REPORT ON EXAMINATION

of

EMPIRE GENERAL LIFE ASSURANCE CORPORATION

Birmingham, Alabama

as of

December 31, 2004

PARTICIPATION

State	Zone	Representative
Tennessee	Southeastern Zone	Gwendolyn J. Douglas, CFE, CIE, Examiner-in-Charge David R. White, CFE Donnie Nicholson, Examiner III Bryant Cummings, Examiner, II
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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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August 4, 2005

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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 a market conduct review was made of the conditions and affairs of the

EMPIRE GENERAL LIFE ASSURANCE CORPORATION
2801 Highway 280 South
Birmingham, Alabama 35223

hereinafter and generally referred to as the "Company."

INTRODUCTION

The examination was arranged by the Department of Commerce and Insurance of the State of Tennessee ("TDCI") under rules promulgated by the NAIC. The Company is classified as an Association examination and therefore was called through the NAIC's Examination Tracking System ("ETS") and commenced on August 23, 2004 at the offices in Birmingham, Alabama. The examination of the financial condition was conducted by examiners from the TDCI and Delaware representing the Southeastern and Northeastern Zones of the NAIC.

The Company was last examined as of December 31, 1999, by the TDCI and the State of Alabama representing the Southeastern Zone and the State of Delaware representing the Northeastern Zone.

It appears the Company has corrected all of the directives made in the Order adopting the previous examination report by drafting a new custodial agreement during the course of the examination. Further comments regarding directives made to the Company discussed in the previous examination report are noted under "Comments – Previous Examination section" included in the "Scope of Examination" on page five (5).

This examination is being conducted simultaneously with the examination of the Company's parent, Protective Life Insurance Company ("PLICO").

SCOPE OF EXAMINATION

This examination covers the period, January 1, 2000, through December 31, 2004, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

During the course of examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2004, in accordance with the rules and procedures as prescribed by the statutes of Tennessee, the Company's state of domicile. The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the *NAIC Financial Condition Examiners Handbook.*

An examination of all assets and liabilities contained in the financial statement of this report was made and individual items were verified with a degree of emphasis determined by the examiner-in-charge during the planning stage of the examination.

The Company is audited annually by an independent accounting firm as part of the audit conducted for the holding company system, of which the Company is a member. The auditor's workpapers for the year ended 2004 were not made available until after the examination was completed.

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 workpapers of this examination.

Comments – Previous Examination

The last financial condition examination as of December 31, 1999, disclosed some regulatory concerns. The Company has corrected all comments mentioned in the last examination report. The Order adopting the examination report listed three (3) main directives for the Company. These were:

1. Directed to comply with Tenn. Code Ann. §56-1-405 by admitting those assets which are or can be made available for the payment of losses in this state.

2. Directed to comply with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46-.03 by changing its custodial agreement so as to provide for the standard of responsibility on the part of the custodian which shall not be less than the responsibility of a bailee for hire or a fiduciary.

3. Directed to comply with Tenn. Code Ann. §56-11-206(a)(2) by properly notifying the Commissioner of any intent to enter into any of the transactions enumerated in that section with any other person within the Company's holding company system. The Company is further directed not to enter into any such transactions unless the requirements of Tenn. Code Ann. §56-11-206(a)(2) are met.

An examination was also made into the following matters:

Company History
Growth of Company
Charter and Bylaws
Management and Control
Holding Company System
Corporate Records
Fidelity Bonds and Other Insurance
Employee Benefits and Pension Plans
Territory and Plan of Operation
Schedule T – Premiums and Annuity Considerations
Mortality and Loss Experience
Reinsurance
Pecuniary Interest
Agreements with Parent, Subsidiaries and Affiliates
Market Conduct Activities
Litigation and Contingent Liabilities

Statutory Deposits
Accounts and Records
Financial Statements

These will be discussed as follows:

COMPANY HISTORY

The Company was organized as a stock life insurance company, incorporated May 28, 1981 in the State of Arkansas under the name of Ennia Old Life, Inc. Pursuant to an Agreement and Plan of Merger dated May 28, 1981, and amended October 30, 1981, the Company acquired National Old Life Insurance Company. In accordance with a Plan and Agreement of Merger dated April 21, 1982, National Old Line Insurance Company was merged into the Company effective May 31, 1982. Simultaneously, the Company changed its name to National Old Life Insurance Company.

