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FILED

JUN 2[illegible] 2005

Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF: UNITED HERITAGE LIFE INSURANCE COMPANY Idaho Certificate of Authority: 151 NAIC Company Code: 63983	ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2003 Docket No.18-2312-05

The above described Report of Examination of United Heritage Life Insurance Company (Company) was completed by examiners of the Idaho Department of Insurance (Department), signed the 20th day of May 2005 by the examiner-in-charge, Lois Haley, CFE, CPA, and a verified copy was filed with the Department effective May 20, 2005.

WAIVER

Based upon the Waiver signed by Todd Gill, Senior Vice-President and Controller, dated June 6, 2005, this is a final order, and the Company has also waived its rights to reconsideration and appeal / judicial review of this order.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto and incorporated herein as Exhibit A, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department.

DATED and EFFECTIVE at Boise, Idaho this 24 day of June 2005.

Gary L. Smith

Gary L. Smith, Director
Idaho Department of Insurance

CERTIFICATE OF SERVICE

I hereby certify that on this 24th day of June, 2005, I caused to be served the foregoing document on the following parties in the manner set forth below:

Todd Gill, Senior Vice-President & Controller United Heritage Life Insurance Company P.O. Box 7777 Meridian, ID 83680-7777	X 	certified mail first class mail hand delivery facsimile
Dennis Lane Johnson, President & CEO United Heritage Life Insurance Company P.O. Box 7777 Meridian, ID 83680-7777	 X 	certified mail first class mail hand delivery facsimile
Georgia Hill, Bureau Chief / Chief Examiner Idaho Department of Insurance 700 W. State St., 3rd Floor Boise, Idaho 83720-0043	 X 	certified mail first class mail hand delivery facsimile
The Honorable Alfred W. Gross, Commissioner Chair, NAIC Financial Condition (E) Committee State Corporation Commission, Bureau of Insurance, Commonwealth of Virginia P. O. Box 1157 Richmond, VA 23218	 X 	certified mail first class mail hand delivery facsimile
The Honorable Linda Hall Director, Alaska Division of Insurance NAIC Secretary, Western Zone 550 West 7th Avenue, Suite 1560 Anchorage, AK 99501-3567	 X 	certified mail first class mail hand delivery facsimile

William R. Michels
Examinations Supervisor
Idaho Department of Insurance

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of

UNITED HERITAGE LIFE INSURANCE COMPANY
(a domestic stock insurer)
(NAIC Company Code 63983)

as of

December 31, 2003

FILED 5/20/05 Ah
date initial

ADOPTED 6/24/05 Ah
date initial

STATE OF IDAHO
Department of Insurance

EXHIBIT
A

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State of Idaho
DEPARTMENT OF INSURANCE

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GARY L. SMITH
Director

Meridian, Idaho
May 20, 2005

The Honorable Gary L. Smith
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

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

The Honorable Linda Hall
Director, Alaska Division of Insurance
NAIC Secretary, Western Zone
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Dear Directors and Commissioner:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2003, of the financial condition and corporate affairs of:

United Heritage Life Insurance Company
707 East United Heritage Court
Meridian, Idaho 83642-3527

hereinafter referred to as the "Company," at its offices in Meridian, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 1999, through December 31, 2003, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, and the NAIC *Accounting Practices and Procedures Manual.* Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records appropriate to the examination were also performed.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Taylor-Walker and Associates, Inc., consulting actuaries, for the Idaho Department of Insurance. There was some reliance on the 2003 independent Certified Public Accountant's statutory audit report and workpapers in this examination.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 1996 through December 31, 1998. Recommendations contained in the prior examination report/management letter and management's responses to those recommendations were as follows:

It is recommended that any future real estate acquired in satisfaction of debt be disposed of within the time limits required by Section 41-729, Idaho Code.

In a letter to the Department of Insurance dated May 18, 2000, management stated the following:

Any future real estate acquired in satisfaction of debt will be disposed of within the time limits required by Section 41-729, Idaho Code.

It is recommended that the Company initiate procedures to regularly test the accuracy of the Commissioner's Reserve Valuation Method calculations that are performed by the outside vendor's software program.

In the same letter, management stated: *The Company has initiated a procedure to test the Commissioner's Reserve Valuation Method calculations for the universal life policies that are calculated by the outside vendor's software program. Sample policy calculations will be printed out via the audit log function in the software to get detailed calculations for these policies. Values will be checked from the audit log.*

The Company did not hold a liability for Cost of Collection as of December 31, 1998. However, a subsequent review indicated that a Cost of Collection liability in the amount of $604,294 should have been established.

The following items related to the Cost of Collection issue were discussed with members of the Idaho Department of Insurance on December 15, 1999. The Company has elected to hold higher reserves on certain plans than experience and statutory requirements would dictate. The Cost of Collection Reserve will be phased out under codification. In light of these two items the Company discussed with the Department that it does not plan at this time to set up a reserve for Cost of Collection.

It is recommended that the Asset Adequacy Analysis Memorandum include a yearly gain from operations presentation for the years covered by the projection.

A section has been added to the Asset Adequacy Analysis Memorandum and Executive Summary containing yearly gain from operations pages for the required scenarios and tested lines of business.

It is recommended that the formula for calculating dividends for paid up additions be corrected in future Annual Statements.

The formula for calculating dividends for paid up additions has been corrected and will be correctly reflected in future dividend liability amounts.

The recommendations contained in the prior examination report were addressed by the Company.

HISTORY AND DESCRIPTION

General

The Company was incorporated on July 7, 1934, as a fraternal benefit society pursuant to the provisions of Title 41, Chapter 32, Idaho Code. The purpose of the Society was to unite members of the Idaho State Grange into a fraternal society to provide for the payment of death, disability, and financial benefits for its members.

On December 20, 1946, the Articles of Incorporation were amended and the Society was converted to a legal reserve mutual life insurance company. At that time, the Society's name was changed to Grange Mutual Life Company.

The Articles of Incorporation were again amended on May 13, 1991, to reflect a name change to United Heritage Mutual Life Insurance Company. The Bylaws were also amended and restated at that time.

In 1993, the Company formed United Heritage Financial Group, Inc. (formerly United Heritage Holdings, Inc.) and United Heritage Financial Services, Inc. Both companies were wholly owned subsidiaries of the Company from 1993 up to August 28, 2001. As stated below, the Company converted to a mutual holding company structure at that time and United Heritage Mutual Holding Company, Inc. became the ultimate controlling person.

On November 7, 2000, the majority of United Heritage Property & Casualty Company's (formerly Idaho Mutual Insurance Company) stock was acquired by United Heritage Financial Group, Inc. The acquisition is discussed in more detail under the caption, *MANAGEMENT AND CONTROL.*

The Company converted to a mutual insurance holding company structure pursuant to Section 41-2855, Idaho Code effective August 28, 2001. In this connection, Amended and Restated Articles of Incorporation were filed with and approved by the Department of Insurance. Under the Amended and Restated Articles, the name of the Company was changed to United Heritage Life Insurance Company and 1,500,000 shares each with a par value of $1 were authorized. The Company's Bylaws were also amended and restated at that time to incorporate changes due to the conversion.

United Heritage Mutual Holding Company, Inc., Inc. was incorporated on August 23, 2001, pursuant to Section 41-3821, Idaho Code. On August 28, 2001, United Heritage Financial Group, Inc. became a 100 percent wholly-owned subsidiary of United Heritage Mutual Holding Company, Inc., Inc. through a stock distribution from the Company. Simultaneously, the Company became a wholly-owned subsidiary of United Heritage Financial Group, Inc. through a stock exchange. The Company's conversion to a mutual holding company structure is discussed in more detail under the caption, *MANAGEMENT AND CONTROL.*

The First Articles of Amendment to Articles of Incorporation were filed with and approved by the Department of Insurance on December 10, 2001. The amended articles authorized 1,500,000 shares each with a par value of $5.

United Heritage Financial Group, Inc. acquired Sublimity Insurance Company of Sublimity, Oregon in 2003. The acquisition is discussed in more detail under the caption, *MANAGEMENT AND CONTROL.*

Capital Stock and Paid in Surplus

As previously stated, the Company converted to a mutual holding company structure and became a stock insurer on August 28, 2001. In this connection, the First Articles of Amendment to Articles of Incorporation provided for authorized capital of $7,500,000, consisting of 1,500,000 shares of common stock each with a par value of $5. The shares had uniform rights and were not subject to assessment.

As of the examination date, the Company had 1,000,000 shares of capital stock issued and outstanding with a par value of $5 per share for a total capital of $5,000,000. The issued and outstanding shares were reconciled to Company capital stock records, with only minor differences noted. See Note 3 to the Financial Statements for further discussion. The Company's paid in and contributed surplus at December 31, 2003 was $4,000,000.

The following exhibit reflects the activity in the capital structure of the Company since its conversion to a stock insurer on August 28, 2001 through December 31, 2003:

Year	Shares Issued/ (Redeemed)	Common Capital Stock	Gross Paid In & Contributed Surplus	Total Capital & Paid in and Contributed
2001 (1)	1,000,008	$1,000,008	$4,000,072	$5,000,080
2001 (2)	(1,000,008)	(1,000,008)	(4,000,072)	(5,000,080)
2001 (3)	1,000,008	5,000,040	4,000,040	9,000,080
2003 (4)	(8)	(40)	(40)	(80)
Totals	1,000,000	$5,000,000	$4,000,000	$9,000,000

(1) Pursuant to the Plan of Reorganization and conversion to a mutual holding company structure, 1,000,000 shares of common stock with a par value of $1 per share were issued to United Heritage Mutual Holding Company, Inc. on August 28, 2001 for $5 per share. The shares were simultaneously cancelled and transferred to United Heritage Financial Group, Inc. through a stock exchange.

