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Attorneys for Department of Insurance

FILED

JAN 28 2010

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, 2008** Docket No. 18-2589-10

The Report of Examination as of December 31, 2008 (Report) of *United Heritage Life Insurance Company* (Company) was completed by examiners from the Idaho Department of Insurance (Department) and signed the 13th day of January 2010 by the Examiner-in-Charge, Lois Haley, CFE. The verified (attested) copy of the Report was filed with the Department effective January 13, 2010. Previously, a draft copy of the Report was delivered to the Company on December 18, 2009, with the verified Report being transmitted to the Company electronically (PDF file, via e-mail) on January 13, 2010 to Mr. Dennis L.

Johnson, President & CEO. The verified Report is attached hereto and incorporated herein as Exhibit A.

WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver signed by Mr. Todd H. Gill, Sr. Vice President & CFO on January 20th and received via e-mail by the Department on January 21, 2010. Based upon the Waiver, Exhibit B, this is a final order, and the Company has waived its rights to seek reconsideration and judicial review of this order.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto 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 under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 28TH day of January 2010.

William Deal

William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 28th day of January 2010, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. Dennis L. Johnson, President & CEO	X	certified mail
United Heritage Life Insurance Company		first class mail
707 East United Heritage Court		hand delivery
Meridian, Idaho 83642-3527		Facsimile
djohnson@unitedheritage.com	X	e-mail
Mr. Todd H. Gill, Sr. Vice President & CFO		certified mail
United Heritage Life Insurance Company		first class mail
707 East United Heritage Court		hand delivery
Meridian, Idaho 83642-3527		Facsimile
tgill@unitedheritage.com	X	e-mail
Georgia Siehl, CPA, CFE		certified mail
Bureau Chief / Chief Examiner		first class mail
Idaho Department of Insurance	X	hand delivery
700 W. State St., 3rd Floor		facsimile
Boise, Idaho 83720-0043		
Georgia.Siehl@doi.idaho.gov	X	e-mail

William R. Michels, MBA, CPA, CFE
Examination Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of

UNITED HERITAGE LIFE INSURANCE COMPANY
(a stock insurance company)

as of

December 31, 2008

EXHIBIT

A

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State of Idaho
DEPARTMENT OF INSURANCE

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Governor

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Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

Meridian, Idaho
January 13, 2010

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
P. O. Box 83720
Boise, Idaho 83720-0043

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, Virginia 23218

The Honorable Christina Urias
Director of Insurance
Arizona Department of Insurance
NAIC Secretary, Western Zone
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7256

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, 2008, of the financial condition and corporate affairs of:

<u>United Heritage Life Insurance Company</u>
<u>707 East United Heritage Court</u>
<u>Meridian, Idaho 83642-3527</u>

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, 2004, through December 31, 2008. The examination was conducted at the Meridian, Idaho office of the Company by examiners from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Accounting Practices and Procedures Manual*, and the NAIC *Market Regulation Handbook*.

All accounts and activities of the Company were considered in accordance with the NAIC's risk-focused examination process. The Financial Examiners Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions as governed and prescribed by Idaho law.

A Letter of Representation was signed by the Company attesting to its ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Lewis and Ellis, Inc., consulting actuaries, for the Idaho Department of Insurance. A risk assessment review of the Company's information technology systems and controls was performed by Examination Resources, LLC. There was some reliance placed on the 2007 and 2008 Certified Public Accountants' statutory audit reports and workpapers during the examination of the Company.

In addition to the Report of Examination, a Management Letter was issued to the Company by the Department which covered items that were not included in the Report, due to the materiality threshold, items that were related to proprietary/operational issues, as well as minor accounting and/or annual statement reporting corrections.

PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 1999 through December 31, 2003.

A review was made to ascertain what action was taken by the Company with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately 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 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. 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. 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 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 Company formed United Heritage Marketing Services, Inc., on March 3, 2005 to perform certain marketing and related services on its behalf.

- The Company's Bylaws were amended and restated May 16, 2005 whereby Directors shall hold office until their successors are elected and qualified. Furthermore, Directors' terms shall be staggered in conformance with the requirements of Title 41, Idaho Code.

- United Heritage Financial Group, Inc. divested the business of United Heritage Financial Services, Inc. on or about March 31, 2007. The remaining corporate entity of United Heritage Financial Services, Inc. was merged into United Heritage Financial Group, Inc. on May 31, 2007.

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 total capital of $5,000,000. The issued and outstanding shares were reconciled to Company capital stock records without exception. The Company's paid in and contributed surplus at December 31, 2008 was $4,000,000.

There were no capital stock transactions during and subsequent to the current examination period. The following exhibit reflects the balances in the capital structure of the Company as of December 31, 2008.

As of December 31, 2008	Shares Issued & Outstanding	Common Capital Stock	Gross Paid in & Contributed Surplus	Total Capital & Paid in and Contributed
Totals	1,000,000	$5,000,000	$4,000,000	$9,000,000

Dividends to Stockholders

During the period January 1, 2004 through December 31, 2008, 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
2/24/04	3/2/04	3/12/04	$2,810,000.00	$ 0	$2,810,000.00
5/16/05	5/17/05	6/2/05	924,368.86	0	924,368.86
8/25/05	8/25/05	9/8/05	460,000.00	0	460,000.00
11/18/05	11/21/05	12/2/05	0	1,349,804.50	1,349,804.50
5/15/06	5/17/06	6/1/06	1,000,000.00	0	1,000,000.00
5/21/07	5/23/07	6/7/07	300,000.00	0	300,000.00
5/21/07	5/23/07	6/12/07	890,862.54	0	890,862.54
5/19/08	5/20/08	5/27/08	300,000.00	0	300,000.00
		Total:	$6,685,231.40	$1,349,804.50	$8,035,035.90

In 2004, 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. The combined value of United Heritage Property & Casualty Company and Sublimity common stock acquired was $997,691.

In 2005, the Company paid a stock dividend comprised of the United Heritage Property & Casualty Company and Sublimity Insurance Company shares noted above. At the time of distribution, the combined statutory book value was $1,349,805. The difference in valuation between acquisition and distribution was reported as a gain from investments in the 2005 Annual Statement.

Subsequent to the examination date, the Board of Directors declared and paid cash dividends totaling $500,000 to the stockholder of the Company.

The Company notified the Department of the dividend transactions in compliance with Sections 41-3806(5) and 41-3808(2), Idaho Code and IDAPA 18.01.23.024.02. It was noted, however, the Company did not pay the dividends declared on May 19, 2008; May 18, 2009; and August 28, 2009 in compliance with Section 41-3809(2), Idaho Code. The payment date must be at least ten days after the Department receives notice of a planned dividend distribution. Notification to the Department for the dividend declared May 19, 2008 was dated May 20, 2008. The dividend was paid on May 27, 2008, seven days after notification was received. Notification letters for dividends declared on May 18, 2009 and August 28, 2009 were dated May 18, 2009 and August 28, 2009, respectively. Those dividends were paid May 27, 2009 and August 3, 2009, seven days or in the case of the latter, on the same day the Department was notified of such planned distributions.

