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Dept. Of Commerce & Insurance
Company Examinations

REPORT ON EXAMINATION

OF THE

PROTECTIVE LIFE INSURANCE COMPANY
2801 HIGHWAY 280 SOUTH
BIRMINGHAM, ALABAMA 35223

AS OF

DECEMBER 31, 2004

PARTICIPATION

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THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Birmingham, Alabama
April 10, 2006

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Dear Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review has been made concerning the condition and affairs of

PROTECTIVE LIFE INSURANCE COMPANY
BIRMINGHAM, ALABAMA

hereinafter generally referred to as the Company, and a report thereon is submitted as follows:

SCOPE OF EXAMINATION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee through the Examination Tracking System of the NAIC and commenced on August 23, 2004. The examination was conducted under the association plan of the NAIC by examiners from the State of Tennessee Department of Commerce and Insurance (TDCI) and the State of Delaware.

The examination was conducted at the Company's office in Birmingham, Alabama where all books and records are located. The period covered by this examination is from January 1, 2000, to the close of business on December 31, 2004, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the *NAIC Examiners Handbook*.

During the course of examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2004. The Company's financial condition and its degree of solvency were thereby established. Test checks,

covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices and compliance with statutes, to the extent hereinafter set forth.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amounts and potential impact on surplus as regards policyholders. Additionally, an examination of the following items was made:

Company History	Charter and Bylaws	Management and Control
Corporate Records	Holding Company Structure	Fidelity Bond/Insurance
Employee Benefits	Territory	Plan of Operation
Market Conduct Activity	Mortality/Loss Experience	Reinsurance
Actuarial Review	Statutory Deposits	Financial Statements
Accounts and Records	Commitments/Contingencies	Pecuniary Interest

In the interest of making the examination more efficient, certain audit work performed by the Company's independent auditors was relied on.

The previous examination of the Company was made as of December 31, 1999, and resulted in a thirty-nine million six hundred ninety-four thousand six hundred fifty-one dollars ($39,694,651) decrease in surplus. Additionally, several directives were made as a result of non-compliance with regulatory requirements as follows:

1.) The Company is Directed to comply with Tenn. Code Ann. § 56-1-501(b) by filing with the Department annual statements that comply with the annual statement instructions established by the commissioner.
2.) The Company is Directed to comply with Tenn. Code Ann. § 56-1-411(b)(1) by maintaining its books and records in such a manner as to be able to facilitate the examinations conducted by the Department.

3.) The Company is Directed to comply with Tenn. Code Ann. § 56-1-405 by only admitting on its financial statement those assets that are or can be made available for the payment of losses in Tennessee.

4.) The Company is Directed to comply with Tenn. Code Ann. § 56-1-405 by non-admitting on its financial statement all stockholders' obligations which are not secured by competent collateral, unless otherwise permitted by the Commissioner.

5.) The Company is Directed to comply with Tenn. Code Ann. § 56-1-403 by establishing deficiency reserves on individual life insurance contracts.

6.) The Company is Directed to comply with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-69-.02 by establishing claim expense reserves on individual and group health insurance contracts.

7.) The Company is Directed to comply with Tenn. Code Ann. § 56-3-306 by either selling all real property which has been held for longer than five (5) years, or complying with the exceptions found in Tenn. Code Ann. § 56-3-306, or 56-3-307.

8.) The Company is Directed to comply with Tenn. Code Ann. § 56-11-206(a)(1)(D) by maintaining its books and records in such a manner as to facilitate the examinations conducted by the Department.

With the exception of Directives 1 and 2 (see the Comments and Recommendations section of this report), the Company has complied with all of the above Directives.

COMPANY HISTORY

The Company was incorporated as a legal reserve life insurance company under the laws of the State of Alabama on July 24, 1907. The Certificate of Incorporation was filed for record in the office of the Judge of Probate of Jefferson County, Alabama.

On February 3, 1981, the Company caused Protective Corporation to be organized under the laws of the State of Delaware as a wholly owned subsidiary of the Company's subsidiary, Empire General Corporation. Simultaneously, the Company reorganized into a holding company system with Protective Corporation becoming the parent company. On May 20, 1985, Protective Corporation changed its name to Protective Life Corporation (PLC, the Company's parent). The Company redomesticated from Alabama to Tennessee effective December 29, 1992.

When the Company was organized in July 1907, it had four million dollars ($4,000,000) of authorized capital stock, which consisted of forty-thousand (40,000) shares of ten dollar ($10) par value per share common stock. The Company commenced business September 1, 1907 with paid up capital of one hundred thousand dollars ($100,000).

Since the date of incorporation, the Company's shareholders have approved a number of amendments to the Certificate of Incorporation changing the amount and par value of the authorized capital stock. An amendment to the Certificate adopted at a special meeting of the shareholders held November 20, 1964 provided that the authorized capital of the Company would be six million six hundred thousand dollars ($6,600,000), consisting of three million three hundred thousand (3,300,000) shares of two dollar ($2) par value common stock. At the annual meeting on May 7, 1979,

the shareholders approved an amendment to the Certificate reducing the par value of the common capital stock to one dollar ($1) per share and increasing the number of authorized shares to six million six hundred thousand (6,600,000). The effect of this action was a two-for-one stock split. On February 2, 1981, six thousand (6,000) shares of the stock were retired and canceled.

By written consent of the sole shareholder, PLC, dated November 9, 1981, the Certificate of Incorporation was amended in the form recommended by the Board of Directors changing the authorized capital stock to five million dollars ($5,000,000), consisting of five million (5,000,000) shares of one dollar ($1) par value per share common stock.

Over the years, through mergers or bulk reinsurance, the Company has acquired a large number of other insurers. The following transactions occurred during the period under examination:

> On January 20, 2000, the Company acquired Lyndon Insurance Group, Inc., a Missouri holding company and parent of a substantial group of insurers and non-insurance companies pursuant, to the terms of a Stock Purchase Agreement dated October 20, 1999, between the Company and Frontier Insurance Group, Inc., as seller.
>
> On October 1, 2000, PLC transferred to the Company ownership of one hundred percent (100%) of the outstanding common stock of twenty (20) dental companies. These companies market indemnity and prepaid dental products.

On June 29, 2001, the Company entered into a co-insurance agreement whereby the Company reinsured one hundred percent (100%) of the business of its subsidiary, Protective Life Insurance Company of Kentucky (PLICO-KY).

On June 30, 2001, the Company entered into a co-insurance agreement whereby the Company reinsured one hundred (100%) of the business of Western Diversified Life Insurance Company (Western Diversified), a wholly-owned subsidiary of the Company. On October 1, 2001, the Company sold all the stock of Western Diversified to an unrelated party.

On October 1, 2001, the Company acquired Inter-State Assurance Company, an Iowa corporation, pursuant to the terms of a Stock Purchase Agreement dated June 22, 2001, by and between the Company and ILona Financial Group, Inc.

On October 1, 2001, the Company acquired First Variable Life Insurance Company, an Arkansas corporation, pursuant to the terms of a Stock Purchase Agreement dated June 22, 2001, by and between the Company and ILona Financial Group, Inc.

On December 31, 2001, pursuant to a Stock and Asset Purchase Agreement dated July 9, 2001, the Company sold to Dental Care Holdings, Inc., a subsidiary of Fortis, Inc., twenty-one (21) dental indemnity and prepaid managed dental care subsidiaries.

On March 29, 2002, Lyndon Property Insurance Company, a wholly-owned subsidiary of Lyndon Life Insurance Group, Inc., sold its subsidiary, Lyndon Life Insurance Company to an unaffiliated insurance company. Lyndon Life Insurance Group, Inc., is a wholly-owned subsidiary of the Company. As part of the transaction, Protective Life and Annuity Insurance Company assumed the business as of January 1, 2002, and subsequently ceded the business to the Company.

On July 1, 2002, Inter-State Assurance Company, a wholly-owned subsidiary, merged with and into the Company. (approved by TDCI January 9, 2002)

On January 1, 2004, First Variable Life Insurance Company, a wholly-owned subsidiary, merged with and into the Company. (approved by TDCI May 9, 2003)

On January 30, 2004, Protective Life Insurance Company of Ohio (PLICO-OH), a wholly-owned subsidiary, filed with the Ohio Department of Insurance a petition to enter into an Assumption Reinsurance Agreement whereby all of PLICO-OH's business would be assumed by the Company. The petition was approved by Ohio on March 30, 2004, and the assumption reinsurance transaction was consummated during the second quarter of 2004 and PLICO-OH redomesticated to South Carolina.

On June 8, 1993, the Company issued a surplus debenture to PLC in the amount of twenty million dollars ($20,000,000). Interest at eight and one-half percent (8.5%) is

paid quarterly in arrears. At January 1, 2000, the principal balance of the debenture was ten million dollars ($10,000,000). During this examination period, principal payments of four million dollars ($4,000,000); four million dollars ($4,000,000) and two million dollars ($2,000,000) were made in 2001, 2002 and 2003, respectively, thus retiring the note. All principal payments were approved by TDCI.

The Company's current Charter, dated September 9, 2002, authorizes five million (5,000,000) shares of stock, one dollar ($1) par value per share. All such shares are to be of one (1) class and shall be designated as Common Stock. All shares are outstanding and owned by PLC.

The Company primarily markets individual life insurance, fixed and variable annuities, credit life and disability insurance, guaranteed investment contracts, and funding agreements.

The Company's development, since the previous examination, is depicted in the following table: (Note: All amounts are shown to the nearest thousand dollars)

Date	Life Insurance In Force	Premium Income Life	Premium Income A&H	Benefits Paid and Reserves Added	Admitted Assets	Capital & Surplus
*12/31/99	94,757,843	919,114	225,385	736,962	9,197,614	567,880
12/31/00	92,410,178	1,152,711	226,844	870,171	10,186,261	626,274
12/31/01	121,713,703	2,434,937	228,847	1,759,543	12,984,011	768,533
12/31/02	136,507,667	2,118,799	40,722	1,760,763	14,307,140	850,645
12/31/03	143,001,741	954,550	43,636	1,097,852	15,811,967	1,133,942
12/31/04	150,776,843	1,157,050	35,690	1,067,581	17,517,152	1,315,719

* previous examination

CHARTER AND BYLAWS

Charter:

The Company's charter, as amended and restated on September 9, 2002, states that the duration of the Corporation shall be perpetual. The general provisions and powers enumerated in the Company's charter are usual in nature consistent with corporations of this type.

Bylaws:

The bylaws of the Company, as amended and restated on December 19, 2002, are such as are generally found in corporations of this type. They are consistent with the charter and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the directors and the shareholders. The bylaws may be altered, amended or repealed by the Board of Directors (Board) or by the shareholders.

MANAGEMENT AND CONTROL

Shareholders:

The Company's sole shareholder is PLC. The Company's bylaws state as follows:

> "The annual meeting of the shareholders for the purpose of electing directors and for the transaction of such other business as may come before the meeting shall be held at such date and time during the first six (6) months of the year as shall be specified by resolution of the Board of Directors. Special meetings may be called for any purposes by the Board of Directors, the Executive Committee or the chief executive officer."

Action may be taken by the shareholders "without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders...."
The Company appears to be in compliance with its bylaws with regard to meetings of the shareholders.

Board of Directors:

The Company's charter, states that "The business and affairs of the Corporation shall be managed by its Board of Directors. The number of directors of the Corporation shall be fixed from time to time in the manner provided by the bylaws, or...shall be determined by the shareholders. The Board of Directors shall consist of at least two (2) or more individuals...."

The bylaws, provide that "The number of directors of the Corporation shall be fixed from time to time by resolution of the shareholders; provided that the Board shall consist of a range from two (2) natural persons to no more than twenty (20) persons...Directors need not be shareholders or residents of the state of the Corporation's domicile except as otherwise provided by law...."

A quorum is defined by the bylaws as "A majority of the number of directors" and "Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors...until the next annual meeting of shareholders."

The Company's sole shareholder, PLC, elects a Board annually. At December 31, 2004, the following persons were duly elected and were serving as members of the Board:

Board Member	Other Positions and Affiliations
John Dixon Johns	President of PLC Director, Officer or Trustee for the following organizations: Boy Scouts of America – Central Alabama Council, Entrepreneurial Center, McWane Center, Metropolitan Development Board, Newcomen Society, Public Affairs Research Council of Alabama, National Advisory Board-The University of Alabama, and United Way of Central Alabama, Inc.
Robert Stephens Briggs	Executive Vice President of PLC Director, Officer or Trustee of the following: Highland Capital Holding Corporation, 3Mark Financial Corporation, United Way of Central Alabama, The Foundry Drug and Alcohol Recovery Center, and Junior Achievement of Birmingham
Allen Walker Ritchie	Executive Vice President and Chief Financial Officer of PLC

According to the bylaws, "The shareholders may provide, by resolution, the time and place, either within or without the state of the Corporation's domicile, if permitted by law, for the holding of regular meetings without other notice than such resolution." In practice, the Board meets quarterly. Most other action is taken by written consent in lieu of a meeting, as provided by the bylaws. Special meetings "may be called by or at the request of the President, the chief executive officer, or any two directors." Attendance by directors to Board meetings was approximately eighty-four percent (84%) for the period under examination.

It was noted that at the May 24, 2004 Board meeting, the Directors approved to follow the written investment guidelines policy of PLC, the parent. In addition, the Directors resolved to ensure that either the Company's Board or Executive Committee would review, at least quarterly, the Company's investment portfolio to

determine whether the investment activity was consistent with the policy.

It was noted that per Article IV, Section 12 of the 2002 Restated and Amended Bylaws, "The salaries of the officers shall be fixed from time to time by the Board of Directors or committee thereof...." The Company has one thousand three hundred twelve (1,312) employees, including officers. However, during the review of minutes for the five (5) years under examination, there was no discussion of salaries for the Company's officers. The Company provided a copy of the April 8, 2005, Unanimous Written Consent of the Executive Committee in which the Committee adopted, ratified and confirmed compensation arrangements for 2005.

Officers:

The bylaws provide that the officers of the Company are to be elected by the Board annually at the first meeting of the Board held after each annual meeting of the shareholders. The officers shall consist of a President, Secretary, Treasurer, Chairman of the Board, one (1) or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Second Vice Presidents, one (1) or more Assistant Secretaries and Assistant Treasurers and such other officers and assistant officers as deemed necessary by the Board. One of the elected officers may be designated chief executive officer by the Board, and any two (2) or more offices may be held by the same person. The Board may fill vacancies for the unexpired portion of the term. At December 31, 2004, the following persons had been duly elected to and were serving in the positions indicated:

Name	Office
John D. Johns	Chairman of the Board and President
R. Stephen Briggs	Executive Vice President, Life and Annuity Division (LAD)
Allen W. Ritchie	Executive Vice President and Chief Financial Officer

Richard J. Bielen	Senior Vice President, Chief Investment Officer and Treasurer
John B. Deremo	Senior Vice President, Institutional Distribution Group (IDG)
Brent E. Griggs	Senior Vice President, Asset Protection Division (APD)
Carolyn Johnson	Senior Vice President and Chief Operating Officer, LAD
Carolyn King	Senior Vice President, Acquisitions
Deborah J. Long	Senior Vice President, Secretary and General Counsel
Wayne E. Stuenkel	Senior Vice President and Chief Actuary
Carl S. Thigpen	Senior Vice President, Chief Mortgage and Real Estate Officer and Assistant Secretary
Alan E. Watson	Senior Vice President, Independent Agent Group (IAG)
Steven G. Walker	Senior Vice President, Controller and Chief Accounting Officer
Judy Wilson	Senior Vice President, Stable Value Contracts
Larry J. Adams	Vice President, Personal Producing General Agents
Lance P. Black	Vice President, Investments
Kevin B. Borie	Vice President and Actuary
Kathleen D. Britton	Vice President and Assistant Secretary
Laura N. Bryant	Vice President, Acquisitions
Michael G. Byrne	Vice President and Financial Officer, LAD
Edwin V. Caldwell, II	Vice President, IDG and Assistant Secretary
Gregg O. Cariolano	Vice President, APD
M. Scot Cone	Vice President, IDG Sales Operation
Jerry W. DeFoor	Vice President, Business Planning
Robert A. Dickey	Vice President, APD
Mark S. Downar	Vice President, Dealer Services, APD
Douglas T. Drablos	Vice President, Procurement
Robert Eddy	Vice President, Operations, APD
Charles D. Evers, Jr.	Vice President, Corporate Accounting and Assistant Secretary
Brent E. Fritz	Vice President, Product Actuary
Stephane Goyer	Vice President, Actuarial
Richard C. Hackett	Vice President and Compliance Officer, APD
David Wayne Hall	Vice President, Acquisition Administration

Lori A. Hallissey	Vice President, Vehicle Service Contracts (VSC), GAP, and Credit Administration, APD
Christopher J. Jones	Vice President, Annuity Marketing
Scott Karchunas	Vice President, Dealer Sales, APD
David J. Keeley	Vice President, Acquisition Administration
Ronald T. Lovik	Vice President, National Sales Director, Benefits Plans Group (BPG)
David D. Luczynski	Vice President and Illustration Actuary
Anil S. Manji	Vice President, West Coast Life
Jeffrey B. Marsh	Vice President and National Sales Manager, IDG
Lawrence G. Merrill	Vice President. Annuity Sales
Quentin D. McClung	Vice President, Product Management, APD
Alan C. Miller	Vice President. New Business Operations, APD
Eric P. Miller	Vice President, IDG Marketing
Vita Padalino	Vice President, Investments
Phillip E. Passafiume	Vice President, Investments
Stephen R. Peeples	Vice President, Actuarial and Product Development, Individual Life and Illustration Actuary
T. Michael Presley	Vice President, Corporate Actuarial
Charles M. Prior	Vice President, Investments
Martin L. Reilly	Vice President, Information Services, APD
Kevin P. Riley	Vice President, IDG National Account Manager
Eva T. Robertson	Vice President, BPG
Marion L. Robinson	Vice President, Information Systems and Client Administration, LAD
John R. Sawyer	Vice President, National Accounts
John F. Simon	Vice President, Actuarial and Product Development, LAD and Illustration Actuary of BPG Product Line
Karl W. Snover	Vice President and Assistant Secretary
James C. Toomey	Vice President and Chief Information Officer, LAD
William L. Vigliotte	Vice President and Chief Underwriter, LAD
Mark B. Whiting	Vice President, Licensing and Contracting, APD and Assistant Secretary
Michelle C. Winters	Vice President, Product Resource Services

The Board has also elected a number of "Second" and "Assistant" Vice Presidents who were serving in their designated offices at December 31, 2004. Per the bylaws, the Board may designate an elected officer as the chief executive officer of the Corporation; however, there was no indication that the Board made such a designation in 2004.

