Report

of the

Examination of

Catholic Financial Life

Milwaukee, Wisconsin

As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 25, 2011

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Commissioner of Insurance
State of Wisconsin
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Madison, Wisconsin 53703

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Honorable Monica J. Lindeen
Secretary, Western Zone, NAIC
Commissioner of Insurance
State of Montana
840 Helena Avenue
Helena, Montana 59601

Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

CATHOLIC FINANCIAL LIFE
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Catholic Financial Life (the society) was conducted in 2006 as of December 31, 2005. The current examination covered the intervening period ending December 31, 2010, and included a review of such 2011 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the insurer including corporate governance, the identification and assessment of inherent risks within the insurer, and the evaluation of system controls and procedures used by the insurer to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the society's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Society
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the society's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the society to satisfy the recommendations and comments made in the previous examination report

The society is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, refunds to members, asset adequacy analysis, and deferred life insurance premiums. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

Investment Review

The Capital Markets Bureau of the National Association of Insurance Commissioners (NAIC) was engaged by the Office of the Commissioner of Insurance to perform a review of the society’s invested assets portfolio as of December 31. 2010. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review performed.

II. HISTORY AND PLAN OF OPERATION

Catholic Financial Life is a fraternal benefit society licensed as an insurer under ch. 614, Wis. Stat. The society was originally organized on January 21, 1885, as the Catholic Knights of Wisconsin, under Wisconsin laws applicable to fraternal benefit societies. In 1958 the society broadened its fraternal mission and business scope beyond the state of Wisconsin and changed its name to Catholic Knights Insurance Society. In 2000 the society's name was changed to Catholic Knights.

On April 1, 2010, the society completed a statutory merger with Catholic Family Life Insurance (CFLI), a Wisconsin fraternal benefit society (referred to as Catholic Family merger). The merger agreement provided that the Catholic Knights was the surviving corporation accepting full responsibility for all of the existing CFLI benefit certificates. The merger agreement also provided that current CFLI certificate holders at the date of the merger would have the same rights as the Catholic Knights certificate holders going forward. CFLI's assets, liabilities and unassigned surplus funds were merged by the society with all operations needed to service CFLI members becoming the responsibility of Catholic Knights. The merger was approved by the governing bodies of both organizations and by the Wisconsin Office of the Commissioner of Insurance (OCI). As a result of the merger, the society changed its name to Catholic Financial Life, the name presently used.

The society is a nonprofit, nonstock fraternal membership organization. Ownership and control of the society is held and exercised by society members who are over the age of 16. The purpose of Catholic Financial Life, as stated in the society's articles of incorporation, is to exist solely for the benefit of the members of the society and their beneficiaries, for the conduct of fraternal activities that provide to society members social, religious, benevolent, and intellectual improvement, to engage in the insurance business and other reasonable incidental businesses, and to engage in any lawful socially beneficial nonbusiness activity as determined by the board of directors. Society fraternal activities are conducted through the voluntary participation of the members of the society through a representative governmental body that consists of 221 local society chapters and a democratically elected supreme governing council. Membership is limited primarily to members of the Catholic religious faith and their immediate families.

In 2010, the society collected direct premium in the following states:

Wisconsin	$77,113,548	80.3%
Illinois	5,090,188	5.3
Minnesota	2,766,008	2.9
Iowa	2,075,929	2.2
Massachusetts	1,579,445	1.6
All others	7,418,769	7.7
Total	$97,128,507	100.0%

The major products marketed by the society include individual life and individual annuity products. The individual life business consists of whole life (both traditional and interest sensitive), limited pay life, single premium life, term insurance and a universal life product introduced in July 2007. The individual annuities consist of flexible premium deferred annuity products, single premium deferred annuity products, and immediate annuities.

The major products are marketed primarily through a career agency distribution system and a number of brokers. In total, there are approximately 90 active producers including full-time and part-time agents and field managers.

The following chart is a summary of the premium income reported by the society in 2010. The growth of the society is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Whole life	$29,102,308	$35,410	$2,018,816	$27,118,902
Universal life	7,940,684		456,384	7,484,300
Immediate annuities	1,564,451			1,564,451
Deferred annuities	59,455,084			59,455,084
A&H	152,155		13,783	138,372
Total All Lines	$98,214,682	$35,410	$2,488,983	$95,761,109

III. MANAGEMENT AND CONTROL

Membership

Society membership is open to any individual who is included in at least one of the following categories: (a) a Catholic, (b) a spouse, child, or grandchild of a Catholic, (c) an employee of the society, (d) an employee of a Catholic institution, or (e) as otherwise deemed qualified for membership as determined by the board of directors. A member is an individual who meets the membership criteria and who has had his or her membership application accepted. A member is not required to be a policyholder of society insurance or annuity products.

Members who are at least 16 years old have the following rights and benefits:

1. The opportunity to participate in insurance, financial, and investment products and services produced by the society and its subsidiaries,
2. The right to participate in the social, intellectual, educational, charitable, benevolent, moral, fraternal, patriotic, and religious activities of the society,
3. The right to vote for delegates to the Triennial Council and to vote and participate in local branch affairs including serving as a branch officer other than branch President, Vice-President, or Secretary/Treasurer, and
4. Additional benefits and rights as may be granted by the board of directors.

Growth of Membership

Year	**Members**
2010	121,608*
2009	79,299
2008	80,445
2007	81,876
2006	84,735
2005	84,463

* Includes 43,078 members added from the Catholic Family merger.