It is recommended the Company strengthen and/or expand its existing dividend notification procedures to prevent future non-compliance with Idaho law.

Surplus Debentures

The Company issued a surplus note to Wilmington Trust, as trustee, on September 15, 2005 in the amount of $7,500,000. The principal amount of the note matures on September 15, 2035. This transaction was approved by the Board of Directors on August 25, 2005 and by the Idaho Department of Insurance on August 30, 2009.

Interest on the surplus note is paid quarterly, in arrears, beginning December 15, 2005. The Company entered into an interest rate swap agreement for the first five years which fixes the interest at an annual rate of 7.586 percent. After the initial five year swap period, the Company may re-enter a swap agreement or let the interest float at the contractual rate of 3-month LIBOR plus 3.20 percent. Total interest expense incurred for 2008 was $568,950.

Each payment of interest on, and principal of, the surplus note shall be made only with the prior approval of the Director of the Idaho Department of Insurance and only to the extent the Company has sufficient surplus earnings to make such payment. The Company was in substantial compliance with these requirements during the examination period.

In addition to the quarterly interest payments, the Company pays an annual trustee fee of $1,500. Section 3.6 of the indenture requires annual certification filings to Wilmington Trust. The Company was in compliance with these requirements of the surplus note and indenture during the examination period.

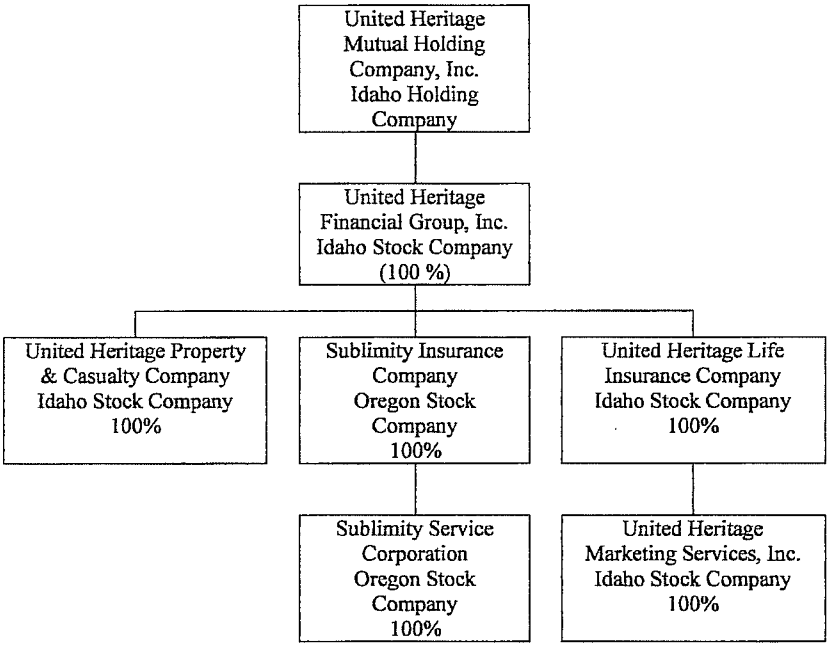
The surplus note is subordinate and junior in right of payment to the prior payment in full of all policy claims and senior indebtedness. In the event that the Company is subject to liquidation proceedings, holders of indebtedness, policy claims and prior claims would be afforded a greater priority under the Liquidation Act and the terms of the Notes and accordingly, would have the right to be paid in full before any payments of interest or principal are made to the holders of the surplus note.

Based on a review of the surplus note transaction and disclosures, the Company met the requirements of Section 41-2841, Idaho Code, with respect to borrowed surplus.

MANAGEMENT AND CONTROL

Insurance Holding Company System

The Company is 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 is United Heritage Mutual Holding Company, Inc., as shown in the following organizational chart:



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. During 2007, United Heritage Financial Services was merged with United Heritage Financial Group, Inc. effective May 31, 2007.

As previously reported, United Heritage Financial Group, Inc. owned 100 percent of the Company's issued and outstanding shares at year-end 2008. The members of United Heritage Mutual Holding Company, Inc. are the policyholders of the Company and the policyholders of Sublimity Insurance Company.

The Company has one, 100 percent owned subsidiary, United Heritage Marketing Services, Inc. The entity, which does not have significant operations, was set up in 2005 to allow the Company to operate in Colorado.

A review of the latest Form B Insurance Holding Company System Registration Statement filed by the Company showed that it had been submitted to the Idaho Department of Insurance on May 14, 2009, and appeared to be current and valid.

Company records indicated that no one person or entity had the power to direct the management of the ultimate controlling person noted in the above organizational chart.

Related Party and Affiliated Transactions

The following related party and affiliated transactions were noted during the course of the examination:

Computer Leasing/Purchase 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 for job-related or personal use. A similar program was instituted for eligible employees, whereby employees may purchase computer equipment in exchange for a promissory note. Total receivables of $16,895 arising from the promissory notes was reported as *Employee loans* in the 2008 Annual Statement and in Note 4 to the Financial Statements of this examination report.

Cost Sharing and Allocation Arrangement/Agreement

A cost sharing and allocation arrangement between and among the subsidiary companies of United Heritage Financial Group, Inc., was executed by the Company. In a letter dated December 11, 2001, the Department of Insurance stated that the agreement was reviewed pursuant to Section 41-3807, Idaho Code and IDAPA 18.01.23.023, and had no objections to the proposed agreement.

The original agreement, effective January 1, 2002 through January 1, 2003, was amended effective August 15, 2003 until terminated. In a letter dated July 17, 2003, the Department of Insurance stated the amended agreement was reviewed pursuant to Section 41-3807, Idaho Code and IDAPA 18.01.23.023, and had no objections to the proposed arrangement.

The agreement was again amended effective May 1, 2005 to include United Heritage Marketing Services, Inc. as a party thereto. The Department indicated that it had no objections to the proposed agreement in correspondence to the Company dated April 1, 2005.

A new cost sharing and allocation agreement was submitted to the Department of Insurance in 2008. The Department had reviewed the agreement under IDAPA 18.01.23.023 and had no objections to the proposed transactions. This was communicated to the Company in a letter dated August 15, 2008.

Lobbyist Agreement
During the prior and current examination periods, the Company executed an agreement to retain a former employee to perform professional lobbying services on behalf of all United Heritage companies. The lobbyist was paid a fixed sum, plus legislative lobbying expenses as well as certain membership dues or costs. The agreements had terms of one year and were also terminable at the will of either party upon written notice. An agreement with substantially similar terms was executed for calendar year 2009.

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 of $5,000 each. In 2005, the quarterly contribution to the Fund was increased to $6,000. The Company recommended distributions for charitable purposes, which were disbursed by the Idaho Community Foundation.

Revolving Line of Credit/Promissory Note
During the previous examination period, United Heritage Financial Group, Inc. 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 terms of settlement provided that United Heritage Financial Group, Inc. would pay the loan in one payment of all outstanding principal plus all accrued unpaid interest in March 2013.

The line of credit was evidenced by a promissory note in favor of the Company dated March 27, 2002 with 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. The Company notified the Department of this transaction in correspondence dated March 13, 2002.

