

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



FINANCIAL EXAMINATION

OF

**LIFEWISE ASSURANCE COMPANY
MOUNTLAKE TERRACE, WASHINGTON**

**NAIC CODE 94188
DECEMBER 31, 2007**

**Participating State:
Washington**

Order No. 09-40
Lifewise Assurance Company
Exhibit A

SALUTATION

Seattle, Washington
April 8, 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

LifeWise Assurance Company

of

Mountlake Terrace, Washington

hereinafter referred to as "LWAC" or "the Company," at its home office, 7001 220th Street SW, Mountlake Terrace, Washington 98043. 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 the Financial Examination of LifeWise Assurance Company of Mountlake Terrace, Washington. This report shows the financial condition and related corporate matters as of December 31, 2007.



Patrick H. McNaughton
Chief Examiner

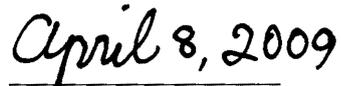

Date

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SCOPE OF 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 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. 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 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 NAIC 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 2007 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in this instruction were material to the financial statements and no examination adjustments were necessary.

- a. **Schedule of Assets, Liabilities, Surplus and other Funds** – The Company reported deferred premiums for life conversion policies as a liability on the NAIC Annual Statement, page 3, line 1. Deferred premiums should be reported on page 2, line 13.1.
- b. **General Interrogatories** – The Company did not answer General Interrogatory No. 23.1 correctly. If securities are loaned to others, they are considered not in exclusive control of the Company and the Company should answer yes to No. 23.1. The amount loaned should be reported on line 23.21.

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. Custodial Agreement Deficiencies

The Company responded in its 2007 NAIC Annual Statement General Interrogatories 26.01 that its custodial agreement with the Bank of New York complied with the FCEH. However, it did not contain several provisions required by the FCEH. RCW 48.05.250 requires a company to file a true statement of its financial condition, transactions, and affairs.

The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH.

3. Pending Claims

During completeness testing of claims, it was discovered that several pended claims were not included in the unpaid claim liability as of the end of 2007. In addition, one claim that was denied several years ago was still included in the unpaid claim liability as of the year end. This is not in compliance with SSAP No. 5, paragraph 4.

The Company is instructed to record all liabilities as required by SSAP No. 5, paragraph 4. The Company should file an accurate NAIC Annual Statement of its financial condition, transactions, and affairs in accordance with RCW 48.05.250. LWAC should also properly account for all transactions in the appropriate year, in accordance with established and accepted accounting principles.

4. Reporting and Remitting Unclaimed Property to State

RCW 63.29.070 requires reporting and remitting to the state any funds held or owing under any life insurance policy if unclaimed for more than 3 years. Our review of the claim liability at December 31, 2007 identified several claims that should have been reported and remitted to the state custodian for unclaimed property. Failure to report and remit unclaimed property in a timely manner is also a compliance issue that may expose the Company to fines and/or penalties.

The Company is instructed to comply with RCW 63.29.070 by complying with appropriate state statutes for reporting and remitting any property considered unclaimed. It is recommended that the Company also revise its Unclaimed Property Procedure to include funds held or owing under life insurance policies.

5. Life Reserves

- a. The Company currently uses a 4.5% interest rate for life insurance issues of 2006 and later with guarantees for over twenty years for the trust group certificates and life conversion policies. Per RCW 48.74.030(3)(b)(i), SSAP Appendix A-820.5.a.i.(a) (rates as per Appendix C), and Actuarial Guideline A, the Company should use 4%.
- b. The Company currently calculates the reserves for the trust group certificates as the initial reserves without bringing them up to the valuation date as required by SSAP 51.
- c. All reserves should be adjusted for immediate payment of claims in accordance with policy provisions, as required by Actuarial Guideline XXXII. The Company is not making such an adjustment to reserves for disabled lives and for the trust group certificates issued before 1995.

The Company is instructed to comply with RCW 48.74.030(3)(b)(i), SSAP Appendix A-820.5.ai.(a) and Actuarial Guideline A and use an interest rate of 4% in the calculation of reserves for single premium group life insurance issued to the trust group and for life conversion policies. Per SSAP 51, the Company should adjust the reserves for the trust group certificates from the beginning of the year of age to the valuation date. The Company is also instructed to adjust all reserves for immediate payment of claims in accordance with Actuarial Guideline XXXII for the trust group certificates and disabled lives.

6. Interest Rates – Long Term Disability (LTD) Claims

Interest rates used in the determination of reserves for LTD claims incurred before January 1, 2001 should comply with WAC 284-16-520(2). For claims reinsured with four separate reinsurers, the interest rates used by the Company in the calculation of reserves were not in compliance with this regulation.

