

REPORT ON EXAMINATION
OF
GLOBE LIFE AND ACCIDENT INSURANCE COMPANY
AS OF
DECEMBER 31, 2003

State of Delaware



Department of Insurance

Dover, Delaware



I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2003 of the

GLOBE LIFE & ACCIDENT INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Jennifer L. Miller*

DATE: 30TH JUNE, 2005



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 30TH DAY OF JUNE, 2005.

Matthew Denn

Insurance Commissioner

Deputy Insurance Commissioner

REPORT ON EXAMINATION
OF THE
GLOBE LIFE & ACCIDENT INSURANCE COMPANY
AS OF
December 31, 2003

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written in a cursive style.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 30TH day of JUNE, 2005.

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Globe Life and Accident Insurance Company

June 1, 2005

Honorable Alfred W. Gross
Chairman, Financial Condition
Subcommittee, NAIC
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Kansas City, Missouri 64108-2604

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Bureau of Insurance
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P.O. Box 1157
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Honorable Mathew Denn,
Commissioner
State of Delaware
Department of Insurance
841 Silver Lake Boulevard,
Suite 100
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority 04.042, dated November 30, 2004, an Association examination has been made of the affairs, financial condition and management of

GLOBE LIFE AND ACCIDENT INSURANCE COMPANY

hereinafter referred to as the "Company" incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the accounting offices of the Company located at 3700 Stonebridge Drive, McKinney, Texas 75070.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2000. This comprehensive financial examination covered the period January 1, 2001, through December 31, 2003, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The general procedure of the examination followed the rules established by the National Association of Insurance Commissioner's (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards. The examination was performed by representatives of the Delaware Department of Insurance representing the Northeastern Zone of the NAIC. No other states participated in the examination.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the work papers of this examination:

- Corporate Records
- Fidelity Bonds and Other Insurance
- Officers', Employees', and Agents' Welfare and Pension Plans
- Business in force by States
- Legal Actions
- Market Conduct:
 - Sales and Advertising
 - Agents' Licensing

Underwriting
Complaint Handling
Claims Practices

HISTORY

The Company was incorporated under the laws of the state of Oklahoma and commenced business on April 9, 1951. On December 31, 1979, the Company was redomesticated to the state of Delaware, and operations remained unchanged.

Capitalization

Authorized capital was \$11,000,000, consisting of 1,000,000 shares of preferred stock and 10,000,000 shares of common stock, both with par value of \$1 each. As of December 31, 2003, there were 300,000 preferred and 6,027,899 common shares of stock issued and outstanding. All of the outstanding common shares of the Company are held by the parent, Torchmark Corporation, a financial services holding company. All of the outstanding preferred shares of the Company are held by Liberty National Life Insurance Company, an affiliate.

Dividends to Stockholders

During the period under review, the Company paid dividends on its preferred stock as follows:

<u>Year</u>	<u>Amount</u>
2003	\$ 4,680,000
2002	\$ 4,680,000
2001	\$ 4,680,000

During the period under review, the Company paid dividends on its common stock as follows:

<u>Year</u>	<u>Amount</u>
2003	\$85,920,000
2002	\$64,820,000
2001	\$96,320,000

MANAGEMENT AND CONTROL

Management

The elected Directors of the Company at December 31, 2003, were as follows:

<u>Director</u>	<u>Principal Occupation or Other Business Affiliation</u>
Charles Britton Hudson, Jr.	Chairman, President and CEO of Torchmark
Mark Steven McAndrew	Chairman, President and CEO of the Company, United American Insurance Company, and American Income Life Insurance Company, Chairman of Insurance Operations of Torchmark
Gary Lee Coleman	Executive Vice President and Chief Financial Officer of Torchmark; Executive Vice President, Treasurer and CFO of United American Insurance Company
Rosemary Jeanette Montgomery	Executive Vice President and Chief Actuary of Torchmark, the Company, and United American Insurance Company

The Officers of the Company at December 31, 2003, were as follows:

Mark Steven McAndrew	President and CEO
Rosemary Jeanette Montgomery	Executive Vice President and Chief Actuary
Glenn Williams	Executive Vice President
Tony Gerald Brill	Executive Vice President, Administration
Vern Herbel	Executive Vice President
Gary Lee Colman	Senior Vice President, Treasurer and CFO
Douglas Linn Gockel	Senior Vice President, Special Markets
Danny Almond	Senior Vice President, Accounting
Elizabeth Ann Allen	Senior Vice President
John DiJoseph	Senior Vice President, Direct Marketing

