REPORT ON EXAMINATION

OF THE

CONTINENTAL LIFE INSURANCE COMPANY
OF BRENTWOOD, TENNESSEE

BRENTWOOD, TENNESSEE

AS OF

DECEMBER 31, 2004

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Dept. Of Commerce & Insurance
Company Examinations

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Brentwood, Tennessee
August 5, 2005

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee, NAIC
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

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

Honorable Walter Bell
Secretary, Southeastern Zone, NAIC
Commissioner
Alabama Department of Insurance
201 Monroe Street
Montgomery, Alabama 36104

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"), an examination was made of the conditions and affairs of the

CONTINENTAL LIFE INSURANCE COMPANY
OF BRENTWOOD, TENNESSEE
101 Continental Place
Brentwood, Tennessee 37027

hereinafter and generally referred to as the "Company."

INTRODUCTION

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 January 3, 2005. The examination was conducted under the association plan of the NAIC by duly authorized representatives of the Tennessee Department of Commerce and Insurance.

SCOPE OF EXAMINATION

The period covered by this examination is from December 31, 1999, the date of the last previous examination, 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 was conducted in accordance with guidelines and procedures contained in the *NAIC Financial Condition Examiners Handbook*. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2004. The financial condition of the Company 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 applicable statutes and regulations. Independent actuaries were utilized in the review of the Company's loss reserves and due and deferred premiums.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus. In addition, an examination of the following areas was made:

- Prior Examination Comments and Recommendations
- Company History
- Growth of Company
- Charter and Bylaws
- Management and Control
- Pecuniary Interest
- Corporate Records
- Fidelity Bond and Other Insurance
- Employee Benefits and Pension Plans
- Territory and Plan of Operation
- Insurance Products and Related Practices
- Mortality and Loss Experience
- Reinsurance
- Agreements with Parent, Subsidiaries and Affiliates
- Litigation and Contingent Liabilities
- Statutory Deposit
- Accounts and Records
- Actuarial Review
- Financial Statements

These are discussed in detail as follows:

PREVIOUS EXAMINATION COMMENTS AND RECOMMENDATIONS

The previous full scope examination of the Company was conducted as of December 31, 1999, by examiners of the Tennessee Department of Commerce and Insurance. The previous examination produced several adverse findings. The adverse findings and their resolutions are as follows:

These are the comments and recommendations from the examination as of December 31, 1994, that the Company had not corrected as of December 31, 1999:

A. *The Company does not adhere to its investment policy.*

The Company amended its investment policy to reflect its actual investment practices.

B. *As of December 31, 1999, the Company reported an investment real estate balance of $6,768, which is comprised of Florida Tax Sale Certificates. This same investment was non-admitted in the prior examination because they do not qualify as admitted assets as provided for by Tenn. Code Ann.§56-3-303, and because they are not available for the payment of claims as stipulated by Tenn. Code Ann.§56-1-405.*

Beginning with the December 31, 2000 Annual Statement, the Company properly recorded this asset as nonadmitted

C. *Aggregate Reserve for Accident and Health Policies: The Company did not adjust the reserve factors for Medicare supplement business to reflect different area-rating factors and review the composite reserve factors to ensure that reserves approximate the actual distribution of business by area.*

The reserve factors have been adjusted to more accurately approximate the distribution of business by area.

These are the comments and recommendations resulting from the examination as of December 31, 1999:

A. *During the period of examination the Company did not adhere to certain stipulations of the By-Laws in that Annual meetings of the Shareholders were not held for each period, so that proper election of a Board of Directors by the shareholders each year did not take place.*

The Company held an Annual shareholders meeting for each year under examination.

B. *Problems that were found that are associated with Shareholder, Board of Director, and Investment Committee meeting minutes were:*

i. *No actual in person meetings by the Shareholders, Board of Directors, or Investment Committee took place during the period of examination. All meetings were by written consent only.*
ii. *All meeting minutes did not state the date that the meeting took place.*

For the period under examination, the Company held annual meetings of the Board of Directors and Shareholder. Regular investment committee meetings were held. Minutes of the meetings properly stated the date that the meeting took place.

C. *As of December 31, 1999, the Company had an administrative services agreement with their parent, Continental Insurance Services, Inc. ("CIS"). The agreement covered all administration of the internal operations and processing of business of the Company by CIS personnel at the Company's request. The Company paid CIS a fee based on a stated formula each month for these services. As of December 31, 1999, CIS did not have a Third Party Administrator license with the State of Tennessee as required by Tenn. Code Ann. § 56-6-401.*

The Company terminated their administrative services agreement with CIS on December 27, 2000. Such duties are now performed by employees of the Company.

D. *The Company bought certain bonds through J.C. Bradford which were held by the broker as of December 31, 1999. Holding investments at a brokerage house is in violation of Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46-.03 & 0780-1-46-.04.*

These bonds were transferred to the Company's custodial account at SunTrust Bank.

E. *The Company's custodial agreement for their investment account held at SunTrust Bank did not include the liability or indemnification clauses as required by the NAIC* Financial Condition *Examiners Handbook.*

The Company replaced the agreement with a new and acceptable agreement as of December 15, 2000.

F. *The Company needs to update its complaint register to accurately reflect the details associated with each individual complaint.*

The Company has updated its procedures related to complaints so that accurate, up-to-date information is available on its computerized claims register.

G. *The Company needs more written procedures, better documentation and internal controls related to their computer information systems.*

The Company now has most of the desirable controls related to documentation listed in the Information Systems Questionnaire in place.

H. *The Company is not moving stale outstanding checks to an unclaimed liability account. Their outstanding check lists are cluttered with old items. If a check is outstanding after a period of six months to a year, the Company should then move the check to an unclaimed liability account.*

The Company has procedures in place to move outstanding checks to an unclaimed property account and to report these amounts to the various states as required.

I. *It is recommended that the Company's additional contract reserves held for hospital indemnity, cancer, group Medicare supplement and dental/vision plans be calculated based on actual claim costs as opposed to estimates.*

The additional reserves are now calculated using actual claim costs as opposed to estimates.

J. *The Company reported the Interest Maintenance Reserve's("IMR") balance to be $(36,714) in their 1999 Annual Statement. This negative liability was reclassified to surplus, and shown as $0 for the examination. The Tennessee Department of Commerce and Insurance accounting practices and procedures does not allow for a negative liability amount. Also, the NAIC Life Annual Statement Instructions Manual specifies that the IMR cannot be a negative amount. It is recommended that the Company not report any liability amounts to be negative in future statutory financial statements.*

The Company has correctly reported this item in its subsequent financial statements.

