

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, 2011

ORDER NO. 13-060
FARMERS NEW WORLD LIFE
INSURANCE COMPANY
EXHIBIT A

SALUTATION

Seattle, Washington
January 23, 2013

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

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an 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 financial condition and related corporate matters of the Company as of December 31, 2011.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Farmers New World Life Insurance Company of Mercer Island, Washington. This report shows the financial condition and related corporate matters as of December 31, 2011.



Patrick H. McNaughton
Chief Examiner

2-20-2013

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2007 through December 31, 2011 and comprises a risk focused review of the books and records of the Company. The examination followed 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 through the end of field work on January 23, 2013.

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 section of this report. In addition, the Company's Certified Public Accountants' (CPAs') workpapers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2011 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and to provide assurance on the Company's financial statements as of the examination date.

This examination was performed in cooperation with the South Carolina Department of Insurance which conducted a concurrent examination of Leschi Life Assurance Company, a wholly-owned subsidiary of FNWL.

INSTRUCTIONS

The examiners reviewed the Company's filed 2011 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 outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. NAIC Annual Statement Errors, Omissions, and Misclassifications

The examination team found instances in which the Company's filing of the 2011 NAIC Annual Statement did not conform to the NAIC Annual Statement Instructions and the AP&P. While the Company needs to correct these errors, the following items were not material to the financial statements and no adjustments were necessary. The following errors were noted:

Assets – Net Deferred Tax Asset – The amount was understated by \$9.9 million which also caused surplus to be understated by the same amount.

The Company is instructed to comply with RCW 48.05.073, RCW 48.05.250 and SSAP 10R 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.

2. Reinsurance Trust Agreement

The reinsurance trust agreement between Leschi Life Assurance Company (Leschi), the Company's captive unauthorized reinsurer, and FNWL does not comply with WAC 284-13-535 and RCW 48.12.160. The reinsurance trust agreement is missing clauses required by WAC 284-13-535(1)-(9). Also, the legal title to the assets of the trust is in the name of the grantor (Leschi). According to WAC 284-13-535(2), and RCW 48.12.160(2)(d), legal title to the assets of the trust shall be vested in the trustee (JPMorgan Chase) for the benefit of the grantor's United States policyholders.

The Company is instructed to bring the reinsurance trust agreement into compliance with WAC 284-13-535 and RCW 48.12.160.

3. Access to Records

In order to facilitate the examination as required, some documents, accounts and records were not provided to the examiners in a timely manner. Some requests for information were not responded to timely, resulting in delays in the assessment of the Company's claims accuracy and completeness. Several requests for information for the Company's claims files were delayed over 90 calendar days.

The Company is instructed to comply with RCW 48.03.030(1), RCW 48.31B.035, and WAC 284-30-650 by facilitating the examination, producing information timely, and making freely accessible to the examiners requested books, accounts, records, documents, and files.

COMMENTS AND RECOMMENDATIONS

1. Inadequate Controls on Review of Deferred Tax Calculations

Weak controls over the Company's review of deferred tax calculations resulted in misstatements in deferred tax asset amounts for two consecutive reporting periods.

The Company acknowledged its discovery of inaccurate 2010 deferred tax asset calculations and disclosed the reversing impact of \$2.9 million under Note Disclosure No. 2 A. 1 and 2 of the 2011 NAIC Annual Statement. The Company's external auditor noted this error arising from the Company's deferred tax true-up process and agreed with the correction of error. However, the external auditor also identified that the Company calculation failed to apply the offsetting rules regarding the ability to apply excess gross capital deferred tax liabilities against ordinary deferred tax assets in accordance with SSAP

10R, which resulted in an understatement of \$9.9 million in admitted deferred tax assets. (See Instruction No. 1.)

It is recommended that the Company implement measures to ensure that deferred tax calculations are adequately reviewed.

COMPANY PROFILE

Company History

The Company was originally incorporated as a Washington stock insurance company on February 21, 1910 as New World Life Insurance Company. In 1953, Farmers Underwriters Association purchased 52.4 percent of its outstanding stock through Farmers Group, Inc. (FGI), a Nevada holding company. During 1977, the remaining 47.6 percent of stock was acquired by FGI and the Company adopted its present name, Farmers New World Life Insurance Company. In 1988, ultimate control of FGI was acquired by British American Tobacco Industries p.l.c. (BAT) of London, England. In December 1997, the financial operations of BAT merged with Zurich Insurance Company to form Zurich Financial Services Limited headquartered in Zurich, Switzerland.