Triennial Council

The society's articles of incorporation provide that the supreme governing body of the society is the Triennial Council. The Council has the power to make and adopt bylaws providing for the society's government and management. The regular meetings of the Council are convened on a triennial basis. The Council consists of the society's board of directors, President, Secretary/Treasurer, and of delegates elected to the Council by the members of the society's branches. The society's bylaws were amended in connection with the Catholic Family merger in 2010 to provide additional special representation for the former Catholic Family members. The elected delegates must be Catholic members of the society who are also insurance policyholders. Each local branch of the society is a body of society members within a Catholic parish or group of parishes. The bylaws were amended effective July 15, 2011, primarily changing delegate representation, board qualifications, and the appointment of the President.

The principal officers of the society that are appointed by the board are the President, the Secretary, and one or more other officers designated as principal. Special meetings of the Council may be called by the board of directors or by the filing of a written petition signed by 50% of the delegates of the preceding regular meeting of the Council.

Board of Directors

Excluding the temporary impact of 6 additional directors through December 31, 2012, resulting from the Catholic Family merger, the board of directors consists of 13 members. The Triennial Council shall elect not fewer than 9 nor more than 12 voting directors and the President shall appoint 2 additional voting directors. Each of the appointed voting board members must be a Catholic member with expertise in the business of the society and who owns or participates in a financial service or product as determined by the board. The President shall appoint a nonvoting member of the board who shall be a priest, bishop, archbishop, or cardinal who serves as the Spiritual Director of the society.

The board members currently receive an annual retainer of $4,500 (paid quarterly) and an attendance fee of $1,000 for each board meeting attended.

Currently the board of directors consists of the following persons:

Name and Residence	**Principal Occupation**	**Term Expires**
A Raymond Auclair Narragansett, RI	Investment Advisor	2012
Mary E. Baker Wauwatosa, WI	Registered Nurse	2012
Mary C. Bowser St. Francis, WI	Retired	2011

Name and Residence	Principal Occupation	Term Expires
Carla C. Breunig Menomonee Falls, WI	Bank President and CEO	2012
Robert N. Dippold Maria Stein, OH	Retired	2012
Archbishop Timothy M. Dolan New York, NY	Archbishop	2012
William C. Dreyer New Berlin, WI	Certified General Appraiser	2012
Mildred M. Jandrin Kewaunee, WI	Retired	2012
Phyllis A. John Green Bay, WI	Retired	2012
Dennis N. Kabat New Holstein, WI	Plant Manager	2012
John F. Kenawell Ballwin, MO	Retired	2012
Donald W. Layden, Jr. Milwaukee, WI	Attorney	2012
Allan G. Lorge Cedarburg, WI	Sec./Treas., CFO, Sr. VP	2012
Patrick J. Murphy Milwaukee, WI	Executive Recruiter	2012
William R. O'Toole Pleasant Prairie, WI	President and CEO	2012
Paul B. Pinsonnault Attleboro, MA	Retired	2012
Charles J. Rebek Milwaukee, WI	Insurance Agent	2012
Janet A. Stelken Dyersville, IA	Co-Business Owner	2012
Thomas W. VanHimbergen Shorewood, WI	University Executive VP	2012
Arthur W. Wigchers Brookfield, WI	Retired	2012

Officers of the Society

The officers serving at the time of this examination are as follows:

Name	Office	2010 Compensation*
William R. O'Toole	President and CEO	$281,426
Allan G. Lorge	Secretary/Treasurer, Sr VP, CFO	227,647
Kerry E. Riemer	Controller	114,600
Daniel H. Strasburg	VP and Chief Actuary	186,524

* Compensation includes value of all benefits.

Committees of the Board

The society's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Thomas W. VanHimbergen, Chair
Phyllis A. John
Patrick J. Murphy
Arthur W. Wigchers
Janet A. Stelken
John F. Kenawell
William R. O'Toole
Allan G. Lorge

Membership Committee
Janet A. Stelken, Chair
Robert N. Dippold
John F. Kenawell
Mary E. Baker
Phyllis A. John
Charles J. Rebek
Dennis N. Kabat
A Raymond Auclair
Mildred M. Jandrin
Paul B. Pinsonnault
Mary C. Bowser

Fraternal Committee
Mary E. Baker, Chair
Janet A. Stelken
Phyllis A. John
John F. Kenawell
Dennis N. Kabat
Mildred M. Jandrin

Sales, Product & Marketing Committee
Robert N. Dippold, Chair
Charles J. Rebek
A Raymond Auclair
Paul B. Pinsonnault
Mary C. Bowser

Audit, Finance & Technology Committee
Patrick J. Murphy, Chair
Carla C. Breunig
Arthur W. Wigchers
Thomas W. VanHimbergen
Allan G. Lorge

Investment Committee
Arthur W. Wigchers, Chair
William C. Dreyer
Donald W. Layden, Jr.
Thomas W. VanHimbergen
Allan G. Lorge

Governance Committee
John F. Kenawell, Chair
Phyllis A. John
Thomas W. VanHimbergen
Paul B. Pinsonnault

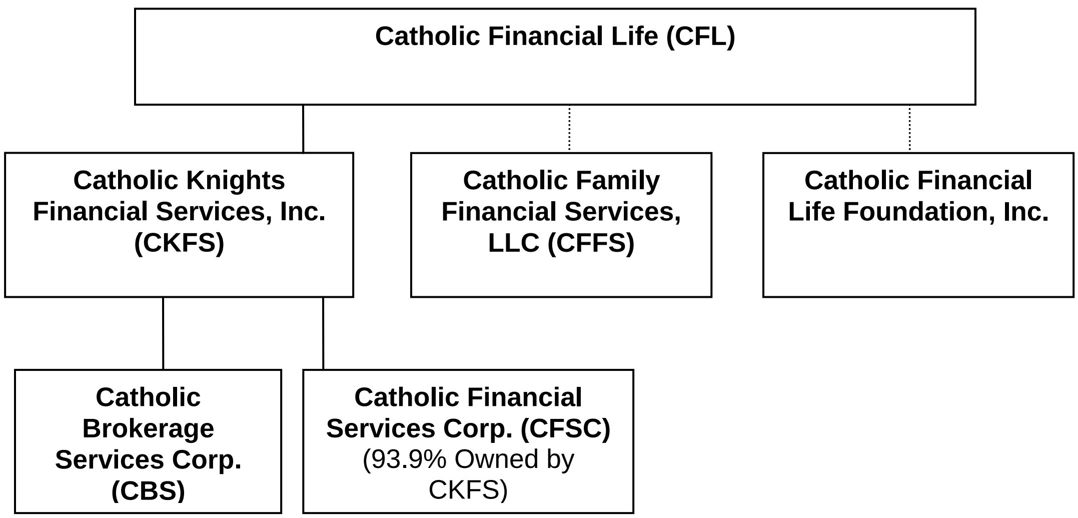
Compensation Committee
Phyllis A. John, Chair
Janet A. Stelken
Mary C. Bowser
Patrick J. Murphy