Eight shares were issued to each Director of the Company in compliance with Section 41-2835, Idaho Code under Subscription and Repurchase Agreements executed between the Directors and the Company. Under terms of the agreements, the Directors subscribed to purchase one share of $1 par value stock for $10 each.

(2) The First Article of Amendment to Articles of Incorporation raised the par value of the Company's stock from $1 to $5 per share. In this connection, all previously issued shares were cancelled on December 31, 2001.

(3) The shares were re-issued on the same date to reflect the change in par value. The increase in common capital stock was funded by a transfer from unassigned funds.

(4) In 2003, Section 41-2835, Idaho Code was repealed. The shares of stock previously issued to Company Directors were purchased and redeemed on November 21, 2003 for $10 per share pursuant to Redemption Agreements executed between each Director and the Company.

Dividends to Stockholders

During the period January 1, 1999 through December 31, 2003, the Board of Directors declared and the following dividends were paid to the stockholder of the Company:

Date Declared	Notification Date	Date Paid	Cash Distribution	Non-Cash Distribution	Total
---	---	9/25/01	$ 0	*$2,869,006	$2,869,006
11/16/01	11/20/01	12/14/01	100,000	0	100,000
		Total	$100,000	$2,869,000	$2,969,006

*Pursuant to the Plan of Reorganization and upon conversion to a mutual holding company structure, the Company distributed 19,096 shares of United Heritage Financial Group, Inc. stock to United Heritage Mutual Holding Company, Inc.

The dividend declared on November 16, 2001, as permitted under Sections 41-3806(5) and 41-3809(2) Idaho Code, and IDAPA 18.01.23.024.02, was properly authorized by the Board of Directors.

Subsequent to the examination date, the Board of Directors declared and paid a cash dividend of $2,810,000 to the stockholder of the Company, United Heritage Financial Group, Inc.

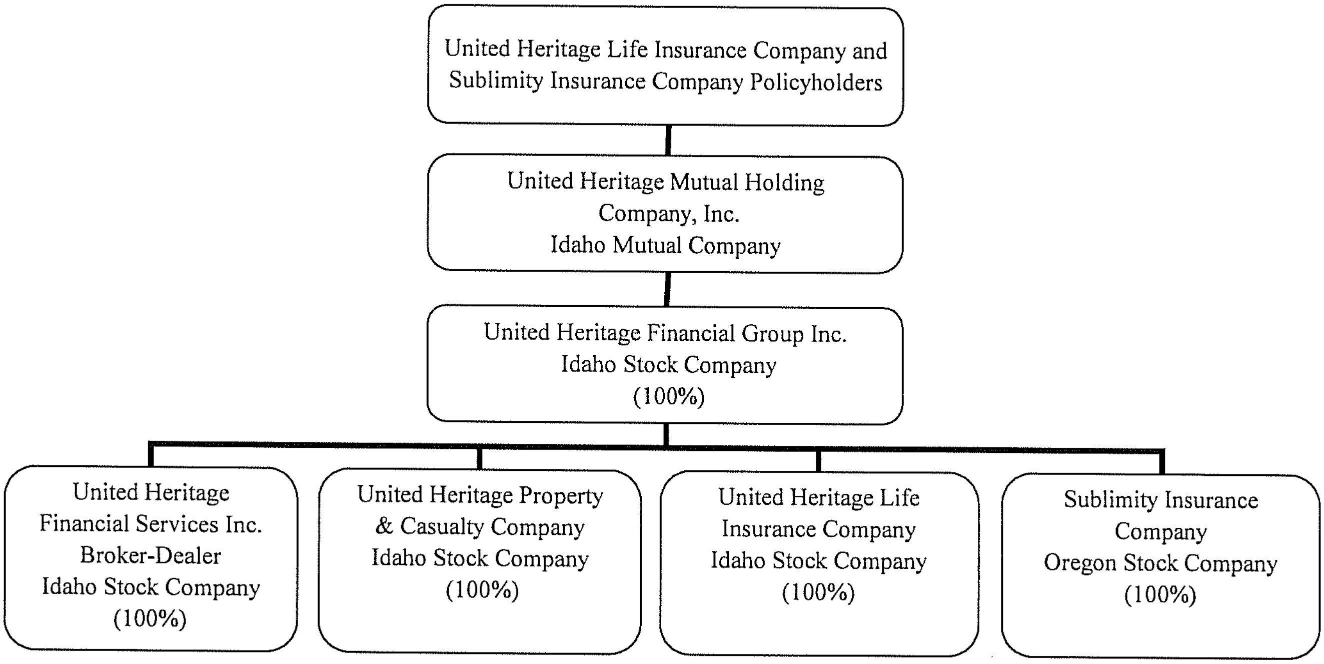
Surplus Debentures

As previously reported, Sublimity Insurance Company was acquired by United Heritage Financial Group, Inc. in 2003. As part of the Amended Plan of Reorganization and Merger, a surplus note of $200,000 was issued to the Company. This transaction is discussed in more detail under the following caption, *MANAGEMENT AND CONTROL*.

MANAGEMENT AND CONTROL

Insurance Holding Company System

The Company was a member of an insurance holding company system as defined in Section 41-3801, Idaho Code. The *Ultimate Controlling Person* within the holding company system was United Heritage Mutual Holding Company, Inc., Inc. as shown in the following organizational chart:



At December 31, 2003, United Heritage Mutual Holding Company, Inc. owned 100 percent of the stock of United Heritage Financial Group, Inc. The members of United Heritage Mutual Holding Company, Inc. were the policyholders of the Company and the policyholders of Sublimity Insurance Company. United Heritage Financial Group, Inc. owned 100 percent of the stock of United Heritage Financial Services, Inc., 100 percent of the stock of Sublimity Insurance Company and also owned all outstanding and issued shares of both the Company and United Heritage Property & Casualty Company.

Previous to the formation of United Heritage Mutual Holding Company, Inc., the Company owned 100 percent of the stock of United Heritage Financial Group, Inc., which in turn wholly owned United Heritage Financial Services, Inc. and United Heritage Property & Casualty Company.

Company records indicated no one person or entity had the power to direct the management of the ultimate parent noted in the previous chart.

The Form B Insurance Holding Company System Registration Statements for the years 1999 through 2003 were examined. A review of the Company's latest Form B Registration Statement showed it had been filed with the Idaho Department of Insurance on May 20, 2004 and appeared to be current and valid.

The Company became part of an Insurance Holding Company System on September 15, 1993, by formation of United Heritage Financial Group, Inc. (formerly United Heritage Holdings, Inc.), and United Heritage Financial Services, Inc. (formerly Grange Financial Services, Inc.), as subsidiary Idaho Corporations. United Heritage Financial Services, Inc. was registered with the Securities and Exchange Commission as a broker-dealer and was approved as a licensed broker-dealer in March 1994 by the National Association of Securities Dealers.

During previous examination periods, United Heritage Financial Group, Inc. was capitalized with $285,000 through the sale and purchase of capital stock. During the current examination period, additional capital at a cost of $2,449,940 was infused into United Heritage Financial Group, Inc., as follows:

- On May 17, 1999, 4,998 shares of United Heritage Financial Group, Inc. stock were issued to the Company for $149,940.

- Additional capitalization of $2,300,000 was infused into United Heritage Financial Group, Inc, on September 13, 2000, by the Company in consideration of 4,600 shares.

<u>Acquisition of United Heritage Property & Casualty Company</u>
United Heritage Property & Casualty Company demutualized pursuant to a Plan of Reorganization effective November 7, 2000. The Plan provided for the conversion from a mutual insurance company to a stock insurance company in accordance with Section 41-2855, Idaho Code. Also under the Plan, all former mutual policyholders' membership interests were extinguished and eligible policyholders were entitled to receive the value of their allocable equity.

The Plan of Reorganization was approved by the State of Idaho Departments of Finance and Insurance pursuant to a preliminary order dated October 3, 2000, which became final on November 7, 2000.

The Plan of Reorganization also contemplated an investment in United Heritage Property & Casualty Company by United Heritage Financial Group, Inc. in exchange for majority ownership, exclusive of directors' and former mutual policyholders' shares. Under the terms of a Stock Purchase Plan, United Heritage Financial Group, Inc. paid the Company $2,214,500 for 4,429 shares of stock. United Heritage Property & Casualty Company subsequently returned $4,500 to United Heritage Financial Group, Inc., thus reducing the investment to $2,210,000, with the number of shares remaining the same.

In a letter dated September 18, 2000, the Department of Insurance stated that the Form A, Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer was reviewed and based on documents submitted, the Department had no objection to the proposed acquisition.

As previously stated, United Heritage Financial Group, Inc. was wholly owned by the Company at the time United Heritage Property & Casualty Company was acquired.

Conversion to a Mutual Holding Company Structure

In 2001, the Company converted its corporate structure into an Idaho domestic mutual holding company structure pursuant to Section 41-3821, Idaho Code and IDAPA 18.01.78. In this connection, the Plan of Reorganization was approved by the Board of Directors on May 21, 2001 and by the policyholders at a special meeting held on May 28, 2001. The Application for Approval of Mutual Holding Company Reorganization, which included the Plan of Reorganization, was approved by the Idaho Department of Insurance pursuant to a preliminary order dated June 29, 2001. The Plan became effective on the date the amended Certificate of Authority was re-issued by the Department, or August, 28, 2001.

Under the Plan, United Heritage Mutual Holding Company, Inc. was formed and incorporated as a mutual insurance holding company. Also under the Plan, the Company was converted to a stock insurer, and its name was changed to United Heritage Life Insurance Company pursuant to Amended and Restated Articles of Incorporation and the issuance of an amended Certificate of Authority. The membership interests of the Company members became membership interests in United Heritage Mutual Holding Company, Inc. as part of the conversion. In addition, United Heritage Holdings, Inc., was renamed United Heritage Financial Group, Inc., under its Amended and Restated Articles of Incorporation.