The promissory note dated April 23, 2003 was retired and replaced by a note dated March 27, 2007. This note, in turn, was retired and replaced by a note dated March 24, 2008. The Board of Directors approved the replacement note on March 20, 2008.

Transfers made to United Heritage Financial Group, Inc. during the examination period were below the reporting requirements of Sections 41-3806(4) and 41-3807(2), Idaho Code.

The outstanding balance of the promissory note at year-end 2008 was reported within *Receivables from parent, subsidiaries and affiliates* in the amount of $2,950,000. Subsequent to the examination date, an additional draw of $75,000 was taken by United Heritage Financial Group, Inc. In addition, payments totaling $330,000 were made to the Company under the revolving line of credit in 2009.

Guarantee for Debt

The Company has a revolving line of credit with Wells Fargo Bank in the amount of $2,000,000. The outstanding balance at December 31, 2008 was zero. United Heritage Property & Casualty Company and Sublimity Insurance Company also have lines of credit with Wells Fargo Bank of $500,000 each. United Heritage Financial Group, Inc. executed a guarantee of the lines of credit for these affiliated entities. The line of credit expires April 30, 2009. The Board of Directors approves the line of credit guarantees annually, the most recent of which was February 19, 2008. A line of credit agreement with a new maturity date of June 16, 2009 was executed subsequent to the examination date.

Participation Agreements

United Heritage Property & Casualty Company executed participation agreements to participate in mortgage loans underwritten by the Company. In turn, the Company provided mortgage loan purchasing and servicing functions under the previously discussed cost sharing and allocation agreement. The Company notified the Department of Insurance of the inter-affiliate sales on October 1, 2003. A letter from the Department dated October 15, 2003, indicated the submission was reviewed pursuant to Section 41-3807, Idaho Code and IDAPA 18.01.23.023. The Department had no objections to the proposed arrangement.

United Heritage Marketing Services, Inc.

As previously discussed, the Company formed United Heritage Marketing Services, Inc. in 2005 to perform certain marketing and related services on its behalf. In this regard, the Company acquired 100,000 shares of United Heritage Marketing Services, Inc. no par common stock for $1 per share. The Board of Directors approved the formation of United Heritage Marketing Services, Inc. on February 25, 2005. During the examination period, United Heritage Marketing Services, Inc. paid dividends of $75,000 and $20,000 to the Company on or near June 15, 2005 and November 21, 2008, respectively.

United Heritage Financial Services, Inc.

In 2007, the representatives of United Heritage Financial Services, Inc. were transferred to a subsidiary of Integrity Mutual Funds, Inc. of Minot, North Dakota. The closing date of the transaction was March 7, 2007. United Heritage Financial Services, Inc. was subsequently merged into United Heritage Financial Group, Inc. effective May 31, 2007. The terms and conditions of the Agreement and Plan of Merger between the two entities were approved by written consent of the sole shareholder in lieu of a special meeting dated May 8, 2007.

Other

The Company shares its corporate offices with United Heritage Property & Casualty Company. In this connection, the Company recognized rental income of $105,502 during 2008.

During the examination period, the Company purchased and sold various investments to affiliated companies. The transactions were disclosed in Note 10 to the Financial

Statements and in Schedule Y, Part 2 - Summary of Insurer's Transactions with any Affiliates. It appears that at the time of acquisition and/or disposal, the amounts were below the reporting requirements of Sections 41-3806(4) and 41-3807(2), Idaho Code.

The Company participates in the United Heritage Financial Group 401(k) Plan. This Plan is discussed in more detail at *PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.*

Directors

The following persons were the duly elected members of the Board of Directors at December 31, 2008:

Name and Business Address	Principal Occupation
Richard Edgar Hall Boise, Idaho	Partner in law firm Hall, Farley, Oberrecht & Blanton, Boise, Idaho
Rodney LeRoy Smith Red Lodge, Montana	Retired. Former President, First Interstate Bank, Red Lodge, Montana
Dennis Lane Johnson Meridian, Idaho	President and Chief Executive Officer, United Heritage Life Insurance Company
Ned Eugene Clark Heppner, Oregon	Secretary/Treasurer, Horseshoe Hereford Ranch, Inc., Heppner, Oregon
Steven Donald Hauschild Spokane, Washington	Sterling Bank, Spokane, Washington
Julie Elizabeth Prafke Veradale, Washington	Chairman of the Board, Humanix Corporation, Spokane, Washington
Richard Clinton Waitley Meridian, Idaho	President, Association Management Group, Meridian, Idaho

Officers:

The following persons were serving as officers of the Company at December 31, 2008:

Richard Edgar Hall	Chairman of the Board
Rodney LeRoy Smith	Vice Chairman of the Board
Dennis Lane Johnson	President & Chief Executive Officer
Marjorie Ann Hopkins	Corporate Secretary & Vice President, Human Resources
Jack Jay Winderl	Treasurer, Executive Vice President, Chief Operating Officer & Chief Investment Officer
Deborah Kay Sloan	Senior Vice President & Chief Actuary
Todd Hunter Gill	Senior Vice President & Chief Financial Officer
Robert Joseph McCarvel	Senior Vice President & Chief Marketing Officer
Mickey Lynn Ware	Senior Vice President & Chief Technology Officer
Geoffrey Morgan Baker	Vice President & General Counsel
John Joseph Bellamy	Vice President, Marketing
Kent Michael Delana	Assistant Corporate Secretary & Vice President, Mortgage Lending
Richard Shane Nelson	Vice President, Group
Donald Keith Stensaas	Vice President, Underwriting

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, 2008, 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 or Other Committees

The following committee elections and/or appointments were made, and members serving at December 31, 2008, were as follows:

Audit Committee

Ned Eugene Clark, Chairman
Steven Donald Hauschild
Rodney LeRoy Smith
Todd Hunter Gill, Advisor

Compensation Committee

Julie Elizabeth Prafke, Chairwoman
Richard Edgar Hall
Dennis Lane Johnson
Richard Clinton Waitley
Marjorie Ann Hopkins, Advisor

Investment Committee

Jack Jay Winderl, Chairman
Steven Donald Hauschild
Dennis Lane Johnson
Deborah Kay Sloan
Kent Michael Delana, Advisor
Todd Hunter Gill, Advisor

Marketing Committee

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

In addition to the foregoing committees, the Company also maintained various internal committees, such as the IT Steering, Market Risk Management, and Regulatory Compliance Committees, among others. Committee members included senior management, mid-level managers, and staff.

United Heritage Financial Group, Inc. established the following committees:

Enterprise Risk & Return Management Committee

Richard Edgar Hall, Chairman
Geoffrey Morgan Baker
Jack Jay Winderl, Advisor
Brian Edward Henman, Advisor
Todd Hunter Gill
Dennis Lane Johnson
Rick Budke, Advisor

Retirement Committee

Jack Jay Winderl, Chairman
Richard Edgar Hall
Dennis Lane Johnson
Todd Hunter Gill
Marjorie Ann Hopkins
Rick Budke
Brian Edward Henman
Pat Papiez, Advisor

Corporate Governance

A review of the Company's corporate governance structure was performed in compliance with the NAIC's risk-focused examination standards. This review included an evaluation of the Company's organizational structure and assessments of the Board of Directors and Company management. Overall, the Company has a sound organizational structure in place, with an open and ethical culture. The review determined that the Board of Directors utilized independent judgment and evaluation in their decision making and oversight functions and met the duty of care and loyalty standards in fulfilling their corporate obligations. An assessment of Company management indicated that management was experienced, stable, and conservative in their business practices.