COMPANY HISTORY

The Company was incorporated under the name of Continental Life Insurance Company for a perpetual period on December 5, 1983, pursuant to the provisions of the Tennessee General Corporation Act. The Company's original Charter authorized 10,000 shares of common capital stock with a par value of $75.00 per share.

On December 15, 1983, CIS, a Tennessee general business corporation, subscribed to all 10,000 shares of the Company's authorized common capital stock at a purchase price of $112.50 per share for a total of $1,125,000 of which $750,000 was capital stock and $375,000 was gross paid in and contributed surplus.

Effective October 3, 1984, the Company amended its charter to provide for 20,000 shares of common capital stock with a par value of $75.00 per share. Subsequent to this amendment, CIS purchased an additional 8,811 shares of the Company's common capital stock at a purchase price of $113.50 per share for a total of $1,000,080.50 of which $660,825 was paid in capital and $339,255.50 was gross paid and contributed surplus.

On November 26, 1985 and December 18, 1985, CIS made contributions of $600,000 and $210,000, respectively, to the Company's gross paid in and contributed surplus. In accordance with an amendment to the Company's charter effective December 23, 1985, all 18,811 shares issued and outstanding of common capital stock were exchanged by CIS for 18,811 shares of common capital stock with a par value of $53.50 per share for total paid in capital of $1,006,388.50. The net decrease of $404,436.50 to common capital stock due to the exchange was contributed by CIS to gross paid in and contributed surplus.

Effective July 3, 1986, the Company's charter was amended to change the name of the Company to Continental Life Insurance Company of Brentwood, Tennessee. Also, in late 1986 and throughout 1987, CIS made several surplus contributions to the Company which totaled $1,100,000.

In order to comply with changes in the minimum capital requirements for the State of Georgia, the Company amended its charter effective December 4, 1992, to increase the par value of its common capital stock from $53.50 to $79.75. The effect of this change was to transfer $493,788.75 from gross paid in and contributed surplus to common capital stock. This charter amendment also increased the Company's number of authorized shares to 100,000.

The history of the Company's common capital stock is presented as follows:

Date	# of Shares Outstanding	Par Value	Capital Stock	Gross Paid In Surplus
12/15/83	10,000	$75.00	$ 750,000	$ 375,000
07/25/85	18,811	75.00	1,410,825	714,256
11/26/85	18,811	75.00	1,410,825	1,814,256
12/18/85	18,811	75.00	1,410,825	1,524,256
12/31/85	18,811	53.50	1,006,389	1,928,693
11/14/86	18,811	53.50	1,006,389	2,428,693
09/09/87	18,811	53.50	1,006,389	3,028,693
12/04/92	18,811	79.75	1,500,177	2,534,904

GROWTH OF COMPANY

The following schedule reflects the growth and financial history of the Company since the previous examination, as shown by its annual statements for the years indicated:

Year	Admitted Assets	Liabilities	Unassigned Funds (Surplus)	Net Written Premium
1999	$44,824,270	$27,216,819	$13,572,370	$50,607,336
2000	54,264,557	35,533,162	17,231,218	65,764,490
2001	64,871,017	41,560,200	21,810,640	84,446,295
2002	77,497,329	50,077,473	25,919,679	102,177,239
2003	95,553,441	64,220,485	29,832,779	129,700,664
2004	113,166,490	76,555,093	35,111,220	152,583,703

CHARTER AND BYLAWS

The Company's original charter was filed and recorded with the Department of State, State of Tennessee on December 5, 1983. This charter stated the Company's location as 3709 Nolensville Road, Nashville, Davidson County, Tennessee. Effective February 17, 1986, the charter was amended to reflect the Company's new address at 101 Continental Place, Brentwood, Williamson County, Tennessee.

According to the restated charter as amended through July 3, 1986, and in effect at December 31, 2004, the Company was organized ". . . to grant insurance upon the lives or health of persons and every assurance pertaining thereto; to grant, purchase or dispose of annuities or endowments; to insure against bodily injury or death by accident; to reinsure all or any portion of its own risks and to accept reinsurance from other companies . . ." The Company's charter was not amended during the period under examination.

The Company's incorporator adopted By-Laws on December 13, 1983. These were still in effect at December 31, 2004.

The By-Laws provide for an annual Shareholders meeting at which a Board of Directors is elected. The Board of Directors are to hold "regular meetings". Officers are to be elected by the Board of Directors annually at the first Board of Directors meeting after the annual Shareholders meeting. The By-Laws also provide for the declaration of dividends by the Board of Directors. No dividends were declared during the examination period. The Company's By-Laws were not amended during the period under examination.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of CIS, which is wholly owned by Randall Ray Baskin, Sr., the Company's founder and Chairman.

The Company's charter, as restated on July 3, 1986, and their By-Laws state an annual meeting of the Shareholders shall be held each year at which meeting the Shareholders shall elect a Board of Directors.

The Company's restated charter provides that "All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the Board of Directors . . ." Both the charter and the Company's By-Laws state that the number of Directors shall be not less than three (3).

As reported in the Annual Statement, the following persons were serving as Directors of the Company as of December 31, 2004:

Name and Address	Principal Occupation
Randall Ray Baskin, Sr. Franklin, TN	Chairman, President & CEO of the Company; Owner and President of Continental Insurance Service, Inc.
Sadie Tucker Baskin Franklin, TN	Director of the Company
Thomas Anthony Light Brentwood, TN	Senior Vice President, Secretary and Treasurer of the Company
William Bruce Bradley Nashville, TN	Director of the Company; Lawyer, Private Practice

The By-Laws of the Company state that the Board of Directors shall elect a Chairman of the Board, President, a Vice President, a Secretary, and a Treasurer annually. The offices of President and Secretary may not be held by the same person. There was no evidence of an election of officers since the annual meeting of the Board of Directors held on February 22, 2002. Although no evidence of a current election of officers could be provided, the Company reports that the following continue to serve as officers:

Name	Title
Randall Ray Baskin, Sr.	President
Thomas Anthony Light	Secretary and Treasurer
Donald Lee Behne	Chief Financial Officer
Rudick Joseph Murphy II	Vice President and General Counsel

According to the provisions of Tenn. Code Ann. § 56-11-201, the Company is a member of an insurance holding company system as it is a wholly-owned subsidiary of CIS. Pursuant to Tenn. Code Ann. § 56-11-202, the Company filed annual holding company registration statements which disclosed the members of the holding system to include the Company, its Parent, CIS, and Randall Ray Baskin, Sr., the controlling person as the owner of 100% of the stock of CIS.