Effective January 1, 1991, essentially all of the assets, liabilities, and capital and surplus, and business in force of the Company were merged into PFL Life Insurance Company, rendering the Company a "shell." On June 19, 1992, PLICO acquired the Company pursuant to the terms of a Stock Purchase Agreement dated May 27, 1992, between PLICO and AUSA Life Insurance Company, which owned all of the Company's stock at that date.

On June 25, 1992, the Company changed its name to Empire General Life Assurance Corporation and on August 24, 1992, it re-domesticated from Arkansas to Tennessee.

As of December 31, 2004, the Company had authorized capital stock of five million four hundred seven thousand one hundred twenty nine (5,407,129) shares of common stock with a par value of one ($1) per share, of which two million five hundred thousand (2,500,000) shares were issued and outstanding for a capital paid up of two million five hundred thousand dollars ($2,500,000). All of the outstanding shares were owned by PLICO.

The Company's capital structure appears in the 2004 Annual Statement as follows:

Common capital stock	$ 2,500,000
Gross paid in and contributed surplus	115,477,712
Unassigned funds (surplus)	(49,917,626)
Total capital and surplus	$ 68,060,086

The Company is a stock for profit life insurance company licensed to transact business in the District of Columbia and all states except New York. Its lines of business include ordinary life and supplementary contracts.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination according to its annual statements as filed with the TDCI:

Year	Admitted Assets	Liabilities	Capital and Surplus	Premiums and Annuity Considerations
2000	$ 94,002,738	$ 65,223,096	$ 28,779,642	$ 27,279,809
2001	113,995,199	74,157,388	39,837,811	38,251,019
2002	150,158,931	106,348,612	43,810,319	47,990,716
2003	187,097,533	107,886,063	79,211,471	60,001,056
2004	219,131,852	151,071,767	68,060,086	59,786,196

CHARTER AND BYLAWS

Charter:

The Company's Charter, as executed on September 9, 2002, states that, "The business and affairs of the Corporation shall be managed by the 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 ...be determined by the shareholders. The Board of Directors shall consist of at least two (2) or more individuals...."

Bylaws:

The Bylaws of the Company state the following:

> 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 months of the year as shall be specified by resolution of the Board of Directors. Special meetings may be called for any purpose 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 as regards to meetings of the shareholders.

The Bylaws, as executed on December 19, 2002, 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 or by the shareholders of the Corporation.

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."

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 resolutions." In practice, the Board meets approximately 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 five point one percent (85.1%) for the five (5) years under examination.

Per Article IV, Section 12 of the 1994 and 2002 Restated and Amended By-Laws, "The salaries of the officers shall be fixed from time to time by the Board of Directors or committee thereof...." It was noted that the Company has one hundred five (105) 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 an Unanimous Written Consent of the Executive Committee on April 8, 2005, in which the Committee adopted, ratified and confirmed the compensation arrangements for the current year.

The Bylaws provide that the officers of the Corporation shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. The Bylaws state the following:

> The officers of the Corporation shall be a President and a Secretary and, in the discretion of the Board of Directors...a Chairman of the Board, one or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Second Vice Presidents (the number thereof to be determined by the Board of Directors), a Treasurer, one or more Assistant Secretaries and Assistant Treasurers and such other officers and assistant officers as may be deemed necessary by the Board of Directors.

One (1) elected officer may be designated as the chief executive officer by the Board of Directors and any two (2) or more offices may be held by the same person. All officers are elected for a term of one (1) year. Vacancies "...may be filled by the Board of

Directors for the unexpired portion of the term."

MANAGEMENT AND CONTROL

The Company is wholly-owned by its parent, PLICO, which is the sole shareholder.

