent order issued by the state of Washington on September 30, 1983 to allow the Company to own and to purchase interests in pools of mortgages if certain requirements have been met.

## ACKNOWLEDGEMENT

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

In addition to the undersigned, Constantine Arustamian CPA, CFE, Financial Examiner; Friday Enoye, Financial Examiner; Cynthia Clark, Financial Examiner; Richard Bologna, Financial Examiner; Tarik Subbagh, CPA, CFE, Financial Examiner; Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, Automated Examination Specialist; and Roy Olson, FSA, MAAA, Life Actuary, all from the Washington State Office of the Insurance Commissioner participated in the examination and the preparation of this report.

Deloitte Consulting LLP under contract with the OIC, participated in the examination providing specialized actuarial support in the evaluation of reserves and asset adequacy.

Respectfully submitted,



---

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

**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, CPA, CFE, FLMI  
Examiner in Charge  
State of Washington

Subscribed and sworn to before me on this 27<sup>th</sup> day of February, 2008.

  
Notary Public in and for the  
State of Washington  
Residing in Seattle.