PECUNIARY INTEREST TENN. CODE ANN. § 56-3-103

During the period under examination, the Company had an established procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of its officers and directors which conflicts with the person's official duties with the Company. Statements regarding such conflicts of interest were executed by the officers and directors on an annual basis. The statements were found to be in order with no exceptions noted.

CORPORATE RECORDS

The minutes of the meetings of the Shareholder, the Board of Directors, and Investment Committee held during the period under examination were reviewed. There is no evidence of a current election of Officers, although the Officers listed in the 2004 Annual Statement are the same as those elected in the Board of Directors meeting held on February 22, 2002, the last such election shown in the minutes.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured under certain insurance coverages being carried by its parent, CIS. The following is a summary of the various bonds and insurance policies that provided the enumerated coverages to the Company at December 31, 2004:

Type of Coverage	Limits of Liability
1.Fidelity bond, comprehensive crime, Form 25	$ 1,500,000 single loss limit $ 50,000 single loss deductible
2.Commercial general liability	$ 1,000,000 per occurrence $ 300,000 fire limit-any one fire $ 5,000 medical expense $ 1,000,000 personal & advertising $ 2,000,000 general aggregate $ 2,000,000 products-completed operations
3.Commercial umbrella liability policy	$ 3,000,000 each occurrence and aggregate $ 5,000 deductible
4.Business automobile liability Uninsured motorists Medical payments	$ 1,000,000 each accident $ 1,000,000 each accident $ 5,000 each person
5.Employee benefits liability	$ 1,000,000 each claim $ 1,000,000 aggregate
6.Workers compensation liability	
A. Workers compensation	Tennessee statutory limit
B. Employers liability	
a. Bodily injury by accident	$ 100,000 each accident
b. Bodily injury by disease	$ 100,000 each employee
c. Bodily injury by disease	$ 500,000 policy limit

Minimum fidelity coverage suggested in the *NAIC Financial Condition Examiners Handbook* for a company of the Company's size and premium volume is not less than $900,000, which the

Company exceeds. The bonds and policies affording the aforementioned coverages were inspected and appear to be in-force as of the date of this examination. Said bonds and policies were written by companies licensed to transact business in the State of Tennessee.

EMPLOYEE BENEFITS AND PENSION PLANS

The following is a summary of the programs available to employees as of December 31, 2004:

Insurance Benefits

A. Group Life, Accidental Death Insurance & Long Term Disability - Life, accidental death, and long term disability insurance is provided to all full-time employees on a non-contributory basis. Each employee must complete 90 days of full-time active employment before becoming eligible. Coverage will become effective on the first day of the following month after such waiting period. The life insurance benefit amount is based on the employee's salary with a minimum of $10,000, up to a maximum of $50,000. The accidental death insurance benefit amount is equal to the face amount of the employee's life coverage. The long term disability plan provides benefits equal to 60% of the employee's gross monthly income, and will continue until they reach age 65 if they remain disabled.

B. Health Insurance - Medical insurance is provided to all full-time employees after completion of 90 days of active full-time employment. The plan is contributory for employees. Employees may also elect and pay for dependent coverage. The insurance is a major medical plan which provides benefits for both inpatient and outpatient covered charges. The employee can choose between a PPO or an HMO plan. The health insurance also includes well care, vision, and prescription drug benefits.

Retirement Plan

Company employees are covered by a qualified 401(k) pension plan that was instituted in 2001. The Company matches employee contributions of up to 3% of eligible salary.

Insurance Education Program

The Company sponsors self-study Insurance Industry Educational Courses in the Life Office Management Association and Health Insurance Association of America for all regular full time employees. The Company lends all required text material, and upon successful completion of the course, will reimburse the tuition paid. Also, the Company pays a bonus for the successful completion of examinations and designations.

Other Plans

These plans include paid leave days, holidays, and service awards. The time of service with the Company determines the eligibility and amounts of time available under these plans.

TERRITORY AND PLAN OF OPERATION

Territory

At December 31, 2004, the Company was an authorized insurer in the following states:

Alabama	Illinois	Minnesota	North Carolina	Tennessee
Arizona	Indiana	Mississippi	North Dakota	Texas
Arkansas	Iowa	Missouri	Ohio	Utah
Colorado	Kansas	Montana	Oklahoma	Virginia
Florida	Kentucky	Nebraska	Pennsylvania	West Virginia
Georgia	Louisiana	Nevada	South Carolina	Wisconsin
Idaho	Michigan	New Mexico	South Dakota	Wyoming

The Company currently has no applications pending for admission to any other states, although the Company does expect to continue expansion in the future. In addition to its authorized writings, the Company also collects premiums in every state plus the District of Columbia and Puerto Rico due to geographical moves by policyholders. Premium tax records were reviewed for all states in which the Company writes business and no exceptions were noted.

Shown below are the figures for premiums by state in which the Company operated for the year ending December 31, 2004, as reported in Schedule T of the Company's Annual Statement:

State	Life Premium	Accident and Health Premium
Alabama	$ 34,724	$ 387,930
Alaska	-	3,415
Arizona	11,354	1,028,664
Arkansas	58,990	1,768,162
California	4,326	138,857
Colorado	4,731	152,354
Connecticut	92	71,888
Delaware	-	8,248
District of Columbia	-	2,419
Florida	365,573	19,045,298
Georgia	558,427	10,526,257

State	Life Premium	Accident and Health Premium
Hawaii	$ -	$ 2,981
Idaho	7,149	338,109
Illinois	104,000	2,197,269
Indiana	42,943	932,222
Iowa	4,392	79,624
Kansas	55,349	1,084,759
Kentucky	222,800	2,737,748
Louisiana	108,711	2,772,408
Maine	-	26,908
Maryland	3,335	63,612
Massachusetts	286	61,442
Michigan	188,445	8,949,509
Minnesota	5,750	164,697
Mississippi	160,191	3,552,984
Missouri	529,425	16,081,963
Montana	13,000	637,090
Nebraska	8,179	129,219
Nevada	1,818	23,674
New Hampshire	111	29,301
New Jersey	551	73,282
New Mexico	3,159	213,180
New York	1,539	160,371
North Carolina	382,502	7,880,776
North Dakota	1,082	136,101
Ohio	485,366	9,899,991
Oklahoma	217,488	10,519,592
Oregon	383	20,960
Pennsylvania	213,993	10,852,475
Rhode Island	-	11,941
South Carolina	297,744	14,005,761
South Dakota	11,179	510,595
Tennessee	777,276	12,033,854
Texas	172,191	6,504,224
Utah	45,566	955,606
Vermont	133	18,745
Virginia	47,005	823,492
Washington	232	36,865
West Virginia	19,307	147,191
Wisconsin	2,309	131,659
Wyoming	1,427	11,124
Total	**$5,174,536**	**$147,946,797**

Plan of Operation

The Company writes a number of ordinary life insurance plans and group and individual accident and health ("A&H") insurance plans, primarily Medicare Supplement. As of December 31, 2004, Medicare Supplement comprised approximately 97% of the health policies in force.