The sole shareholder elects a Board of Directors annually. The following persons were duly elected and were serving as members of the Board of Directors as of December 31, 2004.

Board Member	Other Positions and Affiliations
John Dixon Johns	President of Protective Life Corporation ("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

At December 31, 2004, the following persons had been duly elected to and were serving in the positions indicated:

Person	Office(s)
John D. Johns	Chairman of the Board
Douglas K. Adam	President
R. Stephen Briggs	Chief Executive Officer
Allen W. Ritchie	Executive Vice President and Chief Financial Officer

Richard J. Bielen	Senior Vice President, Chief Investment Officer and Treasurer
Carolyn King	Senior Vice President, Acquisitions
Deborah J. Long	Senior Vice President, Secretary and General Counsel
Carolyn M. Johnson	Senior Vice President, Life and Annuity Division (LAD)
Wayne E. Stuenkel	Senior Vice President and Chief Actuary
Carl S. Thigpen	Senior Vice President, Chief Mortgage and Real Estate Officer and Assistant Secretary
Steven G. Walker	Senior Vice President, Controller and Chief Accounting Officer
Lance P. Black	Vice President, Investment
Michael G. Byrne	Vice President and Financial Officer, LAD
Kenneth L. Conners	Vice President, Underwriting
Jerry W. DeFoor	Vice President, Business Planning
Charles D. Evers, Jr.	Vice President, Corporate Accounting and Assistant Secretary
Brent E. Fritz	Vice President, LAD
D. Wayne Hall	Vice President, Acquisition Administration
Kevin J. Howard	Vice President, Actuarial and Product Development and Certifying Compliance Officer for Actuary Illustrations
Douglas A. Huls	Vice President, Sales
Vita Padalino	Vice President, Investments
Phillip E. Passafiume	Vice President, Investments
Charles M. Prior	Vice President, Investments
Samuel E. Urmey	Vice President, Technology, LAD
Michelle C. Winters	Vice President, Administration, LAD
Mary C. Brasher	Second Vice President, Cash Management
George T. Buie	Second Vice President and Actuary
Leonard C. Cutchen	Second Vice President, Corporation Actuarial
Frances Freeman	Second Vice President, Administration
R. C. Fruechtenicht	Second Vice President, Investments and Assistant Secretary
Jeffrey R. Johnson	Second Vice President, Institutional Distribution Group
David C. Martin	Second Vice President, Actuary and Illustration Actuary
Ray W. Morgan	Second Vice President, Sales Support
Thomas W. Roberts	Second Vice President, Underwriting
Carol Smith	Second Vice President, Underwriting
Charles Windham	Second Vice President, Investments
Stanley N. Woodall	Second Vice President, Acquisition Administration
Diane Butler	Assistant Secretary
Pamela A. Gordon	Assistant Secretary

Jerry M. Hyche	Assistant Secretary
Jason C. Otts	Assistant Secretary
Natalie R. Reid	Assistant Secretary

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 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, whichever is appropriate.

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 or more committees, each committee to consist of two 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.

Executive Committee:

As of December 31, 2004, the Board of Directors had one (1) committee whose members had been elected on May 24, 2004. At that meeting, the Board of Directors appointed two (2) Board members to serve as members of the Executive Committee until the quarterly meeting of the Board of Directors 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

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. §56-11-201. The Company's parent, PLICO, is a Tennessee domiciled insurance company. PLICO is a wholly subsidiary of PLC, an insurance holding company domiciled in the State of Delaware. The Company is affiliated with several other companies detailed in Schedule Y of the December 31, 2004, Annual Statement. An organizational chart is attached to this report as Addendum A.

The Company has received the following capital contributions:

Year	Amount
2004	$ -0-
2003	30,000,000
2002	15,000,000
2001	10,000,000
2000	45,000,000
Total	$100,000,000

CORPORATE RECORDS

The Company's current Tennessee Certificate of Authority was issued July 21, 1994, and is effective until suspended or revoked.