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, 2004, through December 31, 2008 and subsequent thereto and generally disclosures appeared to be adequate. One recommendation was identified, however, and conveyed to the Company in the management letter.

Contracts and Agreements:

The Company had the following agreements in effect at December 31, 2008. Related party and affiliated agreements are discussed under the caption, *MANAGEMENT AND CONTROL – Related Party and Affiliated Transactions.*

Agent Agreements
Regional and Pre-Need Regional Directors, General Agent, Associate General Agent, and Agent agreements, along with Regional and Pre-Need Marketing Organization agreements are discussed 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.*

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.*

Lease Agreement for Operations Center

The Company leases off-site space in Meridian, Idaho, for its Operations Center, which includes printing, storage, and mail room functions. In this connection, the Company entered into an operating lease, originally with Rafanelli and Nahas, L.P., commencing August 3, 2000 for a five-year term. The lease was amended during the current examination period, most recently by and between Mountain View Business Center LLC (successor-in-interest to Rafanelli and Nahas, L.P.). Under terms of amendment number 4, the lease was renewed for two years commencing January 1, 2008. Subsequent to the examination date, the lease was renewed for a one-year term commencing January 1, 2010 and expiring December 31, 2011. For the year ended December 31, 2008, rent expense under this agreement was $55,472. Minimum lease payments for 2009 will also be $55,472.

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. In addition to compensation due under the agreement, the Company is responsible for fees to cover any tenant improvements, interior finishing work, or use of Rafanelli and Nahas' employees. During 2008, expenses under this agreement totaled $45,666.

Office Leases

The Company leased portions of its home office building to tenants under office leases. The leases had various commencement and expiration dates. Total rents of $48,718 were collected in 2008 from these third party tenants. Rent of $379,381 relating to the Company's occupancy of its own building was also collected in 2008 in compliance with SSAP No. 40, paragraph 15.

United Heritage Small Group Trust

In 2002, the Company established a small group employer insurance trust. The purpose of the trust was to implement group insurance plans for the benefit of eligible employers who wish to sponsor employee group life and disability insurance benefit programs in the State of Idaho. In this connection, the Company entered into an agreement with Magic Valley Bank dated February 20, 2002. Idaho Trust National Bank was appointed successor trustee effective May 27, 2008, in accordance with a procedure authorized by the Trust.

Under terms of the agreement, Idaho Trust National Bank 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 Idaho Trust National Bank. Under the agreement, Idaho Trust National Bank was paid an annual fee of $1,000 for duties performed.

Idaho Trust National Bank may be removed as trustee at any time upon thirty days written notice and a successor trust 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 accepted the Trust agreement on June 27, 2002 as an allowable trust pursuant to Section 41-2007, Idaho Code. The Director of the Department of Finance granted a limited exemption to Magic Valley Bank, the original trustee, from the Idaho Trust Institutions Act pursuant to an order dated February 11, 2002.

The trust agreement was amended effective May 1, 2008 whereby the purpose of the trust was expanded to include the State of Pennsylvania in addition to the State of Idaho.

Trust Agreement – LaSalle Bank N.A., Illinois

In 2007, the Company entered into a trust agreement with LaSalle Bank as Trustee of a Group Insurance Trust. The Trust was established to expand a group eligible to participate in the insurance plans of the Trust to include those insureds under the Company's group life insurance policies who wish to exercise the "portability" option of the group policy under which they are insured. In this connection, the Company created and maintained a Trust to facilitate this purpose. The trust was established, administered, and governed by the laws of the State of Illinois.

Under the agreement, LaSalle Bank was to receive $5,000 as a service fee upon establishment of the trust and $5,000 annual service fee every year until terminated. The Trust continues in effect in perpetuity or until terminated. The Company may terminate the Trust in its entirety by written notice to LaSalle Bank and to every insured.

Administrative Services Agreement

The Company entered into an administrative services agreement with Hartford Life and Accident Insurance Company, as administrator. The agreement covers Reinsurance Treaty S-United Heritage-LTD/STD-RT04, also with Hartford that relates to long-term and short-term disability coverages. The agreement was effective January 1, 2004 for a five year period. Thereafter, the agreement renews automatically on an annual basis, unless prior written notice is provided pursuant to terms specified in the agreement. The agreement may be terminated without cause with 90 days prior written notice. Upon termination, the administrator will provide administrative services until run-out of on-going claims under the corresponding reinsurance agreement.

The Company insures the long-term and short-term disability policies utilizing Hartford's rules, standards, guidelines, and policy forms. Hartford assists with rate and form filings relative to these coverages. Hartford provides underwriting and related services for prospective policyholders, with coverage provided by the Company. Hartford also processes claims per its standard claims practices. The Company receives an expense allowance, as well as a commission allowance, while Hartford receives a monthly administrative fee for each policy. Such allowances and fees are set forth in the administrative services agreement or the corresponding reinsurance agreement.

In addition to the contracts and agreements noted above, the Company also leases office equipment under noncancelable operating lease agreements with various expiration dates. Rental expenses for such leases totaled $63,924 in 2008.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company's Articles of Incorporation were not amended during the examination period or subsequent thereto.

The Company's Bylaws were amended and restated whereby Directors shall hold office until their successors are elected and qualified. Furthermore, Directors' terms shall be staggered in conformance with the requirements of Title 41, Idaho Code. The first amendment to the amended and restated By-laws dated August 23, 2001 was adopted by the Board of Directors on May 16, 2005.

Minutes of Meetings

A review of the minutes of the meetings of the Shareholders, the Board of Directors, and the various committees for the period January 1, 2004 through December 31, 2008 and subsequent thereto, indicated compliance with the Company's 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 external auditors presented the audited financial statements and required communications to the Company's Audit Committee as required under IDAPA 18.01.62.021.06.

The minutes of the Board of Directors' meeting held on May 16, 2005 indicated that the Examination Report as of December 31, 2003, conducted by the Idaho Department of Insurance was approved.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Company was maintained throughout the period under examination. Coverages in effect as of December 31, 2008 included directors' and officers' liability; business owners' property and commercial automobile; workers' compensation and employers' liability; key man life insurance; commercial umbrella; and financial institution bond insurance.

Beginning with the 2003 coverage year, the financial institution bond insurance was included in the directors' and officers' liability package issued to United Heritage Mutual Holding Company, Inc. and its subsidiaries. The protection of the financial institution bond met the suggested minimum amounts recommended by the NAIC *Financial Condition Examiners Handbook*.