The Company markets and distributes its products through its Parent, CIS, and other general agents. Some of the general agents also have sub-agents who market the Company's products. The general agents represent the Company according to the terms and provisions of standard contracts which establish respective rights and responsibilities. At the date of this examination report, the Company had contracts in force with more than 3,000 agents.

INSURANCE PRODUCTS AND RELATED PRACTICES

Advertising

The Company maintains advertising and sales material files in their compliance department. Copies of all material are placed in a state file and the date used or replaced is noted with the revised version. Advertising and sales material that require prior approval (Medicare Supplement, Long Term Care Insurance) are filed with the appropriate State Insurance Department before use.

The Company generally prepares a sales brochure to be used by both an agent and potential applicant which explains the benefits, provisions and limitations of the policy. Also included are the premium rates, issue age limits, benefits amount limits, and other pertinent criteria. For a particular product type, such as Medicare Supplement, the Company may prepare a mailing that is mailed to potential applicants that may be interested in a Medicare Supplement plan. The Company generally does not do any type of radio or television advertising.

Underwriting

The Company uses strict underwriting rules in all of its products with numerous health and history questions contained in the applications. Applications do vary somewhat depending on the type of insurance being applied for. All applicants of new general agents and agents are telephone interviewed to verify the correctness of the information furnished and to establish a level of confidence in the field underwriting abilities of the new agent or general agent. Thereafter, periodic interviews are also conducted on a random basis for established agents in an effort to monitor the level of completeness of the agents' information.

Depending on the age of the applicant and the type of policy being applied for, physician statements and records may or may not be ordered. Medicare Supplement applications are either issued or declined; no rate-ups or endorsements are allowed. Life applicants may be issued standard, or up to Table 4 automatically, or up to Table 12 on a facultative basis. Cancer, dread

disease and other indemnity type products are either issued or declined; no riders or exclusion endorsements are used. Major/Minor medical expense type policies may be issued with waivers for certain medical conditions excluded.

Rates and Policy Forms

The Company writes a number of individual life insurance plans and group and individual A&H insurance plans, but most policies written are for Medicare supplement coverages. The life plans include variations of whole life coverage with terminal illness benefits and decreasing and level term coverages with optional accidental death benefits. In addition to Medicare supplement policies, the Company's A&H plans include cancer coverages, hospital indemnity, medical and surgical expenses, hospital expenses, long term care coverages, home health care, nursing home coverages and major medical plans. Various riders are available that cover items such as expenses for registered nursing, additional charges for private room, intensive care, skilled nursing home, medical and surgical procedures and accidental death benefits. Most of the Company's policies are guaranteed renewable.

The Company's rates and policy forms were reviewed for compliance with state statutes and regulations concerning approval by their respective State Insurance Departments. As discussed under "Territory and Plan of Operation", the Company is authorized to write business in 35 states.

The Company's policies are computerized and are rated automatically by in-house software. The examiners reviewed a random sample of policies issued during the examination period to determine compliance with rates and forms as approved by their respective State Insurance Departments.

A review was also made of the Company's procedures for documenting approval of rates and forms. Approved policies for all states are filed by plan and files reviewed appear to be complete.

Complaints

The Company's complaint handling practices were reviewed during the examination. The Company maintains a complaint register that records all pertinent information regarding the complaint including date received, date closed, complainant name, respective State Insurance Department involved, nature of complaint, and disposition. A sample of complaints from this listing was traced to the documentation in the respective policy and complaint files. Complaints to the Company generally result from claims not covered, refund requests and policies being rescinded due to misrepresentations on applications submitted.

Claims

The Company's claims handling practices were reviewed for timeliness, adherence to proper procedure and fair and consistent treatment of policyholders.

A random sample of policy files was reviewed for proper documentation of policy and claims data and consistency with computerized policy data. This review disclosed that the Company maintains accurate policy and claim file records that correspond correctly to their computer data. In addition to testing the accuracy of the Company's data, a review was made of the Company's practices pertaining to the handling of claim settlements by sampling both open and closed claim files. The sample consisted of claims paid, claims denied and pending claims as of December 31, 2004. The review disclosed that the Company settled its claims promptly after receipt of the necessary documents and in accordance with policy provisions.

The Company maintains an updated set of written claim procedures, claim training manual, and anti-fraud procedures.

MORTALITY AND LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements filed with the Tennessee Department of Commerce and Insurance, the loss and mortality experience of the Company for the examination period is presented as follows:

Ordinary Life

	2000	2001	2002	2003	2004
Net Death Benefits Incurred	$ 502,320	$ 708,981	$ 778,711	$ 1,137,050	$ 1,330,369
Deduct:					
Reserves Released by Death	62,974	75,638	79,332	51,734	60,757
Actual Death Benefits Incurred	439,346	633,343	699,379	1,085,316	1,269,612
Expected Mortality	876,986	837,034	1,044,666	2,211,390	1,896,904
Mortality Experience	50.10%	75.67%	66.95%	49.08%	66.93%

Accident and Health

	2000	2001	2002	2003	2004
Net Incurred Claims	$ 45,124,189	$ 56,547,327	$ 70,163,259	$ 82,211,046	$ 99,023,841
Net Premiums Earned	62,409,248	81,803,881	97,634,161	121,756,421	145,827,135
Loss Experience Ratio	72.30%	69.13%	71.86%	67.52%	67.90%

REINSURANCE

Reinsurance Ceded:

The following is a summary of the active reinsurance agreements ceded in effect at December 31, 2004. The Company did not assume any reinsurance for the period under review.

LIFE POLICIES:

The Company has four ceded life reinsurance agreements in effect as of January 1, 2005. The first three agreements are automatic and facultative yearly renewable term contracts between the Company and Business Men's Assurance Company of America covering standard and sub-standard life insurance.