Nominating Committee
Robert N. Dippold, Chair
William C. Dreyer
William R. O'Toole

IV. AFFILIATED COMPANIES

Catholic Financial Life is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the society follows the organizational chart.

Organizational Chart
As of December 31, 2010



Catholic Knights Financial Services, Inc.

Catholic Knights Financial Services, Inc. (CKFS) was incorporated June 1, 1994, as a Wisconsin-domiciled stock corporation. All of the issued and outstanding CKFS capital stock is issued to and held by Catholic Financial Life. CKFS exists as a nonoperating subsidiary of the society and serves as the administrative holding company for the society's operating subsidiaries.

As of December 31, 2010, the audited financial statements of CKFS reported total assets of $652,584, total liabilities of $38,950 and total shareholders' equity of $613,634. Consolidated operations for 2010 produced a net loss of $149,112, which included a $10,813 net loss attributable to a noncontrolling interest.

Catholic Financial Services Corporation

On June 1, 1994, Catholic Financial Services Corporation (CFSC) was incorporated as a stock corporation in Wisconsin with 100% of its outstanding shares issued to and held by

CKFS until November 1998. At that time, CFSC issued additional shares of its common stock to two other Catholic fraternal benefit societies. In 2001, additional shares of CFSC were issued to a fourth fraternal benefit society. One of the Catholic fraternal benefit societies with shares in CFSC was Catholic Knights of America (CKA). CKA merged with Catholic Financial Life (formerly Catholic Knights) on July 1, 2005. At that point, CKA's shares were also merged with Catholic Financial Life.

CFSC is registered as a broker/dealer with the Financial Industry Regulatory Authority (FINRA) and is licensed in 48 states to sell mutual funds, 529 College Savings Plans and Variable Life and Annuity products. CFSC was an inactive corporation from the time of its formation in 1994 through 1998, at which time it initiated operations for its brokerage business. CFSC provides the society with the capability to market through securities-licensed Catholic Financial Life's advisors various non-traditional investments and services, including mutual fund products and variable tax-shelter annuity policies, which are not written by the society. Investments and services marketed through CFSC provide to society members additional elements of overall financial planning that supplement the life insurance and annuity products written on a direct basis by Catholic Financial Life.

As of December 31, 2010, the audited financial statements of CFSC reported total assets of $232,086, total liabilities of $29,591, and total ownership equity of $202,495. Operations for 2010 produced a net loss of $161,623.

Catholic Brokerage Services

Catholic Brokerage Services (CBS) was incorporated November 11, 1994, as a Wisconsin stock corporation. All of the issued and outstanding capital stock of CBS is issued to and held by CKFS. CBS is an insurance brokerage company and provides to the society the capability to market through society advisors certain indemnity insurance products written by commercial carriers in business lines that are not written by the society. Brokered insurance products include accident and health insurance, disability income and long-term care coverage insurance. The society screens the brokered-insurance policies and underwriters in an attempt to ensure that members are provided with good insurance products issued by reliable insurers.

As of December 31, 2010, the audited financial statements of CBS reported total assets of $183,454, total liabilities of $1,745, and total equity of $181,709. Operations for 2010 produced total commission revenue of $58,801, and produced net income of $11,415.

Catholic Family Financial Services, LLC

The society owns 100% of a former CFLI general agency, Catholic Family Financial Services, LLC (CFFS). CFFS operates as an independent insurance agency to the society. The society's board of directors approved a plan in September 2010 to dissolve and liquidate the assets of CFFS. The statement value of the society's investment in CFFS is $0.

Catholic Financial Life Foundation, Inc.

In 2006, the society established The Catholic Knights Foundation, Inc. (Foundation). The Foundation focuses on educational scholarships and grants to organizations for charitable, educational and religious purposes. Employees of the society maintain and govern the Foundation's operations and the society and Foundation share common facilities. The society does not report any investment in the Foundation in its financial statements and transactions between the two organizations do not exceed ½ of 1% of the society's admitted assets. Prior to the merger, Catholic Family had also established a charitable foundation, the Catholic Family Life Education Fund. During 2010, the assets of The Catholic Knights Foundation, Inc., and the Catholic Family Life Education Fund were merged into one foundation and the name was changed to the Catholic Financial Life Foundation, Inc.

Agreements with Affiliates

Catholic Financial Life charges certain cost allocations to its subsidiary CFSC for services provided to the subsidiary by the society. Pursuant to a resource-sharing agreement established in 1999, the society provides CFSC with the services of society employees and the use of society equipment and facilities to the extent necessary to enable CFSC to conduct its operations as investment adviser and broker-dealer for The Catholic Funds through March 2007. The Catholic Funds were merged into the independent Ave Maria Funds on March 31, 2007.