Globe Life and Accident Insurance Company

Randall D. Mull	Senior Vice President
David Thorndike	Senior Vice President, Data Processing
Charles Hudson	Senior Vice President
F. Ronald Polston	Senior Vice President, ESD
Larry M. Hutchison	Vice President, Secretary and General Counsel
Michael J. Gaisbauer	Vice President, Insurance Services
Sharon Garrison	Vice President, Life & Health Benefits
Kathy Hasselkus	Vice President, Data Processing-Direct Response
Barbara Hernandez	Vice President, Premium Accounting
Bob Jones	Vice President, Information Technology
Ben Lutek	Vice President and Actuary
Sterling Kueffer	Vice President, Data Processing
Rick Mayton	Vice President, General Accounting
Arvelia Miles	Vice President, Director of Human Resources
Brian Mitchell	Vice President, Associate General Counsel & Assistant Secretary
Sam Smith	Vice President, Underwriting & New Business
Ed Smith	Vice President, Accounting
Russell B. Tucker	Vice President
Peter Hendee	Assistant Vice President, Health Actuary
Bryan Hendricks	Assistant Vice President
Maurice Hoover	Assistant Vice President
Keith P. Ryan	Assistant Vice President
Joel Scarborough	Assistant Vice President, Associate Counsel

Leland Tippett	Assistant Vice President, Technical Support
Terri Slinkard	Assistant Vice President, ESD
Michael J. Klyce	Assistant Treasurer
Carol A. McCoy	Assistant Secretary
Kenneth Gerard Sandoval	Assistant Secretary

Section 4919 – “Change of directors, officers; notice” of the Delaware Insurance Code (the Code) states that:

“Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers.”

It was noted through a review of the various annual statement jurat pages as well as the minutes of the Board of Directors’ meetings that there were changes in principal officers which had not been reported to the Delaware Insurance Commissioner. These changes should have been reported to the Delaware Insurance Commissioner in accordance with the Code. Therefore,

It is recommended that the Company comply with the provisions of Section 4919 of the Code regarding the proper reporting of changes in the principal officers and directors of the Company.

Management asserted that any changes in officers and directors will be sent to the Delaware Department of Insurance beginning in October 2004.

Control

As previously noted, all of the outstanding shares of common stock are held by the parent, Torchmark Corporation, the ultimate controlling person, a Delaware corporation with principal offices at 2001 Third Avenue South, Birmingham, Alabama 35233. Torchmark, an insurance and diversified financial services holding company, is traded on the New York Stock Exchange as TMK. The 300,000 shares of outstanding preferred stock of the Company are held

Globe Life and Accident Insurance Company

by Liberty National Life Insurance Company, an affiliate, which is in turn owned by Torchmark Corporation.

Conflicts of Interest

The Company had a conflict of interest policy in place. Executed conflict of interest statements were reviewed for the appropriate officers and directors of the Company. No conflicts were disclosed.

HOLDING COMPANY SYSTEM

The Company became a member of the Torchmark Holding Company on July 31, 1980.

Organization Chart

The following organization chart shows the affiliates in the holding company. Each corporation is 100 percent owned by its immediate parent except United Investors Life Insurance Company, which is 81 percent owned by Liberty National Life Insurance Company and 19 percent owned by Torchmark.

Torchmark Corporation

- Liberty National Life Insurance Company
 - Brown-Service Funeral Homes Company, Inc.
 - Torch Royalty Company
 - United Investors Life Insurance Company*
 - UI Brokerage Services, Inc.
 - Liberty National GroupCare, Inc.
 - Liberty National Auto Club, Inc.
- Globe Insurance Agency, Inc.
- Globe Life and Accident Insurance Company
 - American Life and Accident Insurance Company
 - American Income Life Insurance Company
 - National Income Life Insurance Company
 - AILIC Receivables Corporation
 - American Income Marketing Services, Inc.
 - Globe Marketing Services, Inc.
 - Globe Insurance Agency, Inc.
- United American Insurance Company
 - First United American Life Insurance Company
- TMK Re, Ltd.