The Company subsequently issued 1,000,000 shares of common stock at $1 par value to United Heritage Mutual Holding Company, Inc. One share of stock was also issued to each of the Directors, in accordance with Section 41-2835(3), Idaho Code for a total of 1,000,008 issued and outstanding shares. In addition, the Company distributed 19,096 shares of stock in United Heritage Financial Group, Inc. valued at $2,869,006 to United Heritage Mutual Holding Company, Inc.

United Heritage Mutual Holding Company, Inc. then exchanged 1,000,000 shares of stock of the Company for 1,000,000 shares of stock of United Heritage Financial Group, Inc. Through this transaction, the Company became a wholly owned subsidiary, exclusive of directors' shares, of United Heritage Financial Group, Inc.

The Form A, Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer filed with the Idaho Department of Insurance on May 25, 2001, was approved by the Department on June 25, 2001.

In 2003, Section 41-2835, Idaho Code was repealed. The shares of stock previously issued to the Directors by the Company were purchased and redeemed. The shares of stock issued by United Heritage Property & Casualty Company to its Directors were also redeemed in 2003. The shares of United Heritage Property & Casualty Company stock issued to former mutual policyholders were redeemed on February 26, 2001.

Acquisition of Sublimity Insurance Company

In 2003, Sublimity Insurance Company of Sublimity, Oregon became part of the holding company system pursuant to an Amended Plan of Reorganization and Merger. On the effective date of the Plan, Sublimity Insurance Company was converted to a stock insurer and become a wholly owned subsidiary of Sublimity Mutual Holding Company. The membership interests of the Sublimity Insurance Company members became membership interests in Sublimity Mutual Holding Company. Sublimity Mutual Holding Company subsequently merged with and into United Heritage Mutual Holding Company, Inc., the surviving entity.

In the merger, the membership interests of the Sublimity Insurance Company members in Sublimity Mutual Holding Company were converted to membership interests in United Heritage Mutual Holding Company, Inc. Also immediately after the merger, United Heritage Mutual Holding Company, Inc. exchanged all outstanding shares of common stock of Sublimity Insurance Company for additional shares of United Heritage Financial Group, Inc. common stock. As a result, Sublimity Insurance Company became a wholly owned subsidiary of United Heritage Financial Group, Inc.

The Plan of Merger of Sublimity Insurance Company dated January 17, 2003, and subsequently amended and designated the Amended Plan of Reorganization and Merger, dated March 19, 2003 filed with the State of Oregon Department of Consumer and Business Services was approved on April 15, 2003. The effective date of the Plan was May 23, 2003.

A Form E Pre-Acquisition Notification Form Regarding the Potential Competitive Impact of a Proposed Merger or Acquisition by a Non-Domiciliary Insurer Doing Business in this State or by a Domestic Insurer was filed with the State of Idaho Department of Insurance on April 8, 2003.

In a letter dated April 18, 2003 from the Idaho Department of Insurance to United Heritage Financial Group, Inc., the Department indicated that it had reviewed the Plan, and generally had no objections to it. However, the Idaho Department determined that approval of the Plan by the Director was not required and that the Form E pre-acquisition notice satisfied the requirements of Title 41, Idaho Code.

As part of the Amended Plan of Reorganization and Merger, a surplus note was issued to the Company. Under terms of the note, the Company paid Sublimity $200,000 in cash. The principal balance was to be repaid in forty equal and consecutive quarterly payments of $5,000 each commencing on September 30, 2003. Simple interest on the unpaid principal balance was accrued at 7 percent per annum. The receivable associated with the surplus note was reported as a nonadmitted asset in the Company's financial statements.

On May 23, 2003, immediately following the closing of the reorganization and merger, Sublimity delivered a payment in the amount of $205,950, representing $200,000 of principal and $5,950 of accrued interest, to the Company in full repayment of the surplus note. The Oregon Department of Consumer and Business Services approved the repayment of the surplus note on May 14, 2003.

United Heritage Marketing Services, Inc.

Subsequent to the examination date, the Company formed United Heritage Marketing Services, Inc., to perform certain marketing and related services on its behalf. In this regard, the Company purchased 100,000 shares of United Heritage Marketing Services, Inc.'s no par common stock for $1 per share. Upon the organization and commencement of business, the Marketing Committee of the Board of Directors would be dissolved. A resolution to form the marketing company and to dissolve the Marketing Committee was approved by the Board of Directors.

Related Party and Affiliated Transactions

Contracts and Agreements

In 1992, the Company instituted a personal computer leasing program for the Board of Directors and officers to promote computer education. Under this program, all Board members and officers may lease personal computer equipment to be used for job-related duties and for personal use. In this connection, certain officers executed Computer Leasing Agreements with the Company. Terms of each agreement were substantially similar except for effective dates, lease payments and initial lease amounts.

A similar program was instituted for eligible employees. Under the personal computer employee purchase assistance program, employees may purchase computer equipment in exchange for a promissory note. Several employees executed Computer Funding Payback Agreements with the Company. Terms of each agreement were the same except for effective dates, payments, and amounts loaned.

The receivables associated with the computer leasing and purchasing programs were reported as nonadmitted assets in the financial statements.

The Company executed a cost sharing and allocation arrangement between and among the subsidiary companies of United Heritage Financial Group, Inc. for an original term of January 1, 2002 through January 1, 2003. The arrangement was subsequently renewed under substantially similar terms.

The cost sharing and allocation arrangement was amended effective August 15, 2003 to reflect that the Company may, on occasion, perform mortgage loan purchasing and servicing on behalf of its affiliated companies. The arrangement, as amended, also removed the expiration date and included Sublimity Insurance Company as a subsidiary company. The arrangement provided for the following:

- Employee benefit costs were allocated to and paid by each respective company in proportion to their share of the cost of the benefit without markup or overhead charges.

- Transaction processing and clearing services were provided by United Heritage Financial Services, Inc. Charges were based upon usage of the services. The same services were provided to Sublimity Insurance Company.

- The Company rented space to United Heritage Property & Casualty Company and United Heritage Financial Services, Inc. No formal rental agreements existed and the occupancy was month-to-month. Total rents paid by United Heritage Property & Casualty Company and United Heritage Financial Services, Inc. in 2003 were $43,417 and $15,729, respectively.

- The Company paid various operating expenses, including telephone and postage. The expenses were charged to United Heritage Property & Casualty Company, United Heritage Financial Services, Inc., and Sublimity Insurance Company based upon their share of usage.

- The Company included United Heritage Financial Services, Inc. employees in its payroll processing and charged United Heritage Financial Services, Inc. for all direct United Heritage Financial Services, Inc. employee payroll costs.

- The Company provided, or may provide in the future, mortgage loan services, including the sale of mortgages and participations to United Heritage Property & Casualty Company, United Heritage Financial Services, Inc., United Heritage Financial Group, Inc., and Sublimity Insurance Company. In 2003, the Company entered into mortgages on a joint basis with United Heritage Property & Casualty Company totaling $1,352,882.

In a letter dated July 17, 2003, the Department of Insurance stated that the cost sharing and allocation arrangement (as amended) was reviewed pursuant to Section 41-3807, Idaho Code and IDAPA 18.01.23.023, and that it had no objections to the proposed arrangement based on the information provided. Previous versions of the arrangement were also reviewed by the Department without objection.

In 2002, the Company executed an agreement to retain a former employee to perform professional lobbying services on behalf of all United Heritage companies for calendar year 2003. The Company paid the former employee $12,900, plus legislative lobbying expenses as well as certain membership dues or costs. The agreement was terminable at the will of either party upon written notice. An agreement with substantially similar terms was executed for calendar year 2004, except the sum paid increased to $13,500.

Revolving Line of Credit

United Heritage Financial Group, Inc., as borrower, had an unsecured revolving line of credit with the Company in the principal amount of $500,000. The initial interest rate was set at Wells Fargo's prime rate and was calculated on the outstanding principal balance. The line of credit was evidenced by a promissory note in favor of the Company dated March 27, 2002, with a maturity on March 31, 2007.

The note was retired and was replaced by an identical promissory note of $3,000,000 dated April 23, 2003, with a maturity of April 30, 2008. The Board of Directors authorized the line of credit by a resolution dated April 23, 2003.

In 2002 and 2003, United Heritage Financial Group, Inc. drew down on the line of credit in the amounts of $635,000 and $1,725,000, respectively. At the time of the draws, the amounts were below the reporting requirements of Sections 41-3806(4) and 41-3807(2), Idaho Code. As of December 31, 2003, the total amount of the line of credit available for draw was $640,000. The receivables associated with the revolving line of credit were reported as nonadmitted assets in the Company's financial statements.

Guarantee for Debt

The Company had a revolving line of credit with Wells Fargo Bank in the amount of $2,000,000. United Heritage Property & Casualty Company and Sublimity Insurance Company also had lines of credit with Wells Fargo of $500,000 each. United Heritage Financial Group, Inc. executed a guarantee of the lines of credit for these subsidiaries.

Benefit Plans

On November 12, 2003, the non-contributory defined benefit pension plan purchased single premium immediate annuity policies from the Company and General Electric Capital Assurance Company (the payors) for the plan's twenty-five retirees at a cost to the plan of $4,277,316.

Real Estate Transactions

During 2001, the Company purchased real estate owned by United Heritage Property & Casualty Company. The building was purchased for fair value of $425,190 and improvements of $11,586 were made. The Company subsequently sold the property to an unrelated third party for $479,000, resulting in a recognized gain of $14,263.