Conflict of Interests:

All employees of the Company, its parent and affiliates are required to complete a Certificate of Compliance which testifies to the employee's agreement with PLC's Code of Business Conduct, Policy Statement on Business Ethics and Conflict of Interest, Policy on Computer Software Usage, and Policy on Information System Security. These certificates are completed on the Company's computer system, and each employee's electronic "signature signifies...compliance with the above" policy statements.

The Certificate of Compliance is used for all entities within the holding company system, and all employees complete one (1) form regardless of the number of offices or positions they might hold with different companies throughout the system. All potential conflicts of interest are reported to and resolved by supervisory personnel or PLC's legal department or human resources department.

The examiners reviewed the most recent certificates signed by the Company's directors and officers without exception.

Committees:

The Company's bylaws state that the "Board of Directors may...designate one (1) or more committees, each committee to consist of two (2) or more of the directors... ."

These committees "...shall have and may during intervals between the meetings of the Board exercise the powers of the Board of directors in the management of the business and affairs...." of the Company. The bylaws also stipulate certain powers that these committees shall not have, which include but not limited to, declaring a dividend, issuing capital stock, amending the Company's charter or bylaws, and adopting a plan of merger or consolidation.

At December 31, 2004, the Board had only one (1) committee whose members had been elected on May 24, 2004. At that meeting, the Board appointed two (2) Board members to serve as members of the Executive Committee until the quarterly meeting of the Board immediately following the next annual meeting of the sole shareholder. The following were duly appointed and serving at year-end 2004:

John Dixon Johns
Allen Walker Ritchie

Pecuniary Interest:

A check for compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of the Company had pecuniary interest in the investment or disposition of Company funds.

CORPORATE RECORDS

The minutes of the meetings of the Shareholder, Board and Executive Committee were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board.

HOLDING COMPANY STRUCTURE

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-201. The Company's parent and the ultimate parent of the holding company system is PLC. PLC is a business corporation that was organized on February 3, 1981, by the Company under the laws of the State of Delaware as a subsidiary of the Company's then subsidiary, Empire General Corporation. At the same time, the Company organized into a holding company system structure and made PLC the ultimate parent. In addition to the Company and its insurance subsidiaries, PLC owns or has interests in alien insurers, insurance agencies, finance corporations, investment companies, asset management firms, dental care insurers and a hotel development company, among other entities. Organizational charts are attached to this report on pages 63-66.

The following agreements with parent, subsidiaries and affiliates were in effect at December 31, 2004:

Agreements for Administrative Services:

The members of the holding company system entered into an Agreement for Administrative Services with PLC effective October 1, 1988. The agreement had an initial term of twelve (12) months, but has automatically renewed on each anniversary date since inception. Any participant can terminate the agreement by giving written notice of its intent not to renew at least sixty (60) days prior to the end of any term. Under the terms of the agreement, "Costs of administrative services not otherwise specifically provided for by separate agreements...which are provided by one (1) member company of the PLC holding company system to another company within said holding company system shall be shared by PLC and the member of the

PLC holding company system...in accordance with generally accepted accounting principles. Such costs shall be accumulated and settled monthly."

The Company entered into an agreement with West Coast Life Insurance Company (WCL) on April 15, 2001, which was approved by the TDCI on May 17, 2001. The agreement can be terminated by either party by giving written notice at least sixty (60) days prior to the end of the term. WCL will provide to the Company the following services:

Marketing	Compliance
Policy Administration	Account and Financial Reporting
Claims Processing	Licensing and Commission Payment
Underwriting	

The costs shall be allocated pro rata on the basis of the service provided.

Agreement for Legal Services:

Effective January 1, 2004, the Company entered into an Agreement for Legal Services with PLC that was approved by the TDCI on October 12, 2004. PLC agrees to provide legal services for the Company including by not limited to the following:

General corporate legal work
Insurance related legal work
Administrative and other regulatory work
Litigations supervisions
Contracts

Charges for all legal services shall be the standard rates as promulgated by PLC's Legal Department. These rates shall be set forth in a written rate schedule and provided to the Company. As of December 31, 2004, the rates were as follows:

Attorneys – Category A	$145 per hour
Attorneys – Category B	$125 per hour
Paralegals	$ 60 - $70 per hour
Assistants	$ 50 per hour

It was noted that the Standard Securities Agreement was adopted by Unanimous Written Consent of the Executive Committee on January 19, 2004. The agreement allows that any two (2) of fourteen (14) named officers are authorized to establish and maintain one (1) or more accounts, with any bank, broker-dealer or similar financial institution and to make transactions in all forms of securities, including margin accounts. Each representative was granted fullest authority to act on behalf of the Company. In addition, any obligations involving "notional amounts," must be signed by one of the following officers: John D. Johns, Allen W. Ritchie or Richard J. Bielen.

Agreement for Investment Services:

The Company entered into an Agreement for Investment Services with PLC, effective July 2, 1981, which was amended on September 2, 1982, and again on January 4, 1984. Services included in the agreement were as follows:

- Research and analyze opportunities
- Execute purchases and sales
- Collect and transmit all money paid on investments
- Manage investments and reinvestments
- Provide and maintain documentation of investment transactions
- Provide and maintain documentation for preparation of accounting records and any required reports

Fees for these services, which do not include third party fees rendered on investments such as contractual service fees to mortgage loan service agents, shall be computed and settled monthly in accordance with the following schedule for fees:

Bonds	5.5% of interest income collected
Mortgages	5.5% of all income collected, plus 1.5% of the initial asset value for new mortgages
Preferred Stocks	5.5% of dividends collected
Common Stocks	Quarterly fee of .125% of the market value of the common stock portfolio at the end of the preceding quarter
Real Estate	5.5% of income received on real estate serviced for the Company
Other Invested Assets	5.5% of income received

Agreement for Data Processing Programming Services:

Effective November 1, 1987, the Company and PLC entered into an Agreement for Data Processing Programming Services. The agreement had an initial term of twelve (12) months, and has been automatically renewed on each anniversary date since inception in accordance with the contract. The agreement can be terminated by either party giving sixty (60) days written notice prior to the end of the term.

Under the agreement, the appropriate costs of the services provided by PLC shall be determined by allocating the expenses incurred based on a percentage of time spent on services for the Company and multiplied by rates for the services. PLC shall bill and the Company shall pay at such time and in such amounts as stated in the statements furnished by PLC to the Company. The costs are to be "accumulated and settled monthly."

Amendment and Clarification of the Tax Allocation Agreement:

The Tax Allocation Agreement by and among PLC and its subsidiaries (Group) was effected January 1, 1988, and amended on November 9, 2004, which was approved by the TDCI as of the amended date. The agreement can be terminated either by providing written notice or by terminating the Company's membership in the holding group.

The agreement provides that the Group will file a life/non-life consolidated return with the Group divided into a sub-group comprised of life insurance companies and the other sub-group comprised of non-life insurance companies. PLC shall be the Parent for the non-life sub-group, and the Company shall be the Parent for the life sub-group. In addition, the agreement provides that:

> "For any taxable year for which a consolidated federal income tax return is filed, Parent (PLC) agrees to prepare or cause to be prepared and to file such returns and other appropriate documents as may be necessary on half of the Group."
>
> "Each of the subsidiaries shall compute a separate return tax liability for each taxable year and pay an amount equal to such separate return tax liability to Parent."
>
> "If a Subsidiary incurs a tax loss, or generates a tax credit that cannot be utilized to offset the current year separate return tax liability, the Subsidiary shall only be entitled to a current benefit for such loss or credit to the extent such separate company loss or credit can be carried back and used in determining the prior year's separate company tax of the Subsidiary. Any amount not carried back shall carryforward on a separate company basis. Any such carryforward shall not expire unless such amount is not utilized in the consolidated return."
>
> "The payments...shall be made on a sub-group basis, with payments due to and from each Subsidiary to its respective sub-group Parent in lieu of Parent."

> "Payments...may...be made on a quarterly basis...based on estimate of each Subsidiary's separate return tax liability for the period. If a Subsidiary's separate return liability...exceeds the payments made..., the remainder of the...liability shall be paid to Parent within sixty (60) days after the statutory due date for the consolidated federal return. However, if the sum of all payments...exceeds a Subsidiary's separate return tax liability..., Parent shall pay the excess to such Subsidiary within sixty (60) days after the statutory due date for the consolidated federal income tax return."

In addition, the agreement states that any corporation, which becomes a member of the Group upon the required regulatory approval/non-approval, shall execute and deliver a joinder agreement under which the corporation agrees to be bound by the agreement.

Dividends:

The Company did not pay dividends to its parent, PLC, during the five (5) years under examination. At the date of this report no dividends have been declared.

Guaranty Agreements:

Effective February 23, 1993, the Company entered into an agreement whereby it guaranteed that its subsidiary, Empire General Life Assurance Corporation (EGLAC) will pay all insurance policy claims made by the holders or beneficiaries of EGLAC which were issued after the date of the guaranty agreement in accordance with the terms of said policies. At year-end 2004, the Company's total contingent liability for policies covered by this agreement was seven hundred seventy-one million nine hundred thousand dollars ($771,900,000) of which the EGLAC reinsured six hundred fifty-six million four hundred thousand dollars ($656,400,000) with third parties.

The Company entered into a similar agreement on October 27, 1993, whereby it guaranteed payment of the insurance policy claims of its subsidiary, Protective Life

and Annuity Insurance Company (PLAIC). The total liability for policies covered by this agreement was one hundred eight million eight hundred thousand dollars ($108,800,000) at December 31, 2004.

On December 31, 1995, the Company entered into an additional agreement with PLAIC whereby it guaranteed that PLAIC will perform all of the obligations of the Company pursuant to the terms of an indemnity coinsurance agreement between the Company and an unaffiliated life insurance company. Total liabilities relating to the coinsurance agreement were nine million four hundred thousand dollars ($9,400,000) at December 31, 2004.

Effective December 23, 1997, the Company entered into an agreement whereby it guaranteed that WCL, a wholly owned subsidiary, will pay all insurance policy claims made on insurance policies or binders issued by WCL to SouthTrust Corporation (d/b/a Wachovia) or its affiliated banks. At December 31, 2004, the total liabilities for policies covered by this agreement were thirty-six million four hundred thousand dollars ($36,400,000).

In addition, the Company entered into an agreement with WCL on January 12, 1998, whereby it guaranteed that the capital and surplus of WCL will be maintained at certain levels or the Company must make capital contributions to WCL to cure the deficiency. At December 31, 2004, the Company had not been required to make capital contributions to WCL in connection with the agreement.

Leases:

Office Lease: Effective January 1, 1985, the Company agreed to lease general office space to PLC on a month to month basis. The lease can be terminated at will

by either party with thirty (30) days written notice to the other affected party. PLC agreed to pay the Company an annual rent in equal monthly installments on the first day of each month. The current annual rental rate for Buildings 1, 2 & 3 is nineteen and seventy-five one hundredths dollars ($19.75) per square foot.

The January 1, 1985, agreement included the original rates, which were less than those listed above. The rates are reviewed annually and adjusted, if necessary, but the agreement is not formally amended with each adjustment.

Other: The Company leases office space in many locations throughout the country, some for its use and the rest for use by affiliated companies. The affiliated companies either pay the lessor directly each month, or they reimburse the Company based on the lease terms. The payments by affiliated companies are covered under the administrative services agreements between affiliates.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on coverages maintained by PLC. A current schedule of the major coverages, retentions and limits is presented as follows:

Type or Class of Coverage	Limits, Retentions and Deductions
Financial Institution Bond	$25,000,000 aggregate $25,000,000 dishonesty $25,000,000 on premises $25,000,000 in transit $25,000,000 forgery or alteration $25,000,000 extended forgery $25,000,000 computer systems $1,500,000 deductible

Excess Financial Institution Bond	$50,000,000 excess of $25,000,000
Directors' & Officers' (D&O) Liability	$20,000,000
Excess D&O Liability	$20,000,000 excess of $20,000,000 $15,000,000 excess of $40,000,000 $20,000,000 excess of $55,000,000 $10,000,000 excess of $75,000,000 $10,000,000 excess of $85,000,000
Errors & Omissions (E&O) Liability	$10,000,000
Excess E&O Liability	$10,000,000 excess of $10,000,000
Runoff E&O Liability	$2,500,000
Fiduciary Liability	$7,500,000
Excess Fiduciary Liability	$7,500,000 excess of $7,500,000
Employment Practices Liability	$5,000,000
Commercial Property	$132,478,132 building and property $100,000 deductible
Commercial General Liability	$2,000,000 general aggregate $1,000,000 each occurrence $1,000,000 personal & advertising injury $1,000,000 complete operations $10,000 medical expenses
Automobile Liability	$1,000,000 combined single limit
Excess Liability – umbrella form	$5,000,000 each occurrence $5,000,000 aggregate
Workers' Compensation	$1,000,000 each accident $1,000,000 disease – each employee $1,000,000 disease – policy limit

The fidelity coverage is in excess of the suggested minimum amount per the *NAIC Financial Condition Examiners Handbook*. All of the above insurance policies are written by companies licensed to write in Tennessee.

EMPLOYEE BENEFITS

PLC has a defined benefit pension plan covering substantially all of its employees. The plan is not separable by affiliates participating in the plan. However, approximately sixty percent (60%) of the participants in the plan are employees of the Company. The benefits are based on years of service and the employee's highest thirty-six (36) consecutive months of compensation. PLC's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements of Employee Retirement Income Security Act ("ERISA") plus such additional amounts as PLC may determine to be appropriate from time to time. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. PLC allocates the costs of the plan to each subsidiary based on a percentage of payroll. The Company has no legal obligation for benefits under the plan.

PLC also sponsors an unfunded excess benefits plan, which is a nonqualified plan that provides defined pension benefits in excess of limits imposed on qualified plans by federal tax law. The plan is not separable by affiliates participating in the plan. PLC allocates the cost of the plan to each subsidiary based on a percentage of payroll. The Company has no legal obligations for benefits under the plan.

In addition to pension benefits, PLC provides limited healthcare benefits to eligible retired employees until age sixty-five (65). This post-retirement benefit is provided by an unfunded plan. PLC's obligation is not materially affected by a one percent (1%) change in the healthcare cost trend assumptions used in the calculation of the obligation.

Life insurance benefits for retirees are provided through the purchase of life insurance policies upon retirement from ten thousand dollars ($10,000) up to a maximum of seventy five thousand dollars ($75,000). This plan is partially funded at a maximum of fifty thousand dollars ($50,000) face amount of insurance.

The Company participates in PLC's long-range performance share plan for selected employees. Payments of any benefits under this plan require PLC to achieve certain earnings goals during the four (4) year period following award under the plan. The plan provides for payment in shares of PLC common stock, except for an amount equal to the employee's tax withholding on the total payment, which is paid in cash. The Company also participates in PLC's qualified defined contribution retirement plan, which covers substantially all employees. Employee contributions are made on a before-tax basis as provided by Section 401(k) of the Internal Revenue Code.