The insurance carriers providing coverage to the Company and to United Heritage Mutual Holding Company, Inc. 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. During 2005, the Company filed with the Pension Benefit Guaranty Corporation and regulators its plan of termination and settlement. The Company received the required authorization and terminated and settled its obligations under the plan on May 22, 2006. Benefit obligations as of May 22, 2006, the settlement date, were based on data as of January 1, 2006, projected to May 22, 2006 using certain actuarial assumptions. The Plan was fully funded and all plan assets were distributed in satisfaction of the benefit obligations. As a result of the settlement, the Company recognized a loss of $3,427,221 and under an Idaho permitted practice recognized the settlement loss as direct reduction to surplus. The settlement loss was calculated pursuant to SSAP No. 89. Due to the effect of changes in the non-admitted pension asset, the settlement resulted in no impact to year-end 2006 surplus.

Defined Contribution Plan

The Company was a participating employer in the United Heritage Financial Group 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), 401(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 to Plan participants for Plan year 2008 was $166,347. The profit sharing contribution allocated in 2008 for Plan year 2007 was $95,099.

Deferred Compensation Plans

The Company had established supplemental executive retirement plans for certain key executives and officers. The Company's funding policy is 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 $463,974 were based on current assumptions regarding interest rates.

Postretirement Benefit Plans

The Company provided certain health care benefits for a limited group of retired employees. The benefits were provided under an unfunded post-retirement benefit plan, which provides for payment of the retired employees' medical insurance premiums. The post-retirement benefit obligation for this plan was estimated to be $26,537 at year-end 2008. The net periodic post-retirement benefit expense was ($2) in 2008.

Health, Dental, Group Life & Accident and Long Term Disability

During the examination period, benefits offered to Company employees included health and dental insurance, as well as group life, accident, and long-term disability insurance coverages.

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 thirty-six (36) states:

Alaska	Kentucky	Oklahoma
Arizona	Louisiana	Oregon
Arkansas	Michigan	Pennsylvania
California	Minnesota	South Carolina
Colorado	Missouri	South Dakota
Georgia	Montana	Tennessee
Hawaii	Nebraska	Texas
Idaho	Nevada	Utah
Illinois	New Mexico	Virginia
Indiana	North Carolina	Washington
Iowa	North Dakota	Wisconsin
Kansas	Ohio	Wyoming

The examination confirmed that the Company's licenses were current and in good standing as of December 31, 2008 with the respective states noted above.

The Company's traditional individual product portfolio consists of the regular forms of term life, whole life, universal life, and a variety of individual fixed annuity products including deferred, single premium immediate, and certain annuities structured for retirement programs. The Company also offers several group products including term life, short and long-term disability, and vision. In addition, the Company offers pre-need policies used for funding pre-arranged funerals and low face amount final expense products used for expenses at time of death. The pre-need products consist of single premium guarantee issue, 3-pay, 5-pay, and 10-pay policies with payment plans offered in two forms. Full benefits are available from day one if certain medical questions are answered, otherwise, a graded benefit guaranteed issue product is offered. Pre-need products provide for an increasing death benefit that keeps pace with inflation. Final expense products consist of simplified issue whole life and a graded death benefit policy for those who do not qualify for simplified issue.

The Company distributes its ordinary/traditional products to the middle income market located in rural or suburban areas primarily through independent personal producing general agents recruited by regional directors. In this connection, the Company utilizes a national field force of approximately 1,200 general and associate agents.

The Company targets to the pre-need and final expense markets differentiating these markets by products and distribution methods. Pre-need products are distributed primarily through funeral homes that are serviced by general agents that specialize in this market, preferably funeral directors. Sales are made either directly in the funeral home or outside the funeral home by agents who have been authorized by the funeral home to act on their behalf. Final expense products are distributed through the general agency system. The company's group insurance is marketed through the home office and distributed by its personal producing general agents and focuses primarily on school districts, municipalities and hospitals.

The Company entered into general agent, associate general agent, and agent agreements with its sales force. The Company also entered into similar agreements with regional directors, pre-need regional directors, regional marketing organizations, and pre-need marketing organizations. The 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 agreements.

Agents may also receive advance or prepaid commissions under separate Advance/Prepaid Commission Agreements. Such agreements are supplemental to the agent's master contract with the Company. Under the agreements, advance commissions apply to traditional and final expense products, while prepaid commissions are applicable to pre-need business. The agents are compensated on business personally produced in accordance with the schedules contained within the agreements.

The Company may also advance 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. The lead generation advance funding is an optional benefit to the Company's agents.

During the prior and continuing through the current examination periods, the Company offered 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 agreements.

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 that account statements concerning insurance products be maintained separately 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.

Marketing Agreement

As previously stated, the Company entered into a marketing agreement with Insurance Coordinators of Montana, Inc., 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. Insurance Coordinators of Montana, Inc. reimbursed the Company for 50 percent of its salary and benefit costs related to the benefit specialist positions. This agreement also remained in-force during the current examination period.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2008, the Company provided the following deposits for the protection of its policyholders and/or creditors:

Description	Par Value	Statement Value	Fair Value
Idaho			
GNMA, 5.50%, Due 02/20/2003	$1,630,473	$1,550,396	$1,621,717
Georgia			
Evergreen Inst M/M Fd	35,267	35,250	35,267
New Mexico			
New Mexico HSG Fin Auth, 7.05%, Due 12/01/2021	100,000	100,000	103,495
North Carolina			
Winston-Salem NC Cops, 6.05%, Due 06/01/2034	430,000	417,299	415,419
Virginia			
Virginia St HSG Dev Auth, 7.25%, Due 06/01/2024	245,000	253,159	247,470
Total	$2,440,740	$2,356,104	$2,423,368

Securities on deposit through the Idaho Director of Insurance were held 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)
2003*	$376,243,416	$345,128,929	$31,114,487	$1,815,556
2004	394,098,935	360,050,878	34,048,057	3,670,603
2005	410,038,096	369,069,062	40,969,034	2,006,016
2006	409,752,275	368,524,214	41,228,061	2,000,281
2007	411,703,364	370,069,829	41,633,535	1,704,265
2008*	420,525,299	380,503,770	40,021,529	(5,143,450)

The increase in assets directly correlated to cash received from premium sales growth and renewals, offset by net annuity asset withdrawals during the period under review. Liability increases corresponded to premium growth and annuity deposits. Capital and surplus increased in 2004 primarily due to net income of $3,670,603. The significant increase in 2004 was due to steady growth in life insurance premiums, a stable investment environment, coupled with lower claims experience and controlled expenses. Changes to capital and surplus in 2005 through 2007 were attributed to net income, the issuance of a $7.5 million surplus note in 2005, offset by stockholder dividends. Net income remained stable during this period, trending downward in 2007.

Premium income declined in 2008; however, annuity benefits and changes in reserves increased, but were offset considerably with lower surrenders than the prior year. Due to the deteriorating financial markets, net realized capital losses of $8,050,194 resulted in a net loss of $5.1 million. The net loss was reflected in capital and surplus, along with a favorable change in the Asset Valuation Reserve and a permitted practice that allowed for a positive change in admitted deferred tax assets of $1,741,677. See Note (6) to the Financial Statements for further discussion regarding this permitted practice.

*As determined by Examination.

