

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



**FINANCIAL EXAMINATION
OF
INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND
FINANCIAL SERVICES, INC.
VANCOUVER, BRITISH COLUMBIA**

**NAIC CODE 84514
DECEMBER 31, 2007**

**Participating States:
Washington**

Order No. 09-23
Industrial Alliance Pacific Insurance and
Financial Services, Inc.
Exhibit A

SALUTATION

Seattle, Washington
March 5, 2009

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

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

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

Dear Commissioners and Superintendent:

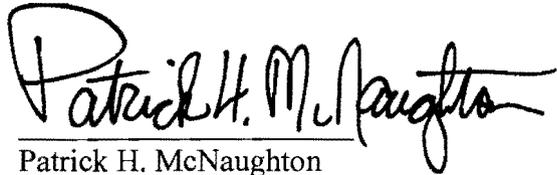
In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

Industrial Alliance Pacific Insurance and Financial Services, Inc.
of
Vancouver, British Columbia, Canada

hereinafter referred to as "IAPIFS" or "the Company", at its home office located at 2645 Broadway West, Vancouver, British Columbia, V6B 5H6. This report is respectfully submitted showing the condition of the Company as of December 31, 2007.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of Financial Examination of Industrial Alliance Pacific Insurance and Financial Services, Inc., of Vancouver, British Columbia, Canada. This report shows the financial condition and related corporate matters as of December 31, 2007.

A handwritten signature in black ink that reads "Patrick H. McNaughton". The signature is written in a cursive style with a large initial "P" and a long horizontal flourish at the end.

Patrick H. McNaughton
Chief Examiner

3-5-2009

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2003 through December 31, 2007 and comprises a comprehensive review of the books and records of the US operations of the Company. The examination followed the statutory requirements contained in the Washington Administrative 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 2007 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. Deferred Annuities

The Company reports all of its fixed deferred annuities on Exhibit 7. All of the Company's deferred annuities have life contingencies which require reporting on Exhibit 5 per SSAP 50, paragraph 20. There is no effect on premium taxes as a result of this change, as RCW 48.14.320(1) does not differentiate between life-contingent and non-life contingent annuity considerations. Both are considered annuities and are not subject to premium tax.

The Company is instructed to comply with WAC 284-07-050(2), which requires the Company to file its financial statement in accordance with the NAIC AP&P Manual and the NAIC Annual Statement Instructions, and SSAP 50, paragraph 20, by reporting contracts with life contingencies as life insurance, which belong on Exhibit 5.

2. Annual Statement Errors

The results of the examination disclosed several instances in which the Company's filing of the 2007 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. Exhibit of Life Insurance** - The Company incorrectly reported the amount of life insurance in-force on the Exhibit of Life Insurance. The total amount of in-force was understated by approximately \$12 million, which represented certain universal life policies. The Company indicated that this has been corrected in 2008.
- b. Schedule D Part 1** – The Company did not complete column 18, How Interest Paid.
- c. Schedule of Assets, Liabilities, Surplus and other Funds** - The Company included claims payable on page 3, line 19, Remittances and items not allocated. The NAIC Annual Statement Instructions require claims payable to be reported on page 2, line 4.1, Contract claims: life.

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.

3. Actuarial Findings

a. Five-Year Rolling Guarantee

The Company's Critical Choice plan includes policies that require five years notice to change premiums. The Company's reserves do not account for this in its valuation methodology. An examination adjustment has been made for \$367,600.

The Company is instructed to comply with WAC 284-74-340(6), recognizing its premium guarantees where reserves are based on maximum premiums.

b. Term4Life Reserve Calculation

The Company's Term4Life plan is a term to age 99 plan. The Company reserved for this plan according to WAC 284-74-350. WAC 284-74-370 authorizes this valuation methodology only for policies issued January 1, 2000 or later. An examination adjustment has been made for \$157,965 for use of WAC 284-74-370 prior to its effective date.

The Company is instructed to comply with RCW 48.74.040(1) and WAC 284-74-370, by calculating Term4Life reserves for policies issued prior to January 1, 2000 on the basis of contractual premiums that increase by approximately 1% annually over the life of the policy.

c. Tabular Cost of Insurance

The Company's reserves for some policies issued on the IAP Choice plan and on some of the Secure Life plan are less than the tabular cost of insurance for the balance of the policy year, using permitted valuation mortality rates. An examination adjustment has been made for \$31,331.