Torchmark Capital Trust I**
Torchmark Capital Trust II**

- * 19 percent owned by Torchmark and 81 percent owned by Liberty National
- ** Special purpose business trust

Copies of the “Form B Holding Registration Statements” filed with the Delaware Insurance Department, during the period under examination, were reviewed. The amendments to the Form B were made by the Company on behalf of itself and the other subsidiary insurance companies of the Torchmark Corporation. It appeared that the Company had complied with the provisions of Regulation 1801 of the Code.

MANAGEMENT AND SERVICE AGREEMENTS

Related Company Agreement

This agreement, dated August 1, 1989, is between the Company and its parent, Torchmark Corporation. The agreement allows the Company to use Torchmark’s service mark “TORCHMARK” in the advertising, offering for sale, and sale of financial services.

Consolidated Tax Agreement

The Company has been a party to an agreement with Torchmark and the affiliated companies since 1990, whereby, the Company is a part of a consolidated income tax filing. The agreement allocates the federal income tax liability in an amount equal to that which would have been reported had separate returns been filed.

Service Agreement

The Company entered into an inter-company service agreement with Torchmark effective January 1, 1991. Pursuant to the agreement, each party will provide, upon request, services to include strategic planning, management, financial, legal, auditing, investment management,

insurance, accounting, employee benefits, and other advice and assistance as the parties may from time to time agree upon. Direct expenses are reimbursed and a separate fee is paid for other services.

Service Agreement

Effective November 1, 1994, the Company entered into a service agreement with its affiliate, First United American Life Insurance Company (FUALIC), which was amended and replaced April 1, 2001. Pursuant to the agreement, the Company provides support services, billing, underwriting, claims, and marketing, in connection with the insurance products sold via direct response to advertising and other solicitation mailed to prospective policyholders in the state of New York.

Administrative Services Agreement

This agreement, dated March 24, 1995, having an effective date of January 1, 1995, is between the Company and its subsidiary Globe Marketing Services, Inc. (GMS). The agreement provides for the Company to prepare and maintain the general ledger, financial statements, and file tax returns with the appropriate regulatory agency on behalf of GMS.

Administrative Services Agreement

This agreement, dated January 25, 1995, is between the Company and its affiliate, Liberty National Life Insurance Company (Liberty). Pursuant to the agreement, the Company agreed to perform such administrative health claim services as Liberty requested.

Marketing Agreement

This agreement, dated January 1, 1998, is between the Company and its affiliate United Investors Life Insurance Company (UILIC). Pursuant to the agreement, the Company agrees to

Globe Life and Accident Insurance Company

solicit by direct mail application for UILIC term insurance products and perform such other services as will facilitate the marketing, issuance and administration of such policies.

Contract for Direct Mail

This agreement, dated October 7, 1999, is between the Company and its subsidiary, Globe Insurance Agency, Inc. (GIA). Pursuant to the agreement, GIA agrees to provide direct mail and related services for the Company.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in all states except New York, is authorized in the District of Columbia, and operates in Guam.

The Company specializes in marketing term and whole life products for adults and juveniles and supplemental health products. The Company sells a small amount of life insurance to civil service employees and the Company has a military division that writes a small amount of business.

The primary distribution system for the Company's products is direct mail/direct response. The Company has marketed juvenile and adult life insurance in the direct response market for a number of years. The direct mail operations produced \$155,592,000 of annualized life premium in 2003.

The Company has an Employee Service marketing division, which is treated as a captive agency arrangement that markets products to civil service employees. The division has 137 agents, which wrote \$3,247,000 of annualized premium in 2003.

The Company has a Military Independent Agency Distribution Center that wrote \$3,480,000 of annualized premium in 2003, with 1,135 agents.

GROWTH OF THE COMPANY

Comparative financial data, as reported in the Company's financial statements, was as follows:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Gross Written Premium</u>	<u>Net Income</u>
2003	\$1,905,784,607	\$306,675,349	\$462,755,236	\$117,051,015
2002	1,733,774,547	258,219,822	433,718,200	84,471,403
2001	1,552,573,544	214,915,640	414,801,189	63,281,468
2000	1,418,530,893	236,051,577	405,717,920	101,618,023

A decrease occurred in capital and surplus from 2000 to 2001 due to an increase in dividends paid to stockholders in the amount of \$29 million.