MORTALITY/LOSS EXPERIENCE

The ratios of benefits and expenses to premium shown in the following schedules 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
2003	$13,636,420	$5,501,936	$8,134,484	$12,286,303	66.20%
2004	13,546,757	5,827,320	7,719,437	13,773,210	56.04%
2005	15,755,851	7,043,419	8,712,432	14,270,512	61.05%
2006	16,284,358	7,513,531	8,770,827	14,215,440	61.69%
2007	18,061,094	8,089,616	9,971,478	14,880,288	67.01%
2008	17,826,936	8,973,279	8,853,657	15,327,267	57.76%

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
2003	$723,754	$786,065	$706,356	$(750,945)	206.20%
2004	692,942	626,715	961,799	(790,866)	229.24%
2005	646,550	(92,136)	824,588	59,226	113.28%
2006	661,030	249,424	674,144	(284,424)	139.71%
2007	688,662	205,890	732,999	(247,826)	136.33%
2008	776,753	274,702	866,657	(310,412)	146.93%

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, 2008, according to the Exhibit of Life Insurance in the 2008 Annual Statement, the Company had reinsured approximately 43 percent of its total life insurance in force. The in force life insurance ceded was placed with nine reinsurers, all of which 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 January 1, 2000, 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 have 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 $2,000,000 reimbursement per catastrophic accident occurrence.

Under an automatic treaty, the Company's group life and supplemental life business was reinsured for amounts up to $50,000 on a 50 percent quota share per policy and for amounts above $50,000 on a 100 percent quota share. The reinsurers' maximum limit was $1,000,000 combined limit.

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, 2008.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As previously stated, the Company's primary lines of business are traditional whole life, universal life, annuities, term life, final expense, pre-need products, flexible premium annuities and single premium deferred annuity contracts. Disability and accidental death benefits are issued in connection with life plans and group products.

A review of declined new business for 2008 found no exceptions. The Company does not have its own underwriting guidelines, but instead uses the guidelines of the reinsurer of the particular product that is being reinsured. See *MANAGEMENT AND CONTROL: Contracts and Agreements* for additional discussion. The underwriting manuals are online and the Company underwriter has direct access to such. Final expense plans are field underwritten by the agent/broker using guidelines in the agent rating brochures and the questions on the applications.

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 in compliance with IDAPA Rule 18.01.48.

Several discrepancies were noted between the 2008 rate and form filings submitted to the Idaho Department of Insurance and the Company's records. The findings were presented to the Company in the Management Letter dated December 31, 2009.

Treatment of Policyholders

Claims
Samples of paid and denied claims incurred during 2008 were reviewed. These reviews 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.

Complaints
The Company maintained complaint handling procedures and a complaint register as required by Section 41-330, Idaho Code. A review of complaint files found no exceptions.

The Company has established procedures to report fraudulent claims as required by Section 41-290, Idaho Code. During the examination period, the Company properly reported suspected fraudulent claims to the Department.

Advertising and Sales Material

The Company's advertising consists of name recognition advertisements and product brochures. The Company ran television advertisements during the Olympics and in conjunction with the *United Heritage Tip-Off Series* college basketball games that were aired locally on KTVB.

Information about the Company and its products is available to the general public on the United Heritage Financial Group, Inc.'s website at www.unitedheritage.com. A review of the Company's advertising and sales materials indicated that the materials and information was not deceptive or misleading.

ACCOUNTS AND RECORDS

General Accounting

The data processing systems used by the Company as of December 31, 2008 consisted of one IBM System i5 525 midrange server partitioned for policy administration and for use as a web server. The policy administration system was developed and maintained in-house and included personal computer (PC) interfaces to the IBM System i5 database. Programming languages included IBM Report Program Generator (RPG), IBM Control Language (CL), Help Systems Structured Query Language (SQL), Computer Associates Plex, and Microsoft Visual Studio 2005. Several Microsoft Windows 2000 and 2003 based Servers were used for the following applications: LOANS – Mortgage Loan System, Microsoft Exchange – e-mail system, Sungard iWorks Enterprise Filing System, and various other network utilities. The data processing systems used for accounting and investments were Sungard iWorks Enterprise Accounting System and Sungard Enterprise

Portfolio System. The Microsoft Windows based systems utilized Microsoft SQL Server 2005 running on a Microsoft Windows 2003 server, as the backend database server.

The Company's information systems were reviewed by Information System Specialist, Jenny L. Jeffers, CISA, AES, on behalf of Examination Resources, LLC. The procedures were performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in Information Systems Questionnaire (ISQ) contained in the NAIC *Financial Condition Examiners Handbook.* In summary, the functional areas reviewed by the Information System Specialist included the following:

- Section A – Management and Organizational Controls
- Section B – Logical and Physical Security
- Section C – Changes to Applications
- Section D – System and Program Development
- Section E – Contingency Planning
- Section F – Service Provider Controls
- Section G – Operations
- Section H – Processing Controls
- Section I – E-Commerce Controls
- Section J – Network and Internet Controls

The Information System Specialist's findings were presented to the Company in the Management Letter.

During the examination period, the Company had two permitted practices. The practices are discussed in more detail in Notes (6) and (7) to the Financial Statements of this report. The Company also has two current practices prescribed by the Department that differ from NAIC Statutory Accounting Principles. The prescribed practices are also discussed further in Note (2) to the Financial Statements of the examination report.

Independent Accountants

The annual independent audits of the Company for the years 2004 through 2007 were performed by KPMG LLP, Seattle, Washington. The independent audit for the year 2008 was performed by Ernst & Young LLP, Seattle Washington. The Company properly notified the Department of the change in auditors pursuant to IDAPA 18.01.62.

The financial statements in each report were on a statutory basis. There was some reliance on the 2007 and 2008 audit reports 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 Chief Actuary of the Company.

The December 31, 2008 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 are at least as great as the minimum aggregate amounts required by the state in which this statement is filed; (d) 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; (e) include provision for all actuarial reserve and related statement items that ought to be established.

The identified actuarial items in the 2008 Annual Statement are as follows:

Aggregate reserve for life contracts (Line 1, Page 3):	$358,943,662
Aggregate reserve for accident and health contracts (Line 2, Page 3):	200,828
Liability for deposit-type contracts (Line 3, Page 3):	14,211,860
Contract claims: Life (Line 4.1, Page 3):	1,137,132
Contract claims: Accident and Health (Line 4.2, Page 3):	253,631
Interest Maintenance Reserve (Line 9.4, Page 3):	1,452,023
Asset Valuation Reserve (Line 24.1, Page 3):	678,149
Net deferred and uncollected premium:	4,681,410

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Lewis & Ellis, Inc., examining actuary, for the Idaho Department of Insurance.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2008

Summary of Operations, Year 2008

Capital and Surplus Account, Year 2008

Reconciliation of Capital and Surplus Account, December 31, 1993, through December 31, 2008.