The Company is instructed to comply with WAC 284-74-350(3) and 284-74-440(1)(e), holding reserves no less than the tabular cost of insurance for the balance of the policy year, using permitted valuation mortality rates. For policies issued on the age last birthday basis, the permitted mortality rates are age last birthday rates on the ultimate form of the 2001 CSO mortality table.

d. Future Guaranteed Death Benefits

The Company's reserves for the Single Premium Adjustable Life plan are based on projected cash values and are less than the present value of future death benefits, as guaranteed on the valuation date. The Company's deferred annuity reserves do not reflect contractual death benefits for some forms that provide the full policy value on death. Examination adjustments have been made for \$10,354 and \$1,285, respectively.

The Company is instructed to comply with RCW 48.74.040(1) by holding reserves no less than the present value of future guaranteed death benefits. The Company is instructed to comply with RCW 48.74.040(2) by reflecting the correct contractual death benefit of each policy form in its valuation.

e. Secondary Guarantee Reserves

The Company's reserves on some of its Secure Life policies that have a secondary guarantee are less than those required by WAC 284-74-360(2) and (3). An examination adjustment has been made for \$15,000.

The Company is instructed to comply with WAC 284-74-360, holding reserves no less than the reserves required for 20-year term plans whose guaranteed premiums are what the Company calls "minimum premiums" and what WAC 284-74-360(1)(c) calls "specified premiums."

f. Future Cash Surrender Values

The Company fails to recognize future surrender charge decreases exceeding 1% in its deferred annuity reserves. The Company fails to project future deferred annuity cash values over periods that the guaranteed interest rate exceeds the valuation interest rate, understating required reserves. The Company does not reserve for the retirement waiver of surrender charges on some of its deferred annuity contracts. An examination adjustment has been made for \$272,720.

The Company is instructed to comply with RCW 48.74.040(2) by running its deferred annuity projections to any contract anniversary that may maximize the present value of future benefits minus the present value of any required valuation considerations. The Company is also instructed to comply with RCW 48.74.040(2) and Actuarial Guideline XIII by making a reasonably conservative valuation assumption concerning the availability of surrender charges.

g. Equity-Indexed Annuities

The Company has not installed an equity-indexed annuity valuation system and holds fund values as reserves for its equity-indexed annuity contracts. This is not in compliance with Actuarial Guideline XXXV, which requires the use of one of the listed methods deemed consistent with CARVM. No examination adjustment was needed as a result of this error.

The Company is instructed to comply with Actuarial Guideline XXXV by reserving for its equity-indexed annuities according to one of the listed methods deemed consistent with CARVM, and by submitting an appropriate certification from its appointed actuary with each annual and quarterly statutory financial statement.

4. Deferred Premiums

The Company's reported deferred premium asset includes both premiums that have already been collected and negative loading. SSAP No. 51, paragraph 23, requires the deferred premium asset to be reduced for premiums already collected and negative loading. An examination adjustment has been made for \$189,034.

The Company is instructed to comply with SSAP No. 51, paragraph 23, by excluding premiums already collected and negative loading from the deferred premium asset.

5. Mortgage Broker Fees

The Company sets up mortgage broker fees as an asset and then offsets the unamortized balance remaining at December 31, 2007 against Other Liabilities. SSAP 37, paragraph 7, requires mortgage broker fees to be expensed when incurred. An examination adjustment has been made for \$329,124 as a result of this error.

The Company is instructed to comply with RCW 48.05.073 and WAC 284-07-050(2), which require the Company to file its financial statements in accordance with the NAIC Annual Statement Instructions and the AP&P Manual.

6. Statement of Actuarial Opinion

The Statement of Actuarial Opinion (SAO) submitted with the Company's NAIC annual statement failed to name an individual accountable for the year-end valuation files.

The Company is instructed to comply with WAC 284-07-380(2)(d) and (e) by submitting a certified SAO with a named individual accountable for the year-end valuation files.