The Company is instructed to use the interest rates prescribed in WAC 284-16-520(2) for claims incurred before January 1, 2001.

7. Termination Rates – LTD

In calculating reserves for LTD claim durations after the first two years, the Company should use the termination rates in the 1987 Commissioners Group Disability Income Table. For claims reinsured with one reinsurer, the Company is using a table based on the reinsurer's experience, which does not meet the requirements of Appendix A-010.29.a.ii of the AP&P.

The Company is instructed to use the termination rates in the 1987 Commissioners Group Disability Income Table for LTD claims prescribed by Appendix A-010.29.a.ii of the AP&P. The Company is instructed to comply with RCW 48.05.250 and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

8. Asset Adequacy Analysis

WAC 284-07-350(4)(a) specifies standards for asset adequacy analysis which requires the asset adequacy analysis to conform to the standards of practice promulgated by the Actuarial Standards Board. The actuarial memorandum that was submitted by LWAC in support of the Statement of Actuarial Opinion did not include an Asset Adequacy Analysis that adhered to the standards defined in Actuarial Standard of Practice (ASOP) No. 22.3.3.1, which requires the Company to identify a block of assets supporting the reserves.

The Company is instructed to comply with WAC 284-07-350(4)(a) and prepare the Asset Adequacy Analysis in accordance with ASOP No. 22.3.3.1.

9. Reserve Documentation

In accordance with ASOP No. 41.3.6, the actuary responsible for opining on the reserves should have access to documentation identifying the data, assumptions, and methods used in calculating reserves, with sufficient clarity that another actuary qualified in the same practice area could evaluate the reasonableness of the actuary's work. In accordance with RCW 48.03.030(1), the company, when it is being examined, should make that documentation freely accessible to the commissioner. The reserves for the Company's LTD business are calculated by the reinsurers. The OIC actuary was not able to examine the reserve calculations for the block reinsured by one of the reinsurers and the Company did not provide the calculations for the block reinsured by another reinsurer in a timely manner.

The Company is instructed per ASOP No. 41.3.6 to ensure that documentation identifying the data, assumptions, and methods is available to the actuary opining on reserves. In accordance with RCW 48.03.030(1), this documentation should be made available to the OIC during an examination.

COMMENTS AND RECOMMENDATIONS

1. Disabled Lives Valuation System

The disabled lives valuation system contains incorrect data such as, ages at disablement, expiry ages, and reserve factors. This problem affected the accuracy of the adjustments for disabled lives.

It is recommended that the Company review its internal control over data entry into the disabled lives valuation system to ensure accurate disabled lives data.

COMPANY PROFILE

Company History

LifeWise Assurance Company was originally incorporated as States West Life Insurance Company (SWL) in 1981 through a joint venture between Unigard Olympic Life Insurance Company (UOLIC) and Washington-Alaska Group Services, Inc. (WAGS), a Washington for-profit corporation doing business as an insurance sales agency. On December 1, 1983, UOLIC sold its 96,000 shares of common stock to WAGS for a base sale price of \$2.5 million. In July 2003, States West Life Insurance Company changed its legal name to LifeWise Assurance Company. In January 2007, WAGS changed its name to Ucentris Insured Solutions, Inc. (UIS). Premera Blue Cross (PBC) is the sole shareholder of UIS.

Territory and Plan of Operation

LWAC is licensed in a number of states and writes the following group policies: life; accidental death and dismemberment; long-term disability; managed disability; short-term disability; and medical stop-loss. In November 1981, LWAC began to write business in Washington upon receiving a certificate of authority to transact life and disability insurance business. It was subsequently granted certificates of authority in the following states: Alaska, Arizona, California, Idaho, Montana, New Mexico, North Dakota, Oregon, Utah, and Wyoming.

Growth of Company

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2007	\$67,072,559	\$27,678,056	\$39,394,503
2006	62,831,047	28,449,089	34,381,958
2005	57,247,969	26,673,239	30,574,730
2004	62,521,073	31,478,458	31,042,615
2003	52,492,970	24,398,946	28,094,024

<u>Year</u>	<u>Premiums Earned</u>	<u>Death & Disability Benefits</u>	<u>Investment Income</u>	<u>Net Income</u>
2007	\$39,196,446	\$20,396,327	\$3,147,937	\$5,551,334
2006	34,441,977	18,846,954	2,454,582	3,621,891
2005	31,755,935	17,770,399	2,344,570	2,489,146
2004	31,963,305	20,861,801	1,987,659	2,723,205
2003	29,989,222	20,954,594	1,855,715	813,256