Balance Sheet
As of December 31, 2008

ASSETS

	Assets	Nonadmitted Assets	Net Admitted
Bonds	$324,344,428	$ 0	$324,344,428
Stocks			
Preferred stocks	17,738,878	0	17,738,878
Common stocks	1,973,120	0	1,973,120
Mortgage loans on real estate, first liens	37,409,877	0	37,409,877
Real estate, properties occupied by the company	6,460,853	0	6,460,853
Cash, cash equivalents and short-term investments	7,484,329	0	7,484,329
Contract loans	5,396,756	0	5,396,756
Other invested assets	2,538,595		2,538,595
Investment income due and accrued	4,104,860	0	4,104,860
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,001,345	1,398,578	(397,233)
Deferred premiums, agents' balances and installments booked but deferred and not yet due (Note 1)	4,986,511	0	4,986,511
Reinsurance:			
Amounts recoverable from reinsurers	268,978	0	268,978
Other amounts receivable under reinsurance contracts	487	0	487
Current federal and foreign income tax recoverable and interest thereon	97,287	0	97,287
Net deferred tax asset	3,299,221	0	3,299,221
Guaranty funds receivable or on deposit	44,742	0	44,742
Electronic data processing equipment and software (Note 2)	400,394	0	400,394
Furniture and equipment (Note 2)	1,283,227	0	1,283,227
Receivables from parent, subsidiaries and affiliates (Note 3)	3,011,150	0	3,011,150
Health care and other amounts receivable	45,360	13,415	31,944
Aggregate write-ins for other than invested assets:			
Flexible benefits deposits	30,000	0	30,000
Employee loans (Note 4)	16,895	0	16,895
Agent loans	16,513	16,513	0
Prepaid expenses	89,539	89,539	0
Miscellaneous items in process	336	336	0
Rounding	0	1	0
Totals	$422,043,681	$1,518,382	$420,525,299

Balance Sheet
As of December 31, 2008 (Continued)

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts (Note 1)	$358,943,662
Aggregate reserve for accident and health contracts (Note 1)	200,828
Liability for deposit-type contracts (Note 1)	14,211,860
Contract claims: (Note 1)	
Life	1,137,132
Accident and health	253,631
Policyholders' dividends and coupons due and unpaid	65,129
Provision for policyholders' dividends and coupons payable in following year:	
Dividends apportioned for payment to 12/31/2009	916,387
Premiums and annuity considerations for life and accident and health contracts received in advance (Note 1)	93,149
Contract liabilities not included elsewhere:	
Provision for experience rating refunds, including $4,884 A&H experience rating refunds	52,463
Other amounts payable on reinsurance	48,505
Interest Maintenance Reserve	1,452,023
Commissions to agents due or accrued-life and annuity contracts, $98,985, accident and health $13,610	120,392
General expenses due or accrued	416,038
Taxes, licenses and fees due or accrued, excluding federal income taxes	233,766
Unearned investment income	125,528
Amounts withheld or retained by company as agent or trustee	246,101
Amounts held for agents' account, including $20,861 agents' credit balances	75,952
Remittances and items not allocated	620,006
Borrowed money (Note 5)	25,287
Asset Valuation Reserve	678,149
Payable for securities	561,245
FASB 106 post retirement liability	26,537
Total liabilities	$380,503,770
Common capital stock	$ 5,000,000
Change in admitted deferred tax asset (Note 6)	1,741,677
Surplus Notes (Note 5)	7,500,000
Gross paid in and contributed surplus	4,000,000
Unassigned funds (surplus)	21,779,852
Surplus	$ 40,021,529
Totals	$420,525,299

SUMMARY OF OPERATIONS

For the Year Ending December 31, 2008

	Per Examination and Per Company
Premiums and annuity considerations for life and accident and health contracts	$56,867,435
Net investment income	25,471,625
Amortization of Interest Maintenance Reserve	(28,920)
Commissions and expense allowances on reinsurance ceded	5,002
Miscellaneous income	(179,257)
Totals	$82,135,885
Death benefits	$17,826,936
Matured endowments	47,226
Annuity benefits	8,222,296
Disability benefits and benefits under accident and health contracts	369,510
Surrender benefits and other fund withdrawals for life contracts	19,587,293
Group conversions	98,235
Interest and adjustments on contract or deposit-type contract funds	651,364
Payments on supplementary contracts with life contingencies	231,587
Increase in aggregate reserves for life and accident and health contracts	13,325,914
Totals	$60,360,361
Commissions on premiums, annuity considerations, and deposit type contract funds	$ 7,127,753
General insurance expenses	7,845,830
Insurance taxes, licenses and fees, excluding federal income taxes	1,254,349
Increase in loading on deferred and uncollected premiums	206,970
Aggregate write-ins for deductions:	
Increase in reserves for experience rating refunds	(57,828)
Increase in liability for post retirement benefits	(2)
Totals	$76,737,433
Net gain from operations before dividends to policyholders and federal income taxes	$ 5,398,452
Dividends to policyholders	899,196
Net gain from operations after dividends to policyholders and before federal income taxes	$ 4,499,256
Federal and foreign income taxes incurred	$ 1,592,513
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	$ 2,906,743
Net realized capital gains or (losses) less capital gains tax of $(510,216) (excluding taxes of $517,631 transferred to the IMR)	$(8,050,194)
Rounding	1
Net income (loss)	$(5,143,450)

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2008

	Per Company	Examination Changes	Per Examination
Capital and surplus, December 31, 2007	$41,633,535	$ 0	$41,633,535
GAINS AND (LOSSES) IN SURPLUS			
Net income	$(5,143,450)	$ 0	$(5,143,450)
Change in net unrealized capital gains(losses)	851,587	0	851,587
Change in net deferred income tax	177,909	0	177,909
Change in nonadmitted assets and related items	(268,334)	0	(268,334)
Change in Asset Valuation Reserve	1,328,604	0	1,328,604
Dividends to stockholders	(300,000)	0	(300,000)
Change in admitted deferred tax assets (Note 6)	1,741,677	0	1,741,677
Rounding	1	0	1
Net change in capital and surplus for the year	$(1,612,007)	$ 0	$(1,612,007)
Capital and surplus, December 31, 2008	$40,021,529	$ 0	$40,021,529

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2003 Through December 31, 2008

	2004	2005	2006	2007	2008
Capital and surplus, December 31, previous year	$31,114,489	$34,048,055	$40,969,035	$41,228,063	$41,633,535
Net income	3,670,603	2,006,016	2,000,281	1,704,265	(5,143,450)
Change in net unrealized capital gains or (losses)	(54,935)	(307,425)	198,979	(2,032,260)	851,587
Change in net deferred income tax	428,497	(192,068)	76,119	77,678	177,909
Change in nonadmitted assets and related items	1,968,106	5,892	2,963,038	896,296	(268,334)
Change in Asset Valuation Reserve	(268,695)	290,625	(552,168)	950,357	1,328,604
Change in surplus notes (Note 5)	0	7,500,000	0	0	0
Capital changes:					
Paid in	(5)	0	0	0	0
Surplus adjustment:					
Paid in	(5)	0	0	0	0
Dividends to stockholders	(2,810,000)	(2,382,060)	(1,000,000)	(1,190,863)	(300,000)
Aggregate write-ins for gains and losses in surplus					
Change in benefit obligation (Note 7)	0	0	(3,427,221)	0	2,421,217
Change in admitted deferred tax assets (Note 6)	0	0	0	0	1,741,677
Rounding	1	(1)	0	(1)	1
Net change in capital and surplus for the year	$ 2,933,566	$ 6,920,980	$259,028	$405,472	$(1,612,007)
Capital and surplus, December 31, current year	$34,048,055	$40,969,035	$41,228,063	$41,633,535	$40,021,529

SUBSEQUENT EVENTS

Subsequent to the examination date, the Company's Investment Committee acknowledged that the Company was no longer actively seeking mortgage loans given the current economic and mortgage markets. At its meeting of June 30, 2009, the Investment Committee approved a motion stating the Company is unlikely to re-enter the mortgage market in the foreseeable future and re-entry to the market would require the approval of the Executive Committee. The Insurer Profile Summary was updated by the examination to include this current information.