Service fees charged to CFSC for the costs of society services are based on cost allocation estimates for equipment and facilities used by employees directly and substantially involved with CFSC. Time is charged to CFSC based on actual time spent on CFSC work. The estimates of time and cost allocation are amended by the society periodically as needed to update the allocation model to reflect changes in services provided. Direct costs incurred by Catholic Financial Life on behalf of CFSC that are not covered by the services categories specified in the management services agreement are charged to the affiliate on a monthly basis.

V. REINSURANCE

The society's reinsurance portfolio and strategy are described below. The society's reinsurance program cedes certain insurance risks to other insurers. The society has assumed a minimal amount of reinsurance risks from other smaller fraternal benefit societies but no longer assumes any new business. Each of the society's current reinsurance contracts contains proper insolvency provisions.

The society maintains reinsurance contracts that cede excess and catastrophic coverages on the society's direct written business. Some of the society's reinsurance treaties have existed for more than 25 years. The society has reinsurance agreements for new business with both Swiss Re Life & Health America (Swiss Re) and with Optimum Re Insurance Company (Optimum). The society's universal life plans are reinsured under an automatic yearly renewable term agreement with Optimum. The society's term plans are reinsured under an automatic coinsurance agreement with Swiss Re, and all other traditional life plans are reinsured under an automatic yearly renewable term agreement with Swiss Re. The society also has facultative agreements with both Swiss Re and Optimum. The society's maximum life insurance retention for any single life is $225,000. With the exception of the Direct Marketing and Reinsurance agreement shown below, the society cedes 100% of the risk on all accidental death polices to Generali USA Life Reassurance Company.

The society maintains a catastrophic excess of loss reinsurance treaty with Centurion Life Insurance Company that provides excess of loss reinsurance coverage for each loss occurrence in which there are three or more deaths on lives insured by the society. The reinsurance contract provides coverage for 100% of loss from each catastrophic loss occurrence in excess of society loss retention of $510,000 for each and every catastrophic occurrence. The contract provides excess reinsurance coverage to a maximum of $250,000 on any one life and has a maximum reinsurance indemnity limit of $3 million for each loss occurrence and an annual maximum reinsurance indemnity limit of $6 million.

Effective February 5, 1999, the society entered into a Direct Marketing and Reinsurance Agreement in which the society, the society's primary reinsurer, and a direct marketing company are contracting parties. Under the agreement, the reinsurer and the direct marketing firm agree to collaborate with the society in developing and conducting direct marketing campaigns targeted toward the society's existing policyholders, for the purposes of adding accidental death benefit coverages to existing life insurance policies. Under the contract's reinsurance provisions, the society cedes to the reinsurer on original terms a 50% quota share of the business resulting from the marketing campaigns covered by the agreement. The business ceded is subject to a maximum retention by the society of up to $150,000 of life and accidental death benefits liability on each life. In no event does the society retain less than $25,000 of the policies reinsured under the agreement. The society's retention is graded and decreases based upon the age and rating of the insured. The reinsurer's quota share percentage is 50% of the subject policies plus any excess that the society is unable to retain, to a maximum reinsurance coverage of $225,000 each life. The reinsurer pays the society an agent commission and an administrative allowance based on an agreed percentage of the ceded first-year annualized premiums. Additionally, the society, its reinsurer, and the same direct marketing company partnered in a follow-up direct mail ADB campaign which was launched in July of 2001. The subject business is also reinsured under the same agreement.

Effective July 1, 2005, the society merged with Catholic Knights of America, which resulted in reinsurance contracts with both Munich America Reassurance Company and Optimum Re Insurance Company. The primary Optimum contract has an automatic yearly renewable term (YRT), providing excess risk reinsurance on all the Vision Life plans. The society has both YRT and coinsurance contracts with Munich, which reinsure the excess risk on all other life plans (excluding Vision Life).

Effective April, 1, 2010, the society merged with Catholic Family Life Insurance and now has reinsurance agreements on a closed block of business in runoff with Optimum, Swiss Re, and RGA Reinsurance Company. The society will not be recapturing any of this business but will still be maintaining these reinsurance agreements.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the society as reported to the Commissioner of Insurance in the December 31, 2010, annual statement. Also included in this section are schedules which reflect the growth of the society, NAIC Insurance Regulatory Information System (IRIS) ratio results during the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Members' Surplus per Examination."

Catholic Financial Life
Assets
As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$1,033,808,471	$	$1,033,808,471
Stocks:			
Preferred stocks	2,241,739		2,241,739
Common stocks	6,282,145		6,282,145
Mortgage loans on real estate:			
First liens	86,637,219		86,637,219
Real estate:			
Held for the production of income	6,339,859		6,339,859
Cash, cash equivalents, and short-term investments	19,207,062	2,756	19,204,306
Contract loans	25,103,993		25,103,993
Other invested assets	3,341,007		3,341,007
Investment income due and accrued	11,993,486	45,648	11,947,838
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	147,315	37,646	109,669
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,150,291		1,150,291
Reinsurance:			
Amounts recoverable from reinsurers	77,999		77,999
Other amounts receivable under reinsurance contracts	149,966		149,966
Electronic data processing equipment and software	626,356	391,393	234,963
Furniture and equipment, including health care delivery assets	495,458	495,458	
Receivable from parent, subsidiaries and affiliates	41,215	29,247	11,968
Write-ins for other than invested assets:			
Prepaid pension	619,350	619,350	
Prepaid expenses	84,276	84,276	
Amounts due from agents	276,621	276,621	
Bills receivable	8,704	8,704	
Leased lots	41,733	41,733	
Total Assets	$1,198,674,265	$2,032,832	$1,196,641,433

Catholic Financial Life
Liabilities, Surplus, and Other Funds
As of December 31, 2010