In 1990, PLC established an Employee Stock Ownership Plan ("ESOP") to match voluntary employee contributions to the 401(k) Plan. Expenses related to the ESOP consists of the cost of the shares allocated to participating employees, plus the interest expense on the ESOP's note payable to the Company, less dividends on shares held by the ESOP. PLC allocates the cost of this benefit to each subsidiary based on a percentage of payroll. The Company has no legal obligation for benefits under this plan.

The Company participates in PLC's Deferred Compensation Plan for Officers in which certain officers may elect to defer all or part of their cash and stock bonuses. Any obligation of the Company under the Plan is transferred to PLC at the time of the deferral.

The Company maintains a deferred compensation plan for agents whereby agents may elect to defer part or all of their commissions. The Company credits each agent's account annually with interest on the amounts accumulated at a current interest rate.

The Company's share of net costs related to employee benefit plans was approximately five million four hundred thousand dollars ($5,400,000) and four million six hundred thousand dollars ($4,600,000) for the years ending December 31, 2004, and 2003, respectively.

TERRITORY AND PLAN OF OPERATION

The Company's charter specifies that the Company is "for profit" and states the Corporation shall have the following specific purposes, objects and powers:

> To transact the business of life, disability, health and accident insurance and to issue annuities and endowments and every other kind of insurance in such places as may be approved by the Board of Directors subject to applicable regulatory approvals, including without limitation, to transact the business of insuring the lives of individuals and the writing of every kind of insurance pertaining to life, including the granting, selling, purchasing and disposing of annuities and endowments; to accept risks and insure against accidents or sickness; to effect reinsurance; and generally to make all contracts and to do and perform all things whatsoever pertaining to the business of insuring lives and of taking risks against accidents or sickness, or the granting, selling, purchasing and disposing of annuities and endowments; all in a

manner not inconsistent with the laws of the State of Tennessee or the provisions hereof.

In addition, the charter recites other general and specific powers in detail that are not reprinted here.

The Company is licensed in all states except New York, and in the District of Columbia, American Samoa, The Commonwealth of Northern Mariana Islands, Guam, Puerto Rico and the U.S. Virgin Islands. Listed below is a tabulation of the Company's 2004 premiums and annuity considerations by state and territory.

States, etc.	Licensed Insurer	Life Insurance Premiums	Annuity Considerations	Accident and Health Insurance Premiums	Deposit Type Contract Funds
Alabama	Yes	$59,564,288	$15,289,989	$4,887,127	$283,931
Alaska	Yes	613,269	844,494	10,662	479,000
Arizona	Yes	10,777,490	7,851,866	357,135	518,046
Arkansas	Yes	9,934,563	6,790,858	506,736	513,052
California	Yes	67,085,645	21,048,924	1,023,606	2,564,201
Colorado	Yes	8,341,782	4,486,844	165,191	741,648
Connecticut	Yes	5,069,474	2,305,554	1,271,103	0
Delaware	Yes	888,863	406,751	37,951	0
District of Columbia	Yes	853,558	24,854	19,365	0
Florida	Yes	45,898,540	35,326,528	11,603,321	3,682,028
Georgia	Yes	28,203,373	9,266,110	3,663,144	1,414,498
Hawaii	Yes	2,582,746	1,428,744	1,552,762	200,000
Idaho	Yes	2,362,945	4,309,911	116,655	496,374
Illinois	Yes	24,240,320	32,793,646	3,638,834	1,514,116
Indiana	Yes	17,452,326	16,693,527	2,856,053	3,091,788
Iowa	Yes	13,052,305	4,758,855	3,090,685	765,766
Kansas	Yes	5,566,568	5,463,657	913,555	1,718,148
Kentucky	Yes	8,988,139	11,472,159	542,015	146,006
Louisiana	Yes	21,452,295	6,213,116	2,377,845	87,737
Maine	Yes	3,871,725	788,212	43,305	85,706
Maryland	Yes	9,857,233	1,089,508	1,496,363	1,004,408
Massachusetts	Yes	6,599,194	12,408,761	1,113,505	619,111
Michigan	Yes	20,269,690	144,974,997	6,266,584	1,107,777
Minnesota	Yes	11,520,900	10,362,728	1,263,681	466,975
Mississippi	Yes	7,391,349	4,368,453	2,518,351	90,000
Missouri	Yes	14,697,740	120,356,394	1,149,796	6,570,469
Montana	Yes	1,340,069	1,197,624	148,448	442,283

Nebraska	Yes	5,009,544	2,360,848	786,964	207,060
Nevada	Yes	2,357,931	3,046,971	94,667	0
New Hampshire	Yes	2,767,609	1,588,692	350,270	418,446
New Jersey	Yes	20,161,841	7,004,411	177,500	160,602
New Mexico	Yes	1,834,151	917,858	199,225	26,000
New York	No	2,773,780	804,886	59,828	0
North Carolina	Yes	54,808,523	37,439,564	9,677,571	3,436,273
North Dakota	Yes	3,553,037	2,287,727	280,970	890,785
Ohio	Yes	33,003,630	27,443,288	5,889,686	5,082,265
Oklahoma	Yes	6,324,676	4,296,606	852,962	230,423
Oregon	Yes	5,208,083	9,937,199	259,760	4,064,063
Pennsylvania	Yes	14,777,443	8,228,244	4,418,572	437,032
Rhode Island	Yes	1,663,432	129,172	750,045	0
South Carolina	Yes	9,652,030	9,726,365	1,571,854	299,350
South Dakota	Yes	3,330,619	1,564,595	656,200	75,054
Tennessee	Yes	20,744,791	11,844,135	1,353,282	1,205,705
Texas	Yes	60,472,253	35,741,163	6,318,364	3,408,768
Utah	Yes	2,488,952	780,180	186,904	437,663
Vermont	Yes	430,098	1,546,171	(6,006)	20,650
Virginia	Yes	14,798,632	14,532,464	6,106,533	193,234
Washington	Yes	20,141,803	9,502,491	1,101,172	3,296,887
West Virginia	Yes	4,356,091	430,219	1,183,243	0
Wisconsin	Yes	11,148,886	6,510,479	2,266,843	1,246,793
Wyoming	Yes	726,320	724,099	18,260	22,119
American Samoa	Yes	3,865	0	0	0
Guam	Yes	97,653	0	1,531	0
Puerto Rico	Yes	1,644,875	0	4,808	0
US Virgin Islands	Yes	1,958	0	0	0
Canada	Yes	18,621	0	971	53,023
Aggregate Other	XXX	319,609	16,179	7,935	(26,512)
Subtotal	XXX	713,097,124	680,727,073	96,933,689	53,788,751
Dividends or refunds applied to purchase paid-up additions and annuities	XXX	321,100	19,265	0	0
Premium or annuity considerations waived under disability or other contract provisions	XXX	1,274,108	0	234,926	0

Aggregate other amounts not allocable by state	XXX	0	0	0	1,730,311,073
Totals	XXX	$714,692,331	$680,746,338	$97,168,615	$1,784,099,824

The Company's insurance operations are conducted through four marketing divisions: LAD, Stable Value Products Division, APD, and the Acquisition Division. Generally, the divisions conduct business through the Company as well as through the Company's subsidiaries and affiliates.

LAD markets life insurance products (term life, universal life and whole life) through a traditional independent personal producing general agent or individual agent distribution. The BPG of LAD markets life, cancer and critical care insurance products through a payroll deduction at the worksite. The IDG of LAD markets fixed and variable life and annuities through a broker/dealer, which is very similar to the individual agent distribution. In addition, the Company utilizes direct marketing techniques using telephones and other mass media, to sell term life insurance primarily. Interested persons contact the Company through call centers staffed by licensed and appointed agents who handle the application process.

The Stable Value Products Divisions markets guaranteed investment contracts to 401(k) and other qualified retirement savings plans. It also offers related products, including fixed and variable funding agreements offered to the trustees of municipal bond proceeds, bank trust departments, and money market funds, and long-term annuity contracts offered to fund certain state obligations.

APD markets credit life/disability insurance, extended service contracts and GAP coverage that offer consumers protection against unwanted losses after purchasing

and financing major consumer assets. The Company offers these products and services through automobile, marine, recreational vehicle, and power sports dealers.

The Acquisition Division acquires blocks of policies from other insurance companies. In the past thirty-five (35) years, the Company or its affiliates have made forty-five (45) acquisitions of insurance companies or blocks of policies, including five (5) since 1999.

In addition to its direct business and business acquired, the Company assumed and ceded reinsurance to a number of companies. See further discussion under the Reinsurance section of this report.

Approximately ninety-five thousand eight hundred seventy-nine (95,879) agents produce business for the Company through the United States and certain of its territories. In the agreements the Company has with its agents, it is detailed that the agents are considered to be an independent contractors and not employees of the Company. The agreements also detail that the agents need to be licensed to sell the particular products and need to be appointed by the Company in compliance with each particular states' appointment laws.

MARKET CONDUCT ACTIVITIES

The Company is a voluntary member of the Insurance Marketplace Standards Association (IMSA), and as such agrees to adhere to IMSA's Market Conduct Principles:

1. To conduct business according to high standards of honesty and fairness and to render that service to its customers which, in the same circumstances, it would apply to or demand for itself.
2. To provide competent and customer-focused sales and service.
3. To engage in active and fair competition.
4. To provide advertising and sales materials that are clear as to purpose and honest and fair as to content.
5. To provide for fair and expeditious handling of customer complaints and disputes.
6. To maintain a system of supervision and review that is reasonably designed to achieve compliance with these Principles of Ethical Market Conduct.

Policy Forms and Underwriting:

The Company issues universal life, graded premium whole life, and term insurance on a non-participating basis to both standard and substandard risks. These policies are sold in a variety of forms within the basic types of life and term insurance and offer extra benefit riders including waiver of premium, accidental death benefit, estate protection, guaranteed insurability, disability benefit and income protection. Policy forms and rates are file in each state in which the Company is licensed, and a control sheet is maintained for these products by state.

In underwriting individual life insurance, the Company relies on information developed by agents, and medical and biographical representations provided on the policy application. Supplemental credit and medical information is obtained from outside services. A medical examination may be required based on age, amount of coverage and medical history. The Company reserves the right to require a medical examination on any risk and to decline any application.

The Company utilizes the underwriting manual of Swiss Re Life & Health America, Inc., its primary reinsurer, to assess and classify life insurance risks. The Company

normally accepts up to one hundred thirty-five percent (135%) of expected mortality on a standard basis. Risks between one hundred forty percent (140%) and three hundred percent (300%) of standard are issued on a rated basis. Risks above three hundred percent (300%) are normally declined by the Company and shopped to a reinsurer in a facultative treaty to see if it can be placed. The reinsurer will decline anything above five hundred percent (500%).

The Company's annuity products are designed to provide a death benefit and tax-deferred earnings. Insureds are offered fund investment options that vary with the amount of risk acceptable and growth desired. These products are primarily sold through stockbrokers but may also be sold by financial institutions and individual life agents.

The Company issues credit life and credit disability coverages through financial institutions and auto dealers. Maximums for age, term of coverage, monthly disability benefits, and amounts of disability and life insurance available are stated on the application.

Guaranteed interest contracts (GICs) are offered using two basic contracts with variations therein as agreed to between the Company and contract holder. Financial institutions and pension plans are generally covered under a Group Annuity Guaranteed Investment contract form. Municipalities, taxing districts, etc., are covered under a Guaranteed Funding Agreement (GFA) contract form.

Policyholder Complaints:

The Company's complaint log and accompanying files are maintained by PLC's legal department. The form of the log follows NAIC guidelines and identifies each

complaint by state, complainant and/or insured, policy number, line of business, function and reason. The nature of the complaints reviewed ranged from allegations of agent misrepresentation to denial of claim.

It appears that the Company takes timely and appropriate action in the disposition of most complaints. However, it was noted that the resolution can take many months if medical records are required and not delivered timely to the Company or if an administrator of a line of business handles the complaint but does not keep the Company informed of the status or disposition of it. It was noted that the logs are updated by compiling information from the individual complaint records.

Claims:

A sample of claims reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were promptly made upon receipt of proper evidence of the Company's liability.

Advertising:

The Company places limited newspaper, magazine, television and radio advertisements for recognition, agency recruiting and legal purposes. General product information is also available on the Company's internet website. All advertising is reviewed by the Company's legal and other staff for compliance with applicable state laws.

The Company produces product brochures for consumers, its agents and brokers. These are not provided to the general public with the exception of the Due Diligence brochure which is updated annually.

Privacy:

The Company has a written "Notice of Privacy Policy" which complies with Tenn. Comp. R. & Reg., ch. 0780-1-72.

MORTALITY AND LOSS EXPERIENCE

Life Insurance:

The actual to expected mortality ratio by line of business as calculated from data in the Company's annual statements for the period under examination is presented as follows:

Line of Business	2004	2003	2002	2001	2000
Ordinary Life	25.17	38.35	28.11	42.70	26.29
Credit Life	2.02	23.14	37.58	390.72	33.97
Group Life	143.60	9.80	144.05	46.04	81.26
All Lines	23.50	36.09	28.23	46.58	29.64

Accident and Health Insurance:

The ratio of incurred losses to earned premiums by line of business is as follows:

Line of Business	2004	2003	2002	2001	2000
Group	86.51	355.97	62.76	72.76	65.89
Credit	(431.62)	25.59	(94.41)	72.83	29.30
Individual:					
Non-cancelable	19.47	68.03	113.20	190.43	(282.81)
Guaranteed renewable	94.71	83.46	89.26	70.83	92.34
Non-renewable for stated reasons only	(25.22)	744.50	659.71	126.93	218.92
All other	n/a	n/a	n/a	52.52	10.70
All Lines	95.24	96.11	99.34	72.35	68.70

REINSURANCE

The Company was party to a voluminous number of assumption and cession reinsurance agreements at December 31, 2004. The reinsurance operations of the Company are divided into the categories of life, accident and health; and asset protection.

In the course of reviewing the Company's reinsurance agreements, it was discovered that the Company's record-keeping system is unable to produce by reinsurance treaty the associated reinsurance premium, reserves, credits, etc. As a result, the examiners were unable to make a determination as to which reinsurance agreements were the larger reinsurance agreements for inclusion in this summary.

Examiners reviewed over one thousand (1,000) of the Company's reinsurance agreements. A general summary of the Company's reinsurance program is listed below.

Life:

The Company currently reinsures approximately ninety percent (90%) of its ordinary and universal life business under automatic treaties with the following companies:

Swiss Re Life & Health America, Inc.
SCOR Life U.S. Re Insurance Company
Security Life of Denver Insurance Company (part of ING Reinsurance)
The Canada Life Assurance Company
Generali USA Life Reassurance Company
Lincoln National Life Insurance Company

While the amount retained by the Company on an individual life varies based on age and mortality prospects of the risk, the Company generally does not carry more than five hundred thousand dollars ($500,000) individual life insurance on a single risk. The reinsurers participate in various ordinary, term and universal life products, including optional benefits for waiver of premium, accidental death and dismemberment, and disability income. The Company's binding limits range from five hundred thousand dollars ($500,000) to two million five hundred thousand dollars ($2,500,000), depending on the plan of insurance and age of insured. Generally, the agreements in effect offer facultative facilities under which the Company can submit cases above its binding limits to the various reinsurers.

Asset Protection:

Since the last examination, the Company has experienced significant growth in its Asset Protection Division (APD). APD offers auto, marine and recreational vehicle extended service contracts, GAP insurance and credit insurance. Credit insurance includes credit life and credit disability written on the Company's paper throughout the nation. Distribution channels include automobile dealers and financial institutions. These products are marketed by a direct sales force, general agents and outside administrators. The APD is headquartered in Missouri and has a credit insurance administrative office in California and an outside administrator in Florida.

The Company reinsures a significant portion of credit business through producer controlled, unauthorized reinsurance companies. In most of these reinsurance arrangements, one hundred percent (100%) of written premium is ceded to the reinsurer. Ceded reserves are secured by custodial agreements, letters of credit or by funds withheld. A substantial portion of APD business not reinsured with producer controlled reinsurance companies is ceded to RGA Reinsurance Company

on a coinsurance basis. In addition, the Company has agreements with Guardian Life Insurance Company, ERC Life Insurance Corporation, and ACE INA Overseas Insurance Company to cede a portion of the APD in-force business.

Trust Agreements:

All unauthorized reinsurers have executed trust agreements with the Company and report amounts held under these agreements to secure the Company's reinsurance recoverables and reserve credits at December 31, 2004.

Unearned Ceding Commission:

Primarily all of the Company's reinsurance agreements cede premiums on a written basis, and therefore, in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. However, all of the agreements provide that in the event of termination, the reinsurance continues to apply to all policies in force until their expiry or cancellation in the normal course of business. That is, there is no return of premium or ceding commission at the termination of an agreement because the policies continue in full force. Also, most of the Company's reinsurance agreements provide that ceding commissions be paid based on net premiums; that is, on written premiums less the return premiums (those that are cancelled by policyholders prior to the end of the policy period), and the agreements provide for monthly settlements, including any return premiums and any associated ceding commissions, by offset. Therefore, the Company is deemed to have no ultimate liability for unearned ceding commissions.