Investment Transactions

During the examination period, the Company sold various investments to affiliated companies. In 2003, the Company sold to United Heritage Financial Group, Inc.: Asarco, Inc. bonds for $250,000; Peachtree bonds for $672,575; Conseco bonds for $251,250; and Lumbermen's Tiers bonds for $101,025. The Company also sold bonds to Sublimity Insurance Company for proceeds and statement value of approximately $2,785,000, resulting in no gain or loss. At the time of the sales, the amounts were below the reporting requirements of Sections 41-3806(4) and 41-3807(2), Idaho Code.

Dividend and Capital Stock Transactions

On August 28, 2001, pursuant to a resolution of the Board of Directors, United Heritage Financial Group, Inc. declared a cash dividend of $5,000 to United Heritage Mutual Holding Company, Inc. Dividends declared and paid by the Company to United Heritage Financial Group, Inc. are discussed under the caption, *HISTORY AND DESCRIPTION.*

United Heritage Financial Group, Inc. purchased 60 shares of common stock of United Heritage Property & Casualty Company at a par value of $2,500 per share on or about November 21, 2003, for a total of $150,000.

Subsequent to the examination date, the Company acquired 68 shares of United Heritage Property & Casualty Company's stock for $7,319 per share, or $497,692. This represented approximately 10.14 percent of the issued and outstanding shares of United Heritage Property & Casualty Company at that time. In a letter to the Company dated September 16, 2004, the Department of Insurance indicated that the Form D filing had been reviewed pursuant to Section 41-3807, Idaho Code and IDAPA 18.01.23.023 and that it had no objections to the proposed transaction.

Also in 2004, the Company acquired 387,596 shares of Sublimity Insurance Company's stock for $1.29 per share, or $499,999, which represented approximately 10.46 percent of Sublimity's issued and outstanding common stock. The State of Oregon Department of Consumer and Business Services Insurance Division determined that the transaction did not effect, change or influence control of ownership of Sublimity Insurance Company and granted an exemption from ORS 732.521(1), pursuant to ORS 732.521(2)(a) dated September 20, 2004.

United Heritage Financial Group, Inc. purchased 846 shares of United Heritage Property & Casualty Company stock in 2005, thereby diluting the Company's ownership to approximately 8.03 percent. Also in 2005, 4,036,954 shares of Sublimity Insurance Company's stock were issued to United Heritage Financial Group, Inc. This transaction decreased the Company's ownership in Sublimity Insurance Company to approximately 9.6 percent.

Directors

The following persons were the duly elected members of the Board of Directors at December 31, 2003:

Name and Business Address	Principal Occupation
Richard Edgar Hall Boise, Idaho	Partner in law firm Hall, Farley, Oberrecht & Blanton, Boise, Idaho
Richard Clinton Waitley Meridian, Idaho	President, Rick Waitley Associates Meridian, Idaho
Julie Elizabeth Prafke Veradale, Washington	President, Humanix Personnel Services Spokane, Washington
Ned Eugene Clark Heppner, Oregon	Secretary/Treasurer, Horseshoe Hereford Ranch, Inc, Heppner, Oregon
Rodney LeRoy Smith Red Lodge, Montana	President, United States National Bank
Oliver Dean Metzler Fort Morgan, Colorado	Chief Investigator Public Defender's Office, Sterling, Colorado
Dennis Lane Johnson Meridian, Idaho	President and Chief Executive Officer United Heritage Life Insurance Company
Steven Donald Hauschild Spokane, Washington	Vice President, Washington Mutual Bank

Subsequent to the examination date, Oliver Dean Metzler resigned from the Board of Directors effective October 6, 2004.

Officers:

The following persons were serving as officers of the Company at December 31, 2003:

Richard Edgar Hall	Chairman of the Board
Rodney LeRoy Smith	Vice Chairman of the Board
Dennis Lane Johnson	President/Chief Executive Officer
Anne Aschenbrener	Vice President/Secretary
Jack Jay Winderl	Executive Vice President, Investments/Treasurer
Deborah Kay Sloan	Senior Vice President and Actuary
Robert Joseph McCarvel	Senior Vice President, Marketing
Donald Keith Stensaas	Vice President, Underwriting
Geoffrey Morgan Baker	Vice President and General Counsel
Mickey Lynn Ware	Vice President, Information Technology
Christopher John Forsyth	Vice President and Controller
Kent Michael Delana	Vice President, Mortgage Lending and Assistant Secretary
John Bellamy	Vice President, Marketing
Marjorie Ann Hopkins	Assistant Secretary
Richard Shane Nelson	Vice President, Group

Subsequent to the examination date, Anne Aschenbrener retired from the Company. Marjorie Ann Hopkins was named Vice President and Corporate Secretary to replace Mrs. Aschenbrener effective January 1, 2005. Todd Hunter Gill was named Vice President and Controller also effective January 1, 2005 to replace Christopher John Forsyth who resigned effective December 31, 2004.

Executive Committee

The Bylaws provided for an Executive Committee of the Board of Directors composed of the Chairman of the Board, Vice Chairman of the Board, and the President of the Company. At December 31, 2003, the following individuals were serving as members of the Executive Committee:

Richard Edgar Hall	Chairman of the Board
Rodney LeRoy Smith	Vice Chairman of the Board
Dennis Lane Johnson	President/Chief Executive Officer

Standing Committees

The following committee appointments were made, and members serving at December 31, 2003, were as follows:

Investment Committee

Dennis Lane Johnson	Jack Jay Winderl
Oliver Dean Metzler	Deborah Kay Sloan

Subsequent to the examination date, Oliver Dean Metzler resigned from the Board of Directors and no longer served on the Investment Committee. Steven Donald Hauschild was appointed to fill the vacancy.

Marketing Committee

Julie Elizabeth Prafke, Chairman	Richard Clinton Waitley
Ned Eugene Clark	Dennis Lane Johnson
Steven Donald Hauschild	Robert Joseph McCarvel, Advisor

Subsequent to the examination date, Julie Elizabeth Prafke was named Chairman of the Compensation Committee. Richard Clinton Waitley was appointed to fill the vacancy created by this committee change.

Compensation Committee

Oliver Dean Metzler, Chairman	Richard Clinton Waitley
Richard Edgar Hall	Dennis Lane Johnson
Julie Elizabeth Prafke	Anne Aschenbrener, Advisor

Subsequent to the examination date, Oliver Dean Metzler resigned from the Board of Directors and no longer served as Chairman of the Compensation Committee. Julie Elizabeth Prafke was appointed as Chairman to fill the vacancy created by Mr. Metzler's resignation.

Audit Committee

Ned Eugene Clark, Chairman	Rodney LeRoy Smith
Steven Donald Hauschild	Christopher John Forsyth, Advisor
Oliver Dean Metzler	

Subsequent to the examination date, Todd Hunter Gill was named Advisor to the Audit Committee. As previously mentioned, Oliver Dean Metzler resigned from the Board of Directors in 2004. At the date of this report, a replacement has not been named to the Audit Committee.

Conflict of Interest

The Company had a conflict of interest policy in place that required the directors, officers, and management employees to disclose annually, on a prescribed written form, any outside personal interests, activities or affiliations that conflicted or may potentially conflict with their official duties with the Company.

Conflict of interest statements that were completed for the period January 1, 1999, through December 31, 2003 and subsequent thereto appeared to appropriately disclose any possible conflicts of interest.

Contracts and Agreements

The Company had the following agreements in effect at December 31, 2003. Related party and affiliated agreements are discussed under the caption, *MANAGEMENT AND CONTROL.*

General Agent, Associate Agent, and Agent Agreements
General and associate agents produced business on behalf of the Company under terms of general agent, associate general agent, and agent agreements. These agreements are discussed in detail under the caption, *TERRITORY AND PLAN OF OPERATION.*

Agreements to Represent
During 1997, the Company began offering life insurance and fixed annuity products on the premises of several independent banks domiciled in the State of Idaho. The related agreements are discussed in more detail under the caption, *TERRITORY AND PLAN OF OPERATION.*

Third Party Administrator Agreement
The Company executed an eyecare services agreement with Medical Eye Services, Inc. (MES) on May 14, 1998. This agreement applied to the supplemental benefit for eyecare services covered under the Company's group vision care policies. Under terms of the contract, MES provided claims administration and arranged for delivery of eyecare services, in consideration of an administrative fee of 10 percent of gross premiums collected for each subscriber group.

This agreement, which was effective April 1, 1998, expired on January 1, 2000, and automatically renewed on each successive anniversary of the effective date. The agreement was terminable for cause as specified therein, or without cause on ninety days written notice.

The agreement contained the provisions set forth under Sections 41-904 and 41-911, Idaho Code and MES held a valid certificate of registration in compliance with Section 41-913, Idaho Code.

Lease Agreement for Operations Center

The Company entered into an operating lease with Rafanelli and Nahas to lease office space in Meridian, Idaho, to house its Operations Center. The lease was effective January 1, 2001 for an initial term of five years, with an option for an additional five-year term. For the year ended December 31, 2003, the Company recorded rent expense of $41,035. Minimum lease payments for the remainder the operating lease are $46,338 per year.

Management and Operating Agreement

The Company entered into an agreement with Rafanelli and Nahas Management (RNM) Corporation, for operating and maintaining the Company's home office property. The agreement commenced on July 1, 2001, with a termination date of June 30, 2004, to continue on a month to month basis thereafter. Either party may terminate the agreement upon thirty days written notice.

RNM was compensated $23,250 the first year of the contract, with annual increases of 3 percent per annum thereafter. Additional fees were also due under the agreement for any tenant improvements, interior finishing work, or use of RNM's employees.

Operating Leases

The Company leased a portion of its home office building to tenants under initial five year operating leases. The leases had various commencement and expiration dates. Total rents of $437,897 were collected in 2003, including $336,000 for rent relating to the Company's occupancy of its own building in compliance with SSAP No. 40, paragraph 15. Subsequent to the examination date, a lease for one of the tenants was modified to an expiration date of December 31, 2004.