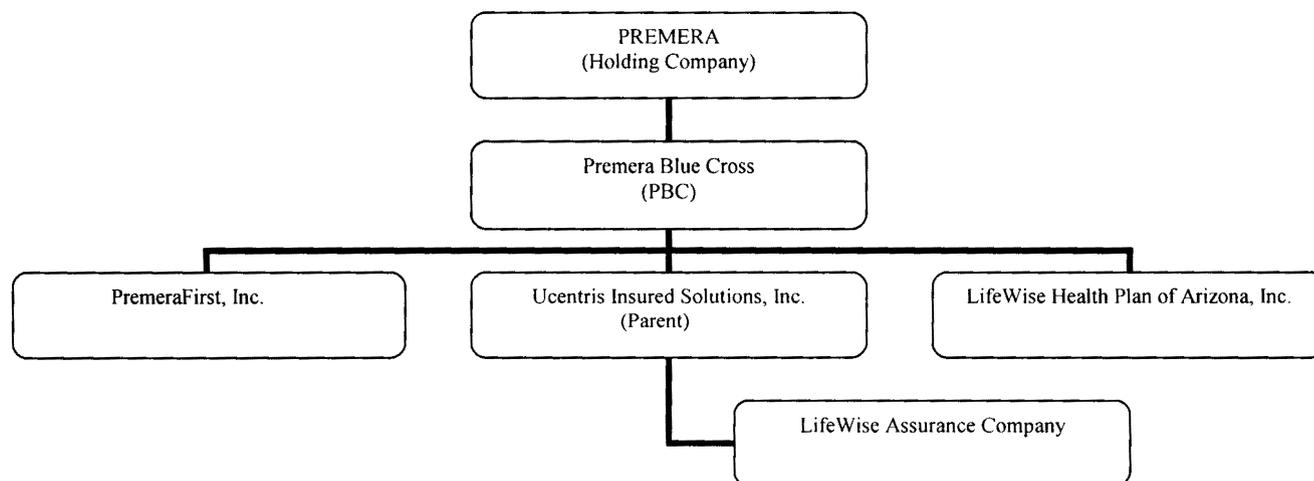
Ordinary Life and Group Life Insurance in Force by State

<u>State</u>	<u>Amount</u>
Alaska	\$1,230,298,250
Arizona	152,996,750
California	12,074,250
Idaho	375,306,000
Montana	791,500
Oregon	323,868,773
Utah	91,250
Washington	<u>3,949,432,472</u>
Total	<u><u>\$6,044,859,245</u></u>

AFFILIATED COMPANIES

LWAC is a wholly owned subsidiary of UIS, which is a wholly owned subsidiary of PBC, a Washington non-profit corporation organized under RCW 24.03. PBC provides basic medical, hospital, major medical, comprehensive, and other prepaid health care benefits for its subscribers. PBC is a registered health care service contractor. PBC is ultimately owned by PREMERA, a Washington non-profit corporation organized under RCW 24.06.

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



Intercompany Agreements

The Company was a party to various intercompany contracts with PBC and affiliates. Significant contracts in force at December 31, 2007 were: Income Tax Allocation Agreement used for allocation of federal income tax among affiliates, Intercompany Costs Allocation Agreement used for allocation of operational expenses performed for affiliates by PBC; Management Agreement used for providing management and administrative services related to long term care products by PBC, Guaranty Agreement used for infusion of necessary capital by PBC to maintain a ratio of admitted assets to liabilities, Funding and Billing Services Agreement used for charging the Company for billing and collection services performed by an affiliate, and administrative services agreements used for charging the Company for services provided by an affiliate.

MANAGEMENT AND CONTROL

Ownership

LWAC is a wholly owned subsidiary of Ucentris Insured Solutions, Inc.

Board of Directors (BOD)

Directors as of December 31, 2007:

Brian E. Ancell	Chairman
Heyward R. Donigan	Director
Kent S. Marquardt	Director
Kevin M. Roddy	Director

Officers

Officers as of December 31, 2007:

<u>Name</u>	<u>Title</u>
Kevin M. Roddy	President and Chief Executive Officer
Sharilyn A. Campbell	Vice President, Finance, and Treasurer
Audrey L. Halvorson	Senior Vice President, Actuarial Services, and Chief Actuary
John H. Pierce	Vice President, General Counsel, and Corporate Secretary

Committees

The standing committees of the BOD as of December 31, 2007 were the Audit Committee and the Investment Committee. In March 2008, the BOD disbanded the Board Committees. Matters relating to the performance of the Company's investments will be reviewed by the BOD on a semi-annual basis.