The *NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles* (SSAP) No.61, states that if the reinsurance agreements contain "a persistency guarantee which provides for return of the excess

commission, the ceding entity must record the excess commission as a liability." None of the Company's reinsurance agreements reviewed contain such persistency guarantees.

Other Considerations:

All of the Company's reviewed active reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit by Tenn. Code Ann. § 56-2-207(a)(2). All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines.

It was noted that the effective dates for most agreements reported in the 2004 Annual Statement are not correct due to the reporting of multiple agreements on one line. The Company's attention is directed to the *NAIC Annual Statement Instructions*, page 273, the "effective date as used in this schedule (Schedule S) is the date the contract originally went into effect" and Tenn. Code Ann. § 56-1-501(b) which requires that an annual statement "shall be completed and filed in accordance with annual statement instructions established by the commissioner." Tenn. Code Ann. § 56-44-102 requires that this same statement be filed with the NAIC. It is recommended that the Company comply completely with Tenn. Code Ann. § 56-1-501(b) and Tenn. Code Ann. § 56-44-102.

It was also noted that in prior years, many of the Company's reinsurance agreements were in violation of Tenn. Comp. R. & Regs., ch. 0780-1-62-.05 which states that a binding letter of intent must be executed by the "as of date" of the financial statements. Furthermore, in the case of a letter of intent, the agreement or amendment must be executed within ninety (90) days from the execution of the letter of intent in order for reinsurance credit to be granted. However, none of the

reviewed agreements were in violation at December 31, 2004. It is recommended that the Company completely comply with Tenn. Comp. R. & Regs., ch. 0780-1-62-.05.

It is also recommended that the Company make the necessary changes to its record-keeping system in order to track reinsurance premiums, reserves, and credits by reinsurance treaty. Tenn. Code Ann. § 56-1-411(b)(1) requires that the Company maintain records supporting its financial statements in order to facilitate examination.

INDEPENDENT ACTUARIAL REVIEW

An independent actuarial review was performed by Actuarial Risk Consultants, Inc., Austin, Texas. The objectives of the review were as follows:

1. Check that policy benefits are valid obligations of the Company as of December 31, 2004, and are properly authorized and calculated in accordance with policy provisions.

2. Check that reserves, liabilities and policy benefits are complete and are recorded properly as to account, amount and period.

3. Check that policy reserves are established with appropriate reserving tables and policies with deficiency reserve situations are identified and properly provided for.

Although differences were found between the statutory reserves filed by the

Company and those determined following the review, no adjustments were made subject to the level of materiality.

See the Comments and Recommendations section of this report for additional information on the actuarial review.

STATUTORY DEPOSITS

The following are special deposits, as of December 31, 2004, which are not held for the benefit of all policyholders, claimants and creditors of the Company.

Where Deposited and Description	Par Value	Statement Value	Market Value
Arizona			
USTN, 7%, Due 7/15/06	$550,000	$557,838	$583,127
Arkansas			
USTN, 6 1/8%, Due 8/15/07	2,600,000	2,723,291	2,790,320
Colorado			
USTN, 6 1/8%, Due 8/15/07	10,000	10,474	10,732
USTN, 6%, Due 8/15/09	100,000	110,925	110,289
Georgia			
USTN, 6 1/8%, Due 8/15/07	380,000	398,019	407,816
USTN, 6 1/2%, Due 8/15/05	70,000	70,667	71,704
11,500 shares Evergreen Instl MM	11,500	11,500	11,500
Indiana			
USTN, 6 1/8%, Due 8/15/07	325,000	340,411	348,790
USTN, 5 5/8%, Due 2/15/06	640,000	635,532	659,802
USTN, 7%, Due 7/15/06	35,000	35,499	37,108
Massachusetts			
USTN, 6 1/8%, Due 8/15/07	550,000	576,081	590,260
Missouri			
USTN, 6%, Due 8/15/09	600,000	665,550	661,734
Montana			
USTN, 6%, Due 8/15/09	2,000,000	2,218,500	2,205,780
USTN, 6 1/2%, Due 8/15/05	500,000	504,762	512,170

New Mexico			
USTN, 6 1/8%, Due 8/15/07	60,000	62,845	64,392
USTN, 6%, Due 8/15/09	75,000	83,194	82,717
North Carolina			
USTN, 6 1/8%, Due 8/15/07	170,000	178,061	182,444
USTN, 6%, Due 8/15/09	230,000	255,128	253,665
Oklahoma			
USTN, 6 1/8%, Due 8/15/07	320,000	335,174	343,424
Texas			
USTN, 6 1/2%, Due 8/15/05	510,000	514,858	522,413
Virginia			
USTN, 5 3/4%, Due 8/15/10	130,000	133,068	143,127
USTN, 6 1/8%, Due 8/15/07	100,000	104,742	107,320
USTN, 6%, Due 8/15/09	20,000	22,185	22,058
Other:			
Bank One, Indiana, Anthem Reinsurance Reserve			
Suncor Energy, 7.15%, Due 2/1/32	2,000,000	1,992,167	2,421,660
Exelon Co., 6.95%, Due 6/15/11	1,000,000	1,006,724	1,128,730
AARP 144A, 7.5%, Due 5/1/31	1,000,000	992,055	1,201,670
USTN, 5%, Due 2/15/11	1,000,000	1,099,055	1,063,790
GNMA, 6.75%, Due 4/1/14	429,237	403,496	438,126
USTN, 5.625%, Due 5/15/08	2,750,000	2,771,714	2,949,595
USTN, 6%, Due 8/15/09	4,900,000	5,435,326	5,404,161
US Territory, Amerika Samoa Bank Honolulu, Hawaii			
CD, 5.25%, Due 8/15/07	50,000	50,000	50,000
US Territory, Bank of Hawaii Agana, Guam			
CD, 6%, Due 4/15/05	50,000	50,000	50,000
Puerto Rico, Bank of NY			
Puerto Rico, 4.5%, Due 7/1/23	500,000	491,371	507,775
Virgin Islands			
USTN, 6.125%, Due 8/15/07	500,000	523,710	536,600
Sub-Total	$24,165,737	$25,363,922	$26,474,799

The following are special deposits, as of December 31, 2004, which are held for the benefit of all policyholders, claimants and creditors of the Company.

Where Deposited and Description	Par Value	Statement Value	Market Value
Tennessee			
USTN, 6 1/8%, Due 8/15/07	$1,250,000	$1,309,275	$1,341,500
USTN, 6 1/2%, Due 8/15/05	300,000	302,857	307,302
Sub-Total	1,550,000	1,612,132	1,648,802
Totals	$25,715,737	$26,976,054	$28,123,601

The above deposits were verified by direct correspondence with the regulating jurisdiction or custodian.

COMMITMENTS AND CONTINGENCIES

The Company leases administrative and marketing office space in approximately twenty-six (26) cities, including Birmingham, Alabama with most leases being for periods of three (3) to ten (10) years. The aggregate annualized rent for such space is approximately six million six hundred thousand dollars ($6,600,000).

In February 2000, the Company entered into an arrangement related to the construction of a building adjacent to its existing home office complex. The Company leases the building from an unrelated entity. The lease is accounted for as an operating lease. Lease payments commenced upon construction completion, which occurred January 31, 2003, and are based on then current London Interbank Offered Rate (LIBOR) interest rates and the cost of the building. At the end of the lease term, February 1, 2007, the Company may purchase the building for the original cost of approximately seventy-five million dollars ($75,000,000). Based upon current interest rates, annual lease payments are estimated to be one million seven hundred thousand dollars ($1,700,000).

From the examination data made available, it appears that the only matters of law in which the Company was involved, during the period under review, were those arising out of the normal course of business and the outcome of such actions should not have a material effect on the financial position of the Company.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings. General ledger trial balances were reconciled with copies of annual statements for the years 2000, 2001, 2002, 2003 and 2004.

The Company is in compliance with Tenn. Comp. R. & Reg., ch. 0780-1-46 with respect to the custody of its securities. Additionally, the Company is in compliance with Risk-Based Capital requirements.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company is audited annually by PriceWaterhouseCoopers, LLP, Birmingham, Alabama. There is no violation as respects Tenn. Comp. R. & Reg., ch. 0780-1-65.07(3).

See the Comments and Recommendations section of this report for additional information on accounts and records.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2004, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 8,282,917,255	$ 3,078,908	$ 8,279,838,347
Stocks:			
Preferred stocks	13,653,274		13,653,274
Common stocks	800,615,411	18,230,186	782,385,225
Mortgage loans on real estate:			
First liens	1,879,529,476		1,879,529,476
Real estate:			
Properties occupied by company	22,170,334		22,170,334
Properties held for income production	2,358,450		2,358,450
Properties held for sale	5,707,033		5,707,033
Cash and short-term investments	410,264,153		410,264,153
Contract loans	395,105,282	150,088	394,955,194
Other invested assets	10,859,523	1,260,482	9,599,041
Receivable for securities	744,772		744,772
Aggregate write-ins for invested assets:			
Derivative instruments	210,583,990		210,583,990
Subtotals, cash and invested assets	12,034,508,953	22,719,663	12,011,789,290
Investment income due and accrued	106,952,237		106,952,237
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	7,844,058	1,201,270	6,642,789
Deferred premiums, agents' balances & installments booked but deferred	92,416,653		92,416,653
Reinsurance:			
Amounts recoverable from reinsurers	33,241,114	3,699,368	29,541,746
Funds held by reinsured companies	24,187,267		24,187,267
Other amounts receivable-reinsurance	24,637,664	12,991,574	11,646,089
Federal/foreign income tax recoverable	5,099,782		5,099,782
Net deferred tax asset	189,993,149	132,133,287	57,859,862
Guaranty funds receivable/on deposit	1,052,216		1,052,216
EDP equipment and software	15,971,151	15,971,151	0
Furniture and equipment	7,775,951	7,775,951	0
Receivables from parent, subsidiaries and affiliates	5,677,126		5,677,126
Other amounts receivable	15,948,073	15,948,073	0
Other assets nonadmitted	4,425,400	4,425,400	0
Aggregate write-ins for other than invested assets:			
Company owned life insurance	118,699,093		118,699,093
Accounts receivable	16,036,232	1,165,621	14,870,610
Guaranty fund assessments	13,636,371		13,636,371
Total excluding separate accounts	12,718,102,490	218,031,359	12,500,071,131
From separate accounts	5,017,080,575		5,017,080,575
Total assets	$17,735,183,065	$218,031,359	$17,517,151,706

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	$ 4,850,559,629
Aggregate reserve for accident and health contracts	49,348,678
Liability for deposit-type contracts	5,517,726,251
Contract claims:	
Life	27,855,915
Accident and health	13,441,355
Policyholders' dividends due and unpaid	459,821
Provision for policyholders' dividends payable in following calendar year:	
Dividends apportioned for payment to December 31, 2005	32,915,159
Premiums and annuity considerations received in advance	3,700,108
Contract liabilities not included elsewhere:	
Provision for experience rating refunds	5,236,983
Other amounts payable on reinsurance	3,714,499
Interest maintenance reserve	40,371,028
Commissions to agents due or accrued	12,735,575
Commissions and expense allowances payable on reinsured assumed	493,794
General expenses due or accrued	21,260,715
Transfers to separate accounts due or accrued	1,680,934
Taxes, licenses or fees due or accrued	19,723,443
Unearned investment income	6,060,735
Amounts withheld or retained by company as agent or trustee	11,486,604
Amounts held for agents' account	5,011,571
Remittances and items not allocated	55,287,331
Net adjustment in assets and liabilities due to foreign exchange rates	185,079,951
Miscellaneous liabilities:	
Asset valuation reserve	164,170,092
Reinsurance in unauthorized companies	584,104
Funds held under reinsurance treaties with unauthorized reinsurers	56,642,868
Payable to parent, subsidiaries and affiliates	16,862,126
Funds held under coinsurance	81,844,230
Aggregate write-ins for liabilities:	
Funds at interest	98,451
Total liabilities excluding separate accounts	11,184,351,949
From separate accounts	5,017,080,575
Total liabilities	16,201,432,524
Common capital stock	5,000,000
Gross paid in and contributed surplus	652,844,662
Unassigned funds	657,874,519
Total surplus and other funds	1,315,719,182
Total liabilities, capital and surplus	$17,517,151,706

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and a&h contracts	$1,192,740,612
Considerations for supplementary contracts with life contingencies	503,737
Net investment income	675,804,718
Amortization of interest maintenance reserve	14,233,112
Separate accounts net gain from operations excluding unrealized gain/loss	60,013,105
Commissions and expense allowances on reinsurance ceded	183,678,458
Reserve adjustments on reinsurance ceded	(172,328)
Miscellaneous income:	
Income from fees associated with investment management, administration and contract guarantees from separate accounts	43,821,290
Aggregate write-ins for miscellaneous income	11,664,920
Totals	2,182,287,624
Death benefits	144,397,407
Matured endowments	3,363,379
Annuity benefits	35,543,292
Disability benefits and benefits under accident and health contracts	39,905,162
Coupons, guaranteed annual pure endowments and similar benefits	206,076
Surrender benefits and withdrawals for life contracts	749,563,606
Group conversions	(8,808)
Interest and adjustments on contract or deposit-type contract funds	224,783,166
Payments on supplementary contracts with life contingencies	595,141
Increase in aggregate reserves for life and accident and health contracts	194,817,646
Totals	1,393,166,067
Commissions on premiums, annuity considerations and deposit-type funds	210,383,411
Commissions and expense allowances on reinsurance assumed	7,075,169
General insurance expenses	177,230,921
Insurance taxes, licenses and fees	25,173,809
Increase in loading on deferred and uncollected premiums	(5,944,890)
Net transfers to or (from) separate accounts net of reinsurance	43,672,924
Aggregate write-ins for deductions	7,267,843
Totals	1,858,025,255
Net gain from operations before dividends to policyholders and fit	324,262,369
Dividends to policyholders	32,923,185
Net gain from operations after dividends to policyholders and before fit	291,339,184
Federal and foreign income taxes incurred	59,727,032
Net gain from operations	231,612,152
Net realized capital gains or (losses)	4,144,217
Net income	$ 235,756,369

RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION

Capital and Surplus, December 31, 1999	$567,879,650
Net income	69,075,947
Change in net unrealized capital gains or (losses)	(12,161,576)
Change in non-admitted assets	(39,419,258)
Change in liability for reinsurance in unauthorized companies	2,543,099
Change in asset valuation reserve	(58,123,082)
Surplus (contributed to) withdrawn from separate accounts	(11,861,400)
Other changes in surplus in separate accounts	11,861,400
Paid in surplus	100,479,335
Aggregate write-ins for gains and losses in surplus	(4,000,000)
Net change in capital and surplus for the year	58,394,464
Capital and Surplus, December 31, 2000	$626,274,114
Net income	106,225,004
Change in net unrealized capital gains or (losses)	(98,996,345)
Change in net deferred income tax	35,437,417
Change in non-admitted assets	(75,044,640)
Change in liability for reinsurance in unauthorized companies	3,740,281
Change in asset valuation reserve	(7,435,436)
Surplus (contributed to) withdrawn from separate accounts	29,343,972
Other changes in surplus in separate accounts	(29,343,972)
Change in surplus notes	(4,000,000)
Cumulative effect of changes in accounting principles	36,537,930
Paid in surplus	145,794,274
Net change in capital and surplus for the year	142,258,484
Capital and Surplus, December 31, 2001	$768,532,598
Net income	106,241,980
Change in net unrealized capital gains or (losses)	(25,416,573)
Change in net unrealized foreign exchange capital gain (loss)	(41,949,311)
Change in net deferred income tax	63,313,863
Change in non-admitted assets	1,996,473
Change in liability for reinsurance in unauthorized companies	(5,207,916)
Change in asset valuation reserve	(74,065,926)
Surplus (contributed to) withdrawn from separate accounts	21,282,037
Other changes in surplus in separate accounts	(21,282,037)
Change in surplus notes	(4,000,000)
Surplus paid in	61,200,000
Net change in capital and surplus for the year	82,112,589
Capital and Surplus, December 31, 2002	$850,645,187
Net income	281,979,846
Change in net unrealized capital gains or (losses)	(62,828,667)
Change in net unrealized foreign exchange capital gain (loss)	8,587,444
Change in net deferred income tax	(20,478,365)
Change in non-admitted assets	15,711,957
Change in liability for reinsurance in unauthorized companies	5,112,750

Change in asset valuation reserve	29,600,207
Surplus (contributed to) withdrawn from separate accounts	86,911,785
Other changes in surplus in separate accounts	(86,911,785)
Change in surplus notes	(2,000,000)
Surplus paid in	17,200,000
Aggregate write-ins for gains and losses in surplus	10,411,847
Net change in capital and surplus for the year	283,297,019
Capital and Surplus, December 31, 2003	$1,133,942,204
Net income	235,756,369
Change in net unrealized capital gains or (losses)	(47,281,432)
Change in net unrealized foreign exchange capital gain (loss)	12,076,263
Change in net deferred income tax	(3,967,579)
Change in non-admitted assets	(2,685,534)
Change in liability for reinsurance in unauthorized companies	1,629,798
Change in reserve on account of change in valuation basis	(2,535,596)
Change in asset valuation reserve	(29,338,426)
Surplus (contributed to) withdrawn from separate accounts	60,013,105
Other changes in surplus in separate accounts	(60,013,105)
Surplus paid in	67,000,000
Aggregate write-ins for gains and losses in surplus	(48,876,885)
Net change in capital and surplus for the year	181,776,978
Capital and Surplus, December 31, 2004	$1,315,719,182

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Although minor differences were found in various items, none were considered to produce a material effect on surplus funds either singly or in the aggregate.