The Amended and Restated Charter was executed September 9, 2002, and approved by the Commissioner of TDCI January 14, 2003. The 2002 charter superseded the 1994 Amended and Restated Charter and all amendments thereto. The amendments to the Charter included the change in the current location of business to Brentwood, Tennessee, reflected the number of Board of Directors as required by Tenn. Code Ann. §48-18-103, and acknowledged C.T. Corporate Systems as the registered agent for the Company.

The Company's Bylaws, relied upon for this examination, were adopted by the shareholder on September 9, 2002, and were filed with the Commissioner of the TDCI January 14, 2003. The 2002 Bylaws superseded the 1994 Amended and Restated Bylaws and all amendments thereto. The amendments to the Bylaws included the change in the current location of business to Brentwood, Tennessee, and reflected the number of directors as required by Tenn. Code Ann. §48-18-103. The Bylaws provide that both the shareholders and Board of Directors shall have the "power to alter, amend and repeal the bylaws...or adopt new Bylaws," but that "all Bylaws made by the directors may be altered or repealed by the shareholders."

The minutes of the annual meetings of the Company's sole shareholder, PLICO, were provided to the examiners. The shareholder's primary functions are to set the number of directors and to elect the Board of Directors annually.

The meeting minutes of the Board of Directors and the Executive Committee were provided to the examiners for the period under examination. Primarily, the minutes are complete as to necessary detail and appear to properly reflect the acts of the Company's Directors and the Executive Committee.

The Company's corporate records are maintained at its 2801 Highway 280 South, Birmingham, Alabama offices.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on coverages maintained by its ultimate parent, 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	$20,000,000 excess of $50,000,000
	25,000,000 excess of 50,000,000
Directors' and Officers' Liability	$20,000,000
Excess Directors' and Officers' 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 and Omissions Liability	$10,000,000
Excess Errors and Omissions Liability	$10,000,000 excess of $10,000,000
Runoff Errors and Omissions 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, personal property and signs 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 – production-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 met the suggested minimum amount pursuant to the *NAIC Financial Condition Examiners Handbook.* All policies are written by companies licensed to transact business in the State of Tennessee.

EMPLOYEE BENEFITS AND PENSION PLANS

The ultimate parent PLC has a defined benefit pension plan covering substantially all of its employees. The plan is not separable by affiliates participating in the plan. 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.

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.

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 for certain officers who 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 hundred twenty thousand dollars ($520,000) and four hundred thirty eight thousand dollars ($438,000) for the years ending December 31, 2004, and 2003, respectively.

TERRITORY AND PLAN OF OPERATION

The Company's Amended and Restated Charter as dated September 9, 2002, specifies that the Company is "for profit" and states the Corporation shall have the following specific purposes, objectives 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 the District of Columbia and all states except New York.

The Company's current product portfolio is comprised of universal life products which are represented by a level term series, three excess interest whole ("EIWL") and four universal life products (individual and survivorship). Product development is performed at the Company's offices in Overland Park, Kansas. The Company has administrative offices in Birmingham, Alabama and in Brentwood, Tennessee.

The Company's products are distributed nationally through approximately one hundred fifty four (154) brokerage general agents. Compensation structure for the current products treats the distributor as a customer with emphasis on lower first (1st) year compensation and typical renewal compensation. The distributor has authority over the producer group, from recruitment to termination. There are no annualized advances or other benefits available for the producers, other than deferred compensation.

SCHEDULE T – PREMIUMS AND ANNUITY CONSIDERATIONS

States, Etc.	Licensed (Yes or No)	Life Insurance Premiums
Alabama	Yes	$ 7,199,621
Alaska	Yes	223,335
Arizona	Yes	5,173,178
Arkansas	Yes	2,531,362
California	Yes	48,156,151
Colorado	Yes	6,064,199
Connecticut	Yes	3,497,197
Delaware	Yes	803,927
District of Columbia	Yes	929,999
Florida	Yes	20,586,725
Georgia	Yes	11,322,970