COMMENTS AND RECOMMENDATIONS

1. Term4Life Reserve Methodology

The Company reserves for its Term4Life plan according to WAC 284-74-350. The Term4Life plan is classified as a term life product by the Company, but the policy design shares some defining characteristics of whole life plans, which terminate at age 100 and have level premiums. Term4Life terminates at age 99 and has premiums that increase by approximately 1% annually.

It is recommended that the Company review its reserving methodology for its Term4Life plan, taking into consideration that this plan has some whole-life plan characteristics, and would be more conservatively reserved on the basis of RCW 48.74.040(1) and RCW 48.74.080, which recognize the plan's increasing premium structure.

2. Internal Control - Segregation of Duties

The Company's Information Services (IS) Department lacks proper separation from operating units for which it provides services. The vice president of information systems is also the vice president of claims for the claims department. As a control mechanism, the IS Department should be independent of all operating units for which it performs data processing functions.

It is recommended that the Company enhance its internal control by making the IS Department head independent of all operating units for which it performs data processing functions.

Subsequent to our fieldwork, the Company implemented the recommendation and made the IS Department head independent of all other operational units.

3. Internal Control – Access Capabilities

The department managers do not periodically review the access capabilities currently provided to individuals within their department to ensure that access rights are appropriate.

It is recommended that department managers periodically validate the access capabilities currently provided to individuals within their department, as recommended by the NAIC Financial Condition Examiners Handbook.

4. Mortgage Loans - Property Taxes

During our review of mortgage loans, we noted that one loan did not contain evidence that the property tax was current. The Company does not review loans for property tax delinquencies until several months after the taxes are due.

It is recommended that the Company strengthen its controls over mortgage loans by obtaining evidence of property tax payments as they become due.

COMPANY PROFILE

Company History

On April 29, 1967, Industrial Alliance Pacific Insurance and Financial Services, Inc. (IAPIFS) was incorporated under Canadian law in the name of The North West Life Assurance Company of Canada and commenced business on June 22, 1967. In 1971, the Company was granted a Certificate of Authority to use Washington State as a state of entry to transact insurance in the United States, pursuant to RCW 48.35. In 1973, the Company commenced business as an alien insurer.

On July 8, 1982, The North West Life Assurance Company of Canada was purchased by Industrial Alliance Life Management Corporation, which was ultimately controlled by Industrial-Alliance Life Insurance Company of Quebec, Canada (IAL).

In September of 2000, The North West Life Assurance Company of Canada changed its name to Industrial – Alliance Pacific Life Insurance Company, and in 2007, changed its name to Industrial Alliance Pacific Insurance and Financial Services, Inc.

Territory and Plan of Operation

In the United States, the Company is licensed in 45 states and the District of Columbia. It markets universal life, whole life, term and immediate and deferred annuity contracts in 42 states. The majority of the U.S. business is generated in California and Texas.

The Company directly appoints and compensates agents and brokers to sell its products.

Growth of Company

The growth of the US operations, as reported in its NAIC Annual Statements, is illustrated below:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2003	\$269,150,017	\$247,068,658	\$22,081,359
2004	298,342,189	273,852,160	24,490,029
2005	327,304,271	303,148,069	24,156,202
2006	343,701,710	320,155,035	23,546,675
2007	359,044,339	334,996,358	24,047,981

<u>Year</u>	<u>Premiums</u>	<u>Net Investment</u>	
		<u>Income</u>	<u>Death Benefits</u>
2003	\$13,840,917	\$13,818,992	\$4,136,719
2004	13,722,438	13,869,299	2,959,850
2005	15,114,887	15,561,826	4,103,590
2006	16,703,606	16,778,207	4,793,263
2007	15,358,334	18,976,814	4,619,285