COMMENTS AND RECOMMENDATIONS

Comments:

1. The TDCI contracted with an independent actuarial firm to assist with this examination. The following comments were noted during their review:

   We suggest the Company implement or continue to refine the following items to assist in future examinations. These comments are not to address errors discovered in our examination; rather, they are:

   (1) to provide additional controls and;
   (2) to make future audits easier and faster.

A. The Company examines errors occurring during the statutory reserve valuation process. The steps followed to adjust the statutory reserves for these errors are:

   i. Examine error listings;
   ii. Make corrections to the valuation system or the data extracts;
   iii. Rerun valuation reports;
   iv. Examine any remaining errors, and prepare external adjustments to the reserves, or ignore if the errors appear to be de minimis.

   Our review showed the Company uses inconsistent procedures amongst divisions in their review of those error listings. The Company does not have consistent actuarial procedures in place to estimate the additional liability, if any, for these policies found on the error list. In addition, there is no

established standardized Company procedure on remedying these errors so problematic policies are not found in an error status indefinitely. We believe the Company should consider the harmonization of procedures in the area of handling policies not working correctly on the administration system.

B. We suggest the Company assemble supporting details, electronically and/or hardcopy, backing up the year-end valuation and the annual statement. This compilation should assist future audits, examinations and the like. We propose the Company hold this support at the location of the appointed actuary. It is our belief all companies filing statutory statements should have a set of workpapers tracing back annual statement entries to its supporting detail. This would include a "roadmap" in which the organized workpapers contain all detail reserve listings (electronic) and adequately documented to provide ease of tracing from source to annual statement.

C. We suggest the Company consider adopting procedures that provide detailed instructions for the valuation process. This will ensure consistency and accuracy in the reporting process. The Company has begun this documentation for their GAAP basis financial statements, due to Sarbanes-Oxley.

D. We believe the Company should consider producing detailed audit reports for sample policies at each year-end valuation period to support specific reserve amounts calculated by the valuation system. We suggest the Company continue to strive to have independent spreadsheets that mimic those reserves produced by their valuation system.

E. The Company should consider the development of a signoff procedure which shows that senior actuarial staff reviewed the actuarial assets and liabilities that ultimately find their way to the annual statement. In addition, it is suggested that the Company strive to adhere to the *NAIC Annual Statement Instructions* when assembling the reserves.

F. We suggest the Company eliminate either the suspense liability (cash with application) or the advance premium held on policies with issue dates after the valuation date. The current process results in two liabilities being held on the balance sheet.

G. We believe the Company should consider the assembly of the X-factor memorandum & opinion along with the corresponding X-factors into one self-contained document. The supporting workpaper documentation provided is difficult to audit since the spreadsheets labels (filename & header descriptions) are inconsistent and make the mapping of the factors to the X-factor memorandum difficult.

H. We suggest the Company continue to strive on improving the Asset Adequacy Analysis Memorandum documentation.

I. We suggest the Company enhance the methods used to develop the IBNR life liability and revisit the approaches used to split the direct, assumed, and ceded amounts.

J. We suggest the Company begin a process to eliminate policies with old paid-to-dates from the administration system. Until such event occurs, we suggest

the applicable valuation areas work the error lists appropriately.

K. We suggest the Company consolidate the valuation of like products, spread over divisions, onto one valuation platform, which appears to be Polysystems, for consistency.

L. We suggest the Company hold the guaranteed interest contract reserves using appropriate CARVM change-in-fund methods.

M. We suggest the Company develop appropriate methods to set the additional liabilities for bonuses paid on universal life products.

N. We suggest the Company create consistency among the Health blocks where some pre-calculated factors allow negative reserves while other blocks do not.

O. We suggest the Company strive to complete the annual statement correctly and to comply with all applicable actuarial guidelines.

Recommendations:

1. It was noted that the effective dates for most reinsurance agreements reported in the 2004 Annual Statement are not correct due to the reporting of multiple agreements on one (1) line. The Company's attention is directed to the *NAIC Annual Statement Instructions*, page 273, the "effective date as used in this schedule (Schedule S) is the date the contract originally went into effect" and Tenn. Code Ann. § 56-1-501(b) which requires that an annual statement "shall be completed and filed in accordance with annual statement

instructions established by the commissioner." Tenn. Code Ann. § 56-44-102 requires that this same statement be filed with the NAIC. It is recommended that the Company comply completely with Tenn. Code Ann. § 56-1-501(b) and Tenn. Code Ann. § 56-44-102.

2. It was also noted that in prior years, many of the Company's reinsurance agreements were in violation of Tenn. Comp. R. & Regs., ch. 0780-1-62-.05 which states that a binding letter of intent must be executed by the "as of date" of the financial statements. Furthermore, in the case of a letter of intent, the agreement or amendment must be executed within ninety (90) days from the execution of the letter of intent in order for reinsurance credit to be granted. However, none of the reviewed agreements were in violation at December 31, 2004. It is recommended that the Company completely comply with Tenn. Comp. R. & Regs., ch. 0780-1-62-.05.

3. In the course of reviewing the Company's reinsurance agreements, it was discovered that the Company's record-keeping system is unable to produce by reinsurance treaty the associated reinsurance premium, reserves, credits, etc. It is recommended that the Company make the necessary changes to its record-keeping system in order to track reinsurance premiums, reserves, and credits by reinsurance treaty. Tenn. Code Ann. § 56-1-411(b)(1) requires that the Company maintain records supporting its financial statements in order to facilitate examination.

4. The Company is a party to several repurchase agreements. At December 31, 2004, there were no outstanding balances under these agreements. However, during the period under examination, both repurchase and reverse

repurchase transactions were made under these agreements. Some of these agreements do not cite the collateral requirements for repurchase agreements per the *NAIC Accounting Practices and Procedures Manual* SSAP No.45. Pursuant to Tenn. Code Ann. § 56-3-303(a)(18)(D), it is recommended that these repurchase agreements be amended to meet the collateral requirements of SSAP No.45.

5. During the review of contract loans, some of the information requested by the examiners was not provided by the Company, including dates, balances, paid-to-date amounts, etc. Therefore, accurate sampling could not be performed. It is recommended that the Company make the necessary changes to its systems and/or records so that all data requested during future examinations is readily available in accordance with Tenn. Code Ann. § 56-1-411(b)(1).

CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that, as of December 31, 2004, the Company had net admitted assets of seventeen billion five hundred seventeen million one hundred fifty-one thousand seven hundred six dollars ($17,517,151,706) and liabilities, exclusive of capital, of sixteen billion two hundred one million four hundred thirty-two thousand five hundred twenty-four dollars ($16,201,432,524). Thus, there existed for the additional protection of the policyholders, the amount of one billion three hundred fifteen million seven hundred nineteen thousand one hundred eighty-two dollars ($1,315,719,182) in the form of paid-up capital, gross paid-in and contributed surplus and unassigned funds (surplus).

In addition to the undersigned, Lawrence G. Scott, ASA, MAAA and Corwin K. Zass, ASA, MAAA, MCA of the contracting actuarial firm, Actuarial Risk Consultants, Austin, Texas, and contracting reinsurance specialists, Norman Chandler, CPA, CPCU, ARe and Britt Taylor, CPA of the firm, TaylorChandler LLC, Montgomery, Alabama participated in the work of this examination.

Respectfully submitted,

David R. White, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Donnie R. Nicholson
Examiner III
State of Tennessee
Southeastern Zone, NAIC

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W. Gregory Taylor, CFE
Examiner
State of Delaware
Northeastern Zone, NAIC

Vince M. Dyal, CFE
Examiner
State of Delaware
Northeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Protective Life Insurance Company dated April 10, 2006, and made as of December 31, 2004, on behalf of the TDCI. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

David R. White, CFE
Examiner-in Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

19th day of April, 2006

Notary Andrea Wenk Hardy

County Davidson

State Tennessee

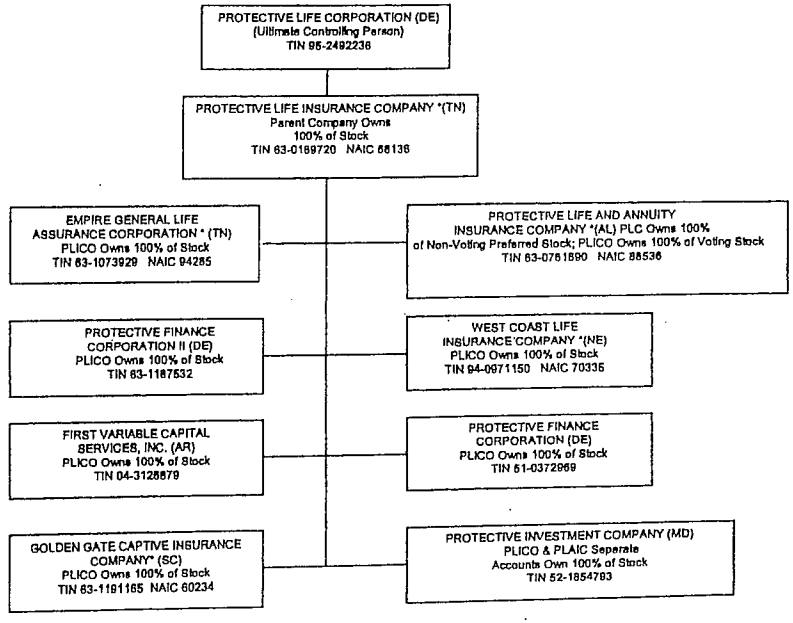
Commission Expires 11-14-2009

ANDREA WENK HARDY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 – ORGANIZATIONAL CHART

Protective Life Corporation Organizational Chart
as of December 31, 2004
Page 1 of 4
PLICO Subsidiaries (excluding APD)



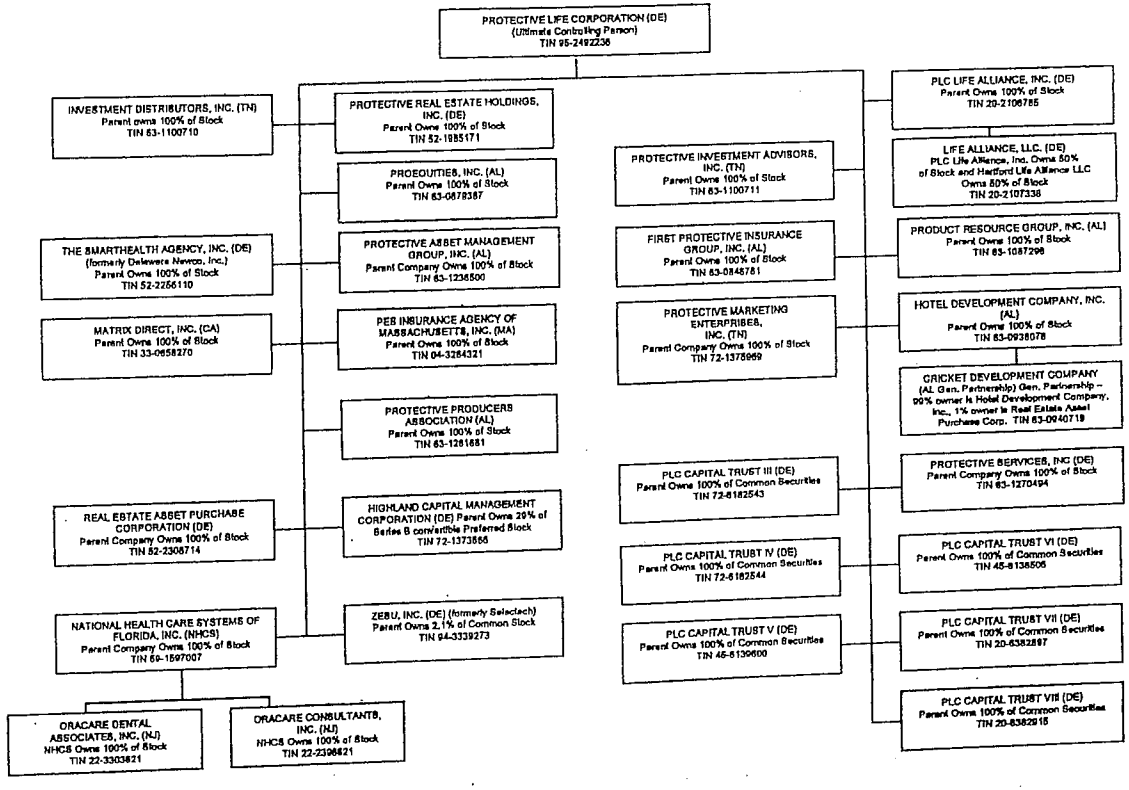
*Denotes Insurance Company

ORGANIZATIONAL CHART

SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 – ORGANIZATIONAL CHART

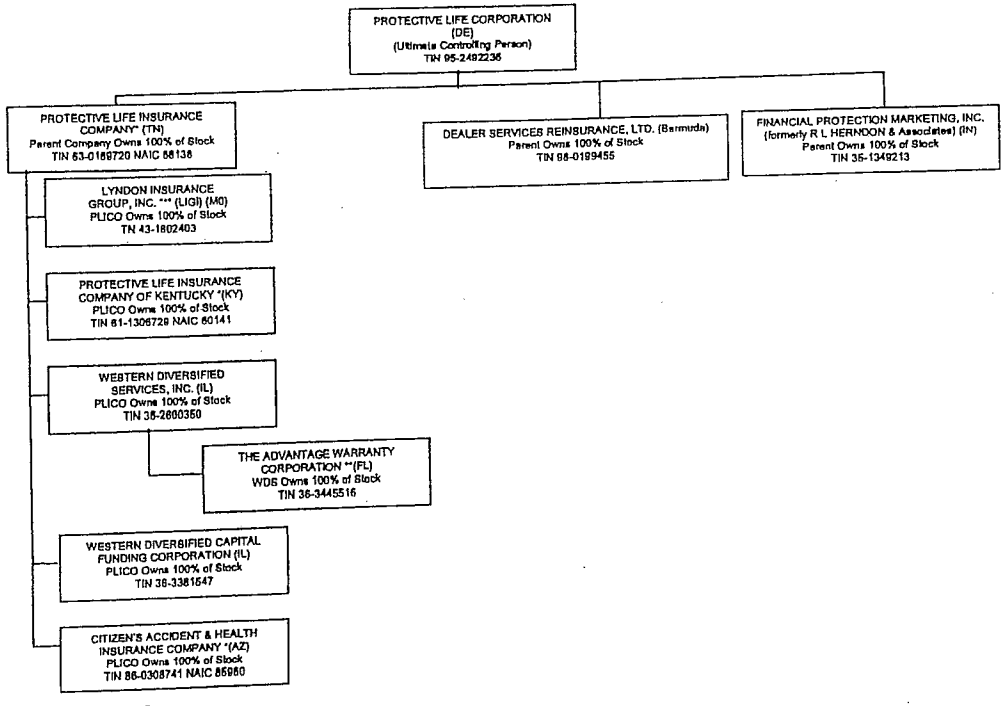
Protective Life Corporation Organizational Chart
as of December 31, 2004
Page 2 of 4
PLC Non-Insurance Companies (excluding APD)



SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 – ORGANIZATIONAL CHART

Protective Life Corporation Organizational Chart
as of December 31, 2004
Page 3 of 4
Asset Protection Division – Page 1 of 2