Hawaii	Yes	906,994
Idaho	Yes	1,002,827
Illinois	Yes	15,456,126
Indiana	Yes	5,549,575
Iowa	Yes	2,769,777
Kansas	Yes	3,533,509
Kentucky	Yes	3,076,682
Louisiana	Yes	4,145,524
Maine	Yes	859,940
Maryland	Yes	10,021,234
Massachusetts	Yes	4,219,591
Michigan	Yes	6,289,814
Minnesota	Yes	3,848,165
Mississippi	Yes	2,956,108
Missouri	Yes	8,534,603
Montana	Yes	233,722
Nebraska	Yes	1,857,830
Nevada	Yes	2,438,462
New Hampshire	Yes	706,663
New Jersey	Yes	12,433,835
New Mexico	Yes	1,152,944
New York	No	2,535,936
North Carolina	Yes	7,725,248
North Dakota	Yes	332,320
Ohio	Yes	11,768,954
Oklahoma	Yes	2,161,786
Oregon	Yes	1,420,331
Pennsylvania	Yes	14,448,428
Rhode Island	Yes	824,012
South Carolina	Yes	3,655,078
South Dakota	Yes	468,686
Tennessee	Yes	8,676,284
Texas	Yes	17,927,951
Utah	Yes	1,802,854
Vermont	Yes	315,991
Virginia	Yes	8,654,992
Washington	Yes	3,449,242
West Virginia	Yes	745,643
Wisconsin	Yes	4,882,229
Wyoming	Yes	331,625
American Samoa	No	2,050
Guam	No	6,982
Puerto Rico	No	3,853
US Virgin Islands	No	3,751
Canada	No	32,734
Aggregate Other	XXX	68,866

Premiums or annuity considerations waived under disability		3,645
Total Direct Business		$290,759,058

MORTALITY AND LOSS EXPERIENCE

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

Ordinary Life:

Year	Net Death Benefits Incurred	Reserves Released by Death	Actual Death Benefits Incurred	Expected Mortality	Mortality Experience Ratio
2000	$ 8,344,523	$ 488,445	$ 7,856,078	$19,468,825	40.35%
2001	11,318,868	326,814	10,992,054	30,950,619	35.51%
2002	13,791,458	253,032	13,538,426	35,044,858	38.63%
2003	17,054,175	556,463	16,497,712	67,532,479	24.43%
2004	18,203,698	845,378	17,358,320	52,748,700	32.91%

ACTUARIAL REVIEW

Based on our initial review, we have not determined any areas where the reserves calculated by us were significantly different then those reported by the Company for Exhibits five (5), six (6), seven (7) and eight (8). For further comments see page thirty nine (39).

REINSURANCE AGREEMENTS

Assumed Reinsurance – Life:

Swiss Re Life & Health America, Inc.
The Company assumes a small amount of reinsurance from European Reinsurance Company of Zurich through a retrocession with Swiss Re Life & Health America effective July 1, 2004. The Company cedes business to Swiss Re Life & Health America through an agreement effective January 1, 2000, (see Ceded Reinsurance below), then assumes some of the business back through this agreement.

This agreement provides automatic yearly renewable term ("YRT") reinsurance on

graded premium whole life plans and term life plans, including waiver of premium and guaranteed insurability riders, with binding limits up to two million five hundred thousand dollars ($2,500,000) per life. The amount assumed by the Company for 2004 totaled approximately two hundred seventeen thousand dollars ($217,000).

XL Life Ltd.
The Company assumed a small amount of reinsurance from XL Life Ltd. through an agreement effective June 4, 2001. The Company cedes business to XL Life Ltd. through an agreement effective June 4, 2001, (see Ceded Reinsurance below), then assumed some of the business back through this agreement.

This agreement provided automatic YRT reinsurance on individual universal life plans, including waiver of premium, guaranteed insurability, and accelerated death benefit riders. The Company assumed ten percent (10%) quota share of the total policy risk amount ceded for all policies. The premiums under this agreement were recaptured effective June 30, 2003.