A decrease occurred in net income from 2000 to 2001 due to the implementation of a reinsurance agreement in 2000 with an affiliate.

An increase in net income occurred from 2001 to 2002 as a result of an increase in equity in subsidiaries, undistributed income, and dividends received. Capital and surplus increased from 2001 to 2002 due to the same increase in equity in subsidiaries.

The Company continued to sustain growth and remained profitable while paying large dividends to its parent.

REINSURANCE

Assumed

The majority of the Company's assumed business was assumed from two affiliated companies, Liberty National Life Insurance Company and United American Insurance Company. As of December 31, 2003, the life reserves related to the aforementioned business comprised \$43,434,089 of total assumed life reserves of \$45,970,142. The reinsurance contracts under which the business was assumed were entered into during the 1980's. The remaining life

business assumed was assumed from three authorized companies. All accident and health business was assumed from United American Insurance Company.

Ceded

The principal reinsurers for the Company's ceded life business were its affiliates American Life and Accident Insurance Company and TMK Re, Ltd., Hamilton Bermuda. Both of the aforementioned companies were unauthorized reinsurers. The agreement with American Life and Accident Insurance Company provided, among other things, that the Company would cede all paid up business with a face value of \$10,000 or less and that the Company would withhold the required reserve funds. The agreement with TMK Re, Ltd. provided, among other things, that TMK Re, Ltd. would furnish a letter of credit to cover the Company's ceded reserves.

As of December 31, 2003, reserves ceded to the two affiliated companies comprised \$79,813,828 of total ceded life reserves of \$79,878,876. The \$65,048 of life reserves not ceded to affiliated companies was related to business ceded to four authorized reinsurers.

The agreement with American Life and Accident Insurance Company, entered into January 1, 2000, provided for, among other things, that settlement would occur on a quarterly basis. The examination found that the settlements for the period under review were on an annual basis. Therefore,

It is recommended that the Company settle its reinsurance balances in accordance with the terms of the agreement.

Accident and health business was ceded under a contract with CIGNA which remained active for "run-off" business only.

ACCOUNTS AND RECORDS

The Company's books and records are maintained on a mainframe-based system. The Company utilizes the CLARUS accounts payable system and in the future intends to convert the general ledger to the CLARUS system. The Company's trial balance and adjusting entries were traced to the annual statement, and items were linked from schedule to schedule. It appears that the Company's accounting fairly discloses its financial position.

An assessment of the overall control environment was performed by INS Services, Inc., an internal control specialist team. INS Services, Inc. examined the Company's responses to the Examination Planning Questionnaire Exhibit C, interviewed management, reviewed systems, performed judgmental and statistical samples of Company records evidencing execution of the Company's information systems control environment. As a result of the examination performed by INS Services, Inc., the assessment of the overall control risk related to information systems controls at the Company is medium for those policies and procedures that had been in place as of December 31, 2003. In some areas a substantive examination approach was taken in response to the risk rating of medium.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2003.

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account
Analysis of Examination Changes

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

It should be noted that the assets and liabilities are stated as of the last working date on or before the 24th of December 2003.

Analysis of Assets
December 31, 2003

	Ledger	Assets Not	Net Admitted	<u>Notes</u>
	<u>Assets</u>	<u>Admitted</u>	<u>Assets</u>	
Bonds	\$1,471,515,057	\$0	\$1,471,515,057	
Common stocks	175,374,715	0	175,374,715	
Mortgage loans on real estate: first liens	6,820,585	0	6,820,585	
Real estate:				
Properties occupied by the Company	1,433,900	0	1,433,900	
Propertied held for the production of income	7,093,059	687,615	6,405,444	
Properties held for sale	69,700	0	69,700	
Cash and short-term investments	9,501,984	0	9,501,984	
Contract loans	42,700,288	0	42,700,288	
Other invested assets	1,049,159	0	1,049,159	
Investment income due and accrued	26,623,154	0	26,623,154	
Uncollected premiums and agents' balances				
in course of collection	17,391,498	414,812	16,976,686	
Deferred premiums, agents' balances and				
installments booked but deferred				
and not yet due	112,463,775	0	112,463,775	
Net deferred tax asset	100,663,000	70,535,000	30,128,000	
Guaranty funds receivable or on deposit	107,918	0	107,918	
Electronic data processing equipment and software	268,276	0	268,276	
Furniture and equipment	112,814	112,814	0	
Receivable from parent, subsidiaries, and affiliates	4,135,178	0	4,135,178	
Other assets nonadmitted	5,891,629	5,891,629	0	
Aggregate write-ins for other than invested assets:				
Notes receivable	4,036	4,036	0	
Summary of remaining write-ins	210,788	0	210,788	
Total	<u>\$1,983,430,513</u>	<u>\$77,645,906</u>	<u>\$1,905,784,607</u>	