Line of Credit With Wells Fargo Bank

The Company had a revolving line of credit with Wells Fargo Bank, in the principal amount of $2,000,000, subject to a variable interest rate. The initial interest rate was set at 4.75 percent per annum and was subject to changes in Wells Fargo's prime rate. The line of credit was evidenced by a promissory note dated March 31, 2002, with a maturity on March 31, 2003.

A modification agreement effective March 25, 2003, extended the maturity date of the promissory note to March 31, 2004 and changed the initial interest rate to 4.25 percent. Another modification agreement dated March 20, 2004 extended the maturity to March 31, 2005 and lowered the initial interest rate to 4 percent.

As of December 31, 2003, the total amount of the line of credit was available for draw. The line of credit was authorized annually by a resolution of the Company's Board of Directors.

United Heritage Small Group Trust

In 2002, the Company established a small group employer insurance trust. In this regard, the Company entered into an agreement with Magic Valley Bank (MVB) dated February 20, 2002.

Under terms of the agreement, MVB performed trustee services for the Company in connection with its small group employer insurance trust. Participants (eligible employers) paid a portion of the premium under the policy(ies) to an insurance fund established and held by the Company, as administrator. Monies were disbursed from the fund to pay and provide payment of insurance premiums pursuant to the policy(ies) held by MVB. MVB was paid an annual fee of $1,000 for its duties under the agreement.

MVB may be removed as trustee at any time upon thirty days written notice and a successor trustee will be designated. The participants may withdraw from the trust and insurance fund and the administrator may terminate participation for reasons specified in the agreement with thirty days written notice. The trust shall continue indefinitely; but automatically terminates on the twentieth anniversary of the death of the last surviving signatory.

The Department of Insurance had no objections to the trust agreement submitted for their review. The Director of the Department of Finance granted a limited exemption to MVB from the Idaho Trust Institutions Act pursuant to an order dated February 11, 2002.

United Heritage Fund

In 2002, the Company established the United Heritage Fund, a philanthropic gift fund, in the Idaho Community Foundation by an agreement with the Foundation. The fund was established in the initial amount of $5,000 and was increased by periodic contributions. The Company recommended distributions for charitable purposes, which were disbursed by the Idaho Community Foundation. In 2003, contributions totaled $9,000 and $8,750 was distributed to various charitable organizations.

Marketing Agreement

The Company entered into a marketing agreement with Insurance Coordinators of Montana, Inc. in 2003. The agreement is discussed in more detail under the caption, *TERRITORY AND PLAN OF OPERATION.*

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company's Articles of Incorporation were amended during the examination period as follows:

1. Amended and Restated Articles of Incorporation were filed with the Secretary of State on August 28, 2001 and approved by the Department of Insurance on the same date. These articles were approved by the Board of Directors on August 23, 2001. Under the Amended and Restated Articles, the name of the Company was changed from United Heritage Mutual Life Insurance Company to United Heritage Life Insurance Company and 1,500,000 non-assessable shares each with a par value of $1 were authorized.

2. First Articles of Amendment to Articles of Incorporation were approved by the Board of Directors on November 16, 2001. These articles were filed with the Secretary of State on December 13, 2001 and approved by the Department of Insurance on December 10, 2001. This amendment authorized 1,500,000 non-assessable shares each with a par value of $5.

The Company's Bylaws were amended and restated to incorporate changes due to the conversion to a mutual holding company structure. The amended and restated Bylaws were adopted by the Board of Directors on August 23, 2001.

Minutes of Meetings

A review of the minutes of the meetings of the Policyholders and/or Shareholders, the Board of Directors, and the various committees for the period January 1, 1999 through December 31, 2003 and subsequent thereto, indicated compliance with the Articles of Incorporation and Bylaws with respect to the election of the Board of Directors and Officers, and the election or appointment of Committee members.

This review of the minutes also indicated that a quorum was present at all Board of Directors' meetings held during the examination period and that significant Company transactions and events were properly authorized.

Investment transactions were approved by the Board of Directors or the Executive Committee, as required by Section 41-704, Idaho Code. Furthermore, the Company maintained records of its investments in conformity with Section 41-705, Idaho Code.

The Minutes of the Board of Director's meeting held on February 15 and 16, 2000 indicated that the Examination Report as of December 31, 1998, conducted by the Idaho Department of Insurance was reviewed and accepted.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Company has been maintained through the period under examination. Coverage in effect as of December 31, 2003, is summarized as follows:

The Company had a financial institution bond, which covered forgery or alteration, securities and trading loss, counterfeit currency, computer and funds transfer fraud, and extortion threats to persons and property losses up to $5,000,000. The deductible for all coverages was $50,000. The protection of the financial institution bond met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

Other insurance maintained by the Company included pension and welfare fund fiduciary responsibility; directors, officers, and private company liability insurance; workers' compensation and employers' liability; property; liability; business automobile; and commercial umbrella coverages.

The insurance carriers providing coverage to the Company were licensed or otherwise authorized in the State of Idaho.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Defined Benefit Plan

The Company was a participating employer in a non-contributory defined benefit pension plan covering its employees. Effective January 1, 2002, benefits in this plan were frozen. Employees not in the plan as of that date, as well as future employees, will not be covered.

On November 12, 2003, the plan purchased single premium immediate annuity policies from the Company and General Electric Capital Assurance Company (the payors) for the plan's twenty-five retirees at a cost to the plan of $4,277,316. The purchased annuities were contracts under which the payor was obligated to pay lifetime benefits to named participants (and their beneficiaries, if applicable). The annuities had monthly payments and a calendar-year cost-of-living adjustment. The first payments under the annuity contracts were made in January of 2004.

Effective January 1, 2004, the plan was amended to allow participants to elect a lump sum up to $25,000 at termination of employment or retirement. The lump sum increased to $50,000 effective June 24, 2004.

Defined Contribution Plan

The Company was a participating employer in a 401(k) plan in which substantially all employees who have been with the Company for three months or more can participate. Through salary reduction elections, participating employees may contribute the maximum allowable to available investment funds. Salary reduction amounts may not exceed the limits of the Internal Revenue Code Sections 401(k), 402(g), and 415. The Company matched employee contributions up to a maximum of 4 percent of employee base pay. Additionally, the 401(k) plan had a discretionary profit sharing component in which all employees who were actively employed on the last day of the year shared.

The Company matching contribution allocated in 2003 for plan year 2002 was $131,786; and the allocation in 2004 for plan year 2003 was $143,242.

The profit sharing contributions allocated in 2003 for plan year 2002 and in 2004 for plan year 2003 were $134,835 and $207,682, respectively.

Deferred Compensation Plans

The Company had established a supplemental executive retirement plan for the Company President and Chief Executive Officer.

The Company's funding policy was to accrue an amount equal to the cash surrender values and loan values of the key man life insurance policies issued on the lives of the participants and owned by the company providing life insurance coverage on the participants' lives. The estimated benefit values at age 65 of approximately $279,393 were based on current assumptions regarding interest rates.

Postretirement Benefit Plans

In addition to pension benefits, the Company provided certain health care benefits for retired employees. All employees who retired from the Company between July 1, 1968, and February 1, 1985, were covered by major medical policies for which the Company paid the premiums. The Company paid $5,452 in premiums for these policies in 2003.

In 1995, the Company changed its method of accounting for the costs of these health care benefits to an accrual method, and elected to recognize the present value of future premiums and future reimbursements in statutory surplus in the current year. The effect of recognizing the present value of future premiums and future reimbursements as of December 31, 2003 was to decrease surplus by $28,247.

The discount rate used in determining the present value of future premiums and future reimbursements was 8 percent.

Enhanced Early Retirement Program

The Company offered an enhanced early retirement program between 1991 and 1995. All of the participants in this program reached age 65 by 2002. Therefore, the program was not in place at December 31, 2003.

Group Life, Health, Dental and Long Term Disability

The Company paid 100 percent of the premiums for the employee group life insurance and group long term disability coverage. The Company paid all of the employee's health and dental insurance premium in 2003, except for $45 and 20 percent of the dependent premium. The employee paid $45 of the premium, plus 80 percent of the dependent premium.

In 2004, the Company paid one hundred percent of the employee health and dental premium, except for $60, and 20 percent of the dependent premium. The employee paid $60 of the premium, plus 80 percent of the dependent premium.

The Company also made available voluntary group products to its employees on an optional basis such as cancer care, accidental death and dismemberment, long term care and supplemental life insurance.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact the business of life, disability, annuities, and accident and health in the following twenty-three states:

Arizona	Louisiana	Oklahoma
Arkansas	Minnesota	Oregon
California	Missouri	South Dakota
Colorado	Montana	Texas
Idaho	Nebraska	Utah
Illinois	Nevada	Washington
Iowa	New Mexico	Wyoming
Kansas	North Dakota	

Subsequent to the examination date, the Company became licensed in the States of Hawaii and Wisconsin.

The Certificates of Authority issued by the respective states were inspected and verified during current examination fieldwork, with nothing exceptional noted. The Company's certificate of authority was re-issued in connection with its conversion to a mutual holding company structure on August 28, 2001.

The Company's key lines of business were traditional whole life, universal life, and annuities. Other products offered included term life, final expense, pre-need products, flexible premium annuities and single premium deferred annuity contracts. Disability and accidental death benefits were issued in connection with life plans, and group products, including long-term and short-term disability, were also sold. Sales of accident and health policies were discontinued in 1989 and a cancer policy first marketed in 1993 is no longer sold.

The Company marketed its insurance products through independent agencies primarily on a general agency basis and utilized a field force of approximately 368 general and associate agents. Pre-need products were distributed through funeral directors, primarily in Arizona, Idaho, and Oregon, as well as through independent agents. Final expense products were distributed through a separate general agency system. As mentioned below, the Company expanded its marketing offerings to include worksite marketing through a joint marketing arrangement with Insurance Coordinators of Montana, Inc. (ICMI).