Conflict of Interest

The Company requires the annual completion of a conflict of interest statement by officers, directors, and key employees. All are required to disclose to the corporate counsel relevant outside interests, memberships, associations, and affiliations. Our review did not disclose any exceptions.

Fidelity Bond and Other Insurance

LWAC is a named insured on a financial institution fidelity bond insurance policy purchased by PBC. The aggregate amount of coverage meets the recommended guidelines of the NAIC to cover the exposure risk of the parent and its affiliates.

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

The Company's employees participate in a PBC sponsored pension equity defined benefit plan, contribution retirement savings plan, and postretirement benefit plan. In addition, the Company's executive management employees participate in a nonqualified defined benefit supplemental retirement program and nonqualified contribution retirement program.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. The initial Articles of Incorporation were adopted on August 31, 1981. The Articles of Incorporation were restated on March 29, 1989. The Restated Articles of Incorporation, Article 4, "Shares", were amended on January 7, 2000, by changing an authorized number of shares from 120,000 to 125,000 and a par value per share from \$10 to \$20.

The Restated Articles of Incorporation, Article 11, "Limitation of Liability", were amended on January 19, 2000, by inserting new provisions in Article 11 and by changing the name of the Article to "Limitation of Liability and Indemnification".

The Restated Articles of Incorporation, Article 1, "Name", were amended on August 6, 2003, by changing the name of the Company to LifeWise Assurance Company.

The amended Bylaws of LifeWise Assurance Company were adopted on September 24, 2003.

MORTALITY AND LOSS

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 State law.

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.

LWAC 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.

In the OIC Actuary's opinion, reserves were in compliance with statutory requirements, and, except for the findings as noted in Instruction Nos. 6-10 and Comment and Recommendation No. 1, 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

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 monitor its reinsurance program including the financial condition of the reinsurers. In addition, LWAC utilizes the services of a reinsurance intermediary to solicit, negotiate, and place reinsurance cessions on its behalf.

STATUTORY DEPOSITS

The Company maintained statutory deposits as of December 31, 2007 in the state of New Mexico with a fair value of \$225,191 and in the state of Washington with a fair value of \$1,995,520.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) accrual basis. For the years 2006 and 2007, the Company was audited annually by the certified public accounting firm of KMPG, LLP. For the years, 2003 through 2005, the Company was

audited annually by the certified public accounting firm of Ernst & Young, 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 and no material exceptions were noted.

Management is sufficiently knowledgeable of the information system (IS) process. Systems development, acquisition, and maintenance controls were evaluated to gain assurance that appropriate internal 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 internal controls exercised to maintain data security. Sufficient internal controls are in place and monitored by the Company.

The Company has a formal written disaster recovery plan for the restoration of the IS and an equally 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

Kevin Roddy, President and Chief Executive Officer (CEO), resigned in February 2008. The BOD elected Brian Ancell as President and CEO in March 2008, who resigned in October, 2008. Theodore E. Wise became President and CEO of the Company in October 2008.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

The Company remedied all prior examination instructions and implemented the recommendations.

FINANCIAL STATEMENTS

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Income and Capital and Surplus Account
Reconciliation of Surplus

LIFEWISE ASSURANCE COMPANY
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2007

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Assets			
Bonds	\$58,862,354	\$0	\$58,862,354
Cash and short-term investments	5,652,388		5,652,388
Contract Loans	10,050		10,050
Subtotal, cash and invested assets	<u>64,524,792</u>	<u>0</u>	<u>64,524,792</u>
Investment income due and accrued	534,300		534,300
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	897,421		897,421
Amount Recoverable from Reinsurer	117,210		117,210
Net deferred tax asset	247,426		247,426
Electronic data processing equipment and software	2,045		2,045
Receivable from parent, subsidiaries and affiliates	114,494		114,494
Health care and other amounts receivable	39,330		39,330
Aggregate write-ins for other than invested assets	595,541		595,541
Total Assets	<u>\$67,072,559</u>	<u>\$0</u>	<u>\$67,072,559</u>
Liabilities, Surplus and other Funds			
Aggregate reserve for life policies and contracts	\$4,746,001	\$0	\$4,746,001
Aggregate reserve for health	6,726,639		6,726,639
Life (contract claims)	1,910,396		1,910,396
Accident and health (contract claims)	3,256,692		3,256,692
Premiums and annuity considerations received in advance	236,315		236,315
Provision for experience rating refunds	4,540,062		4,540,062
Interest Maintenance Reserve	865,328		865,328
Commissions to agents due and accrued	186,795		186,795
General expenses due or accrued	910,915		910,915
Taxes, licenses and fees due or accrued excluding fit	205,601		205,601
Current federal and foreign income taxes	54,542		54,542
Amounts withheld or retained by company as agent or trustee	415		415
Remittances and items not allocated	568,286		568,286
Asset valuation reserve	135,906		135,906
Payable to parent	1,006,152		1,006,152
Payable for securities	1,251,912		1,251,912
Aggregate write-ins for liabilities	1,076,099		1,076,099
Total Liabilities	<u>27,678,056</u>	<u>0</u>	<u>27,678,056</u>
Common capital stock	2,400,000		2,400,000
Gross paid in and contributed surplus	600,000		600,000
Unassigned funds (surplus)	36,394,503		36,394,503
Surplus as regards policyholders	<u>39,394,503</u>	<u>0</u>	<u>39,394,503</u>
Total Liabilities, Surplus and other Funds	<u>\$67,072,559</u>	<u>\$0</u>	<u>\$67,072,559</u>