Aggregate reserve for life contracts		$1,102,737,223
Aggregate reserve for accident and health contracts		591,841
Liability for deposit-type contracts		37,977,751
Contract claims:		
Life		6,921,981
Accident and health		247,815
Provision for refunds payable in following calendar year:		
Apportioned for payment		3,201,685
Premiums and annuity considerations received in advance		1,404,605
Contract liabilities not included elsewhere:		
Other amounts payable on reinsurance		155,754
Interest maintenance reserve		1,006,333
Commissions to fieldworkers due or accrued		371,683
General expenses due or accrued		2,526,235
Taxes, licenses, and fees due or accrued		224,824
Unearned investment income		2,640
Amounts withheld or retained by society as agent or trustee		459,992
Amounts held for fieldworkers' account, including fieldworkers' credit balances		56,407
Remittances and items not allocated		269,248
Liability for benefits for employees and fieldworkers if not included above		3,873
Miscellaneous liabilities:		
Asset valuation reserve		5,396,869
Payable for securities		32
Write-ins for liabilities:		
Minimum pension liability		6,145,034
Deferred gain on the sale of real estate		500,410
Uncashed drafts and checks pending escheatment		61,530
Other accounts payable		55,241
Orphan benefit reserve		6,687
Accrued pension liability		215,792
Total liabilities		1,170,541,485
Unassigned funds (surplus)	$26,099,948	
Total surplus and other funds		26,099,948
Total Liabilities, Surplus, and Other Funds		$1,196,641,433

Catholic Financial Life
Summary of Operations
For the Year 2010

Premiums and annuity considerations		$ 95,761,109
Considerations for sup contracts with life contingencies		6,109,006
Net investment income		62,281,435
Amortization of interest maintenance reserve		1,745,261
Commissions and expense allowances on reinsurance ceded		71,113
Miscellaneous income:		
Charges and fees for deposit-type contracts		8,419
Write-ins for miscellaneous income:		
Proceeds received from class action settlements		37,173
Lease revenue		1,992
Recovery of nonadmitted assets		21,696
Other miscellaneous income		5,571
Total income items		166,042,775
Death benefits	$ 16,806,388	
Matured endowments	623,115	
Annuity and old age benefits	13,523,523	
Disability, accident and health benefits including premiums waived	303,988	
Surrender benefits and withdrawals for life contracts	46,753,077	
Interest and adjustments on contract or deposit-type contract funds	1,527,934	
Payments on supplementary contracts with life contingencies	3,622,730	
Increase in aggregate reserve for life and accident and health contracts	49,565,528	
Subtotal	132,726,283	
Commissions on premiums, annuity considerations, and deposit-type contract funds	5,173,110	
General insurance expenses and fraternal expenses	20,233,125	
Insurance taxes, licenses, and fees	1,046,628	
Increase in loading on deferred and uncollected premiums	(33,724)	
Write-in for deductions:		
One time merger expenses	3,527,420	
Term conversion credit	2,192	
Total deductions		162,675,034
Net gain from operations before refunds to members		3,367,741
Refunds to members		3,118,977
Net gain from operations after refunds to members and before realized capital gains or losses		248,764
Net realized capital gains or (losses)		(12,213,782)
Net Loss		$ (11,965,018)

Catholic Financial Life
Cash Flow
For the Year 2010

Premiums collected net of reinsurance			$ 95,815,352
Net investment income			61,281,870
Miscellaneous income			6,235,701
Total			163,332,923
Benefit and loss payments		$ 78,689,737	
Commissions, expenses paid, and aggregate write-ins for deductions		29,216,486	
Refunds paid to members		3,729,837	
Total deductions			111,636,060
Net cash from operations			51,696,863
Proceeds from investments sold, matured, or repaid:			
Bonds	$137,642,886		
Stocks	8,140,230		
Mortgage loans	14,386,467		
Other invested assets	551,165		
Net gains or (losses) on cash, cash equivalents, and short-term investments	8,633		
Miscellaneous proceeds	(4,311,611)		
Total investment proceeds		156,417,770	
Cost of investments acquired (long-term only):			
Bonds	211,287,908		
Stocks	1,318,212		
Mortgage loans	746,481		
Real estate	556,886		
Other invested assets	341,641		
Miscellaneous applications	(3,247,374)		
Total investments acquired		211,003,754	
Net increase (decrease) in contract loans and premium notes		(5,066)	
Net cash from investments			(54,580,918)
Cash provided from (applied for) financing and miscellaneous sources:			
Net deposits on deposit-type contract funds and other insurance liabilities		(1,799,201)	
Other cash provided (applied)		(204,462)	
Net cash from financing and miscellaneous sources			(2,003,663)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(4,887,718)
Cash, cash equivalents, and short-term investments:			
Beginning of year			24,092,024
End of Year			$ 19,204,306

Catholic Financial Life
Compulsory and Security Surplus Calculation
December 31, 2010

Assets		$1,196,641,433
Less liabilities		1,170,541,485
Adjusted surplus		26,099,948
Annual premium:		
Individual life and health	$31,099,579	
Factor	15%	
Total	4,664,936	
Greater of 7.5% of considerations or 2% of reserves for annuities and deposit administration funds	11,270,078	
Compulsory surplus (subject to a $2,000,000 minimum)		15,935,014
Compulsory Surplus Excess or (Deficit)		$ 10,164,934
Adjusted surplus (from above)		$ 26,099,948
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million with a minimum of 110%)		21,990,319
Security Surplus Excess or (Deficit)		$ 4,109,629

Catholic Financial Life
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2010

The following schedule is a reconciliation of total surplus during the period under examination as reported by the society in its filed annual statements:

	2010	2009	2008	2007	2006
Surplus, beginning of year	$ 37,362,081	$ 42,466,023	$51,872,569	$50,272,930	$46,827,222
Add gain from operations	3,367,741	7,611,913	6,277,943	5,646,234	5,379,071
Less refunds to members	3,118,977	3,695,457	3,671,530	3,573,423	3,332,329
Realized capital gains (losses)	(12,213,782)	(16,917,712)	(9,845,110)	7,207,742	(6,053,564)
Net income	(11,965,018)	(13,001,256)	(7,238,697)	9,280,553	(4,006,822)
Change in net unrealized capital gains/losses	2,749,826	11,996,256	(11,230,277)	(5,993,414)	7,436,846
Change in nonadmitted assets and related items	550,995	1,297,121	(112,975)	(49,408)	672,572
Change in asset valuation reserve	(1,092,982)	646,647	7,086,029	(495,252)	(806,888)
Cumulative effect of changes in accounting principles	(653,385)	(6,645,146)			
Change in surplus as a result of reinsurance			470,053		
Write-ins for gains and (losses) in surplus:					
Minimum pension liability	(851,569)	2,052,436	(4,562,378)		
Prior period adjustment		(1,450,000)		(1,142,840)	
Reversal of CKA merger reserve adjustment					150,000
Surplus, End of Year	$26,099,948	$37,362,081	$36,284,324	$51,872,569	$50,272,930

Note: 2010 and 2009 amounts have been combined and restated for the April 2010 merger of Catholic Family Life Insurance into Catholic Knights. Amounts for 2008, 2007, and 2006 are pre-merger amounts previously reported by Catholic Knights.

The society experienced a 44.3% decline in surplus during the five-year period under examination, from $46.8 million to $26.1 million. Significant capital losses on investments were realized in 2008 through 2010 causing declines in surplus.

In 2008 the society had $9.8 million in realized capital losses. The society's realized losses in that year included the write-off of a $2.0 million Washington Mutual Bank bond it acquired in 2004, a $1.0 million write-off of Lehman Brothers preferred stock it acquired earlier in 2008, a $1.6 million loss on XTO Energy Inc. common stock, and $3.5 million in losses on two equity mutual funds: the Dodge and Cox International Stock Fund and the Vanguard Indexed Trust Stock Index Fund.

In 2009 the society had total realized losses of $22 million, of which $6,645,146 is reported as a direct surplus charge for a change in accounting principle for application of SSAP 43R. The society realized a loss of $7.1 million on common stock investments. Of that loss $6.4 million loss was on the SPDR Trust, an exchange traded equity index fund that tracks to the performance of the S&P 500 index. The society invested $18.5 million in the SPDR Trust on October 6, 2008. The majority of this stock was sold in late 2009 for a $6.4 million realized loss due to the decline in the S&P 500 index. The society realized losses of approximately $13 million in Other Than Temporary Impairments (OTTI) on bonds in 2009; $9.2 million of these impairments were on the society's investments in mortgage backed securities.

In 2009 the society received approval for a permitted practice by the Wisconsin Office of Commissioner of Insurance to increase the carrying value of an apartment/office building held for the production of income to its approximate market value, increasing surplus beginning in 2009 by $4,155,000. The surplus increase is included in the change in unrealized capital gains.

The 2009 prior period adjustment was due to Catholic Family Life Insurance (merged into the society in 2010) correcting an overstatement of the 2008 carrying value of one bond by $450,000. In addition, the society recorded a subsequent voluntary contribution of $1,000,000 to the 2008 Asset Valuation Reserve (AVR). The society recorded a correction decreasing admitted assets by $450,000, increasing the AVR by $1,000,000 and decreasing surplus by $1,450,000.

In 2010 the society had realized losses from additional OTTI of $14.3 million on the society's mortgage backed securities, composing the largest change in surplus for the year 2010.

Catholic Financial Life
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2010

The society's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2010	2009	2008	2007	2006
#1	Change in surplus	-19%*	-12%*	-30%*	3%	7%
#2	Net income to total income	-8*	-12*	-8*	10	-5*
#3	Adequacy of investment income	139	143	144	144	154
#4	Nonadmitted to admitted assets	0	0	0	0	0
#5	Total real estate and mortgage loans to cash and invested assets	8	5	5	5	4
#6	Total affil. investments to surplus	2	2	2	0	2
#7	Surplus relief	0	0	1	0	0
#8	Change in premium	38	20	35	-4	-16*
#9	Change in product mix	2.8	3.3	9.8*	0.1	7.3*
#10	Change in asset mix	0.6	0.9	0.6	0.3	0.4
#11	Change in reserving	-24*	0	2	0	3

Over the past five years, the primary unusual IRIS ratio values have been related to changes in surplus and net income as a percent of total income. For 2008, 2009, and 2010, the primary cause of the large negative variances has been the impact of investment losses which began during the third quarter of 2008. The unusual negative net income to total income IRIS ratio for 2006 resulted from other than temporary impairment (OTTI) related to the investment in the society's subsidiaries. From 1999 through 2006, the society had sponsored The Catholic Funds (TCF), a Catholic values based mutual fund, through its securities broker/dealer and investment advisory subsidiary. A decision was made in the fourth quarter of 2006 to merge TCF into an independent mutual fund and, as a result, the society wrote-off just over $5.7 million of the historical costs that had been incurred to develop TCF as an OTTI realized investment loss at year-end 2006.

The unusual IRIS change in reserving ratio variance for 2010 was a result of the ratio analysis being performed using the combined merged results for 2010 compared to the former Catholic Knights results for 2009 pre-merger.

The change in product mix for 2008 and 2006 and the change in premium ratio for 2006 indicate unusual variances as a result of the changes in the society's annuity revenue. Prior to 2001, the society's annual annuity revenues were in the $10 to $15 million range then increased in the $25 to $35 million range during 2002 through 2005. The society's annuity revenues declined to about $16 million in 2006 and 2007 then sharply increased in 2008 and again in 2009.