Capitalization

FNWL is 100 percent owned by FGI. The Company has 25,000,000 shares of common stock authorized at a par value of \$1 per share. The Company has issued and outstanding 6,599,833 shares of common stock and has paid-in surplus of \$3.2 million and unassigned surplus of \$549.2 million as of December 31, 2011. In 2011 and 2010, FNWL paid to FGI dividends of \$173.7 million and \$120 million, respectively.

Territory and Plan of Operations

As of December 31, 2011, the Company is authorized to transact business in the District of Columbia and all states, except New York.

FNWL distributes its products through a distribution network owned by three inter-insurance exchanges; Farmers Insurance Exchange, Fire Insurance Exchange, and Truck Insurance Exchange (the Property and Casualty Group, or the P&C Group). FGI, the parent company of FNWL, also has attorney-in-fact relationships with the three California P&C inter-insurance exchanges and their subsidiaries. FNWL and the P&C Group operate using federally registered trade names, including Farmers Insurance Group of Companies, Farmers Insurance Group, Farmers, Farmers New World Life and Farmers Life. The Company's insurance products are distributed through a common network of direct writing agents and district managers.

Growth of Company

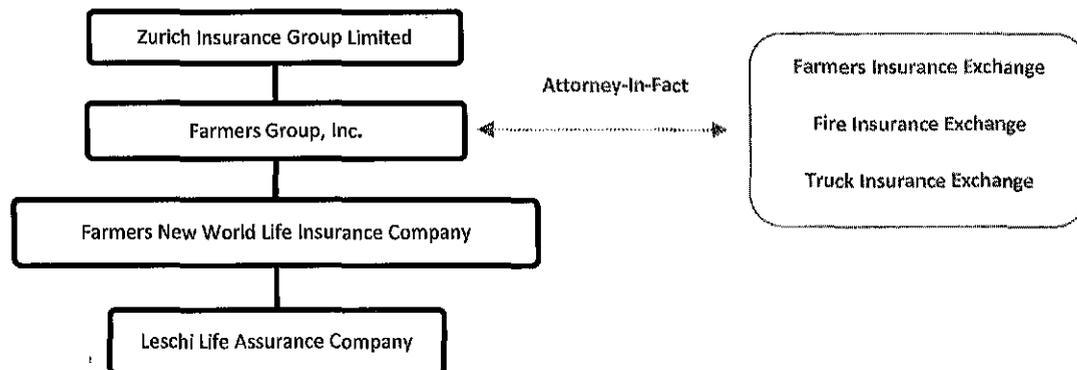
The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2011	\$6,859,593,500	\$6,258,620,203	\$600,973,297
2010	6,858,768,936	6,187,234,547	671,534,389
2009	6,739,593,789	6,065,465,622	674,128,167
2008	6,443,865,590	5,892,389,617	551,475,973
2007	6,987,510,433	6,346,255,001	641,255,432

<u>Year</u>	<u>Premium Earned</u>	<u>Total Benefits</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2011	\$630,227,301	\$572,100,277	\$311,584,917	\$137,178,773
2010	610,551,131	572,760,184	320,544,144	124,390,716
2009	600,677,045	537,901,371	316,902,447	(13,309,248)
2008	623,848,067	569,102,132	310,565,699	19,206,446

Affiliated Companies

The following is an abbreviated organizational chart based on the Company's ownership as of December 31, 2011:



Zurich Insurance Group Limited

Zurich Insurance Group Limited, formally known as Zurich Financial Services Limited, is a Swiss insurance company headquartered in Zurich, Switzerland. It is a global insurance company which is organized into three core business segments: General Insurance, Global Life, and Farmers.

Farmers Group, Inc.

Farmers Group, Inc., a Nevada holding company, solely owns Farmers New World Life Insurance Company. FGI is a wholly-owned subsidiary of Zurich Insurance Company Limited (ZIC) whose ultimate controlling entity is Zurich Insurance Group Limited based in Switzerland. FGI, doing business as Farmers Underwriters Association, and its subsidiaries, Truck Underwriters Association and Fire Underwriters Association, have attorneys-in-fact relationships with the P&C Group.

Farmers New World Life Insurance Company

Farmers New World Life Insurance Company is a stock life insurance company domiciled in the state of Washington and is subject to regulation by the OIC. FNWL has no employees and all services are provided by FGI through its intercompany agreements.