NOTES TO THE FINANCIAL STATEMENTS

Note (1)	Deferred premiums, agents' balances and installments booked but deferred and not yet due	$ (397,233)
	Aggregate reserve for life contracts	358,943,662
	Aggregate reserve for accident and health contracts	200,828
	Liability for deposit-type contracts	14,211,860
	Contract claims: Life	1,137,132
	Contract claims: Accident and health	253,631
	Premiums and annuity considerations for life and accident and health contracts received in advance	93,149

Michael A. Mayberry, F.S.A., M.A.A.A., Vice President and Principal of Lewis & Ellis, Inc., Actuaries & Consultants, was retained by the Department to perform the actuarial portion of the examination. The scope of Lewis & Ellis' duties included issuing an opinion as to the adequacy of certain amounts reported by the Company as of December 31, 2008, which are noted above. Lewis & Ellis also reviewed the Asset Adequacy Analysis and related Actuarial Opinion and Memorandum prepared by the Company.

Based on their review and results of procedures performed, Lewis & Ellis concluded the year-end 2008 reserves reported by the Company were adequate. Furthermore, Lewis & Ellis did not recommend any adjustments to the reported reserves and other actuarial items related to their report and had no recommendations for inclusion in this examination report.

Lewis & Ellis also noted that the Asset Adequacy Analysis was very professionally done and demonstrated reserve adequacy. It was noted the Company not only tested the seven required interest rate scenarios, but also tested numerous other sensitivities of assumptions. Lewis & Ellis concluded the Asset Adequacy testing was in compliance with Appendix A-822 of the NAIC *Accounting Practices and Procedures Manual.*

Note (2) – Electronic data processing equipment and software $ 400,394
Furniture and equipment 1,283,227

The Company has two current practices prescribed by the Department that differ from NAIC Statutory Accounting Principles. The Department allows electronic and mechanical machines (EDP equipment) to be amortized over a period that does not exceed ten calendar years. Under statutory accounting, these assets are amortized over the lesser of the assets' useful life or three years. Related to the permitted practice and areas where Idaho Code differs from statutory accounting principles of the NAIC, the Company has made appropriate disclosure of the differences, including the financial impact.

Additionally, the Department permits the inclusion of office equipment, furniture and private passenger automobiles deemed necessary for conduct of insurance business as admitted assets providing such assets do not exceed 1 percent of all other assets. Under statutory accounting, these types of fixed assets are not admitted.

Note (3) – Receivables from parent, subsidiaries and affiliates $3,011,150

The above-captioned item was comprised of the promissory note receivable of $2,950,000 from United Heritage Financial Group, Inc. In addition, inter-company accounts receivable of $61,150 were included within the year-end 2008 balance. The accounts receivable represented proceeds from sales of investments to United Heritage Financial Group, Inc. United Heritage Financial Group, Inc. received additional funds of $75,000 and made payments totaling $330,000 under the revolving line of credit subsequent to the examination date.

Note (4) – Employee loans $16,895

In 1992, the Company instituted a personal computer leasing program for the Board of Directors and officers to promote computer education. A similar program was instituted for eligible employees. The balance arising from the employee program was reported as *Employee loans* of $16,895 in the 2008 Annual Statement.

Note (5) – Borrowed money $ 25,287
Surplus notes 7,500,000

As previously reported, the Company issued a surplus note to Wilmington Trust, as trustee, on September 15, 2005 in the amount of $7,500,000.

Interest on the surplus note is paid quarterly, in arrears, beginning December 15, 2005. The Company entered into an interest rate swap agreement for the first five years which fixes the interest at an annual rate of 7.586 percent. After the initial five year swap period, the Company may re-enter a swap agreement or let the interest float at the contractual rate of 3-month LIBOR plus 3.20 percent. Total interest expense incurred for

2008 was $568,950. The accrued balance at year-end 2008 was $25,287, which was reported as *Borrowed money* in the 2008 Annual Statement.

Note (6) – Change in admitted deferred tax asset $1,741,677

The Company had two permitted practices during the examination period. The Idaho Department of Insurance granted a permitted practice in 2008 to the Company to admit deferred tax assets that are realizable within three years and limited to 15 percent of surplus. The amount calculated by the Company at year-end 2008 was $1,741,677. The other permitted practice is discussed below.

Note (7) – Change in benefit obligation $3,427,221

This permitted practice is related to the Company's non-contributory defined benefit pension plan. As previously reported under *PENSION, STOCK OWNERSHIP AND INSURANCE PLANS,* pursuant to the Company's plan of termination and settlement, the Company received authorization and terminated and settled its obligations under the plan on May 22, 2006. As a result of the settlement, the Company recognized a settlement loss of $3,427,221 in 2006 and under an Idaho permitted practice recognized the settlement loss as a direct reduction to surplus. Due to the effect of changes in the non-admitted pension asset, the settlement resulted in no impact to year-end 2006 surplus.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2008, the Company had admitted assets of $420,525,299, liabilities of $380,503,770, and unassigned funds of $40,021,529. 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

6 It is recommended the Company strengthen and/or expand its existing dividend procedures to prevent future non-compliance with Idaho law relative to dividend notification requirements.

CONCLUSION

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

In addition to the undersigned, David W. Emery, CFE, FLMI (financial examiner); Dale Freeman, MBA, CIE; and Arlene Barrie (market conduct examiners) of the Idaho Department of Insurance, participated in the examination. Michael A. Mayberry, F.S.A., M.A.A.A, Lewis & Ellis, Inc. conducted the actuarial portion of the examination and Jenny Jeffers, CISA, AES of Examination Resources, LLC conducted the IT review.

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 United Heritage Life Insurance Company for the period from January 1, 2004, through December 31, 2008, that the information obtained 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 this report are based on the facts disclosed in the examination.

Lois Haley

Lois Haley
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 13th day of January, 2010 at Meridian, Idaho.

Carol Mulder

Notary Public

My Commission Expires: 10-7-20

CAROL MULDER NOTARY PUBLIC STATE OF IDAHO

State of Idaho
DEPARTMENT OF INSURANCE

C. L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2008, of the:

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

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 13th day of January, 2010, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 20 day of January, 2010

TODD H. GILL
Name (print)

Todd H. Gill
Name (signature)

SENIOR VP & CFO
Title

EXHIBIT
B