Growth of Catholic Financial Life

Year	Admitted Assets	Liabilities	Members' Surplus
2010	$1,196,641,411	$1,170,541,485	$26,099,948
2009	1,160,275,103	1,122,913,022	37,362,081
2008	831,150,243	794,865,919	36,284,324
2007	817,567,391	765,694,822	51,872,569
2006	800,540,684	750,267,754	50,272,930
2005	782,352,977	735,525,755	46,827,222

Note: The 2010 and 2009 amounts have been combined and rested for the merger. The 2008, 2007, and 2006 amounts are pre-merger previously reported by Catholic Knights.

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2010	$34,657,854	$61,019,535	$1,084,620
2009	35,758,981	58,756,766	4,875,557
2008	25,105,561	30,356,115	2,940,363
2007	24,674,610	16,512,767	2,008,843
2006	24,553,432	16,614,184	3,734,449
2005	24,558,951	25,930,526	3,211,356

Life Insurance In Force (in thousands)

Year	Gross Risk In Force	Ceded	Net
2010	$4,898,325	$1,230,962	$3,667,363
2009	4,895,463	991,135	3,904,328
2008	3,398,315	747,579	2,650,736
2007	3,281,300	664,671	2,616,629
2006	3,220,978	606,261	2,614,717
2005	3,177,784	578,170	2,599,614

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2010	$142,823	$ (42,944)	$2,779	$ 73,121	23.1%
2009	154,709	146,237	2,577	122,055	175.1
2008	29,193	63,828	59	8,925	249.4
2007	32,344	12,645	77	10,731	72.5
2006	36,561	78,434	104	12,849	250.0
2005	41,561	103,088	185	43,831	353.9

* Includes increase in contract reserves
** Includes taxes, licenses, and fees

As previously discussed, on April 1, 2010, the society completed a statutory merger with Catholic Family Life Insurance. The merger agreement provided that the society was the surviving corporation accepting full responsibility for all of the existing CFLI benefit certificates. CFLI's assets, liabilities and members' contingency reserve were absorbed by the society with all operations needed to service CFLI members and benefit certificates becoming the responsibility of the society.

The society's total assets increased by $414 million or 53% over the last five years as a result of increased cash flows from strong annuity sales and continued relatively low life and annuity surrenders. About $287 million of assets were added as a result of the merger with CFLI. Total liabilities increased by $435 million or 59% over the last five years primarily as a result of increased aggregate reserves for traditional whole life and term individual life insurance and individual annuity policies. Statutory surplus decreased by $21 million or 44% over the last five years as a result of the impact of investment losses which began during the third quarter of 2008, as previously discussed.

Reconciliation of Members' Surplus per Examination

No adjustments were made to surplus as a result of the examination. The members' surplus reported by the society as of December 31, 2010, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were nine specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the society are as follows:

1. Information Technology—It is recommended that the society enhance its disaster recovery plan and create a business continuity plan for functional units to address the above comments. It is also recommended that the society establish a process to at least annually review and update its plans.

   Action—Compliance

2. Information Technology—It is recommended that the society identify minimum deliverables (i.e., project request, project requirements, evidence of testing, and evidence of implementation) related to a project and maintain those as documentation.

   Action—Compliance

3. Deferred Annuity Reserves—It is recommended that the society change the programming for their reserve valuation extract to properly record the correct gender values.

   Action—Compliance

4. Disabled Lives Reserves—It is recommended that the society review and correct the claim incurred date data in the DW Reserve Database.

   Action—Compliance

5. Disabled Lives Reserves—It is recommended that the society change the programming in its DW Reserve Database to correctly calculate the benefit expiration date.

   Action—Compliance

6. Disabled Lives Reserves—It is recommended that the society change the programming in its DW Reserve Database to correctly calculate the reserve amount.

   Action—Compliance

7. Disabled Lives Reserves—It is recommended that the society develop procedures to insure that terminated policies are recorded as terminated on all of its reserve systems and that policy numbers entered into the DW Reserves Database are correct.

   Action—Compliance

8. Deficiency Reserves—It is recommended that the valuation of deficiency reserves on a closed block of term plans be performed at least once a year to ensure reliability in the results rather than simply making an arbitrary adjustment.

   Action—Compliance

9. Actuarial Opinion—It is recommended that in the Actuarial Opinion and Memorandum the society provide more detail as to which models the unmodeled reserves are assumed to follow and why that is appropriate or, in lieu of this, the society may simply report these reserves as not tested.

   Action—Compliance

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the society's operations is contained in the examination work papers.

Custodial Agreement

When reviewing the society's assets placed in safekeeping, the examiners verified the presence of an executed custodial agreement. The agreement was reviewed to determine whether the language of the agreements contained adequate provisions consistent with the NAIC Financial Condition Examiners Handbook. The examiners found that the agreement did not have adequate language. The agreements failed to state the Custodian obligation to indemnify the insurance company for any loss of securities in the Custodian's custody occasioned by the negligence or dishonesty of the Custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction. It is recommended that the society's custodial agreements be updated to include language consistent with the NAIC Financial Condition Examiners Handbook.

Reinsurance

When reviewing the ceded reserves it was noted that ceded reserves attributable to deficiency reserves for certain Catholic Knight term products reinsured with Swiss Re were excluded from both Exhibit 5 and Schedule S. A reinsurance credit should be reflected in Schedule S and Exhibit 5 should show gross, ceded and net reserves separately in the appropriate sections. Since the net reserves are unaffected, no financial adjustment is required. It is recommended that all reinsurance reserve credits be reported in both the miscellaneous section of Exhibit 5 and in Schedule S.