Liabilities, Surplus and Other Funds
December 31, 2003

		<u>Notes</u>
Aggregate reserve for life contracts	\$1,471,000,314	1
Aggregate reserves for accident and health contracts	38,748,138	2
Liability for deposit-type contracts	3,082,165	
Contract claims:		
Life	28,242,000	
Accident and health	10,083,000	
Premiums and annuity considerations received in advance	10,156,163	
Other amounts payable on reinsurance	1,804,353	
Interest maintenance reserve	14,313,043	
General expenses due or accrued	324,163	
Taxes, licenses and fees due or accrued	1,116,649	
Current federal and foreign income taxes	485,527	
Unearned investment income	1,176,479	
Amounts withheld or retained by company as agent or trustee	4,351,879	
Amounts held for agents' account	2,224,924	
Remittances and items not allocated	1,068,697	
Asset valuation reserve	5,992,882	
Payable to parent, subsidiaries and affiliates	1,152,268	
Funds held under coinsurance	3,514,044	
Aggregate write-ins for liabilities:		
Amounts due former Globe stockholders	61,782	
Deferred compensation accounts	210,788	
Total liabilities	\$1,599,109,258	
Common capital stock	6,027,899	
Preferred capital stock	300,000	
Gross paid in and contributed surplus	157,246,704	
Unassigned funds (surplus)	143,100,746	
Surplus	\$300,347,450	
Total capital and surplus	\$306,675,349	
Total	\$1,905,784,607	

Summary of Operations
For the Year Ended
December 31, 2003

Premiums and annuity considerations for life and accident and health contracts	\$420,351,917
Considerations for supplementary contracts with life contingencies	40,537
Net investment income	169,781,730
Amortization of Interest Maintenance Reserve	2,055,356
Commissions and expense allowances on reinsurance ceded	6,722,030
Reserve adjustments on reinsurance ceded	12,059,829
Aggregate write-ins for miscellaneous income	
Miscellaneous income	123,706
Amortize initial gain on in-force business ceded	1,926,319
Coupons left to accumulate at interest	28,473
Total	<u>\$613,089,897</u>
Death benefits	\$97,224,497
Matured endowments	183,290
Annuity benefits	17,710
Disability benefits and benefits under accident and health contracts	41,068,681
Coupons, guaranteed annual pure endowments and similar benefits	14,575
Surrender benefits and withdrawals for life contracts	21,800,484
Interest and adjustments on contract or deposit-type contract funds	429,855
Payments on supplementary contracts with life contingencies	52,653
Increase in aggregate reserves for life and accident and health contracts	127,586,390
Total	<u>\$288,378,135</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	\$12,275,918
Commissions and expense allowances on reinsurance assumed	10,257,283
General insurance expenses	130,676,940
Insurance taxes, licenses and fees, excluding federal income taxes	10,390,409
Increase in loading on deferred and uncollected premiums	8,270,600
Aggregate write-ins for deductions:	
Accumulated coupon payments	26,823
Increase in dividend and coupon accumulations	8,046
Total expenses	<u>\$460,284,154</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$152,805,743
Dividends to policyholders	<u>36,210</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$152,769,533
Federal income taxes incurred	<u>30,176,000</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	\$122,593,533
Net realized capital gains or (losses) less capital gains tax and transferred to the IMR	<u>(5,542,518)</u>
Net income	<u>\$117,051,015</u>

Capital and Surplus Account
December 31, 2003

Capital and surplus December 31, previous year	\$258,219,822
Net income	\$117,051,015
Change in net unrealized capital gains or (loses)	13,970,589
Change in net deferred income tax	1,105,000
Change in nonadmitted assets and related items	7,903,813
Change in asset valuation reserve	951,429
Dividends to stockholders	(90,600,000)
Aggregate write-ins for gains and losses in surplus	
Amortize initial gain on in-force business ceded	(1,926,319)
Net change in capital and surplus for the year	\$48,455,527
Capital and surplus December 31, current year	\$306,675,349

Analysis of Examination Changes
December 31, 2003

No financial changes were made for examination report purposes.