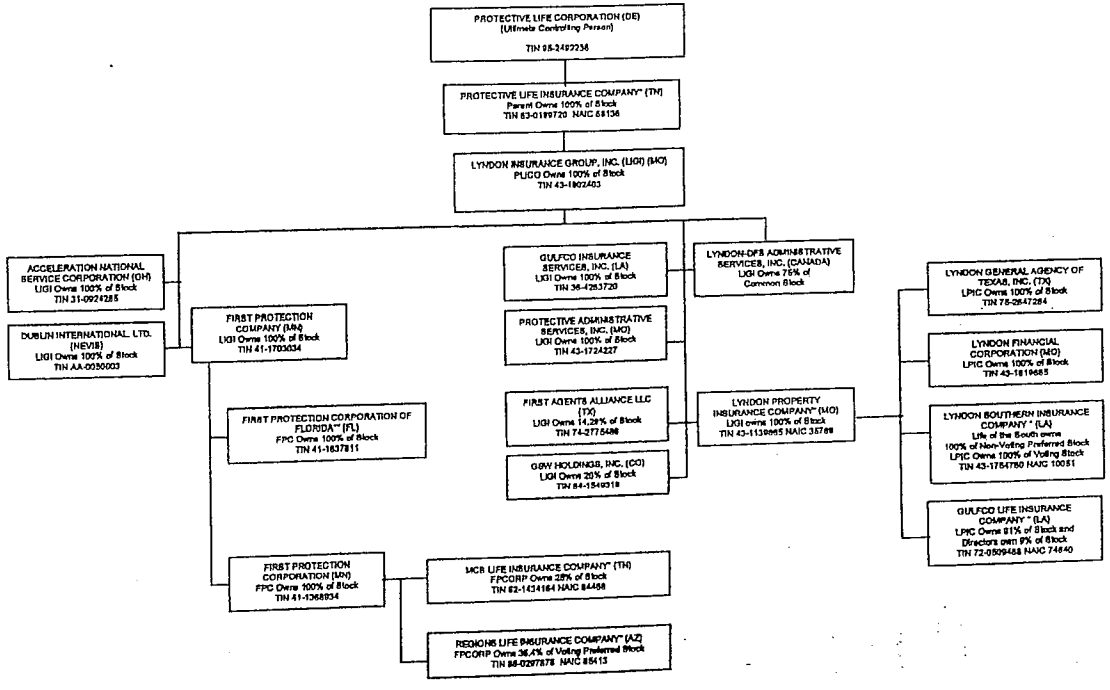


*Denotes Insurance Company
**Denotes Specialty Insurer
*** See organization of Lyndon Insurance Group, Inc. affiliates on Page 2 of 2

SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 – ORGANIZATIONAL CHART

Protective Life Corporation Organizational Chart
as of December 31, 2004
Page 4 of 4
Asset Protection Division – Page 2 of 2 *(Lyndon Group Organization)*



*Denotes insurance company
** Denotes specialty insurer

ROBINS H. LEDYARD
TEL: (615) 742-6259
FAX: (615) 742-2759
rledyard@bassberry.com

BASS, BERRY & SIMS PLC
A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

AMSOUTH CENTER
315 DEADERICK STREET, SUITE 2700
NASHVILLE, TN 37238-3001
(615) 742-6200

www.bassberry.com

OTHER OFFICES:

NASHVILLE MUSIC ROW
KNOXVILLE
MEMPHIS

May 19, 2006

RECEIVED
MAY 19 2006
Dept. Of Commerce & Insurance
Company Examinations

Honorable Paula A. Flowers, Commissioner
Department of Commerce and Insurance
500 James Robertson Parkway—Suite 500
Nashville, Tennessee 37243

Attn: Honorable Don Spann

Re: Protective Life Insurance Company ("Protective Life")
Draft Examination Report dated April 2006 ("Examination Report")

Dear Mr. Spann:

We represent Protective Life and have been authorized and directed by Protective Life to file this response to the Examination Report. Protective Life does not choose to disagree with any portion of the Examination Report at this time except for Recommendation 4, to which it is responding in this letter.

At the suggestion of David White, the Examiner-in-Charge, Protective Life herewith provides this response to Recommendation 4 of the Examination Report Re: the Financial Condition of Protective Life as of December 31, 2004.

In the Examination Report, Recommendation 4 provides as follows:

> **Recommendation 4. The Company is a party to several repurchase agreements. At December 31, 2004, there were no outstanding balances under these agreements. However, during the period under examination, both repurchase and reverse repurchase transactions were made under these agreements. Some of these agreements do not cite the collateral requirements for repurchase agreements per the *NAIC Accounting Practices and Procedures Manual* SSAP No. 45. Pursuant to Tenn. Code Ann. Section 56-3-303(a)(18)(D), it is recommended that these repurchase agreements be amended to meet the collateral requirements of SSAP No. 45.**

Protective Life respectfully disagrees with the Examiner's legal interpretation of Tenn. Code Ann. Section 56-3-303(a)(18)(D) and SSAP No. 45 to the effect that Protective Life has not complied with those requirements in the repurchase and reverse repurchase transactions that Protective Life has entered into during the period under examination. Protective Life believes and maintains that the repurchase agreement and reverse repurchase agreements in question

comply with all pertinent requirements of the Tennessee Code and relevant Statement of Statutory Accounting and Procedures (SSAP No. 45, superseded by SSAP No. 91, but without change in relevant provisions) and also believes that compliance with the Examiner's recommendation would be costly, impractical and contrary to market conventions. These positions are further described in the following paragraphs.

Contract. Contractual provisions for each repurchase and reverse repurchase transaction entered into by Protective Life are set out in three documents. The first is a Master Repurchase Agreement. The second is an Annex to the Master Repurchase Agreement that contains supplemental terms and conditions to the Master Repurchase Agreement. The third is a Confirmation under the Repurchase Agreement that sets out the specific terms of a particular transaction. Attached as Attachment 1 you will please find representative copies of such documents. The Confirmation is made part of the Master Repurchase Agreement by paragraph 3.(b) of the Master Repurchase Agreement. The Annex is a separate document that is itself signed by the parties and provides it is to become part of a Master Repurchase Agreement by the first paragraph in the Annex. The attachments to this letter contain copies of documents pertinent to and fairly representative of every repurchase/reverse repurchase transaction. There are the Master Repurchase Agreement with a counterparty (here Goldman, Sachs & Co.) ("Goldman"), the Annex to such Agreement and Confirmations of transactions where Protective Life was Buyer (reverse repurchases) and Seller (repurchases). Each such transaction contains a repurchase undertaking by the Seller and a reverse repurchase undertaking by the Buyer. We are told and believe that the arrangement with Goldman is representative of contractual arrangements with other Protective Life counterparties. Protective Life enters into large numbers of repurchase transactions during the course of any year with a number of counterparties and we understand that the terms and conditions of each transaction are governed by documents that are very similar to those attached. It is probably also worthy of note that each Master Repurchase Agreement provides for repurchase transactions and reverse repurchase transactions since either party may be Seller or Buyer, as they may agree in connection with a specific repurchase transaction. The forms of contract are not merely similar, but are mostly uniform among counterparties and are mostly on forms developed by the Bond Market Association.

Collateralization under the Master Repurchase Agreement is provided for in paragraph 4 of that Agreement, which is captioned Margin Maintenance. We understand that Margin requirements equal or exceed on a grossed up basis the 95% and 102% required by SSAP No. 45 or 91 for repurchase agreements and reverse repurchase agreements. Paragraph 4(a) deals with Buyer obligations and paragraph 4(b) deals with Seller obligations. Paragraph 4(c) requires that margin amounts (collateral) be maintained by adding additional collateral if fair market values change in any material way. On the attached copy of a Goldman Confirmation dated September 16, 2003, percentages by our calculation exceed 97% and 102%, as applicable, and the Margin Maintenance provision (paragraph 4(c)) would require maintenance of at least this amount if it were the only transaction with Goldman and market conditions changed to reduce percentages below the 97% and 102% numbers, both equal to or in excess of the 95%/102% minimum collateralization required. These provisions, though technical, clearly meet and exceed the requirements of SSAP No. 45 and 91. See Attachment 2 for calculations.

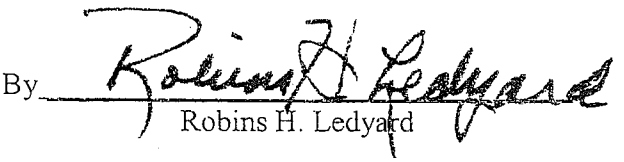
Nature of Transactions. Transactions of the type here under consideration are routinely engaged in by insurance companies, are entered into in huge numbers (we understand that Protective Life might enter into several hundred in a normal year) and are with a limited number of counterparties. The transactions are entered into in such huge numbers and for such relatively short periods that it would be impractical in the extreme were they entered into in any form other than that above described. These agreements are entered into by insurance companies across the nation, all of which are operating under SSAP No. 45 or 91. Following a meeting with the Examiner-in-Charge, we understand that Protective Life contacted a number of counterparties to determine whether or not agreements could be secured in which specific terms would be similar to those which the Examiner-in-Charge would require under Recommendation 4. This was consistent with Protective Life's undertakings made during the meeting. We understand that some counterparties contacted by Protective Life advised that they simply do not and will not enter into specific contracts dealing with each repurchase agreement or reverse repurchase agreement. We understand that relatively fewer counterparties would enter into such agreements but that these counterparties would not be expected to have as much capacity as those who would not enter into such nonstandard agreements (which would be expected to negatively affect Protective Life's yields). We understand that the counterparties who advised that they would not enter into such nonstandard agreements also advised that such agreements were not required in connection with any other transactions in which they were counterparties with other insurance companies. SSAP No. 45 or 91 applies nationwide. Our client's conversations with counterparties as related to us lead us to believe that no other state interprets SSAP No. 45 or 91 as they are interpreted in the Examination Report.

Summary. We believe that the repurchase agreements and reverse repurchase agreements entered into by Protective Life comply in all respects with Tenn. Code Ann. Sec. 56-3-303(a)(18)(D) and SSAP No. 45 or 91. Moreover, based on what we have heard from Protective Life, we believe that the procedures suggested in Recommendation 4 in the Examination Report would be so unwieldy as to be unworkable, and potentially costly to Protective Life, and any such result certainly should not be required absent a clear statutory provision or clear statement of statutory accounting practices expressly requiring such a result. This is manifestly not the case here.

We respectfully request on behalf of Protective Life that Recommendation 4 be deleted from the final Examination Report. We hope such action can be taken on the basis of this letter; if that is not the case, we respectfully request a meeting in your office at an early date. Thank you in advance.

Very truly yours,

BASS, BERRY & SIMS PLC

By 
Robins H. Ledyard

RHL/gh
Enclosure

cc: Hon. Larry C. Knight, Jr.
Hon. Kathy Fussell

Goldman Sachs
GOLDMAN, SACHS & CO.
85 BROAD STREET
NEW YORK, NEW YORK 10004
FUNDING OPERATIONS DEPT.
212-902-5855

DATE	PAGE
09/16/03	1 OF 2

PROTECTIVE LIFE INSURANCE CO.
ATTN. DODIE LECREN
PO BOX 2606
BIRMINGHAM AL 35202-2606

ACCOUNT NO.	REFERENCE NO.	REG OFFICE/REP NO.	DIRECTED OFFICE/REP NO./NAME
032-02147-9-02	030916-1423	020-0822	020-0822 MONEY MKT SLS CHICAGO

CONFIRMATION UNDER REPURCHASE AGREEMENT

WE BOUGHT FROM YOU UNDER REPURCHASE TRANSACTION DATED 09/16/03:

1) GS NUM: 81QRJ-7 CUSIP: 31292H-S9-6

27,854,000.00 FHLMC 30-YR GOLD #C01444 $18,666,051.10
6.00000000 01/01/2033 ORIG
[MARKET VALUE AS OF 09/16/03: $19,118,051.38]

YOU AGREE TO REPURCHASE THIS ASSET FROM US ON 09/22/03
WITH PRICE ACCRUAL FOR 6 DAYS AT 1.07 % - - - - - - $3,328.78

2) GS NUM: 81QRJ-7 CUSIP: 31292H-S9-6

50,000,000.00 FHLMC 30-YR GOLD #C01444 $33,506,948.90
6.00000000 01/01/2033 ORIG
[MARKET VALUE AS OF 09/16/03: $34,318,323.01]

YOU AGREE TO REPURCHASE THIS ASSET FROM US ON 09/22/03
WITH PRICE ACCRUAL FOR 6 DAYS AT 1.07 % - - - - - - $5,975.41

TOTAL PRINCIPAL AMOUNT: $52,173,000.00
TOTAL PRICE ACCRUAL THRU 09/22/03: 9,304.19

REPURCHASE PRICE: $52,182,304.19

TAXPAYER ID NO 63-0169720	INTEREST WITHHOLDING RATE: 0.00	GROSS PROCEEDS RATE: 0.00

ACCOUNT EXEMPT FROM ALL REPORTING

ACCOUNT IS EXEMPT FROM BACKUP WITHHOLDING

PAYMENT MUST BE MADE IN FEDERAL FUNDS CUSTOMER CONFIRMATION

YOU AND WE ARE ACTING AS PRINCIPALS IN THIS TRANSACTION UNLESS OTHERWISE INDICATED ABOVE
MARKET VALUE OF INTEREST BEARING OBLIGATIONS (OTHER THAN MORTGAGE BACKED SECURITIES) INCLUDES ACCRUED INTEREST

GOLDMAN, SACHS & CO.
85 BROAD STREET
NEW YORK, NEW YORK 10004
FUNDING OPERATIONS DEPT.
212-902-5855

DATE	PAGE
10/07/03	2 OF 2

PROTECTIVE LIFE INSURANCE CO.
ATTN. DODIE LECREN
PO BOX 2606
BIRMINGHAM AL 35202-2606

ACCOUNT NO.	REFERENCE NO.	REG OFFICE/REP NO.	DIRECTED OFFICE/REP NO./NAME
032-02147-9-02	031007-1490	020-0822	020-0822 MONEY MKT SLS CHICAGO

CONFIRMATION UNDER REPURCHASE AGREEMENT

MORTGAGE AND ASSET BACKED INSTRUMENTS ARE BACKED BY NOTES SECURED BY LIENS UPON REAL ESTATE AND/OR OTHER FINANCIAL ASSETS CONTINUOUSLY SUBJECT TO PREPAYMENT. THE YIELD MAY VARY WITH THE RATE AT WHICH THE UNDERLYING ASSETS ARE PREPAID. INFO ON FHLMC AND FNMA SINGLE CLASS SECURITIES CAN BE OBTAINED BY CALLING FHLMC AT 1-800-336-3672 OR FNMA AT 1-800-237-8627. INFO CONCERNING EST. YIELD, WEIGHTED AVG. LIFE, AND PREPAYMENT ASSUMPTIONS WILL BE PROVIDED UPON WRITTEN REQUEST.

We understand that all Confirmation pages 2 on repos/reverse repos look like this one. However, this is not the second page to Confirmation set out on p. 1 of this document. RH

TAXPAYER ID NO. 63-0169720	INTEREST WITHHOLDING RATE: 0.00	GROSS PROCEEDS RATE: 0.00

ACCOUNT EXEMPT FROM ALL REPORTING

ACCOUNT IS EXEMPT FROM BACKUP WITHHOLDING

PAYMENT MUST BE MADE IN FEDERAL FUNDS CUSTOMER CONFIRMATION

YOU AND WE ARE ACTING AS PRINCIPALS IN THIS TRANSACTION UNLESS OTHERWISE INDICATED ABOVE
MARKET VALUE OF INTEREST BEARING OBLIGATIONS (OTHER THAN MORTGAGE BACKED SECURITIES) INCLUDES ACCRUED INTEREST

Master Repurchase Agreement

September 1996 Version

Dated as of 12/09/2005

Between: Goldman, Sachs & Co. ("Goldman") ("Party A")

and Protective Life Insurance Company ("Party B")

1. Applicability

From time to time the parties hereto may enter into transactions in which one party ("Seller") agrees to transfer to the other ("Buyer") securities or other assets ("Securities") against the transfer of funds by Buyer, with a simultaneous agreement by Buyer to transfer to Seller such Securities at a date certain or on demand, against the transfer of funds by Seller. Each such transaction shall be referred to herein as a "Transaction" and, unless otherwise agreed in writing, shall be governed by this Agreement, including any supplemental terms or conditions contained in Annex I hereto and in any other annexes identified herein or therein as applicable hereunder.