Leschi Life Assurance Company

Leschi Life Assurance Company is a captive reinsurer established in South Carolina and is 100 percent owned by Farmers New World Life Insurance Company. Leschi has no employees and all services are provided by FNWL through its intercompany agreements.

Property and Casualty Group

The three California P&C inter-insurance exchanges and their subsidiaries are affiliated with FNWL via attorney-in-fact relationships between FGI and the exchanges. The P&C Group is owned by the policyholders of the three exchanges.

Intercompany Agreements

The Company is a party to various intercompany agreements with affiliates. Significant contracts in force as of December 31, 2011 included the following:

- Service agreement between FGI and FNWL
- Service agreement between Farmers Insurance Exchange and FNWL
- Administrative services agreement between Leschi and FNWL
- Administrative services agreement between Universal Underwriters Life Insurance Company and FNWL
- Administrative services agreement between Kemper Investors Life Insurance Company and FNWL
- Paymaster agreement with MI Administrators, LLC
- Administrative services agreement between Zurich American Life Insurance Company (ZALICO) and FNWL
- Tax sharing agreement between FGI affiliates

MANAGEMENT AND CONTROL

Board of Directors (BOD)

Directors of the Company as of December 31, 2011:

David Dietz - Chair
Jerry Carnahan
Kenneth Carroll
Jeffrey Dailey
Joachim Masur
Jon Porter
Stanley Smith
John Sullivan

Officers

Officers of the Company as of December 31, 2011:

Jerry Carnahan	President and Chief Executive Officer
Katherine Cody	Senior Vice President and Chief Financial Officer
Patrick Carty	Vice President and Secretary
Jim Randolph	Senior Vice President and Assistant Secretary

Conflict of Interest

The Company has a policy that requires that all employees who serve as a board appointed officer or director must complete a conflict of interest statement annually. The purpose of the statement is to give guidance on the standards and procedures applicable to employees in actual or potential conflict of interest and external engagement situations. Our review did not reveal any exceptions.

Fidelity Bonds 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. Fidelity bonds and other insurance were covered by FGI and FNWL is a named policyholder on the policy. FGI has all the standard types of coverage normally maintained by companies of its type. Additionally, FGI'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 is wholly-owned subsidiary of FGI, and all employees are employed by FGI. Effective January 1, 2009, the Company transitioned from a deferred profit sharing plan to a 401(k) Savings Plan which includes a dollar-for-dollar Company match up to 6 percent of employees' earned base pay. All employees are vested in the 401(k) Savings Plan immediately. The cost to the Company for the 401(k) Savings Plan is included in the overhead and administrative charges paid by the Company to FGI.

The Company transitioned from a defined benefit pension plan sponsored by FGI to a Cash Balance Program effective January 1, 2009. However vested employees who were age 40 and over or who had ten or more years of service as of December 31, 2008 were grandfathered in the previous pension program. Benefits under the pension program are based on an employee's years of service and compensation during the last five years of employment. The FGI funding policy is to make sufficient

contribution to the pension plan to fully provide for employees' benefits at the time of retirement. Under the Cash Balance Program, FGI makes regular contributions to the employee's account. The amount of these contributions is based on a percentage of an employee's base pay and will vary depending on an employee's age and length of service.

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 in each plan. These charges are included in the overhead and administrative charges paid by the Company to FGI. Pension plan and postretirement benefit 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. The minutes supported the transactions of the Company and actions taken by the officers.

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 complied with Washington State law and applicable Actuarial Guidelines.

The OIC actuary performed such testing of the Company's reserving methodologies and philosophies as was deemed necessary to come to a conclusion with respect to the methods and assumptions used. FNWL provided copies of its actuarial workpapers and reserve reports as of December 31, 2011. Several tests were performed on the underlying data, methods, and calculations as deemed necessary. In addition, valuation reports and procedures were tested to establish that accurate and complete in-force information as of December 31, 2011 was represented in the valuation reports and workpapers. The OIC actuary has determined that the reserves reported by the Company were adequate and complete.

REINSURANCE

FNWL entered into seventeen ceded reinsurance agreements during the examination period with eight different reinsurers. FNWL has three treaties with unauthorized reinsurers, one of which is a captive. All of the reinsurance agreements were found to be in compliance with Washington State reinsurance statutes. All the treaties were properly classified in Schedule S of the 2011 NAIC Annual Statement.

The reinsurance trust agreement between Leschi Life Assurance Company (captive unauthorized reinsurer) and FNWL did not comply with WAC 284-13-535 and RCW 48.12.160 as the reinsurance trust agreement was missing various required terms. (See Instruction No. 2.)