Summary of Contract Terms – Automatic Yearly Renewable Term ("ART")

Reinsurer:	Business Men's Assurance Company of America Kansas City, Missouri
Effective Period:	See Business Ceded section.
Business Ceded:	(a) September 1, 1985 – September 1, 1994 covered all plans of life insurance issued on individuals with last names beginning A-K from 1985 until September 1, 1994. The treaty was terminated in 1994. There are a few remaining policies being reinsured. (b) April 1, 1998 until terminated - ART plan and 10, 15, and 20 Year Level Term plans. (c) September 1, 1994 until terminated - covers permanent life insurance plans issued.
Type of Reinsurance:	Automatic and facultative yearly renewable term
Limits:	Four (4) times the Company's retention; Nine (9) times the Company's retention (treaty eff. 04-01-98); 10,000,000 jumbo limit on life coverages.
Minimum Cession:	$5,000
Company's Retention:	$25,000

The fourth ceded life reinsurance agreement is a facultative yearly renewable term contract between the Company and Optimum Re Insurance Company covering standard and sub-standard life insurance.

Summary of Contract Terms – Facultative Yearly Renewable Term

Reinsurer:	Optimum Re Insurance Company Irving, Texas

Effective Period:	September 1, 1994, until terminated
Business Ceded:	Life Insurance (standard and sub-standard); waiver of premium disability
Type of Reinsurance:	Facultative yearly renewable term
Limits:	$1,000,000 per insured and an amount of waiver of premium corresponding to $1,000,000 of life.
Minimum Cession:	$1,000
Company's Retention:	Life: $25,000; Waiver of Premium: amount associated with life risk retained to a maximum life risk of $25,000

ACCIDENT AND HEALTH POLICIES:

The Company has five (5) ceded A&H reinsurance agreements in effect as of January 1, 2005. The first such agreement is a quota share contract between the Company and Employers Reinsurance Corporation covering long term care ("LTC") policies LTC-300 and LTC-400.

Summary of Contract Terms – Quota Share Long Term Care

Reinsurer:	Employers Reinsurance Corporation Overland Park, Kansas
Effective Period:	January 1, 1992, until terminated
Business Ceded:	Individual LTC policies LTC-300 and LTC-400
Type of Reinsurance:	Quota Share (automatic)
Retention and Cession:	Company retains 20% of loss; the remaining 80% is ceded to the reinsurer
Ceding Commission:	90% in the first year; scaled down to 15% in the fifth year and thereafter

The second ceded A&H reinsurance agreement is an excess of loss contract between the Company and ReliaStar Life Insurance Company covering Medicare Supplement polices. The contract was terminated by the Company in 2000.

Summary of Contract Terms – Medicare Supplement Excess of Loss

Reinsurer:	ReliaStar Life Insurance Company Minneapolis, Minnesota
Effective Period:	October 1, 1995- October 1, 2000
Business Ceded:	Medicare supplement policies in force, written or renewed by the Company
Type of Reinsurance:	Excess of loss reinsurance
Retention:	$100,000
Limit and Retention:	100% of $900,000 in excess of $100,000 of claims and claims adjustment expenses per insured
Experience Refund:	60% of net profit after 20% for reinsurer's management expenses. Refund calculated for the Company at the end of each agreement year

The third ceded A&H agreement is an excess of loss contract between the Company and American National Insurance Company covering Medicare Supplement polices.

Summary of Contract Terms – Medicare Supplement Excess of Loss

Reinsurer:	American National Insurance Company Galveston, Texas
Effective Period:	October 1, 2000 – September 30, 2003
Business Ceded:	Medicare supplement policies in force, written or renewed by the Company
Type of Reinsurance:	Excess of loss reinsurance
Retention:	$100,000
Limit and Retention:	100% of $900,000 in excess of $100,000 of claims and claims adjustment expenses per insured subject to a $1,000,000 lifetime maximum per insured
Experience Refund:	60% of net profit after 20% for reinsurer's management expenses. Refund calculated for the Company at the end of each agreement year

The fourth ceded A&H reinsurance agreement is a quota share contract between the Company and Employers Reinsurance Corporation covering LTC policies LTC-1-97, LTC-2-97, LTC-3-97 and LTC-3-97-TQ. The contract is a standard reinsurance agreement and includes such clauses as offset and insolvency provisions.

Reinsurer:	Employers Reinsurance Corporation Overland Park, Kansas
Effective Period:	February 1, 1998, until terminated
Business Ceded:	LTC insurance policies LTC-1-97, LTC-2-97, LTC-3-97, LTC-3-97-TQ
Type of Reinsurance:	Quota Share (automatic)
Retention and Cession:	Company retains 50% of loss; the remaining 50% is ceded to reinsurer
Ceding Commission by Policy Year	First: (a) issued prior to August 1, 1999; percentage commission allowed by the Company to its producer plus 17%. (b) Issued on or after August 1, 1999: percentage commission allowed by the Company to its producer plus 14%. Renewals: percentage commission allowed by the Company to its producer plus 14 %

The fifth ceded A&H reinsurance agreement is an excess of loss contract between the Company and Employers Reinsurance Corporation covering LTC policies LTC-1-97, LTC-2-97, LTC-3-97, and LTC-3-97-TQ. The contract is standard reinsurance agreement and includes such clauses as offset and insolvency provisions.

Summary of Contract Terms – Long Term Excess of Loss

Reinsurer:	Employers Reinsurance Corporation Overland Park, Kansas
Effective Period:	February 1, 1998 - June 1, 2001
Business Ceded:	LTC insurance policies LTC-1-97, LTC-2-97, LTC-3-97, LTC-3-97-TQ
Type of Reinsurance:	Excess of loss reinsurance
Retention and Cession:	Company retains the first $100,000 per person each confinement; Reinsurer accepts 100% of loss in excess of $100,000 per person each confinement

UNEARNED CEDING COMMISSIONS:

The majority 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. Therefore, no return of premium or ceding commission at the termination of an agreement is required due to the policies continuing 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.

Statement 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 contain such persistency guarantees.

Other Considerations:

All of the Company's active reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to 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 some 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 Annual Statement Instructions, page 273, that states "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 § 56-44-102.

It was noted that none of the three agreements with Employers Reinsurance Corporation nor the agreement with American National Insurance Company included arbitration or errors & omissions clauses. It is recommended that the Company add these clauses to these agreements.