2. Definitions

(a) "Act of Insolvency", with respect to any party, (i) the commencement by such party as debtor of any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, moratorium, dissolution, delinquency or similar law, or such party seeking the appointment or election of a receiver, conservator, trustee, custodian or similar official for such party or any substantial part of its property, or the convening of any meeting of creditors for purposes of commencing any such case or proceeding or seeking such an appointment or election, (ii) the commencement of any such case or proceeding against such party, or another seeking such an appointment or election, or the filing against a party of an application for a protective decree under the provisions of the Securities Investor Protection Act of 1970, which (A) is consented to or not timely contested by such party, (B) results in the entry of an order for relief, such an appointment or election, the issuance of such a protective decree or the entry of an order having a similar effect, or (C) is not dismissed within 15 days, (iii) the making by such party of a general assignment for the benefit of creditors, or (iv) the admission in writing by such party of such party's inability to pay such party's debts as they become due;

(b) "Additional Purchased Securities", Securities provided by Seller to Buyer pursuant to Paragraph 4 (a) hereof,

(c) "Buyer's Margin Amount", with respect to any Transaction as of any date, the amount obtained by application of the Buyer's Margin Percentage to the Repurchase Price for such Transaction as of such date;

(d) "Buyer's Margin Percentage", with respect to any Transaction as of any date, a percentage (which may be equal to the Seller's Margin Percentage) agreed to by Buyer and Seller or, in the absence of any such agreement, the percentage obtained by dividing the Market Value of the Purchased Securities on the Purchase Date by the Purchase Price on the Purchase Date for such Transaction;

(e) "Confirmation", the meaning specified in Paragraph 3(b) hereof;

(f) "Income", with respect to any Security at any time, any principal thereof and all interest, dividends or other distributions thereon;

(g) "Margin Deficit", the meaning specified in Paragraph 4(a) hereof;

(h) "Margin Excess", the meaning specified in Paragraph 4(b) hereof;

(i) "Margin Notice Deadline", the time agreed to by the parties in the relevant Confirmation, Annex I hereto or otherwise as the deadline for giving notice requiring same-day satisfaction of margin maintenance obligations as provided in Paragraph 4 hereof (or, in the absence of any such agreement, the deadline for such purposes established in accordance with market practice);

(j) "Market Value", with respect to any Securities as of any date, the price for such Securities on such date obtained from a generally recognized source agreed to by the parties or the most recent closing bid quotation from such a source, plus accrued Income to the extent not included therein (other than any Income credited or transferred to, or applied to the obligations of, Seller pursuant to Paragraph 5 hereof) as of such date (unless contrary to market practice for such Securities);

(k) "Price Differential", with respect to any Transaction as of any date, the aggregate amount obtained by daily application of the Pricing Rate for such Transaction to the Purchase Price for such Transaction on a 360 day per year basis for the actual number of days during the period commencing on (and including) the Purchase Date for such Transaction and ending on (but excluding) the date of determination (reduced by any amount of such Price Differential previously paid by Seller to Buyer with respect to such Transaction);

(l) "Pricing Rate", the per annum percentage rate for determination of the Price Differential;

(m) "Prime Rate", the prime rate of U.S. commercial banks as published in The Wall Street Journal (or, if more than one such rate is published, the average of such rates);

(n) "Purchase Date", the date on which Purchased Securities are to be transferred by Seller to Buyer;

(o) "Purchase Price", (i) on the Purchase Date, the price at which Purchased Securities are transferred by Seller to Buyer, and (ii) thereafter, except where Buyer and Seller agree otherwise, such price increased by the amount of any cash transferred by Buyer to Seller pursuant to Paragraph 4(b) hereof and decreased by the amount of any cash transferred by Seller to Buyer pursuant to Paragraph 4(a) hereof or applied to reduce Seller's obligations under clause (ii) of Paragraph 5 hereof;

(p) "Purchased Securities", the Securities transferred by Seller to Buyer in a Transaction hereunder, and any Securities substituted therefor in accordance with Paragraph 9 hereof. The term "Purchased Securities" with respect to any Transaction at any time also shall include Additional Purchased Securities delivered pursuant to Paragraph 4(a) hereof and shall exclude Securities returned pursuant to Paragraph 4(b) hereof;

(q) "Repurchase Date", the date on which Seller is to repurchase the Purchased Securities from Buyer, including any date determined by application of the provisions of Paragraph 3(c) or 11 hereof;

(r) "Repurchase Price", the price at which Purchased Securities are to be transferred from Buyer to Seller upon termination of a Transaction, which will be determined in each case (including Transactions terminable upon demand) as the sum of the Purchase Price and the Price Differential as of the date of such determination;

(s) "Seller's Margin Amount", with respect to any Transaction as of any date, the amount obtained by application of the Seller's Margin Percentage to the Repurchase Price for such Transaction as of such date;

(t) "Seller's Margin Percentage", with respect to any Transaction as of any date, a percentage (which may be equal to the Buyer's Margin Percentage) agreed to by Buyer and Seller or, in the absence of any such agreement, the percentage obtained by dividing the Market Value of the Purchased Securities on the Purchase Date by the Purchase Price on the Purchase Date for such Transaction.

3. Initiation; Confirmation; Termination

(a) An agreement to enter into a Transaction may be made orally or in writing at the initiation of either Buyer or Seller. On the Purchase Date for the Transaction, the Purchased Securities shall be transferred to Buyer or its agent against the transfer of the Purchase Price to an account of Seller.

(b) Upon agreeing to enter into a Transaction hereunder, Buyer or Seller (or both), as shall be agreed, shall promptly deliver to the other party a written confirmation of each Transaction (a "Confirmation"). The Confirmation shall describe the Purchased Securities (including CUSIP number, if any), identify Buyer and Seller and set forth (i) the Purchase Date, (ii) the Purchase Price, (iii) the Repurchase Date, unless the Transaction is to be terminable on demand, (iv) the Pricing Rate or Repurchase Price applicable to the Transaction, and (v) any additional terms or conditions of the Transaction not inconsistent with this Agreement. The Confirmation, together with this Agreement, shall constitute conclusive evidence of the terms agreed between Buyer and Seller with respect to the Transaction to which the Confirmation relates, unless with respect to the Confirmation specific objection is made promptly after receipt thereof. In the event of any conflict between the terms of such Confirmation and this Agreement, this Agreement shall prevail.

(c) In the case of Transactions terminable upon demand, such demand shall be made by Buyer or Seller, no later than such time as is customary in accordance with market practice, by telephone or otherwise on or prior to the business day on which such termination will be effective. On the date specified in such demand, or on the date fixed for termination in the case of Transactions having a fixed term, termination of the Transaction will be effected by

transfer to Seller or its agent of the Purchased Securities and any Income in respect thereof received by Buyer (and not previously credited or transferred to, or applied to the obligations of, Seller pursuant to Paragraph 5 hereof) against the transfer of the Repurchase Price to an account of Buyer.

4. Margin Maintenance

(a) If at any time the aggregate Market Value of all Purchased Securities subject to all Transactions in which a particular party hereto is acting as Buyer is less than the aggregate Buyer's Margin Amount for all such Transactions (a "Margin Deficit"), then Buyer may by notice to Seller require Seller in such Transactions, at Seller's option, to transfer to Buyer cash or additional Securities reasonably acceptable to Buyer ("Additional Purchased Securities"), so that the cash and aggregate Market Value of the Purchased Securities, including any such Additional Purchased Securities, will thereupon equal or exceed such aggregate Buyer's Margin Amount (decreased by the amount of any Margin Deficit as of such date arising from any Transactions in which such Buyer is acting as Seller).

(b) If at any time the aggregate Market Value of all Purchased Securities subject to all Transactions in which a particular party hereto is acting as Seller exceeds the aggregate Seller's Margin Amount for all such Transactions at such time (a "Margin Excess"), then Seller may by notice to Buyer require Buyer in such Transactions, at Buyer's option, to transfer cash or Purchased Securities to Seller, so that the aggregate Market Value of the Purchased Securities, after deduction of any such cash or any Purchased Securities so transferred, will thereupon not exceed such aggregate Seller's Margin Amount (increased by the amount of any Margin Excess as of such date arising from any Transactions in which such Seller is acting as Buyer).

(c) If any notice is given by Buyer or Seller under subparagraph (a) or (b) of this Paragraph at or before the Margin Notice Deadline on any business day, the party receiving such notice shall transfer cash or Additional Purchased Securities as provided in such subparagraph no later than the close of business in the relevant market on such day. If any such notice is given after the Margin Notice Deadline, the party receiving such notice shall transfer such cash or Securities no later than the close of business in the relevant market on the next business day following such notice.

(d) Any cash transferred pursuant to this Paragraph shall be attributed to such Transactions as shall be agreed upon by Buyer and Seller.

(e) Seller and Buyer may agree, with respect to any or all Transactions hereunder, that the respective rights of Buyer or Seller (or both) under subparagraphs (a) and (b) of this Paragraph may be exercised only where a Margin Deficit or Margin Excess, as the case may be, exceeds a specified dollar amount or a specified percentage of the Repurchase Prices for such Transactions (which amount or percentage shall be agreed to by Buyer and Seller prior to entering into any such Transactions).

(f) Seller and Buyer may agree, with respect to any or all Transactions hereunder, that the respective rights of Buyer and Seller under subparagraphs (a) and (b) of this Paragraph to require the elimination of a Margin Deficit or a Margin Excess, as the case may be, may be exercised whenever such a Margin Deficit or Margin Excess exists with respect to any

single Transaction hereunder (calculated without regard to any other Transaction outstanding under this Agreement).

5. Income Payments

Seller shall be entitled to receive an amount equal to all Income paid or distributed on or in respect of the Securities that is not otherwise received by Seller, to the full extent it would be so entitled if the Securities had not been sold to Buyer. Buyer shall, as the parties may agree with respect to any Transaction (or, in the absence of any such agreement, as Buyer shall reasonably determine in its discretion), on the date such Income is paid or distributed either (i) transfer to or credit to the account of Seller such Income with respect to any Purchased Securities subject to such Transaction or (ii) with respect to Income paid in cash, apply the Income payment or payments to reduce the amount, if any, to be transferred to Buyer by Seller upon termination of such Transaction. Buyer shall not be obligated to take any action pursuant to the preceding sentence (A) to the extent that such action would result in the creation of a Margin Deficit, unless prior thereto or simultaneously therewith Seller transfers to Buyer cash or Additional Purchased Securities sufficient to eliminate such Margin Deficit, or (B) if an Event of Default with respect to Seller has occurred and is then continuing at the time such Income is paid or distributed.

6. Security Interest

Although the parties intend that all Transactions hereunder be sales and purchases and not loans, in the event any such Transactions are deemed to be loans, Seller shall be deemed to have pledged to Buyer as security for the performance by Seller of its obligations under each such Transaction, and shall be deemed to have granted to Buyer a security interest in, all of the Purchased Securities with respect to all Transactions hereunder and all Income thereon and other proceeds thereof.

7. Payment and Transfer

Unless otherwise mutually agreed, all transfers of funds hereunder shall be in immediately available funds. All Securities transferred by one party hereto to the other party (i) shall be in suitable form for transfer or shall be accompanied by duly executed instruments of transfer or assignment in blank and such other documentation as the party receiving possession may reasonably request, (ii) shall be transferred on the book-entry system of a Federal Reserve Bank, or (iii) shall be transferred by any other method mutually acceptable to Seller and Buyer.

8. Segregation of Purchased Securities

To the extent required by applicable law, all Purchased Securities in the possession of Seller shall be segregated from other securities in its possession and shall be identified as subject to this Agreement. Segregation may be accomplished by appropriate identification on the books and records of the holder, including a financial or securities intermediary or a clearing corporation. All of Seller's interest in the Purchased Securities shall pass to Buyer on the Purchase Date and, unless otherwise agreed by Buyer and Seller, nothing in this Agreement shall preclude Buyer from engaging in repurchase transactions with the Purchased Securities or otherwise selling.

transferring, pledging or hypothecating the Purchased Securities, but no such transaction shall relieve Buyer of its obligations to transfer Purchased Securities to Seller pur-suant to Paragraph 3, 4 or 11 hereof, or of Buyer's obligation to credit or pay Income to, or apply Income to the obligations of, Seller pursuant to Paragraph 5 hereof.

Required Disclosure for Transactions in Which the Seller Retains Custody of the Purchased Securities

Seller is not permitted to substitute other securities for those subject to this Agreement and therefore must keep Buyer's securities segregated at all times unless in this Agreement Buyer grants Seller the right to substitute other securities. If Buyer grants the right to substitute, this means that Buyer's securities will likely be commingled with Seller's own securities during the trading day. Buyer is advised that during any trading day that Buyer's securities are commingled with Seller's securities, they [will]* [may]** be subject to liens granted by Seller to [its clearing bank]* [third parties]" and may be used by Seller for deliveries on other securities transactions. Whenever the securities are commingled, Seller's ability to resegregate substitute securities for Buyer will be subject to Seller's ability to satisfy [the clearing] * [any]** lien or to obtain substitute securities.

* Language to be used under 17 C.F.R. §403.4 (e) if Seller is a government securities broker or dealer other than a financial institution.

** Language to be used under 17 C.F.R. §403.5 (d) if Seller is a financial institution.

9. Substitution

(a) Seller may, subject to agreement with and acceptance by Buyer, substitute other Securities for any Purchased Securities. Such substitution shall be made by transfer to Buyer of such other Securities and transfer to Seller of such Purchased Securities. After substitution, the substituted Securities shall be deemed to be Purchased Securities.

(b) In Transactions in which Seller retains custody of Purchased Securities, the parties expressly agree that Buyer shall be deemed, for purposes of subparagraph (a) of this Paragraph, to have agreed to and accepted in this Agreement substitution by Seller of other Securities for Purchased Securities; provided, however, that such other Securities shall have a Market Value at least equal to the Market Value of the Purchased Securities for which they are substituted.

10. Representations

Each of Buyer and Seller represents and warrants to the other that (i) it is duly authorized to execute and deliver this Agreement, to enter into Transactions contemplated hereunder and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance, (ii) it will engage in such Transactions as principal (or, if agreed in writing, in the form of an annex hereto or otherwise, in advance of any Transaction by the other party hereto, as agent for a disclosed principal), (iii) the person signing this Agreement

on its behalf is duly authorized to do so on its behalf (or on behalf of any such disclosed principal), (iv) it has obtained all authorizations of any governmental body required in connection with this Agreement and the Transactions hereunder and such authorizations are in full force and effect and (v) the execution, delivery and performance of this Agreement and the Transactions hereunder will not violate any law, ordinance, charter, bylaw or rule applicable to it or any agreement by which it is bound or by which any of its assets are affected. On the Purchase Date for any Transaction Buyer and Seller shall each be deemed to repeat all the foregoing representations made by it.

11. Events of Default

In the event that (i) Seller fails to transfer or Buyer fails to purchase Purchased Securities upon the applicable Purchase Date, (ii) Seller fails to repurchase or Buyer fails to transfer Purchased Securities upon the applicable Repurchase Date, (iii) Seller or Buyer fails to comply with Paragraph 4 hereof, (iv) Buyer fails, after one business day's notice, to comply with Paragraph 5 hereof, (v) an Act of Insolvency occurs with respect to Seller or Buyer, (vi) any representation made by Seller or Buyer shall have been incorrect or untrue in any material respect when made or repeated or deemed to have been made or repeated, or (vii) Seller or Buyer shall admit to the other its inability to, or its intention not to, perform any of its obligations hereunder (each an "Event of Default"):

(a) The nondefaulting party may, at its option (which option shall be deemed to have been exercised immediately upon the occurrence of an Act of Insolvency), declare an Event of Default to have occurred hereunder and, upon the exercise or deemed exercise of such option, the Repurchase Date for each Transaction hereunder shall, if it has not already occurred, be deemed immediately to occur (except that, in the event that the Purchase Date for any Transaction has not yet occurred as of the date of such exercise or deemed exercise, such Transaction shall be deemed immediately canceled). The nondefaulting party shall (except upon the occurrence of an Act of Insolvency) give notice to the defaulting party of the exercise of such option as promptly as practicable.

(b) In all Transactions in which the defaulting party is acting as Seller, if the nondefaulting party exercises or is deemed to have exercised the option referred to in subparagraph (a) of this Paragraph, (i) the defaulting party's obligations in such Transactions to repurchase all Purchased Securities, at the Repurchase Price therefor on the Repurchase Date determined in accordance with subparagraph (a) of this Paragraph, shall thereupon become immediately due and payable, (ii) all Income paid after such exercise or deemed exercise shall be retained by the nondefaulting party and applied to the aggregate unpaid Repurchase Prices and any other amounts owing by the defaulting party hereunder, and (iii) the defaulting party shall immediately deliver to the nondefaulting party any Purchased Securities subject to such Transactions then in the defaulting party's possession or control.

(c) In all Transactions in which the defaulting party is acting as Buyer, upon tender by the nondefaulting party of payment of the aggregate Repurchase Prices for all such Transactions, all right, title and interest in and entitlement to all Purchased Securities subject to such Transactions shall be deemed transferred to the nondefaulting party, and the defaulting party shall deliver all such Purchased Securities to the nondefaulting party.

(d) If the nondefaulting party exercises or is deemed to have exercised the option referred to in subparagraph (a) of this Paragraph, the nondefaulting party, without prior notice to the defaulting party, may:

(i) as to Transactions in which the defaulting party is acting as Seller, (A) immediately sell, in a recognized market (or otherwise in a commercially reasonable manner) at such price or prices as the nondefaulting party may reasonably deem satisfactory, any or all Purchased Securities subject to such Transactions and apply the proceeds thereof to the aggregate unpaid Repurchase Prices and any other amounts owing by the defaulting party hereunder or (B) in its sole discretion elect, in lieu of selling all or a portion of such Purchased Securities, to give the defaulting party credit for such Purchased Securities in an amount equal to the price therefor on such date, obtained from a generally recognized source or the most recent closing bid quotation from such a source, against the aggregate unpaid Repurchase Prices and any other amounts owing by the defaulting party hereunder; and

(ii) as to Transactions in which the defaulting party is acting as Buyer, (A) immediately purchase, in a recognized market (or otherwise in a commercially reasonable manner) at such price or prices as the nondefaulting party may reasonably deem satisfactory, securities ("Replacement Securities") of the same class and amount as any Purchased Securities that are not delivered by the defaulting party to the nondefaulting party as required hereunder or (B) in its sole discretion elect, in lieu of purchasing Replacement Securities, to be deemed to have purchased Replacement Securities at the price therefor on such date, obtained from a generally recognized source or the most recent closing offer quotation from such a source.