LIFEWISE ASSURANCE COMPANY
STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>INCOME</u>	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENT</u>	<u>BALANCE PER EXAMINATION</u>
Premiums and annuity considerations	\$39,196,446	\$0	\$39,196,446
Net investment income	3,147,937		3,147,937
Amortization of Interest Maintenance Reserve	13,542		13,542
Aggregate write-ins for miscellaneous income	68		68
TOTAL	42,357,993	0	42,357,993
 <u>BENEFITS</u>			
Death Benefits	10,238,405		10,238,405
Disability benefits and Benefits under accident and health policies	10,157,922		10,157,922
Increase in aggregate reserves for life and health policies and contracts	468,028		468,028
TOTAL - BENEFITS	20,864,355	0	20,864,355
 <u>EXPENSES</u>			
Commissions on premiums and annuity considerations	2,435,512		2,435,512
General insurance expenses	8,786,962		8,786,962
Insurance taxes, licenses and fees, excl. federal income tax	1,442,085		1,442,085
Aggregate write-ins for deductions	30,551		30,551
TOTAL - BENEFITS and EXPENSES	33,559,465	0	33,559,465
 Net gain from operations before dividends to policyholders and income taxes			
	8,798,528	0	8,798,528
Dividends			
Federal income taxes incurred (excl. tax on capital gains)	3,141,607		3,141,607
Net gain from operations after dividends to policyholders and income taxes but before realized capital gains (losses)			
	5,656,921	0	5,656,921
Net realized capital gains or (losses) less capital gains tax	(105,587)		(105,587)
NET INCOME	\$5,551,334	\$0	\$5,551,334
 <u>CAPITAL AND SURPLUS ACCOUNT</u>			
Capital and Surplus, December 31, Previous Year	\$34,381,958	\$0	\$34,381,958
Net income	5,551,334		5,551,334
Change in net deferred income tax	114,935		114,935
Change in non-admitted assets and related items	(714,973)		(714,973)
Change in asset valuation reserve	61,249		61,249
Net change in capital and surplus for the year	5,012,545	0	5,012,545
Capital and Surplus, December 31, 2007	\$39,394,503	\$0	\$39,394,503

LIFEWISE ASSURANCE COMPANY
RECONCILIATION OF SURPLUS
FOR YEAR ENDED AS OF DECEMBER 31, 2007

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital and surplus, December 31, previous year	\$34,381,958	\$30,574,730	\$31,042,615	\$28,094,024	\$27,657,719
Net income	5,551,334	3,621,891	2,489,146	2,723,205	813,256
Change in net unrealized capital gains (losses)					
Change in net deferred income tax	114,935	246,280	(321,917)	174,361	(58,034)
Change in reserve on acct of change in valuation basis					
Change in non-admitted assets and related item	(714,973)	(37,661)	970,132	(1,052,067)	(298,200)
Change in asset valuation reserve	61,248	(23,282)	(17)	(37,643)	(20,717)
Capital Changes – Paid In					
Cumulative effect of changes in accounting principles					
Change in surplus as a result of reinsurance				1,140,735	
Aggregate write-ins for gains and losses in surplus			(3,605,229)		
Change in surplus as regards policyholders for the year	<u>5,012,545</u>	<u>3,807,228</u>	<u>(467,885)</u>	<u>2,948,591</u>	<u>436,305</u>
Surplus as regards policyholders, December 31, current year	<u>\$39,394,503</u>	<u>\$34,381,958</u>	<u>\$30,574,730</u>	<u>\$31,042,615</u>	<u>\$28,094,024</u>

NOTES TO THE FINANCIAL STATEMENTS

None

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examination team by the officers and staff of LifeWise Assurance Company during the course of this examination.

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