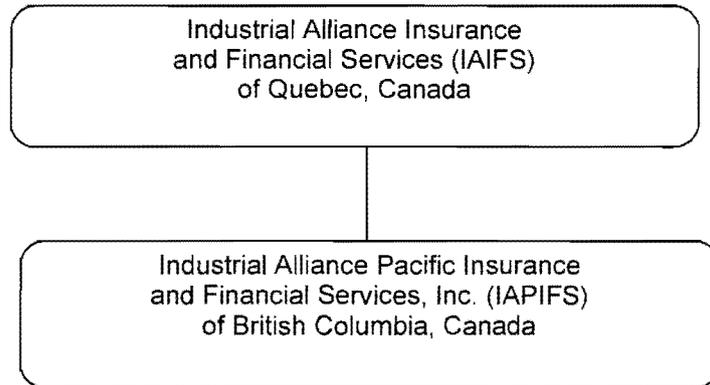
Ordinary Life Insurance in Force

<u>STATE</u>	<u>AMOUNT</u>	<u>STATE</u>	<u>AMOUNT</u>
Alabama	\$673,843	Montana	1,530,150
Alaska	1,323,909	Nebraska	1,270,766
Arizona	79,266,084	Nevada	32,461,880
Arkansas	456,577	New Hampshire	255,202
California	1,589,330,854	New Jersey	1,051,801
Canada	6,632,374	New Mexico	6,453,852
Colorado	27,646,928	New York	2,553,775
Connecticut	400,000	North Carolina	1,468,275
Delaware	0	North Dakota	0
District of Columbia	0	Ohio	2,796,822
Florida	9,539,822	Oklahoma	2,841,283
Georgia	2,434,343	Oregon	9,572,282
Hawaii	16,201,812	Pennsylvania	684,617
Idaho	22,728,575	Rhode Island	0
Illinois	7,268,801	South Carolina	581,858
Indiana	964,740	South Dakota	120,000
Iowa	419,000	Tennessee	867,297
Kansas	1,808,188	Texas	299,220,878
Kentucky	6,173,677	Utah	7,563,377
Louisiana	1,118,688	Vermont	73,516
Maine	40,000	Virginia	2,533,113
Maryland	581,043	Washington	51,722,622
Massachusetts	252,772	West Virginia	75,001
Michigan	3,437,893	Wisconsin	902,714
Minnesota	1,500,383	Wyoming	393,702
Mississippi	987,335	Others	0
Missouri	760,576		
		TOTAL	<u><u>\$2,208,943,000</u></u>

Affiliated Companies

IAPIFS is 99.9% owned by Industrial Alliance Insurance and Financial Services (IAIFS), a Quebec company.

The following is an abbreviated organizational chart:



Intercompany Agreements

IAPIFS was a party to a General Services Agreement with its parent, IAIFS. The parent allocates certain shared costs to IAPIFS. Then, IAPIFS allocates these charges to its US and Canadian operations.

MANAGEMENT AND CONTROL

Ownership

IAPIFS is 99.9% owned by IAIFS, a Quebec corporation. IAIFS is the ultimate controlling person.

Board of Directors (BOD)

Directors as of December 31, 2007:

Gerald Bouwers
Yvon Charest
Yvon Cote
Sidney O. Fattedad
F. Robert Hewett
John LeBoutillier
Gerald A.B. McGavin
Normand Pepin
Blaize Horner Reich
Charlotte Robb
Henri A. Roy
Monica Sloan
Warren Van Genderen

Officers

Officers as of December 31, 2007:

<u>Name</u>	<u>Title</u>
Yvon Charest	Chief Executive Officer
Gerald Bouwers	President and Chief Operating Officer
Douglas A. Carrothers	Vice President, General Counsel and Corporate Secretary
Kathryn M. Cooper	Vice President, Human Resources
Mary J. Dinkel	Vice President, U.S. Sales Development
Paul R. Grimes	Senior Vice President, Individual Insurance Sales, Canada
Alnoor R. Jiwani	Vice President, Claims and Information Services
Azmina Karim-Bondy	Assistant Corporate Secretary
Richard Legault	Vice-President Investments
Gregory A. McCormack	Vice President, SAL Marketing & Administration
Denis Ricard	Vice President & Appointed Actuary
Gordon A. Robinson	Vice President, Treasurer & Controller
David L. Stewart	Vice President, Sales – SAL
Michael L. Stickney	Executive Vice President, U.S. Development
Paul Tatay	Vice President, Special Markets Group

Committees

The Company has the following committees of the BOD:

- Audit Committee
- Human Resources Committee
- Executive Committee (dissolved in 2008)
- Investment Committee
- Conduct Review Committee
- Pension Committee for Defined Contribution Pension Plan