Unless otherwise provided in Annex 1, the parties acknowledge and agree that (1) the Securities subject to any Transaction hereunder are instruments traded in a recognized market, (2) in the absence of a generally recognized source for prices or bid or offer quotations for any Security, the nondefaulting party may establish the source therefor in its sole discretion and (3) all prices, bids and offers shall be determined together with accrued Income (except to the extent contrary to market practice with respect to the relevant Securities).

(e) As to Transactions in which the defaulting party is acting as Buyer, the defaulting party shall be liable to the nondefaulting party for any excess of the price paid (or deemed paid) by the nondefaulting party for Replacement Securities over the Repurchase Price for the Purchased Securities replaced thereby and for any amounts payable by the defaulting party under Paragraph 5 hereof or otherwise hereunder.

(f) For purposes of this Paragraph 11, the Repurchase Price for each Transaction hereunder in respect of which the defaulting party is acting as Buyer shall not increase above the amount of such Repurchase Price for such Transaction determined as of the date of the exercise or deemed exercise by the nondefaulting party of the option referred to in subparagraph (a) of this Paragraph.

(g) The defaulting party shall be liable to the nondefaulting party for (i) the amount of all reasonable legal or other expenses incurred by the nondefaulting party in connection with or as a result of an Event of Default, (ii) damages in an amount equal to the cost (including all fees, expenses and commissions) of entering into replacement transactions and entering into or terminating hedge transactions in connection with or as a result of an Event of

Default, and (iii) any other loss, damage, cost or expense directly arising or resulting from the occurrence of an Event of Default in respect of a Transaction.

(h) To the extent permitted by applicable law, the defaulting party shall be liable to the non-defaulting party for interest on any amounts owing by the defaulting party hereunder, from the date the defaulting party becomes liable for such amounts hereunder until such amounts are (i) paid in full by the defaulting party or (ii) satisfied in full by the exercise of the nondefaulting party's rights hereunder. Interest on any sum payable by the defaulting party to the nondefaulting party under this Paragraph 11(h) shall be at a rate equal to the greater of the Pricing Rate for the relevant Transaction or the Prime Rate.

(i) The nondefaulting party shall have, in addition to its rights hereunder, any rights otherwise available to it under any other agreement or applicable law.

12. Single Agreement

Buyer and Seller acknowledge that, and have entered hereinto and will enter into each Transaction hereunder in consideration of and in reliance upon the fact that, all Transactions hereunder constitute a single business and contractual relationship and have been made in consideration of each other. Accordingly, each of Buyer and Seller agrees (i) to perform all of its obligations in respect of each Transaction hereunder, and that a default in the performance of any such obligations shall constitute a default by it in respect of all Transactions hereunder, (ii) that each of them shall be entitled to set off claims and apply property held by them in respect of any Transaction against obligations owing to them in respect of any other Transactions hereunder and (iii) that payments, deliveries and other transfers made by either of them in respect of any Transaction shall be deemed to have been made in consideration of payments, deliveries and other transfers in respect of any other Transactions hereunder, and the obligations to make any such payments, deliveries and other transfers may be applied against each other and netted.

13. Notices and Other Communications

Any and all notices, statements, demands or other communications hereunder may be given by a party to the other by mail, facsimile, telegraph, messenger or otherwise to the address specified in Annex 11 hereto, or so sent to such party at any other place specified in a notice of change of address hereafter received by the other. All notices, demands and requests hereunder may be made orally, to be confirmed promptly in writing, or by other communication as specified in the preceding sentence.

14. Entire Agreement; Severability

This Agreement shall supersede any existing agreements between the parties containing general terms and conditions for repurchase transactions. Each provision and agreement herein shall be treated as separate and independent from any other provision or agreement herein and shall be enforceable notwithstanding the unenforceability of any such other provision or agreement.

15. Non-assignability; Termination

(a) The rights and obligations of the parties under this Agreement and under any Transaction shall not be assigned by either party without the prior written consent of the other party, and any such assignment without the prior written consent of the other party shall be null and void. Subject to the foregoing, this Agreement and any Transactions shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. This Agreement may be terminated by either party upon giving written notice to the other, except that this Agreement shall, notwithstanding such notice, remain applicable to any Transactions then outstanding.

(b) Subparagraph (a) of this Paragraph 15 shall not preclude a party from assigning, charging or otherwise dealing with all or any part of its interest in any sum payable to it under Paragraph 11 hereof.

16. Governing Law

This Agreement shall be governed by the laws of the State of New York without giving effect to the conflict of law principles thereof.

17. No Waivers, Etc.

No express or implied waiver of any Event of Default by either party shall constitute a waiver of any other Event of Default and no exercise of any remedy hereunder by any party shall constitute a waiver of its right to exercise any other remedy hereunder. No modification or waiver of any provision of this Agreement and no consent by any party to a departure here-from shall be effective unless and until such shall be in writing and duly executed by both of the parties hereto. Without limitation on an of the foregoing, the failure to give a notice pursuant to Paragraph 4(a) or 4(b) hereof will not constitute a waiver of any right to do so at a later date.

18. Use of Employee Plan Assets

(a) If assets of an employee benefit plan subject to any provision of the Employee Retirement Income Security Act of 1974 ("ERISA) are intended to be used by either party hereto (the "Plan Party") in a Transaction, the Plan Party shall so notify the other party prior to the Transaction. The Plan Party shall represent in writing to the other party that the Transaction does not constitute a prohibited transaction under ERISA or is otherwise exempt therefrom, and the other party may proceed in reliance thereon but shall not be required so to proceed.

(b) Subject to the last sentence of subparagraph (a) of this Paragraph, any such Transaction shall proceed only if Seller furnishes or has furnished to Buyer its most recent available audited statement of its financial condition and its most recent subsequent unaudited statement of its financial condition.

(c) By entering into a Transaction pursuant to this Paragraph, Seller shall be deemed (i) to represent to Buyer that since the date of Seller's latest such financial statements, there has been no material adverse change in Seller's financial condition which Seller has not disclosed to Buyer, and (ii) to agree to provide Buyer with future audited and unaudited statements of

its financial condition as they are issued, so long as it is a Seller in any outstanding Transaction involving a Plan Party.

19. Intent

(a) The parties recognize that each Transaction is a "repurchase agreement" as that term is defined in Section 101 of Title 11 of the United States Code, as amended (except insofar as the type of Securities subject to such Transaction or the term of such Transaction would render such definition inapplicable), and a "securities contract" as that term is defined in Section 741 of Title 11 of the United States Code, as amended (except insofar as the type of assets subject to such Transaction would render such definition inapplicable).

(b) It is understood that either party's right to liquidate Securities delivered to it in connection with Transactions hereunder or to exercise any other remedies pursuant to Paragraph 11 hereof is a contractual right to liquidate such Transaction as described in Sections 555 and 559 of Title 11 of the United States Code, as amended.

(c) The parties agree and acknowledge that if a party hereto is an "insured depository institution," as such term is defined in the Federal Deposit Insurance Act, as amended ("FDIA"), then each Transaction hereunder is a "qualified financial contract," as that term is defined in FDIA and any rules, orders or policy statements thereunder (except insofar as the type of assets subject to such Transaction would render such definition inapplicable).

(d) It is understood that this Agreement constitutes a "netting contract" as defined in and subject to Title IV of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") and each payment entitlement and payment obligation under any Transaction hereunder shall constitute a "covered contractual payment entitlement" or "covered contractual payment obligation", respectively, as defined in and subject to FDICIA (except insofar as one or both of the parties is not a "financial institution" as that term is defined in FDICIA).

20. Disclosure Relating to Certain Federal Protections

The parties acknowledge that they have been advised that:

(a) in the case of Transactions in which one of the parties is a broker or dealer registered with the Securities and Exchange Commission ("SEC") under Section 15 of the Securities Exchange Act of 1934 ("1934 Act"), the Securities Investor Protection Corporation has taken the position that the provisions of the Securities Investor Protection Act of 1970 ("SIPA") do not protect the other party with respect to any Transaction hereunder;

(b) in the case of Transactions in which one of the parties is a government securities broker or a government securities dealer registered with the SEC under Section 15C of the 1934 Act, SIPA will not provide protection to the other party with respect to any Transaction hereunder; and

(c) in the case of Transactions in which one of the parties is a financial institution, funds held by the financial institution pursuant to a Transaction hereunder are not a deposit and

therefore are not insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, as applicable.

Goldman, Sachs & Co. FAS

By: _____
Title: Robin A. Vince
Date: Managing Director

Protective Life Insurance Co.
(Party B)

By: _____
Title: Vice President
Date: 12-9-05

By: _____

Title: Senior Vice President

Date: _____

Annex I

Supplemental Terms and Conditions

This Annex I forms a part of the Master Repurchase Agreement dated as of 12/09/2005, _____ (the "Agreement") between Goldman, Sachs & Co. (the "Company") and Protective Life Insurance. Capitalized terms used but not defined in this Annex I shall have the meanings ascribed to them in the Agreement.

1. Other Applicable Annexes. In addition to this Annex I and Annex II, the following Annexes and any Schedules thereto shall form a part of this Agreement and shall be applicable thereunder:

Applicable if checked and initialed below:

		Party A	Party B
Annex III (International Transactions)	[ ]	N/A	_____
Annex IV (Party Acting as Agent)	[ ]	N/A	_____
Annex VII (Transactions Involving Registered Investment Companies)	[ ]	N/A	_____
Annex VIII (Transactions in Equity Securities)	[ ]	N/A	_____
Annex IX (Transactions Involving Certain Japanese Financial Institutions)	[ ]	N/A	_____

2. **Qualified Institutional Buyers.** It is agreed that with respect to Transactions in Purchased Securities or Additional Purchased Securities which are eligible for resale under Rule 144A under the Securities Act ("Rule 144A Securities"), the following representations shall apply:

(a) on the Purchase Date for any Transaction and again on each date that Additional Purchased Securities that are Rule 144A Securities are transferred pursuant to Paragraph 4(a) of the Agreement, (i) Buyer represents and warrants that Buyer is familiar with the provisions of Rule 144A, (ii) Buyer represents and warrants that Buyer is a "Qualified Institutional Buyer" as such term is defined in Rule 144A, (iii) Seller represents and warrants that Seller is not, and within the preceding three months has not been, an "affiliate," as that term is used in Rule 144 under the Securities Act, of the issuer of any Purchased Securities or Additional Purchased Securities, and (iv) Seller represents and warrants that any Purchased Securities or Additional Purchased Securities transferred to Buyer are not subject to any legal or regulatory restrictions on transfer other than those applicable to "restricted securities" within the meaning of Rule 144; and

(b) on the Repurchase Date for any Transaction and on each date that Purchased Securities that are Rule 144A Securities are transferred pursuant to Paragraph 4(b) of the Agreement, (i) Seller represents and warrants that Seller is familiar with the provisions of Rule 144A, (ii) Seller represents and warrants that Seller is a "Qualified

Institutional Buyer" as such term is defined in Rule 144A, (iii) Buyer represents and warrants that Buyer is not, and within the preceding three months has not been, an "affiliate," as that term is used in Rule 144, of the issuer of any Purchased Securities, and (iv) assuming the accuracy and completeness of Seller's representations under subparagraph (a) of this Paragraph, Buyer represents and warrants that any Purchased Securities transferred to Seller are not subject to any legal or regulatory restrictions on transfer other than those applicable to "restricted securities" within the meaning of Rule 144.

3. **Qualified Purchasers.** It is agreed that with respect to Transactions in Purchased Securities or Additional Purchased Securities that are restricted as to their transfer by the provisions of Sections 3(c)(7) and 2(a)(51) and the related rules of the Investment Company Act of 1940, as amended ("3(c)(7) Securities"), the following representations shall apply:

(a) on the Purchase Date for any Transaction and again on each date that Additional Purchased Securities that are 3(c)(7) Securities are transferred pursuant to Paragraph 4(a) of the Agreement, (i) Buyer represents and warrants that Buyer is familiar with the provisions of Sections 3(c)(7) and 2(a)(51) and the related rules of the Investment Company Act of 1940, as amended, and (ii) Buyer represents and warrants that Buyer is a "Qualified Purchaser" as such term is defined thereunder; and

(b) on the Repurchase Date for any Transaction and on each date that Purchased Securities that are 3(c)(7) Securities are transferred pursuant to Paragraph 4(b) of the Agreement, (i) Seller represents and warrants that Seller is familiar with the provisions of Sections 3(c)(7) and 2(a)(51) and the related rules of the Investment Company Act of 1940, as amended, and (ii) Seller represents and warrants that Seller is a "Qualified Purchaser" as such term is defined thereunder.

4. Paragraph 10 of the Agreement is hereby amended by adding the following new subparagraphs at the end thereof:

Each of Buyer and Seller further represents and warrants that, with respect to each Transaction under the Agreement:

Non-Reliance. It has made its own determinations regarding the tax and accounting treatment of all aspects of the Transaction including, without limitation, the tax and accounting treatment of any Income paid with respect to the Securities. It is acting for its own account, and it has made its own independent decisions to enter into that Transaction. It has evaluated for itself whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of that Transaction.

Assessment and Understanding. It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice),

and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.

Status of Parties. The other party is not acting as a fiduciary for or an adviser to it in respect of that Transaction.

5. Paragraph 15 of the Agreement is hereby amended by inserting the following between the first and second sentences of subparagraph 15(a):

"Notwithstanding the foregoing, the Company may not assign its rights nor delegate its obligations under this Agreement, in whole or in part, without the prior written consent of the other party to this Agreement, and any purported assignment or delegation absent such consent is void, except for an assignment or delegation of all of the Company's rights and obligations hereunder in whatever form the Company determines may be appropriate to a partnership, corporation, trust or other organization in whatever form that succeeds to all or substantially all of the Company's assets and business and that assumes such obligations by contract, operation of law or otherwise. Upon any such delegation and assumption of obligations, the Company shall be relieved of and fully discharged from all obligations hereunder, whether such obligations arose before or after such delegation and assumption."

GOLDMAN, SACHS & CO.

By: _____

Title: Robin A. Vince

Date: Managing Director

Protective Life Insurance Co.

By: _____

Title: Vice President

Date: 12-9-05

By: _____

Title: Senior Vice President

Date: _____

Paragraph
4(b)
Calculation –
See also
Paragraphs
2(s) and 2(t)

First, calculate Seller's Margin Percentage under Paragraph 2(t) by dividing Market Value of Purchased Securities on the Purchase Date by the Purchase Price on the Purchase Date:

Purchase Price	Market Value
$18,666,051.10	$19,118,051.38
33,506,948.90	34,318,323.01
$52,173,000.00	$53,436,374.39

$$\frac{52,173,000.00}{53,436,374.39} = 97.64\%$$

Second, calculate Seller's Margin Amount under Paragraph 2(s) by multiplying Repurchase Price by Seller's Margin Percentage for transaction as of Purchase Date:

	Repurchase Price	$52,182,304.19
X	Seller's Margin Percentage	97.64%
	Seller's Margin Amount	$50,950,801.81

Third, under Paragraph 4(b) compare Seller's Margin Amount to Market Value of securities during period of transaction to determine if Seller must transfer additional cash or securities under Paragraph 4(c). The percentage of collateral required under the Seller's repurchase undertaking will be 97.64% ($52,182,304.19 ÷ $53,445,115.95) during the term of the transaction.

Attachment 2

Numbers set out below are taken from Goldman Confirmation dated September 16, 2003. Paragraph references are to Master Repurchase Agreement.

Paragraph
4(a)
Calculation –
See also
Paragraphs
2(c) and 2(d)

First, calculate Buyer's Margin Percentage under Paragraph 2(d) by dividing Market Value of Purchased Securities on Purchase Date by the Purchase Price on the Purchase Date for such (September 16, 2003) Transaction – taken from Confirmation:

Market Value	Purchase Price
$19,118,051.38	$18,666,051.10
34,318,323.01	33,506,948.90
$53,436,374.39	$52,173,000.00

$$\frac{53,436,374.39}{52,173,000.00} = 102.42\%$$

Second, calculate Buyer's Margin Amount under Paragraph 2(c) by multiplying

	Repurchase Price	$52,182,304.19
X	Buyers Margin Percentage	102.42%
=	Buyer's Margin Amount	$53,445,115.95

Third, under Paragraph 4(a), compare Buyer's Margin Amount to Market Value of securities during period of transaction to determine if Buyer must transfer additional cash or securities under Paragraph 4(c). The percentage of collateral required under the Buyer's reverse repurchase undertaking was 102.42% ($53,445,115.95 ÷ $52,182,304.19) during the term of the transaction.