General and associate agents produced business on behalf of the Company under terms of general agent, associate general agent, and agent agreements. These agreements were effective on a continuous basis and commissions were paid pursuant to commission and service fees set forth in the agreements. General agents also received overriding commissions and service fees on all business paid for by the general agent's appointed agents. An agent's agreement may be terminated at any time upon written notice, by failure to meet production requirements, upon revocation/non-renewal of the agent's license or occurrence of other events specified in the agreement.

Agents may receive advances from the Company through execution of a supplementary advance commission agreement. Under terms of this agreement, an agent was compensated pursuant to schedules contained therein.

The Company also advanced monies on behalf of an agent pursuant to lead generation advance funding agreements. Under terms of these agreements, the Company paid select vendors, up to a maximum specified in the agreement, for printing, mailing lists, and mail pieces provided to agents for the purpose of generating business. Repayment was a specified percentage of all advance and earned commissions, bonuses, and overrides.

During the prior examination period, the Company began offering life insurance and fixed annuity products on the premises of several independent banks domiciled in the State of Idaho. In this regard, agreements to represent were executed with Citizens Community Bank, Magic Valley Bank, Idaho Independent Bank, and Idaho Banking Company. The agreements had various effective dates and may be terminated at any time by written notice, failure to meet production requirements, upon revocation/non-renewal of the agent's license or occurrence of other events specified in the agreement.

Under terms of the agreements, the Banks were appointed as general agents. Individuals selling insurance products were selected by the Company and the respective Banks. In exchange for their services, the Company paid commissions and service fees set forth in the agreements. Compensation varied by contract and was dependent upon whether the agent was a bank employee or an independent contractor.

The agreements to represent required that insurance product sales were conducted in a location distinct from the Bank's retail deposit area; that products did not have names similar or identical to those offered by the Bank; and account statements concerning insurance products be kept separate from periodic deposit information. The agreements further required that communications with the public, advertisements, sales literature, and promotions distinguished between products offered by the Bank and those offered by the Company.

During the examination period, the Company had immaterial investments in the common stock of those banks in which insurance products were distributed.

Marketing Agreement

As previously stated, the Company entered into a marketing agreement with ICMI, an insurance marketing organization effective October 1, 2003 and continuing through December 31, 2004. Beginning January 1, 2004, the agreement automatically renewed for successive one year terms. The purpose of the agreement was to expand the Company's marketing offerings to include worksite marketing. The agreement was terminable at any time by written notice of either party or automatically for specified events.

Under terms of the agreement, certain Company employees were designated benefit specialist. ICMI reimbursed the Company for 50 percent of its salary and benefit costs related to the benefit specialist positions. The receivables arising from this agreement were reported as nonadmitted assets in the Company's financial statements.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2003, the Company had provided the following deposits in trust for the protection of all its policyholders and/or creditors:

Description	Par Value	Statement Value	Market Value
Arkansas:			
U. S. Treasury, 7.25%, Due 8/15/04	$ 300,000	$ 304,259	$ 311,343
Idaho:			
East Lansing Michigan, 7.45%, Due 4/1/20	520,000	511,961	511,961
GNMA CMO, 5.5%, Due 2/20/33	1,256,148	1,180,821	1,180,821
New Mexico:			
U. S. Treasury Strip, zero coupon, Due 8/15/25	500,000	166,766	151,472
Totals	$2,576,148	$2,163,807	$2,155,597

Securities on deposit with the State of Idaho were held through the office of the Director of Insurance, in compliance with Section 41-316A, Idaho Code.

GROWTH OF THE COMPANY

The Company's growth for the years indicated, as taken from the prior examination report and its Annual Statements, is shown in the following schedule:

Year	Admitted Assets	Liabilities	Capital & Surplus	Net Income(Loss)
1998*	$276,656,761	$246,835,908	$29,820,853	$2,086,645
1999	287,646,839	255,917,940	31,728,899	2,845,090
2000	294,664,944	262,329,164	32,335,780	2,273,127
2001	315,027,265	285,134,480	29,892,785	841,173
2002	348,341,122	320,707,264	27,633,858	1,038,851
2003*	376,243,417	345,128,929	31,114,488	1,815,556

Net income decreased in 2001 due to expenses associated with the Company's conversion to a mutual holding company structure and the move to a new home office in Meridian, Idaho.

*As determined by Examination.

MORTALITY/LOSS EXPERIENCE

The ratios of benefits and expenses to premium shown in the following schedule were derived from amounts reported in the Company's Annual Statements:

Life Policies:

Year	Death Benefits Incurred	Reserves Released by Death	Net Death Benefits Incurred	Tabular Costs (Expected)	Net Ratio Actual to Expected Mortality
1999	$ 8,019,578	$3,194,981	$4,824,597	$10,537,158	45.8%
2000	9,044,404	3,186,175	5,858,229	11,231,077	52.2%
2001	10,699,431	4,120,958	6,578,473	11,934,569	55.1%
2002	12,037,021	4,504,736	7,532,285	12,851,897	58.6%
2003	13,636,420	5,501,936	8,134,484	12,286,303	66.2%

Accident and Health Policies:

Year	Premiums Earned	Claims Incurred	Other Expenses Incurred	Gain/(Loss) Before Dividends to Policyholders	Ratio of Benefits and Expenses to Earned Premium
1999	$786,466	$430,169	$363,623	$36,710	100.9%
2000	841,842	542,646	398,808	(96,757)	111.8%
2001	793,256	471,425	446,556	(102,478)	115.7%
2002	781,181	480,646	670,786	(350,491)	147.4%
2003	723,754	786,065	706,356	(750,945)	206.2%

The Accident and Health ratios reflected the claims and expenses incurred under the "run-off" of the old cancer expense policies and major medical business.

REINSURANCE

Assumed

The Company does not assume any reinsurance business.

Ceded:

At December 31, 2003, the Company had reinsured 30.40 percent of its total life insurance in force. The in force life insurance ceded was placed with nine reinsurers, all of whom were authorized to transact business in the State of Idaho.

Under the automatic treaties, the Company was reinsured for its ordinary life risks, above its maximum retention limits of $100,000 up to a specified maximum reinsurers' limit, the highest of which was $900,000 per risk. Under facultative or facultative option treaties, additional amounts of risks may be ceded subject to the reinsurer's acceptance, as provided for in the agreements.

Under a coinsurance agreement, effective May 1, 1998, the Company was reinsured for its *Legacy Term* risks (10 year, 15 year, and 20 year products) on a first dollar, 80 percent quota share basis, to a maximum retention of $150,000. All other life risks had a $100,000 retention limit.

As provided for by a catastrophic reinsurance agreement, the Company's group life, supplemental life, and individual life risks, above a $75,000 deductible, were ceded to an aggregate limit of $1,000,000 reimbursement per catastrophic accident occurrence.

Under an automatic treaty, the Company's group life and supplemental life business was reinsured above a maximum retention of $25,000 per insured, per policy; additional group life above a maximum retention of $10,000 per insured, per policy and accidental death and dismemberment was 100 percent reinsured. The reinsurers' maximum limit was $475,000 per insured for additional group life and $500,000 per insured for group life and supplemental life.

The Company's group long term disability business was reinsured on an automatic basis whereby the Company ceded 90 percent of its business on a quota share basis. The group short term disability business was reinsured on an automatic basis whereby the Company ceded 50 percent of its business on a quota share basis.

The Company's reinsurance agreements contained acceptable provisions for inspection of records, arbitration, termination, and insolvency clauses. The Company's retention limits complied with the provisions of Section 41-509, Idaho Code. All reinsurers were authorized pursuant to Section 41-511, Idaho Code. Review of the Company's reinsurance portfolio indicated transfer of risk was present and no apparent surplus relief treaties existed at December 31, 2003. The reinsurance files contained updated amendments to treaties and newly executed treaties during the period under review.

The Company had major medical reinsurance on a small number of guaranteed renewable and conditionally renewable policies. In 2002, the Company received notice that the reinsurance premiums for this business would increase significantly. Consequently, the Company terminated the reinsurance agreement and established reserves to self fund the business. At December 31, 2003, the Company had established reserves of $150,000 in this regard.

Subsequent to the examination date, the Company entered into a Life Catastrophe Excess of Loss Reinsurance Contract with Sirius International Insurance Corporation. Sirius International was not an authorized or accredited reinsurer in the State of Idaho. In 2004, the Company ceded premiums of $10,656 to Sirius under the agreement. The Company did not report any reserve credits taken or paid and unpaid losses recoverables in the 2004 Annual Statement with respect to this unauthorized reinsurer.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As previously stated, the Company's key lines of business were traditional whole life, universal life, and annuities. Other products offered included term life, final expense, pre-need products, flexible premium annuities and single premium deferred annuity contracts. Disability and accidental death benefits were issued in connection with life plans, and group products, including long-term and short-term disability, were also sold.

The Department of Insurance notified the Company that no discrepancies existed in the 2002 and 2003 rate and form filings submitted to the Department.

During a review of underwriting practices, it was noted that a whole life policy was issued to an Idaho resident using Washington policy form, 1732U (Rev. 1/2003). This policy form was not a form filed certified in the State of Idaho; therefore, the Company was not in compliance with Section 41-1812, Idaho Code with respect to this policy.

It is recommended that policy form 1732U (Rev. 1/2003) be filed certified with the Department of Insurance for review and determination, or re-issue the policy using an existing Idaho Department of Insurance filed certified policy form.

Subsequent to the examination date, the subject policy was re-issued to the insured on an Idaho policy form.