Reserves

The consulting actuary reviewed the asset adequacy analysis completed as required by the Actuarial Opinion Memorandum Regulation for 2010. The consulting actuary noted that additional information should be discussed within the Actuarial Opinion Memorandum. It is recommended that the Actuarial Opinion Memorandum for future years include the following information:

- Include a discussion of the significant risks associated with the products tested.
- Define the Conservative Basis/Method and discuss the rationale for including any liabilities in this analysis.
- Define the Short-term Liability and discuss the rationale for including any liabilities in this analysis.

Investments

At year-end 2010 approximately 23% of the society's invested assets consisted of non-agency residential mortgage backed securities. The society's non-agency residential mortgage backed securities (RMBS) were purchased between 2001 through early 2008, with 2006 being the most common acquisition year. In late 2009 the NAIC adopted SSAP 43R which established a new valuation methodology for RMBS securities for filing years beginning with 2009. Under the methodology the NAIC engaged an independent third party firm (PIMCO) to model the discounted expected losses for each RMBS security held by the insurance industry. The discounted expected loss is used as an input to determine breakpoints for the NAIC Designations of 1 through 6. RMBS securities with an NAIC Designation 1 through 5 are carried at amortized cost, and those with an NAIC Designation 6 must be carried at the lower of cost or market; however, under SSAP 43R all non-agency RMBS securities must also be evaluated for impairment. If the present value of cash flows expected to be collected is less than amortized cost, the RMBS must be written down to the present value of future cash flows by recording other than temporary impairment. The society recorded $9.2 million and $14.3 million in OTTI write-downs in 2009 and 2010, respectively. After the OTTI write-downs the society held $269.2 million in non-agency RMBS securities, with a market value of $229.6 million, at year-end 2010. If residential mortgage loan delinquency and defaults remain above previous historical norms for an extended period, the society's RMBS portfolio is at risk of additional OTTI write-downs.

Due to the depressed market for these securities, the society continues to hold and run off the non-agency RMBS portfolio. The excess of carrying value over market value of RMBS securities exceeds the society's surplus at year-end 2010. Because of the high percentage of invested assets in RMBS and the small amount of surplus remaining relative to total assets, it is imperative that the remaining invested assets be effectively and conservatively invested.

The society's investment policy has established the following limits:

Cash and Cash Equivalents	0% to 5%
Fixed Income Investments	80% to 95%
Equity Investments	0% to 20%

At year-end 2010 equity investments totaled $8.5 million, accounting for less than 1% of total invested assets. However, as noted in the previous section of this report, the company had equity realized losses in 2008 and 2009 totaling $13.2 million, a significant proportion of the total realized losses in those years. Since surplus at year-end 2010 equals only 2.2% of invested assets, the 20% of invested assets limit on equities is not a meaningful limit relative to surplus; allowing ten times the society's surplus to be at risk in equity investments. Under s. 620.04, Wis. Stat., the Commissioner may impose reasonable temporary restrictions on the investments of an individual insurer. It is recommended that the society limit its total investments in equities to 50% of surplus at all times until otherwise notified by the Office of the Commissioner of Insurance.

VIII. CONCLUSION

Catholic Financial Life is a fraternal society licensed as an insurer under ch. 614, Wis. Stat. The corporation was originally organized on January 21, 1885, as the Catholic Knights of Wisconsin, under Wisconsin laws applicable to fraternal benefit societies. In 1958 the society broadened its fraternal mission and business scope beyond the state of Wisconsin and changed its name to Catholic Knights Insurance Society. In 2000 the society's name was changed to Catholic Knights, and in 2010 the society changed the name to Catholic Financial Life, the name presently used.

On April 1, 2010, the society completed a statutory merger with Catholic Family Life Insurance, a Wisconsin fraternal benefit society. The merger agreement provided that the Catholic Knights was the surviving corporation accepting full responsibility for all of the existing CFLI benefit certificates. The merger agreement also provided that current CFLI certificate holders at the date of the merger would have the same rights as the Catholic Knights certificate holders going forward. CFLI's assets, liabilities and unassigned surplus funds were merged by the society with all operations needed to service CFLI members becoming the responsibility of Catholic Knights. The merger was approved by the governing bodies of both organizations and by the Wisconsin Office of the Commissioner of Insurance.

The society's total assets increased by $414 million or 53% over the last five years as a result of increased cash flows from increased annuity sales and continued relatively low life and annuity surrenders. In addition, about $287 million of assets were added as a result of the merger with CFLI. Total liabilities increased by $435 million or 59% over the last five years primarily as a result of increased aggregate reserves for traditional whole life and term individual life insurance and individual annuity policies. Statutory surplus decreased by $21 million or 44% over the last five years as a result of the impact of investment losses which began during the third quarter of 2008.

The examination resulted in four recommendations; no adjustments to surplus or reclassifications of account balances were made. The society was in compliance with all of the recommendations made on the previous examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - Custodial Agreement—It is recommended that the society's custodial agreements be updated to include language consistent with the NAIC Financial Condition Examiners Handbook.

2. Page 29 - Reinsurance—It is recommended that all reinsurance reserve credits be reported in both the miscellaneous section of Exhibit 5 and in Schedule S.

3. Page 29 - Reserves—It is recommended that the Actuarial Opinion Memorandum for future years include the following information:
   - Include a discussion of the significant risks associated with the products tested.
   - Define the Conservative Basis/Method and discuss the rationale for including any liabilities in this analysis.
   - Define the Short-term Liability and discuss the rationale for including any liabilities in this analysis.

4. Page 31 - Investments—It is recommended that the society limit its total investments in equities to 50% of surplus at all times until otherwise notified by the Office of the Commissioner of Insurance.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the society is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Tom Janke	Insurance Financial Examiner
Rick Onasch	Insurance Financial Examiner
Derek Sliter	Insurance Financial Examiner
Randy Milquet	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

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