NOTES TO THE FINANCIAL STATEMENT

(1) Aggregate Reserve for Life Contracts \$1,471,000,314

This liability is reported on page 3, line 1 and in Exhibit 5 of the 2003 annual statement.

The reserve breakdown in Exhibit 5, by type of benefit is as follows:

<u>Benefit Type</u>	<u>Reserve Amount</u>
Life Insurance	\$1,424,074,727
Annuities	270,723
Supplementary Contracts with Life Contingencies	0
Accidental Death Benefits	1,435,388
Disability – Active Lives	1,785,163
Disability – Disabled Lives	405,332
Miscellaneous	43,028,981
Total	<u>\$1,471,000,314</u>

The examination process emphasized the reserves as of December 31, 2003, and included an in-depth review of asset adequacy/cash flow testing analysis performed annually as part of the Actuarial Opinion Memorandum (AOM). The liability appears to be fairly stated and is calculated using valuation parameters that appear to be substantially free of material error. Based on the review of asset adequacy/cash flow testing analysis, the review of Company work papers supporting this liability, the 2003 AOM, and other analysis performed, no additional actuarial reserves were required as of December 31, 2003.

An underlying data review was made, whereby samples of randomly selected policies from the Company's business segments were used to test the validity of valuation data. A sample of 153 traditional and universal life policies from the CFO system and a sample of seven traditional life policies from the LN system were randomly selected from the valuation extract file for testing. Validity testing indicated that the data underlying the Company's reserve segments were substantially free of material error.

Inclusion testing was also performed in order to gain confidence that the valuation extract files were essentially complete. The inclusion testing indicated that the valuation extract files were essentially complete.

Reserves were reviewed for compliance with Delaware's standard valuation and nonforfeiture laws, applicable National Association of Insurance Commissioner's Actuarial Guidelines and Model regulations. Reserves for sampled life insurance contracts were calculated in accordance with standard actuarial practice. Recent plans were based on the discounted continuous method, while older plans used the curtate method. Reserve methodology was reasonable and consistent.

(2) Aggregate Reserve for Accident and Health Contracts \$38,748,138

This liability is reported on page 3, line 2 and in Exhibit 6 of the annual statement. The reserve is for Medicare supplement, hospital-medical-surgical, long term care and a small amount of disability business. The reserve breakdown is as follows:

Unearned premium reserves	\$ 9,415,029
Additional contract reserves	35,224,843
Claim reserve	<u>4,620,000</u>
Total (Gross)	\$49,259,872
Reinsurance ceded	<u>10,511,734</u>
Total (Net)	<u>\$38,748,138</u>

Approximately 73 percent of the above gross reserves were assumed from United American Insurance Company. These reserves were thoroughly reviewed and have been accepted. The liability appears to be fairly stated, and the Company's conclusion that additional reserves are not necessary appears reasonable. An underlying data review was made and inclusion testing performed. No exceptions were noted.

COMPLIANCE WITH PRIOR REPORT

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination in which there were prior examination recommendations. The Company complied with all prior examination recommendations.

RECOMMENDATIONS

1. Management and Control - It is recommended that the Company comply with the provisions of Section 4919 of the Delaware Insurance Code regarding proper reporting of changes in principal officers and directors of the Company. (p. 6)
2. Reinsurance – It is recommended that the Company settle its reinsurance balances in accordance with the terms of the agreement. (p. 12)

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2003, was determined to be as follows:

Admitted Assets	<u>\$1,905,784,607</u>
Liabilities	\$1,599,109,258
Capital and Surplus	<u>306,675,349</u>
Total	<u>\$1,905,784,607</u>

Since the last examination as of December 31, 2000, total assets have increased \$487,253,714. Liabilities have increased \$416,629,942, and capital and surplus have increased \$70,623,772 in the same period.

ACKNOWLEDGMENT

The assistance rendered by the officers and employees of the Company during the course of the examination are hereby acknowledged.

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Respectfully Submitted,



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