FNWL utilizes the services of Guy Carpenter & Co., LLC to solicit, negotiate, and place reinsurance cessions on its behalf.

STATUTORY DEPOSITS

The Company maintained the following statutory deposits as of December 31, 2011:

<u>STATE</u>	<u>MARKET VALUE</u>	<u>STATEMENT VALUE</u>
Arkansas	\$ 214,687	\$ 157,641
Georgia	64,121	51,252
Massachusetts	715,625	525,471
New Hampshire	758,594	553,299
New Mexico	128,320	124,975
North Carolina	606,875	442,639
Washington	2,168,417	2,055,897

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

The Company's information technology (IT) environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and Related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT systems and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels.

SUBSEQUENT EVENTS

On January 1, 2012, the Company entered into a reinsurance agreement with ZIC, a Swiss domiciled insurance company that solely owns FGI.

On April 11, 2012, the Company declared an extraordinary dividend in the amount of \$105 million, which was paid in cash to FGI on May 16, 2012.

On November 7, 2012, the Company declared an extraordinary dividend in the amount of \$115 million, which is to be paid in cash to FGI on December 15, 2012.

Elizabeth McInerney, the incumbent Chief Operating Officer of Zurich Global Life North America based in New York City, was appointed Chief Operating Officer of FNWL by the FNWL Board of Directors on June 19, 2012.

Effective August 15, 2012, Jerry Carnahan, President and Chief Executive Officer, retired after 33 years with the various Farmers companies. David Dietz, Chairman of the Board at FNWL, was elected President and Chief Executive Officer of FNWL by the FNWL Board of Directors effective August 16, 2012, and stepped down from the FNWL BOD Chair position. His replacement as FNWL BOD Chair is Nicholas Burnet, current Chief Financial Officer of Zurich Global Life Worldwide.

There were no other significant events impacting the Company between the examination date and the last day of fieldwork, January 23, 2013.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and recommendations were corrected and satisfactorily addressed.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Farmers New World Life Insurance Company as of December 31, 2011:

Assets, Liabilities, Surplus and Other Funds
Summary of Operations
Five Year Reconciliation of Surplus

Farmers New World Life Insurance Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2011

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
ASSETS			
Bonds	\$5,526,503,058	\$0	\$5,526,503,058
Preferred stocks	34,376		34,376
Mortgage loans on real estate - First liens	12,876		12,876
Properties held for the production of income	74,354,849		74,354,849
Cash, cash equivalents and short-term investments	125,842,067		125,842,067
Contract loans	297,264,238		297,264,238
Derivatives	41,859		41,859
Other invested assets	1,817,045		1,817,045
Receivables for securities	2,433,047		2,433,047
Securities lending reinvested collateral	15,961,080		15,961,080
Subtotals, cash and invested assets	6,044,264,495	0	6,044,264,495
Investment income due and accrued	69,963,182		69,963,182
Premiums and considerations:			
Uncollected premium and agents' balances in the course of collection	1,730,799		1,730,799
Deferred premiums and agents' balances and installments booked but deferred and not yet due	100,066,039		100,066,039
Reinsurance:			
Amount recoverable from reinsurers	30,228,396		30,228,396
Other amounts receivable under reinsurance contracts	21,690,323		21,690,323
Current federal and foreign income tax recoverable and interest thereon	9,314,481		9,314,481
Net deferred tax asset	124,565,035		124,565,035
Guaranty funds receivable or on deposit	4,663,221		4,663,221
Receivable from parent, subsidiaries, and affiliates	530,293		530,293
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	6,407,016,264		6,407,016,264
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	452,577,236	0	452,577,236
Total Assets	\$6,859,593,500	\$0	\$6,859,593,500

Farmers New World Life Insurance Company
Assets, Liabilities, Surplus and Other Funds (Continued)
December 31, 2011