It was noted that the Company did not maintain a register for replaced annuity policies pursuant to IDAPA 18.01.41 (014.03). It was also noted that certain individual and universal life policies were not listed in the replacement registers also provided by IDAPA 18.01.41 (014.03). Furthermore, documentation for four (4) universal life policies that were reviewed did not contain sufficient evidence to indicate that replacement procedures were followed in conformity with IDAPA.

It is recommended that the Company establish a replacement register to record replaced annuity policies. It is also recommended that the Company implement procedures and internal controls to ensure that all replaced policies are recorded in the replacement registers and sufficient replacement documentation is retained in the files in order to demonstrate compliance with IDAPA 18.01.41 (014.03). Sufficient evidence would include items such as notices regarding replacement, policy summaries, contract summaries, and ledger statements.

One universal policy file reviewed did not contain documentation to indicate that the replaced/existing company was notified as provided by IDAPA 18.01.41 (014.02b).

It is recommended that the Company implement procedures and internal controls to ensure that sufficient documentation is retained in the files in order to demonstrate compliance with IDAPA 18.01.41 (014.02b).

The Company did not share nonpublic personal information with nonaffiliated third parties for reasons other than those permitted by law. The various safeguards and methods of notification utilized by the Company to protect the privacy of its policyholder nonpublic personal information appeared to be reasonable and were in compliance with IDAPA 18.01.48.

The amount of risk retained by the Company is reported under the caption, *REINSURANCE.*

Treatment of Policyholders

Claims

Samples of paid (universal life, ordinary life, group life) and denied claims incurred during the examination period were reviewed. That review indicated that claims, in general, were settled promptly and in accordance with policy terms. No exceptions were noted as to the requirements of Section 41-1329, Idaho Code, unfair claim settlement practices.

As previously reported under the caption, *MANAGEMENT AND CONTROL*, a third party administrator provided claims administration services for claims filed under the Company's group vision care policy.

Complaints

The Company maintained complaint handling procedures and a complaint register as required by Section 41-330, Idaho Code. Due to the small number of complaints received during the examination period, a review of complaint files was waived.

The Company had established procedures to report fraudulent claims as required under Section 41-290, Idaho Code. During the examination period, the Company reported suspected fraudulent claims to the Department of Insurance in compliance with Idaho law.

Advertising and Sales Material

The Company's advertising methods consisted of various advertisements and product brochures. Promotional items were provided to agents for a fee and were not distributed to the general public. The Company maintained signage at Northwest Nazarene College and in 2002, the Company ran television advertisements during the Winter Olympics. Subsequent to the examination date, television advertisements were aired during the 2004 Summer Olympics.

In the previous examination report it was noted that the Company became a member company of the Insurance Marketplace Standards Association (IMSA). During the current examination period, the Company did not renew its membership in the IMSA.

Information about the Company and its products was available to the general public on United Heritage Financial Group, Inc.'s website at www.unitedheritage.com.

The review of the Company's advertising and sales materials indicated that the materials and information on the Internet were not deceptive or misleading.

ACCOUNTS AND RECORDS

General Accounting

The data processing systems used by the Company as of December 31, 2003 consisted of an IBM iSeries 820 for policy administration and accounting. These systems were developed and maintained in-house and included personal computer (PC) interfaces to the IBM iSeries database. Programming languages included IBM Report Program Generator (RPG), IBM Control Language (CL), Advanced Systems Concepts Structured Query Language (SQL), Computer Associates AllFusion Plex, and Microsoft Visual Basic (VB). IBM iSeries 270 was utilized for web serving and web site hosting. Several Windows 2000 Server based PC's were used for the following purchased applications: LOANS – Mortgage Loan System, CAMRA – Investments System, Microsoft Exchange – e-mail system, and PLEX – Windows based graphical application development.

In 2004, the in-house developed accounting system was converted to a purchased package system, Sungard Enterprise Accounting System. This system utilized Microsoft SQL Server as its database and the application ran on a Microsoft Windows 2000 PC Server. Also in 2004, the CAMRA Investments system was converted to a Microsoft Windows 2000 PC Server purchased application, Sungard's Enterprise Portfolio System.

Independent Accountants

The annual independent audits of the Company for the years 1999 through 2003 were performed by KPMG LLP, Portland, Oregon. The financial statements in each report were on a statutory basis. There was some reliance on the 2003 audit report and workpapers in this examination of the Company.

Actuarial Opinion

The policy reserves and related actuarial items were calculated by the Company and reviewed by Deborah Kay Sloan, F.S.A., M.A.A.A., Senior Vice President and Actuary of the Company.

The December 31, 2003 statement of actuarial opinion issued stated that the amounts carried in the balance sheet:

(a) are computed in accordance with presently accepted actuarial standards consistently applied and are fairy stated, in accordance with sound actuarial principles; (b) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions; (c) meet the requirements of the Insurance Law and duly adopted regulation of the State of Idaho at the valuation date and, to the Actuary's knowledge and belief, in all material respects are at least as great as the minimum aggregate amounts required by the state in which this statement is filed; (d) make good and sufficient provision for all unmatured obligations of the Company guaranteed under

the terms of its policies; (e) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end; (f) include provision for all actuarial reserve and related statement items which ought to be established.

The identified actuarial items in the 2003 Annual Statement are as follows:

Aggregate reserve for life policies and contracts (Line 1, Page 3):	$327,112,106
Aggregate reserve for accident and health policies (Line 2, Page 3):	484,131
Liability for deposit-type contracts (Line 3, Page 3):	9,224,370
Contract claims: Life (Line 4.1, Page 3):	1,083,863
Contract claims: Accident and Health (Line 4.2, Page 3):	616,835
Interest Maintenance Reserve (Line 9.4, Page 3)	1,581,229
Asset Valuation Reserve (Line 24.1, Page 3)	2,426,873
Life premiums deferred and uncollected (Line 12.2, Page 2):	4,705,492

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2003

Summary of Operations, Year 2003

Capital and Surplus Account, Year 2003

Reconciliation of Capital and Surplus Account, December 31, 1998, through December 31, 2003.

Balance Sheet
As of December 31, 2003

ASSETS

	Assets	Nonadmitted Assets	Net Admitted
Bonds	$295,729,902	$ 0	$295,729,902
Stocks			
Preferred stocks	10,744,245	0	10,744,245
Common stocks	1,412,752	0	1,412,752
Mortgage loans on real estate, first liens	40,862,553	0	40,862,553
Real estate, properties occupied by the company	6,443,292	0	6,443,292
Cash, cash equivalents and short-term investments	3,859,850	0	3,859,850
Contract loans	5,081,733	0	5,081,733
Investment income due and accrued	3,794,644	0	3,794,644
Premiums and considerations: (Note 1)			
Uncollected premiums and agents' balances in the course of collection	1,080,948	1,114,974	(34,026)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,705,492	0	4,705,492
Reinsurance:			
Amounts recoverable from reinsurers	122,363	0	122,363
Other amounts receivable under reinsurance contracts	31,373	0	31,373
Current federal and foreign income tax recoverable and interest thereon	201,890	0	201,890
Net deferred tax asset	989,409	0	989,409
Guaranty funds receivable or on deposit	7,038	0	7,038
Electronic data processing equipment and software	624,053	0	624,053
Furniture and equipment	1,666,854	0	1,666,854
Other assets nonadmitted	2,406,654	2,406,654	0
Aggregate write-ins for other than invested assets:			
Miscellaneous items in process	2,000	2,000	0
Prepaid pension costs	3,559,752	3,559,752	0
Totals	$383,326,797	$7,083,380	$376,243,417

Balance Sheet
As of December 31, 2003 (Continued)

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts (Note 2)	$327,112,106
Aggregate reserve for accident and health contracts	484,131
Liability for deposit-type contracts	9,224,370
Contract claims: (Note 2)	
Life	1,083,863
Accident and health	38,828
Policyholders' dividends and coupons due and unpaid	616,835
Provision for policyholders' dividends and coupons payable in following year:	
Dividends apportioned for payment to 12/31/2004	816,361
Premiums and annuity considerations for life and accident and health contracts received in advance	68,223
Contract liabilities not included elsewhere:	
Provision for experience rating refunds, including $4,884 A&H experience rating refunds	76,075
Interest Maintenance Reserve	1,581,229
Commissions to agents due or accrued-life and annuity contracts $122,611 accident and health $2,371	124,982
General expenses due or accrued	630,054
Taxes, licenses and fees due or accrued, excluding federal income taxes	210,282
Unearned investment income	127,837
Amounts withheld or retained by company as agent or trustee	148,441
Amounts held for agents' account, including $11,421 agents' credit balances	11,421
Remittances and items not allocated	318,771
Asset Valuation Reserve	2,426,873
FASB 106 post retirement liability	28,247
Total liabilities	$345,128,929
Common capital stock (Note 3)	$ 5,000,005
Gross paid in and contributed surplus (Note 3)	4,000,005
Unassigned funds (surplus)	22,114,477
Rounding	1
Surplus	$ 31,114,488
Totals	$376,243,417