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company had three agreements with their parent company, CIS in effect as of December 31, 2004. The following are summaries of the agreements in effect as of this examination for the Company:

Consolidated Tax Allocation Agreement

This agreement between CIS and the Company was adopted effective as of March 30, 1999. The agreement states the two parties elect to allocate their tax liability during consolidated return years by the method prescribed in Internal Revenue Service ("IRS") Regulation 1.1552-1(a)(2). The consolidated tax liability is allocated to each member of the consolidated group based upon the percentage of each member's tax computed on a separate return basis to the total tax so computed for all members. In lieu of actual payments, adjustments to inter-company payable and receivables will be made if such exist on the Company's books. It does not appear that the agreement was filed for approval as required by Tenn. Code Ann. § 56-11-206 (a)(2)(D).

Furniture, Equipment, Computer Rental and Service Contract

This agreement between the Company and CIS became effective on January 1, 2001. Under the terms of the agreement CIS provides furniture and equipment necessary for the Company to carry out its operations. It does not appear that the agreement was filed for approval as required by Tenn. Code Ann. § 56-11-206(a)(2)(D).

Office Lease Agreement

This agreement between the Company and CIS became effective on January 1, 2001. Under the terms of the agreement CIS provides office space to the Company for fixed lease payment. The agreement also contains a provision for additional payments to CIS if operating expenses are excessive. It does not appear that the agreement was filed for approval as required by Tenn. Code Ann. § 56-11-206(a)(2)(D).

LITIGATION AND CONTINGENT LIABILITIES

From the data made available during the progress of this examination, it would appear that the only matters at law in which the Company was involved, during the period under review, were those relating to the settlement of claims.

The Company also apparently had no agreements or pending matters of contingent nature that would materially affect its financial position or operating results at December 31, 2004.

STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained the following deposits with the named jurisdictions or custodians as of December 31, 2004:

DEPOSITS WHICH ARE NOT FOR THE BENEFIT OF ALL POLICYHOLDERS:

Jurisdiction	Description of Security	Par Value	Book Value	Market Value
Florida	US Treasury Bond, Due 11/15/16, 3.5%, Cusip # 9128277F3	$ 210,000	$ 207,613	$ 211,772
Georgia	US Treasury Note, Due 2/15/10, 6.5%, Cusip # 9128275Z1	46,000	52,330	52,078
Nevada	US Treasury Bond, Due 2/15/29, 5.25%, Cusip # 912810FG8	200,000	206,746	197,412
New Mexico	US Treasury Note, Due 5/15/06, 4.625%, Cusip # 9128276X5	125,000	125,337	127,890
North Carolina	US Treasury Note, Due 11/15/06, 3.50%, Cusip # 9128277F3	130,000	127,779	131,097
North Carolina	US Treasury Bond, Due 2/15/29, 5.25%, Cusip # 912810FG8	400,000	413,493	394,824
Virginia	US Treasury Note, Due 2/15/06, 5.625%, Cusip # 912827W81	225,000	224,044	231,962
Total		$1,336,000	$1,357,342	$1,347,035

DEPOSITS WHICH ARE FOR THE BENEFIT OF ALL POLICYHOLDERS:

Jurisdiction	Description of Security	Par Value	Book Value	Market Value
Tennessee	Fed. Home Loan Mtge., 5.0%, Due 3/17/14, Cusip # 3128X2J48	$ 250,000	$ 242,798	$ 242,798
Tennessee	JP Morgan Chase & Co., 5.625%, Due 8/15/06, Cusip # 46625HAL4	500,000	508,271	517,995
Tennessee	Bank of America Corp., 5.875%, Due 2/15/09, Cusip # 066050CV5	215,000	211,738	230,815
Tennessee	GE Capital Corp., 8.125%, Due 5/15/12, Cusip # 369622DN2	200,000	227,763	241,662
Tennessee	Morgan St. Dean Witter, 6.75%, Due 4/15/11, Cusip #617446GM5	500,000	504,434	560,820
Tennessee	SunTrust Bank, 6.375%, Due 4/1/11, Cusip # 86787GAB8	500,000	496,764	496,764

Jurisdiction	Description of Security	Par Value	Book Value	Market Value
Tennessee	WPS Resources Corp., 7.00%, Due 11/1/09, Cusip # 92931BAA4	$ 500,000	$ 518,513	$ 561,545
Tennessee	Wells Fargo Bank, 6.45%, Due 2/1/11, Cusip # 949748AF4	500,000	499,473	556,030
Tennessee	GTE California, Inc., 6.70%, Due 9/1/09, Cusip # 362311AF9	500,000	509,123	545,110
Tennessee	Goldman Sachs Grp., Inc., 6.875%, Due 1/15/11, Cusip # 38141GAZ7	500,000	501,815	564,090
Tennessee	Household Fin. Corp., 6.40%, Due 6/17/08, Cusip # 441812FY5	500,000	489,237	539,440
Tennessee	Fed. Home Loan Mtge., 5.0%, Due 1/28/14, Cusip # 3128X2NM3	500,000	500,000	500,000
Total		$ 5,165,000	$ 5,209,929	$ 5,557,069

Deposits with said jurisdictions or custodians were verified by direct correspondence with the custodian of such deposit.

ACCOUNTS AND RECORDS

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to establish values for assets and liabilities appearing in the Company's financial statements. Test checks, for selected periods, were made of premium receipts, investment income, interest due and accrued, claim payments, and other disbursements. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed and recalculated. These test checks and reviews revealed no material discrepancies.

A letter of representation, dated as of the date of this report and certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the work papers of this report.

ACTUARIAL REVIEW

Hank Frantz, FSA, MAAA, of InsGroup, LLC performed an actuarial examination of the following reserves reported on the Company's balance sheet:

Aggregate reserve for life contracts included on Page 3, Line 1	$ 8,908,433
Aggregate reserve for accident and health contracts included on Page 3, Line 2	37,652,673
Liability for deposit-type contracts included on Page 3, Line 3	4,267
Life policy and contract claim liability end of current year included on Page 3, Line 4.1	161,862
Accident and health policy and contract claim liability end of current year included on Page 3, Line 4.2	22,667,199
Total	$ 69,394,434

There were no problems noted with the amounts reported on the Company's balance sheet, nor in the methodology used to obtain those amounts.