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
LIABILITIES, CAPITAL AND SURPLUS			
Aggregate reserve for life contracts	\$5,115,887,662	\$0	\$5,115,887,662
Aggregate reserve for accident and health contracts	2,190,237		2,190,237
Liability for deposit-type contracts	458,225,453		458,225,453
Contract claims - Life	50,462,463		50,462,463
Contract claims - Accident and health	25,634		25,634
Premiums and annuity considerations for life and accident and health contracts received in advance less discount; including accident and health premiums	849,626		849,626
Contract liabilities not included elsewhere:			
Other amounts payable on reinsurance including assumed and ceded	48,099,759		48,099,759
Interest maintenance reserve	18,348,612		18,348,612
Commissions to agents due or accrued - life and annuity contracts, accident and health and deposit-type contract funds	717,294		717,294
Commissions and expenses allowance payable on reinsurance assumed	49,585		49,585
General expenses due or accrued	24,966,161		24,966,161
Transfers to Separate Accounts due or accrued (net)	(28,317,589)		(28,317,589)
Taxes, licenses and fees due or accrued, excluding federal income taxes	5,996,751		5,996,751
Unearned investment income	468,281		468,281
Amounts withheld or retained by company as agent or trustee	444,955		444,955
Amounts held for agents' account, including \$0 agents' credit balances	5,575,618		5,575,618
Remittances and items not allocated	13,767,265		13,767,265
Miscellaneous liabilities:			
Asset valuation reserve	24,147,939		24,147,939
Reinsurance in unauthorized companies	5,428,674		5,428,674
Payable to parent, subsidiaries and affiliates	8,657,843		8,657,843
Payable for securities	10,946,016		10,946,016
Payable for securities lending	15,961,080		15,961,080
Aggregate write-ins for liabilities	23,143,649		23,143,649
Total liabilities excluding Separate Accounts	5,806,042,967	0	5,806,042,967
From Separate Accounts Statement	452,577,236		452,577,236
Total Liabilities	6,258,620,203	0	6,258,620,203
Common capital stock	6,599,833		6,599,833
Gross paid in and contributed surplus	3,199,470		3,199,470
Aggregate write-ins for special surplus funds	42,014,777		42,014,777
Unassigned funds (surplus)	549,159,217		549,159,217
Total Capital and Surplus	600,973,297	0	600,973,297
Total Liabilities, Capital and Surplus	\$6,859,593,500	\$0	\$6,859,593,500

Farmers New World Life Insurance Company
Summary of Operations
For the Year Ended December 31, 2011

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Income			
Premiums and annuity considerations for life and health contracts	\$630,227,301	\$0	\$630,227,301
Consideration for supplementary contracts with life contingencies	2,500		2,500
Net Investment income	311,584,917		311,584,917
Amortization of interest maintenance reserve	1,179,998		1,179,998
Commission and expenses allowances on reinsurance ceded	137,742,290		137,742,290
Reserve adjustments on reinsurance ceded	(47,346,983)		(47,346,983)
Miscellaneous income:			
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	4,912,805		4,912,805
Aggregate write-ins for miscellaneous income	1,904,501		1,904,501
Total Income	1,040,207,329	0	1,040,207,329
Benefits			
Death Benefits	210,300,678		210,300,678
Matured endowments (excluding guaranteed annual pure endowments)	450,306		450,306
Annuity benefits	24,943,336		24,943,336
Disability benefits and benefits under accident and health contracts	5,489,011		5,489,011
Coupons, guaranteed annual pure endowments and similar benefits	88		88
Surrender benefits and withdrawals for life contracts	234,283,133		234,283,133
Group conversions	(3,871)		(3,871)
Interest and adjustments on contract or deposit-type contract funds	21,939,330		21,939,330
Payments on supplementary contracts with life contingencies	44,200		44,200
Increase in aggregate reserves for life and accident and health contracts	74,654,066		74,654,066
Total Benefits	572,100,277	0	572,100,277
Expenses			
Commissions on premiums, annuity considerations, and deposit-type contract funds	81,781,163		81,781,163
Commissions and expense allowance on reinsurance assumed	562,608		562,608
General Insurance expenses	167,879,336		167,879,336
Insurance taxes, licenses and fees, excluding federal income taxes	22,956,759		22,956,759
Increase in loading on deferred and uncollected premiums	5,133,975		5,133,975
Net transfers to or (from) Separate Accounts net of reinsurance	5,637,729		5,637,729
Aggregate write-ins for deductions	7,005		7,005
Total Benefits and Expenses	\$856,058,852	\$0	\$856,058,852

Farmers New World Life Insurance Company
Summary of Operations (Continued)
For the Year Ended December 31, 2011