Ceded Reinsurance – Life:
The Company writes individual graded premium whole life, term life, and universal life insurance, with various riders such as for waiver of premium and accident death benefits.

While the amount retained on an individual life will vary 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 significant reinsurance agreements are summarized below.

Swiss Re Life & Health America, Inc.
Approximately half of the Company's ceded life insurance business is assumed by Swiss Re Life & Health America, Inc. under five (5) separate agreements:

An automatic and facultative coinsurance agreement effective March 1, 1999, covers individual graded premium whole life policies and term life insurance policies. The Company retains, based on age, ten percent (10%) quota share on each policy up to one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000) of each risk. The reinsurer takes forty five percent (45%) quota share of each policy up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]). This agreement was terminated for new business effective December 31, 1999. This agreement is between PLICO and Swiss Re Life & Health America, Inc.; however, in practice, this agreement is between the Company and Swiss Re Life & Health America, Inc. It is recommended that the Company amend this reinsurance agreement for full compliance with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05.

An automatic and facultative YRT agreement effective March 1, 1999, covers individual universal life policies. The Company retains, based on age, up to one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000) of each risk. The reinsurer

takes eighteen percent (18%) quota share of amounts up to the reinsurer's automatic acceptance limits and one hundred percent (100%) of the excess over the Company's retention up to the reinsurer's automatic acceptance limits. The reinsurer's automatic acceptance limit is forty (40) times the maximum retention limit [currently twenty million dollars ($20,000,000)]. This agreement was terminated for new business effective December 31, 1999. This agreement is between PLICO and Swiss Re Life & Health America, Inc.; however, in practice, this agreement is between the Company and Swiss Re Life & Health America, Inc. It is recommended that the Company amend this reinsurance agreement for full compliance with Tenn. Comp. R. Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05.

An automatic and facultative coinsurance agreement effective January 1, 2000, covers individual graded premium whole life policies and term life insurance policies. The Company currently retains, based on age, zero percent (0%) quota share on each policy up to one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000) of each risk. The reinsurer takes between fifty five percent (55%) and sixty four percent (64%) quota share (based on specific policy form) of each policy up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]).

An automatic and facultative coinsurance agreement effective November 1, 2001, covers individual term life insurance policies written on the Company's InstaTerm forms. The Company retains, based on age, ten percent (10%) quota share on each policy up to one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000) of each risk. The reinsurer takes forty five percent (45%) quota share of each policy up to one hundred fifty thousand dollars ($150,000). This agreement was terminated for new business effective August 31, 2004.

An automatic and facultative coinsurance agreement effective November 1, 2001, covers individual term life insurance policies written on the Company's InstaTerm forms. The Company retains, based on age, ten percent (10%) quota share on each policy up to one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000) of each risk. The reinsurer takes forty five percent (45%) quota share of each policy up to one hundred fifty thousand dollars ($150,000). This agreement was terminated for new business effective August 31, 2004. This agreement is between Protective Life & Annuity Insurance Company ("PLAIC") and Swiss Re Life & Health America, Inc.; however, in practice, this agreement is between the Company and Swiss Re Life & Health America, Inc. It is recommended that the Company amend this reinsurance agreement for full compliance with Tenn. Comp. R. Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05.

XL Life Ltd.

The Company has six agreements with XL Life Ltd., an unauthorized reinsurer:

An automatic and facultative YRT agreement effective January 1, 2000, covers individual term life insurance policies. The Company retains, based on age, ten percent (10%) of each policy's net amount of risk not to exceed one hundred thousand dollars

($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes forty percent (40%) quota share of the total policy risk amount up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]).

An automatic and facultative YRT agreement effective October 1, 2000, covers individual term life insurance policies. The Company retains, based on age, ten percent (10%) of each policy's net amount of risk not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer currently takes thirty percent (30%) quota share of the total policy risk amount ceded for all policies up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]).

An automatic and facultative YRT agreement effective June 4, 2001, covers individual universal life insurance policies. The Company retains, based on age, ten percent (10%) of each policy's net amount of risk not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes fifty percent (50%) quota share of the total policy risk amount ceded for all policies up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]).