FINANCIAL STATEMENTS

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

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 98,534,863	$ -	$ 98,534,863
Real estate - properties held for sale	6,768	6,768	-
Cash and short-term investments	6,641,436	-	6,641,436
Contract loans	123,971	-	123,971
Subtotals, cash and invested assets	105,307,038	6,768	105,300,270
Investment income due and accrued	1,185,011	-	1,185,011
Uncollected premiums or agents' balances in the course of collection	480,206	-	480,206
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,058,409	310,175	1,748,234
Amounts recoverable from reinsurers	19,757	-	19,757
Current federal and foreign income tax recoverable	2,136,930	-	2,136,930
Net deferred tax asset	10,276,417	8,050,077	2,226,340
Guaranty funds receivable or on deposit	69,742	-	69,742
Other assets nonadmitted	486,217	486,217	-
Total Assets	**$ 122,019,727**	**$ 8,853,237**	**$ 113,166,490**

Liabilities and Net Worth

		Net Liabilities
Aggregate reserve for life contracts		$ 8,908,433
Aggregate reserve for accident and health contracts		37,652,673
Liability for deposit-type contracts		4,267
Contract claims – life		161,862
Contract claims - accident and health		22,667,199
Premiums and annuity considerations received in advance		2,870,893
Contract liabilities not included elsewhere - Interest Maintenance Reserve		288,820
Commissions to agents due or accrued		1,796,996
General expenses due or accrued		1,245,605
Taxes, licenses & fees due or accrued		471,587
Unearned investment income		3,516
Amounts held for agents' account		262,065
Remittances and items not allocated		86,344
Miscellaneous liabilities: Asset valuation reserve		115,133
Aggregate write-ins for liabilities		19,700
Total liabilities		**76,555,093**
Common capital stock		1,500,177
Gross paid in and contributed surplus	2,534,904	
Unassigned funds	32,576,316	
Surplus		35,111,220
Total Capital and Surplus		36,611,397
Total liabilities, capital and surplus		**$ 113,166,490**

Statement of Revenue, Expenses and Net Worth

Premiums and annuity considerations		$ 152,583,703
Net Investment Income		5,004,686
Amortization of interest maintenance reserve		107,033
Commissions & expense allowances on reinsurance ceded		355,884
Totals		**158,051,306**
Death Benefits		1,330,369
Disability benefits and benefits under accident and health contracts		99,023,841
Surrender benefits and withdrawals for life contracts		122,029
Interest and adjustments on contract or deposit-type contract funds		206
Increase in aggregate reserves for life and accident and health contracts		9,941,464
Totals		**110,417,909**
Commissions on premiums, annuity considerations and deposit-type funds		22,303,823
General insurance expenses		10,434,918
Taxes, licenses and fees		3,493,368
Increase in loading on deferred and uncollected premiums		(1,882)
Aggregate write-ins for deductions		(4,900)
Totals		**146,643,236**
Net gain from operations before federal income taxes		11,408,070
Federal income taxes incurred		6,004,082
Net gain from operations after federal income taxes and before realized capital gains or (losses)		5,403,988
Net realized capital gains or (losses)		(185,735)
Net Income		**$ 5,218,253**
Capital and surplus, December 31, prior year		31,332,956
Net Income	5,218,253	
Change in net deferred income tax	2,725,356	
Change in nonadmitted assets and related items	(2,799,789)	
Change in asset valuation reserve	134,621	
Net change in capital and surplus for the year		5,278,441
Capital and surplus, December 31, current year		**$ 36,611,397**

Net Worth

Capital and surplus, December 31, 1999	**$ 17,607,451**
Net income	1,118,935
Change in net unrealized capital gains or (losses)	(6,768)
Change in nonadmitted assets	33,060
Change in asset valuation reserve	(21,283)
Capital and surplus, December 31, 2000	**18,731,395**
Net income	3,827,386
Change in net deferred income tax	170,740
Change in nonadmitted assets	(715,122)
Change in asset valuation reserve	(52,492)
Cumulative effect of changes in accounting principles	1,348,910
Capital and surplus, December 31, 2001	**23,310,817**
Net income	3,583,562
Change in net deferred income tax	854,081
Change in nonadmitted assets	(417,750)
Change in asset valuation reserve	89,146
Capital and surplus, December 31, 2002	**27,419,856**
Net income	3,924,746
Change in net deferred income tax	1,734,341
Change in nonadmitted assets	(1,496,233)
Change in asset valuation reserve	(249,754)
Capital and surplus, December 31, 2003	**31,332,956**
Net income	5,218,253
Change in net deferred income tax	2,725,356
Change in nonadmitted assets	(2,799,789)
Change in asset valuation reserve	134,621
Capital and surplus, December 31, 2004	**$ 36,611,397**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Although minor differences in various items were noted during the course of the examination, none were considered to produce a material effect on surplus, either singly or in the aggregate.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments:

1. Management and Control

Although the By-Laws require an annual election of Officers, there was no evidence of such an election of officers since the annual meeting of the Board of Directors held on February 22, 2002.

2. Bonds

It was noted that the Company does not review the prepayment assumptions for mortgage-backed securities annually as required by SSAP No. 43, paragraph 10.

3. Interest Maintenance Reserve

The Company calculates the Interest Maintenance Reserve using a software package purchased from Sungard Insurance Systems, Inc. The Company does not maintain the supporting documents necessary for verification or recalculation of the amounts calculated by the software.

4. Premiums and Annuity Considerations for Life and Accident and Health Contracts Received in Advance

It was noted that the Company was not properly accounting for policies that were written prior to December 31, 2004, but with effective dates beginning in 2005. For many policies for which the Company had received a payment for a policy that was not in-force as of the valuation date, the premium was included in the asset item, Deferred and Uncollected Premium. In accordance with SSAP No. 51, the total amount of premium received in advance of the due date should be reported as a liability and not recognized as income until due. No adjustment to this line item was made as the amount of the difference was not considered material.

5. Premium Rates

The Company's manual rate pages often use the term "attained age" when "issue age" is the appropriate terminology. For several of the states represented in a sample of Medicare Supplement policies, "Attained Age" is the column heading for a list of ages while policy documents make it clear that "issue age" or "age in the application" is the appropriate term. While the terminology was not correct, the policies in the sample were being administered on the appropriate age basis.

Several errors in the calculation of policy issue age were also noted. The Medicare Supplement policy samples referred to either issue age, age in the application, or attained age, without

specifically stating how "age" should be calculated. The older policy applications made it clear that age-last-birthday was intended. It appears that age-last-birthday is also the appropriate method for newer policies, although this is not specifically stated in the application.

6. Controls in Information Systems

It was noted that the Company does not have a contingency plan in place to address the restoration of significant business activities such as financial functions, telecommunication services and data processing following a disaster.

Recommendations:

1. Agreements with Parent, Subsidiaries and Affiliates

The Company has three agreements with it parent, CIS. None of these agreements had been submitted to the Tennessee Department of Commerce and Insurance for approval as required by Tenn. Code Ann. § 56-11-206(a)(2)(D). It is recommended that all agreements with affiliates be submitted for approval prior to becoming effective.