Conflict of Interest

The Company has a policy that requires all directors and officers to complete a conflict of interest questionnaire annually. The purpose of the questionnaire is to detect any activities or participation on the part of a director or officer that could possibly be interpreted as a conflict of interest. Additionally, all employees are given a copy of the Code of Business Conduct, which addresses conflicts of interest. All employees are asked to sign a disclosure form upon hire and annually thereafter. Our review of the directors, officers, and key employee disclosures 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. IAPIFS 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

The majority of the Company's employees are located in Canada and participate in the pension plan of the Canadian operations. A portion of the employee benefit expense is allocated to the US operations of IAPIFS, based upon the proportionate salary of the employees working on the US operations. All pension funding requirements are the responsibility of the total company, for which the US operations has no legal obligation. However, a separate plan for employees residing in the United States is contemplated.

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 Letters Patent was amended in 2007 to reflect the name change to IAPIFS.

MORTALITY AND LOSS

IAPIFS provided copies of its actuarial workpapers and reserve reports as of December 31, 2007. 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, 2007 was represented in the valuation reports and workpapers. A sampling of contracts and payments was taken from active life 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 in compliance with Washington law.

In the OIC Actuary's opinion, reserves were in compliance with statutory requirements, and subject to his findings as noted in Instruction No. 3, 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

The Company entered into five new reinsurance contracts during the examination period with three reinsurers; Swiss Re Life, Security Life of Denver and Aon Re Canada.

Reinsurance agreements were found to be in compliance with Washington State reinsurance statutes. All of the reinsurers are authorized in the state of Washington. The treaties are properly classified in Schedule S of the 2007 NAIC Annual Statement. The Company has controls in place to adequately monitor its reinsurance program including the financial condition of the reinsurers.

STATUTORY DEPOSITS

The Company had the following statutory deposits as of December 31, 2007:

<u>State</u>	<u>Book / Adjusted Carrying Value</u>	<u>Fair Value</u>
Alaska	\$345,681	\$354,266
California	549,723	551,139
Georgia	34,797	34,952
Indiana	96,885	101,414
Massachusetts	123,420	128,044
Michigan	339,097	354,949
New Hampshire	550,000	550,055
New Mexico	124,732	124,678
West Virginia	567,592	584,062
Washington	2,475,959	2,604,335
TOTAL	<u><u>\$5,207,886</u></u>	<u><u>\$5,387,894</u></u>

ACCOUNTING RECORDS AND INFORMATIONS SYSTEMS

The Company maintains its accounting records on a Canadian Generally Accepted Accounting Principles (Canadian 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 Deloitte & Touche LLP. 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. Other than Recommendations No. 2 - 4, no other exceptions were noted.

Management of IAPIFS is sufficiently knowledgeable of IS operational issues and provides direction and oversight through its Senior Management Team. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. The Company maintains an Operations Department Manual and an Information Security Policy that defines the responsibilities of users, management and IS personnel.

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. However, the IS Department lacks proper separation from operating units for which it provides services. (See Recommendation No. 2.)

IAPIFS has a detailed, written Business Contingency Plan that includes appropriate escalation procedures to resolve operational failures in a timely manner and 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. The plan has been tested annually and updated according to test results.

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

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES, INC.
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2007

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
Assets				
Bonds	\$104,334,509	\$0	\$104,334,509	
Mortgage loans on real estate-first liens	209,817,915		209,817,915	
Cash, cash equivalents, and short term investments	13,874,420		13,874,420	
Contract Loans	24,430,708		24,430,708	
Aggregate write-ins for invested assets	<u>0</u>		<u>0</u>	
Subtotals, cash and invested assets	352,457,552	0	352,457,552	
Investment income due and accrued	1,950,002		1,950,002	
Premiums and considerations:				
Uncollected premiums and agents' balance in course of collection	0		0	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,073,027	(189,034)	2,883,993	2
Net deferred tax asset	<u>1,563,758</u>		<u>1,563,758</u>	
Total assets excluding separate accounts, segregated	359,044,339	(189,034)	358,855,305	
From separate accounts, segregated accounts, and protected cell accounts	<u>0</u>		<u>0</u>	
Total Assets	<u><u>\$359,044,339</u></u>	<u><u>(\$189,034)</u></u>	<u><u>\$358,855,305</u></u>	