SUMMARY OF OPERATIONS

For the Year Ending December 31, 2003

	Per Examination and Per Company
Premiums and annuity considerations for life and accident and health contracts	$61,809,822
Considerations for supplementary contracts with life contingencies	22,242
Net investment income	23,654,022
Amortization of Interest Maintenance Reserve	170,026
Commissions and expense allowances on reinsurance ceded	6,527
Miscellaneous income	44,076
Totals	$85,706,715
Death benefits	$13,636,420
Matured endowments	30,534
Annuity benefits	6,284,801
Disability benefits and benefits under accident and health contracts	886,940
Surrender benefits and other fund withdrawals for life contracts	16,582,328
Group conversions	8,670
Interest and adjustments on contract or deposit-type contract funds	401,563
Payments on supplementary contracts with life contingencies	326,563
Increase in aggregate reserves for life and accident and health contracts	29,351,463
Totals	$67,509,282
Commissions on premiums, annuity considerations, and deposit type contract funds	$ 6,692,430
General insurance expenses	7,227,693
Insurance taxes, licenses and fees, excluding federal income taxes	1,079,203
Increase in loading on deferred and uncollected premiums	(186,883)
Aggregate write-ins for deductions:	
Accumulation deposits	(8)
Increase in reserves for experience rating refunds	73,218
Increase in liability for post retirement benefits	(1,192)
Totals	$82,393,744
Net gain from operations before dividends to policyholders and federal income taxes	$ 3,312,971
Dividends to policyholders	733,578
Net gain from operations after dividends to policyholders and federal income taxes	$ 2,579,393
Federal and foreign income taxes incurred	$ 157,840
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	$ 2,421,553
Net realized capital gains or (losses) less capital gains tax of $(312,180) (excluding taxes of $218,354 transferred to the IMR)	$ (609,996)
Rounding	(1)
Net income	$ 1,815,556

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2003

	Per Company	Examination Changes	Per Examination
Capital and surplus, December 31, 2002	$27,633,858	$ 0	$27,633,858
GAINS AND (LOSSES) IN SURPLUS			
Net income	$ 1,815,556	$ 0	$ 1,815,55 6
Change in net unrealized capital gains(losses)	1,284,709	0	1,284,709
Change in net deferred income tax	3,374	0	3,374
Change in nonadmitted assets and related items	(3,935,482)	0	(3,935,482)
Change in reserve on account of change in valuation basis (increase) or decrease	1,798,235	0	1,798,235
Change in asset valuation reserve	538,843	0	538,843
Capital changes:			
Paid in	(70)	0	(70)
Aggregate write-ins for gains and losses in surplus:			
Change in benefit obligation	2,421,217	0	2,421,217
Change in loading due to change in valuation basis	(445,752)	0	(445,752)
Net change in capital and surplus for the year	$ 3,480,630	$ 0	$ 3,480,630
Capital and surplus, December 31, 2003	$31,114,488	$ 0	$31,114,488

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 1998 Through December 31, 2003

	1999	2000	2001	2002	2003
Capital and surplus, December 31, previous year	$29,820,855	$31,728,901	$32,335,781	$29,892,787	$27,633,858
Net income	2,845,090	2,273,127	841,173	1,038,851	1,815,556
Change in net unrealized capital gains or (losses)	476,624	456,115	(1,016,348)	(966,942)	1,284,709
Change in net deferred income tax	0	0	969,827	16,208	3,374
Change in nonadmitted assets and related items	(553,330)	(375,883)	(201,377)	(1,097,401)	(3,935,482)
Change in reserve on account of change in valuation basis, (increase) or decrease	0	0	0	0	1,798,235
Change in asset valuation reserve	(860,337)	(1,150,539)	627,195	477,035	538,843
Capital changes:					
Paid in	0	0	80	0	(70)
Transferred from surplus	0	0	5,000,000	0	0
Surplus adjustment:					
Transferred to capital (stock dividend)	0	0	(5,000,000)	0	0
Dividends to stockholders	0	0	(2,969,006)	0	0
Aggregate write-ins for gains and losses in surplus					
Prior period operating adjustment	0	(595,940)	(694,538)	0	0
Change in benefit obligation	0	0	0	(1,726,679)	2,421,217
Change in loading due to change in valuation basis	0	0	0	0	(445,752)
Rounding	(1)	0	0	0	0
Net change in capital and surplus for the year	$ 1,908,046	$ 606,880	$(2,442,994)	$(2,258,928)	$ 3,480,630
Capital and surplus, December 31, current year	$31,728,901	$32,335,781	$29,892,787	$27,633,859	$31,114,488

NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Premiums and considerations:

Uncollected premiums and agents' balances in the course of collection	$ (34,026)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,705,492

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Taylor-Walker and Associates, Inc., consulting actuary, for the Idaho Department of Insurance. The following was noted in their review of premiums and considerations:

1. The Company did not follow the NAIC *Annual Statement Instructions Life/Accident/Health* in the preparation of Page 2, Line 12, *Premiums and considerations*; however, the sum of the two lines was the correct amount. Specifically, the NAIC *Annual Statement Instructions Life/Accident/Health* call for Line 12.1 to include due and uncollected life, accident and health premiums, and agents' debit balances. The Company had included only accident and health premium and agent's debit balances. This treatment was consistent with the preparation of Page 2, Line 17 in previous Annual Statements.

2. Furthermore, the NAIC *Annual Statement Instructions Life/Accident/Health* call for Line 12.2 to include deferred life Premiums. The Company included both due and deferred life premiums. This treatment was consistent with the preparation of Page 2, Line 16 in the previous Annual Statements. Therefore, it is recommended that the Company follow the NAIC *Annual Statement Instructions Life/Accident/Health* in the preparation of *Premiums and considerations*, Page 2, Line 12.

Note (2) – Aggregate reserves	$327,112,106
Contract claims:	
Life	1,083,863
Accident and health	616,835

The following was noted by Taylor-Walker and Associates, Inc. in their review of aggregate reserves and contract claims:

1. The Company's calculation of the reserve for the disabled life waiver-of-premium benefit on ordinary life insurance policies was understated. For annual renewable term (ART) type policies, the Company had calculated the reserve using the current year's premium level as the disability benefit without reflecting expected future increases in premiums. For Universal life policies, the Company had calculated the reserve using the current year's cost of insurance (COI) deduction as the disability benefit without reflecting expected future increases in COI deductions. It was estimated that the ordinary disabled life reserves were underestimated by approximately $435,000. This amount was considered immaterial to the financial statements as a whole; therefore, balance sheet changes were not made in the examination report.

Therefore, it is recommended that the Company calculate the reserve for the disabled life waiver-of-premium benefit on individual life insurance policies using expected future increases in premiums for ART type policies and expected future increases in COI for Universal Life policies.

2. The Company did not include in the reserve for disabled life waiver-of premium benefit under the Company's group life insurance policies a provision for any IBNR claims. The consulting actuary estimated an IBNR reserve of approximately $145,000. Because this amount was not material, the reported liability was not adjusted in the examination report.

It is recommended, however, that the Company include a reserve provision for IBNR claims under the disabled life waiver-of-premium benefit under the Company's group life insurance policies.

3. The Company did not report a claims liability for death claims under deferred annuity contracts. The Company should hold a liability for the difference between the death benefit under outstanding claims and the reported reserve.

It is recommended that the Company report a claims liability for death claims under deferred annuity contracts.

Note (3) – Common capital stock	$5,000,005
Gross paid in and contributed surplus	4,000,005

As previously stated, the Company had 1,000,000 shares of capital stock issued and outstanding with a par value of $5 per share for a total capital of $5,000,000. Paid in and contributed surplus determined by the examination was $4,000,000 at December 31, 2003. The issued and outstanding shares were reconciled to Company capital stock records, with only minor differences noted.

The differences were due to one share of Director's stock that was cancelled in 2003, but the financial transaction was not executed until the first quarter of 2004. The stock was originally purchased for $10, with $5 allocated to common capital stock and $5 allocated to gross paid in and contributed surplus. The differences were considered immaterial to the financial statements as a whole; therefore, balance sheet changes were not made in the examination report.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2003, the Company had admitted assets of $376,243,417, liabilities of $345,128,929, and unassigned funds of $22,114,477. Therefore, the Company's total capital and surplus exceeded the $2,000,000 minimum prescribed by Section 41-313, Idaho Code.

Comments and Recommendations

Page

30 It is recommended that policy form 1732U (Rev. 1/2003) be filed certified with the Department of Insurance for review and determination, or re-issue the policy using an existing Idaho Department of Insurance filed certified policy form.

Subsequent to the examination date, the subject policy was re-issued to the insured on an Idaho policy form.

30 It is recommended that the Company establish a replacement register to record replaced annuity policies. It is also recommended that the Company implement procedures and internal controls to ensure that all replaced policies are recorded in the replacement registers and sufficient replacement documentation is retained in the files in order to demonstrate compliance with IDAPA 18.01.41 (014.03).

30 It is recommended that the Company implement procedures and internal controls to ensure that sufficient documentation is retained in the files in order to demonstrate compliance with IDAPA 18.01.41 (014.02b).

39 It is recommended that the Company follow the NAIC *Annual Statement Instructions Life/Accident/Health* in the preparation of *Premiums and considerations*, Page 2, Line 12.

Comments and Recommendations (continued)

Page

40 It is recommended that the Company calculate the reserve for the disabled life waiver-of-premium benefit on individual life insurance policies using expected future increases in premiums for ART type policies and expected future increases in COI for Universal Life policies.

40 It is recommended that the Company include a reserve provision for IBNR claims under the disabled life waiver-of-premium benefit under the Company's group life insurance policies.

40 It is recommended that the Company report a claims liability for death claims under deferred annuity contracts.

Items not considered material to the examination as a whole are reported in the Management Letter dated May 20, 2005. The Management Letter is incorporated as part of the Report of Examination by reference for all purposes.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

In addition to the undersigned, Claudia Schwartz, CIE and David W. Emery, CFE, FLMI of the Idaho Department of Insurance, participated in the examination. Taylor-Walker & Associates, Inc. conducted the actuarial portion of the examination.

Respectfully submitted,

Lois Haley

Lois Haley, CFE
Senior Insurance Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of the United Heritage Life Insurance Company for the period from January 1, 1999 through December 31, 2003, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

Lois Haley

Lois Haley, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 20th day of May, 2005, at Boise, Idaho

Cheryl Karnowski

Notary Public

My commission Expires: 9/12/2009

CHERYL KARNOWSKI NOTARY PUBLIC STATE OF IDAHO