2. Reinsurance

It was noted that the effective dates for some reinsurance 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 Annual Statement Instructions, page 273, that states 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 § 56-44-102.

It was noted that none of the three agreements with Employers Reinsurance Corporation nor the agreement with American National Insurance Company included arbitration or errors & omissions clauses. It is recommended that the Company add these clauses to each of the agreements.

CONCLUSION

The customary insurance examination practices and procedures, as promulgated by the NAIC, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Continental Life Insurance Company of Brentwood, Tennessee.

In such manner, it was found that as of December 31, 2004, the Company had admitted assets of $113,166,490 and liabilities, exclusive of capital and surplus, of $76,555,093. Thus, there existed for the additional protection of the policyholders, the amount of $36,611,397 in the form of common capital stock, gross paid in and contributed surplus, and unassigned funds.

The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Hank Frantz, FSA, MAAA, Norman Chandler, CPA, CPCU, and Bhavna Shah participated in the work of this examination.

Respectfully submitted,

Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Stephanie D. Brooks
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

Amy J. Elliott
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

Lacy R. Smith
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

EXAMINATION AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Continental Life Insurance Company of Brentwood, Tennessee dated August 5, 2005, and made as of December 31, 2004, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

County Davidson

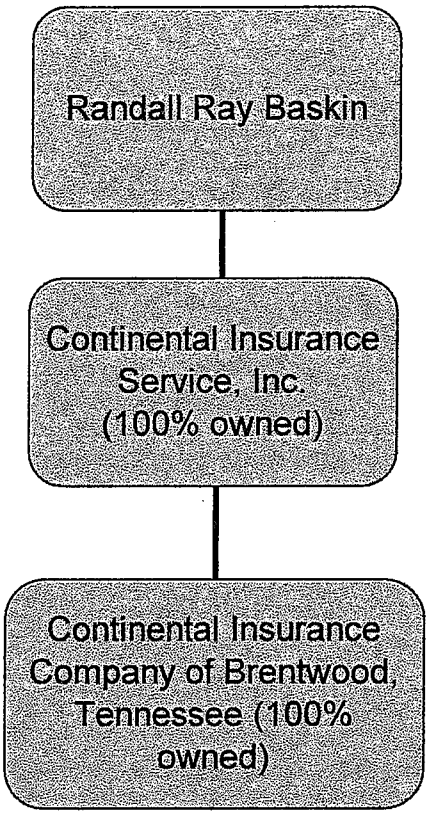
State Tennessee

Subscribed and sworn to before me this 5th day of August, 2005

Helen M. Dorsey
(NOTARY)

My Commission Expires
03/25/2006

ORGANIZATIONAL CHART



Continental Life
INSURANCE COMPANY OF BRENTWOOD, TENNESSEE
101 Continental Place, Brentwood, TN 37027
Telephone: 615-377-1300
Rmurphy@cont-life.com
Office Facsimile 615.373.0272

August 10, 2005

VIA HAND DELIVERY

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Company Examinations

Rhonda Bowling-Black, CFE
State of Tennessee Department of Commerce and Insurance
Insurance Division
500 James Robertson Parkway – 4th Floor
Nashville, TN 37243-1135

Re: Rebuttal Letter to Report of Examination

Dear Ms. Bowling-Black:

As requested, the following is the Rebuttal of Continental Life Insurance Company of Brentwood, Tennessee to the Report of Examination of this Company as of December 31, 2004, enumerated similarly to said Report:

COMMENTS

1. Management and Control. The By-Laws indicate that officers are elected by the Board of Directors and once elected, serve at the pleasure of the Board until removed by the Board or they resign (By-Laws, Section 24(c)). Since the Board of Directors did not elect any officers to an annual term or to any specific term, it did not seem necessary pursuant to Section 24(c) to re-elect the officers each year. Notwithstanding, the Company shall commence annual election of officers at each annual Board of Directors meetings.

2. Bonds. The Company recognizes and has established a procedure effective June, 2005 to annually review prepayment assumptions for mortgage-backed securities as required by SSAP No. 43, paragraph 10.

3. Interest Maintenance Reserve. Even though the Company believed that it was entitled to rely upon the NAIC-approved software and its calculations, it will now maintain data to duplicate the reserves calculated by the software.

4. Premiums and Annuity Considerations for Life and Accident and Health Contracts Received in Advance. The Company's consulting actuary advised that premiums received on new business that was physically issued during 2004 but with an effective date of 2005 was classified as "Unearned Premium" rather than "Advance Premium". This designation had no

effect on the balance sheet as both classifications were liabilities. Notwithstanding, in the future the Company's consulting actuary will designate such premiums as "Advance Premium."

5. Premium Rates. The Company disputes in its entirety the comments contained under this Section 5 of the Comments and Recommendations. The Company asked for documentation of these incorrect terminologies and none were available for presentation. Absent any documentation, it is the Company's opinion that the examiner inadvertently confused the forms and therefore, the Company asserts that its forms, rate sheets and applications are correct and have been properly used with its agents and policyholders.

6. Controls in Information Systems. The Company has present discussions with Wakely Actuarial Consultants, Inc. to develop a contingency plan offsite at its location in Clearwater, Florida. The Company is also exploring offsite location of significant business activities in the event of a disaster with other possible third parties. Presently, the Company does have information systems in place offsite in Franklin, Williamson County, Tennessee. It is making efforts to establish this site as well to use for significant business activities in the event of a disaster.

RECOMMENDATIONS

1. Agreements with Parent, Subsidiaries and Affiliates. The last financial examination did not make mention that the Company's three agreements were in noncompliance with T.C.A., §56-11-206(a)(2)(d). The Company does not have documentation whether or not these agreements were submitted to the Department for review.

   Notwithstanding, the Company shall, within seven (7) days of the date of this letter, submit these agreements to the Commissioner of Insurance pursuant to said statutory section.

2. Reinsurance. The Company has always reported reinsurance agreements on one line in the Annual Statement and the issue has never been raised in a financial examination or otherwise. Notwithstanding, the Company shall report reinsurance as requested in Recommendation No. 2 in the Report. In addition, the Company shall contact the reinsurers and request inclusion of arbitration and errors and omissions clauses in the applicable agreements pursuant to the Report.

Thank you for the opportunity to respond to this Report of Examination and for the professional courtesy shown by the examiners to this Company during the examination process. If anyone has any questions or comments regarding the above, please contact me.

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With kindest regards,

Rudick J. Murphy, II, CLU
Vice President – Internal Operations and General Counsel

C: Randall R. Baskin, Chairman, President and CEO

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