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES, INC.
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS (Continued)
DECEMBER 31, 2007

	<u>BALANCE PER</u> <u>COMPANY</u>	<u>EXAMINATION</u> <u>ADJUSTMENTS</u>	<u>BALANCE PER</u> <u>EXAMINATION</u>	<u>NOTES</u>
Liabilities				
Aggregate reserve for life contracts	\$89,792,509	\$856,255	\$90,648,764	3
Liability for deposit-type contracts	237,636,803		237,636,803	
Contract claims - life	1,738,743		1,738,743	
Premiums and annuity considerations received in advance	92,097		92,097	
Contract liabilities not included elsewhere: Surrender values on cancelled contracts	6,047		6,047	
Interest maintenance reserve	150,220		150,220	
Commissions to agents due and accrued	27,761		27,761	
General expenses due or accrued	597,228		597,228	
Taxes, licenses and fees due or accrued	1,898		1,898	
Current federal and foreign income taxes	459,549		459,549	
Amounts withheld or retained by company as agent or trustee	86,783		86,783	
Amounts held for agents account	154,178		154,178	
Remittances and items not allocated	245,955	329,124	575,079	1
Misc liabilities-asset valuation reserve	2,773,569		2,773,569	
Aggregate write-ins for liabilities	1,233,018		1,233,018	
Total liabilities excluding separate Account	<u>334,996,358</u>	<u>1,185,379</u>	<u>336,181,737</u>	
From separate accounts statement	0		0	
Total Liabilities	<u>334,996,358</u>	<u>1,185,379</u>	<u>336,181,737</u>	
Common capital stock	0		0	
Aggregate write-ins for special surplus funds	600,000		600,000	
Unassigned funds (surplus)	23,447,981	(\$1,374,413)	22,073,568	
Capital and surplus	<u>24,047,981</u>	<u>(1,374,413)</u>	<u>22,673,568</u>	
Total Liabilities, Surplus, and Other Funds	<u>\$359,044,339</u>	<u>(\$189,034)</u>	<u>\$358,855,305</u>	

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES, INC.
SUMMARY OF OPERATIONS
YEAR ENDED DECEMBER 31, 2007

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
Income				
Premiums and annuity considerations	\$15,358,334	\$0	\$15,358,334	
Net investment income	18,976,814	(329,124)	18,647,690	1
Amortization of interest maintenance reserve	(82,357)		(82,357)	
Commissions and expense allowance on reinsurance ceded	96,705		96,705	
Charges and fees for deposit-type contracts	959,922		959,922	
Aggregate write-ins for miscellaneous income	385,520		385,520	
Total Income	<u>35,694,938</u>	<u>(329,124)</u>	<u>35,365,814</u>	
Benefits				
Death benefits	4,619,285		4,619,285	
Matured endowments (excluding guarantee annual pure endowments)	2,000		2,000	
Annuity benefits	358,853		358,853	
Surrender benefits and withdrawals	4,855,146		4,855,146	
Interest and adjustments on contracts or deposit-type contract funds	6,966,779		6,966,779	
Increase in aggregate reserves for life and health policies and contracts	1,342,120	856,255	2,198,375	3
Total Benefits	<u>18,144,183</u>	<u>856,255</u>	<u>19,000,438</u>	
Expenses				
Commissions on premiums and annuity considerations	7,638,189		7,638,189	
General insurance expenses	8,153,997	189,034	8,343,031	2
Insurance taxes, licenses and fees, excl. federal income taxes	459,932		459,932	
Increase in loading	(133,700)		(133,700)	
Aggregate write-ins for deductions	41,046		41,046	
Total Expenses and Benefits	<u>34,303,647</u>	<u>1,045,289</u>	<u>35,348,936</u>	
Net gain from operations before dividends to policyholders and income taxes	1,391,291		1,391,291	
Federal and foreign income taxes incurred (excluding tax on capital gains)	308,616		308,616	
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses	1,082,675		1,082,675	
Net Income	<u>\$1,082,675</u>	<u>(\$1,374,413)</u>	<u>(\$291,738)</u>	