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Net gain from operations before dividends to policyholders and federal income taxes	\$184,148,477	\$0	\$184,148,477
Net gain from operations after dividends to policyholders but before federal income taxes	184,148,477		184,148,477
Federal and foreign income taxes incurred	66,978,653		66,978,653
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	117,169,824		117,169,824
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax	20,008,949		20,008,949
Net Income	\$137,178,773	\$0	\$137,178,773
CAPITAL AND SURPLUS ACCOUNT			
Capital and Surplus, December 31, Prior Year	\$671,534,389	\$0	\$671,534,389
Net Income	137,178,773		137,178,773
Change in net unrealized capital gains (losses) less capital gains tax of \$0	(7,795,068)		(7,795,068)
Change in net deferred income tax	(7,135,900)		(7,135,900)
Change in nonadmitted assets	6,510,244		6,510,244
Change in liability for reinsurance in unauthorized companies	(5,428,674)		(5,428,674)
Change in asset valuation reserve	(4,899,001)		(4,899,001)
Other changes in surplus in Separate Accounts Statement	0		0
Surplus adjustment: Paid In	0		0
Dividends to stockholders	(173,700,000)		(173,700,000)
Aggregate write-ins for gains and losses in surplus	(15,291,466)		(15,291,466)
Net change in Capital and Surplus	(70,561,092)	0	(70,561,092)
Capital and Surplus, December 31, Current Year	\$600,973,297	\$0	\$600,973,297

Farmers New World Life Insurance Company
Five Year Reconciliation of Surplus
As of December 31,

	2011	2010	2009	2008	2007
Capital and Surplus, December 31,					
Prior Year	<u>\$671,534,389</u>	<u>\$674,128,167</u>	<u>\$551,475,973</u>	<u>\$641,255,432</u>	<u>\$668,551,806</u>
Net Income or (loss)	137,178,773	124,390,715	(13,309,248)	19,206,446	97,945,425
Change in net unrealized capital gains (losses)	(7,795,068)	3,813,302	(3,070,343)	(60,419,858)	18,461,923
Change in net deferred income tax	(7,135,900)	(10,724,614)	50,465,757	31,760,898	(10,942,726)
Change in non-admitted assets	6,510,244	19,436,252	10,606,852	(40,297,709)	18,356,846
Change in liability for reinsurance in unauthorized companies	(5,428,674)	0	0	0	0
Change in reserve on account of change in valuation basis	0	11,947,959	0	(967,835)	0
Change in asset valuation reserve	(4,899,001)	(19,248,937)	0	50,442,191	(21,635,792)
Cumulative effect of changes in accounting principles	0	(12,937,106)	9,012,617	1,168,245	0
Surplus adjustment:					
Changes in surplus as a result of reinsurance	0	0	0	0	(4,482,049)
Dividends to stockholders	(173,700,000)	(120,000,000)	0	(89,800,000)	(125,000,000)
Aggregate write-ins for gains and losses in surplus	(15,291,466)	728,651	68,946,558	(871,838)	0
Net change in Capital and Surplus	<u>(70,561,091)</u>	<u>(2,593,778)</u>	<u>122,652,193</u>	<u>(89,779,459)</u>	<u>(27,296,374)</u>
Capital and Surplus, December 31, Current Year	<u>\$600,973,297</u>	<u>\$671,534,389</u>	<u>\$674,128,167</u>	<u>\$551,475,973</u>	<u>\$641,255,432</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Special Consent

The Company holds a special consent, issued by the state of Washington, with an effective date of January 1, 2011, and subsequently renewed effective January 1, 2012, which allows the Company to own and purchase mutual funds if certain statutory requirements have been met. FNWL is allowed to acquire and hold a single entity's mutual funds not totaling more than four percent of FNWL's assets, and an unlimited amount of its assets in NAIC exempt listed mutual funds. As of September 30, 2011, FNWL's mutual fund investments represented 0.8 percent of its admitted assets. None of FNWL's mutual fund investments exceeded the one percent of assets limitation that would have been imposed by RCW 48.13.240(3) without the special consent.

RCW 48.13.170 requires real property acquired by an insurer pursuant to loans, mortgages, liens, judgments, or other debts, to be disposed of within five years after date of acquisition. The Company was permitted by the Commissioner to report as admitted assets properties acquired through foreclosure effective January 1, 2005 and expiring December 31, 2010. The Company nonadmitted its foreclosed properties in the amount of \$3,229,892 as of December 31, 2011.

The Company has no additional special consents, permitted practices, or orders from the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Farmers New World Life Insurance Company during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Timothy F. Hays, CPA, JD, Investment Specialist; Scott Fitzpatrick, FSA, MAAA, Life Actuary; Youngjae Lee, CPA, AFE, Examiner-in-Charge; Zairina Othman, Financial Examiner; Cynthia Clark, CPA, Financial Examiner; Richard Bologna, Financial Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



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State of Washington