An automatic and facultative YRT agreement effective September 1, 2001, covered individual universal life insurance policies. The Company retained, based on age, ten percent (10%) of each policy's net amount of risk not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer took twenty six percent (26%) quota share of the total policy risk amount ceded for all single universal life policies and twenty one percent (21%) on all joint second to die universal life policies up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]). The premiums under this agreement were recaptured effective June 30, 2003.

A facultative coinsurance agreement effective January 1, 2002, covers individual term life insurance policies. The Company retains, based on age, up to one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000) of each risk. The reinsurer takes thirteen and one half percent (13 1/2 %) quota share of each policy.

The Company received a letter of credit ("LOC") in the amount of eighty million two hundred thousand dollars ($80,200,000). However, the LOC was dated January 3, 2005. The Company's attention is directed to Tenn. Comp. R. Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-63-.10 that requires a LOC to be "issued on or before the date of filing of the financial statement" in order to obtain reinsurance credit. It is recommended that the Company comply completely with Tenn. Comp. R. Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-63-.10 in the future.

Transamerica Occidental Life Insurance Company

The Company has four (4) agreements with Transamerica Occidental Life Insurance Company:

An automatic and facultative YRT agreement effective May 1, 1997, covers individual universal life insurance policies. The Company retains, based on age, between ten percent (10%) and twenty percent (20%) quota share (based on specific policy form) not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes twenty five percent (25%) quota share of the amount ceded for all policies up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]) This agreement was terminated for new business effective August 31, 2001.

An automatic and facultative YRT agreement effective May 1, 1997, covers individual universal life insurance policies. The Company retains, based on age, ten percent (10%) quota share not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes twenty five percent (25%) quota share of the amount ceded for all policies up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]). This agreement was terminated for new business effective August 31, 2001.

An automatic and facultative YRT agreement effective May 1, 1997, covers individual graded premium whole life insurance policies. The Company retains, based on age, ten percent (10%) quota share not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer currently takes fifty percent (50%) quota share of the amount ceded for all policies up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]). This agreement is between PLICO and Transamerica Occidental Life Insurance Company; however, in practice, this agreement is between the Company and Transamerica Occidental Life Insurance Company. It is recommended that the Company amend this reinsurance agreement for full compliance with Tenn. Comp. R. Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05.

An automatic and facultative coinsurance agreement effective November 5, 2001, covers individual term life insurance policies. The Company retains ten percent (10%) of each policy's net amount of risk not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes twenty and seven tenths percent (20.7%) quota share of each policy. This agreement was terminated for new business effective February 28, 2003.

RGA Reinsurance Company

The Company has three agreements with RGA Reinsurance Company:

An automatic and facultative YRT agreement effective February 1, 1997, covers individual universal life insurance policies. The Company retains, based on age, fifty percent (50%) quota share not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes twenty five percent (25%) quota share of the amount ceded for most policies up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]).

An automatic and facultative coinsurance agreement effective February 1, 1997, covered individual term life insurance policies. The Company retains, based on age, between ten percent (10%) and twenty percent (20%) quota share (based on specific policy form) not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes between thirteen percent (13%) and twenty percent (20%) quota share (based on specific policy form) of each policy up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]). This agreement was terminated for new business effective March 1, 1999.

An automatic and facultative coinsurance agreement effective January 1, 2000, covered individual term life insurance policies. The Company retains, based on age, ten percent (10%) quota share not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes between ten percent (10%) and thirty percent (30%) quota share (based on specific policy form) of each policy up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]). This agreement was terminated for new business effective October 1, 2000.

ERC Life Reinsurance Corporation
The Company has two agreements with ERC Life Reinsurance Corporation:

An automatic and facultative YRT agreement effective January 1, 1993, covers interest sensitive whole life insurance policies. The Company retains, based on age, ten percent (10%) quota share not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes ten percent (10%) quota share of the amount ceded for all policies up to twenty five percent (25%) of the Company's retention. This agreement was terminated for new business effective September 1, 2001.