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES, INC.
SUMMARY OF OPERATIONS, Continued
YEAR ENDED DECEMBER 31, 2007

	<u>BALANCE</u> <u>PER COMPANY</u>	<u>EXAMINATION</u> <u>ADJUSTMENTS</u>	<u>BALANCE PER</u> <u>EXAMINATION</u>
Capital and Surplus Account			
Capital and Surplus, December 31, Previous Year	\$23,546,677	\$0	\$23,546,677
Net income	1,082,675	(1,374,413)	(291,738)
Change in unrealized foreign exchange capital gain (loss)	(286,320)		(286,320)
Change in net deferred income tax	59,602		59,602
Change in non-admitted assets and related items	6,743		6,743
Change in asset valuation reserve	(361,396)		(361,396)
Net change in capital and surplus for the year	501,304		501,304
Capital and Surplus, December 31, 2007	<u>\$24,047,981</u>	<u>(\$1,374,413)</u>	<u>\$22,673,568</u>

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES, INC.
RECONCILIATION OF SURPLUS
FOR THE PERIOD SINCE THE LAST EXAMINATION

Capital and Surplus Account	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital and Surplus, December 31, Previous Year	<u>\$23,546,677</u>	<u>\$24,156,197</u>	<u>\$24,490,031</u>	<u>\$22,081,360</u>	<u>\$31,617,266</u>
Net income	1,082,675	(552,666)	(373,250)	3,056,217	(593,423)
Change in net unrealized capital gains (losses)					
Change in net unrealized foreign exchange gains (losses)	(286,320)	135,567	(133,011)	(137,664)	
Change in net deferred income tax	59,602	(821,465)	404,199	485,764	(54,302)
Change in non-admitted assets and related items	6,743	1,040,108	(155,417)	(719,918)	372,829
Change in asset valuation reserve	(361,396)	(411,064)	(76,355)	(647,220)	418,879
Dividends to stockholders					(528,382)
Aggregate write-ins for gains and losses in surplus				371,492	(9,151,507)
Net change in capital and surplus for the year	<u>501,304</u>	<u>(609,520)</u>	<u>(333,834)</u>	<u>2,408,671</u>	<u>(9,535,906)</u>
Capital and Surplus, December 31, 2007	<u>\$24,047,981</u>	<u>\$23,546,677</u>	<u>\$24,156,197</u>	<u>\$24,490,031</u>	<u>\$22,081,360</u>

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES, INC.
ANALYSIS OF CHANGES IN FINANCIAL STATEMENT RESULTING FROM THE EXAMINATION
DECEMBER 31, 2007

	<u>Per Annual Statement</u>	<u>Per Examination</u>	<u>Notes</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
Capital and surplus 12/31/2007 Per Annual Statement					\$24,047,981
Assets					
Deferred Premiums	\$3,073,027	\$2,883,993	1	(\$189,034)	
Liabilities					
Remittances and items unallocated	245,955	575,079	2	(329,124)	
Aggregate reserve for life contracts	89,792,509	90,648,764	3	(856,255)	
Change in surplus					(1,374,413)
Capital and Surplus, 12/31/2007 per examination					<u><u>\$22,673,568</u></u>

NOTES TO FINANCIAL STATEMENTS

1. Mortgage Broker Fees

Increase Remittances and items unallocated in the amount of \$329,124 for improper offsetting of mortgage broker fees, in compliance with SSAP No. 37, paragraph 7. (See Instruction No. 5.)

2. Deferred Premium Asset

Reduce the deferred premium asset in the amount of \$189,034 in compliance with SSAP No. 51, paragraph 23. (See Instruction No. 4.)

3. Actuarial Findings

Increase Aggregate reserve for life contracts in the amount of \$856,255 for various actuarial findings. (See Instruction No. 3.)

The Company has no permitted practices for the state of Washington.

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; Cynthia Clark, Insurance Examiner; Orlando Gabriel, AFE, Insurance Examiner; Roy Olson, FSA, MAAA, Life 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, ALMI
Examiner-in-Charge
State of Washington