An automatic and facultative coinsurance agreement effective July 1, 1993, covered individual graded whole premium life insurance policies. The Company retained, based on age, twenty percent (20%) quota share not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer took thirty three and one third percent (33 1/3%) quota share of each policy up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]). This agreement was terminated for new business effective March 1, 1999. All premiums were recaptured effective January 1, 2000.

The Canada Life Assurance Company
The Company has an automatic and facultative coinsurance agreement effective March 1, 2003, that covers individual term life insurance policies. The Company retains, based on age, ten percent (10%) quota share not to exceed one hundred thousand dollars $100,000) – five hundred thousand dollars ($500,000). The reinsurer takes ten percent (10%) quota share of each policy (twenty five percent (25%) quota share for the EG-30/30 plan) up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]).

The Cologne Life Reinsurance Company
The Company has an automatic and facultative coinsurance agreement effective July 1, 1993, that covers individual term life insurance and individual universal life insurance policies. The Company retains, based on age, one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes thirty three and one third percent (33 1/3%) quota share in excess of the Company's retention up to two million two hundred fifty thousand dollars ($2,250,000).

ING Reinsurance
The Company has an automatic and facultative coinsurance agreement effective May 1, 1997, that covers individual term life insurance policies. The Company retains, based on age, ten percent (10%) quota share of the face amount not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes twelve percent (12%) quota share (twenty percent (20%) on the EG-30 policy) of each policy up to forty (40) times the maximum retention limit (currently twenty million dollars [$20,000,000]). This agreement was terminated for new business effective February 28, 1999. This agreement is between PLICO and ING Reinsurance; however, in practice, this agreement is between the Company and ING Reinsurance. It is recommended that the Company amend this reinsurance agreement for full compliance with Tenn. Comp. R. Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05.

Lincoln National Life Insurance Company
The Company has an automatic and facultative coinsurance agreement effective November 1, 2001, that covers individual term life insurance policies. The Company retains, based on age, ten percent (10%) quota share not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes fifteen percent (15%) quota share of each policy up to twenty million dollars ($20,000,000). This agreement was terminated for new business effective October 1, 2000.

Revios Reinsurance U.S. Inc.
The Company has an automatic and facultative coinsurance agreement effective October 1, 2000, that covers individual term life insurance policies. The Company retains, based on age, ten percent (10%) quota share not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes twenty five percent (25%) quota share of each policy up to twenty million dollars ($20,000,000). This agreement was terminated for new business effective November 5, 2001.

Scottish Re (U.S.), Inc.
The Company has an automatic and facultative coinsurance agreement effective March 1, 2003, that covers individual term life insurance policies. The Company retains, based on age, between ten percent (10%) and twenty five percent (25%) quota share (based on specific policy form) not to exceed one hundred thousand dollars ($100,000) – five hundred thousand dollars ($500,000). The reinsurer takes twenty five percent (25%) (fifteen percent (15%) for the EG-30/30 plan) quota share of each policy up to twenty million dollars ($20,000,000).

Sirius International Insurance Corporation – Belgium Branch
The Company has an automatic and facultative YRT agreement with this unauthorized reinsurer effective July 1, 2000, that covers individual universal life insurance policies. The company retains zero percent (0%) quota share. The reinsurer takes one hundred percent (100%) quota share of the amount ceded for most policies up to five hundred thousand dollars ($500,000). This agreement was terminated for new business effective July 10, 2002.

The Company has received a LOC in the amount of forty two thousand dollars ($42,000). However, the LOC names PLICO as the beneficiary rather than the Company. Tenn. Comp. R. Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-63-.08 requires a LOC to be in the name of the ceding company. This LOC is, therefore, in violation of Tenn. Comp. R. Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-63-.08. On May 31, 2005, the Company amended the LOC to replace PLICO with the Company's name.

Ceded Reinsurance – Accident & Health:

Fortis Benefits Insurance Company
The Company cedes a very small amount of group accident and health business to Fortis Benefits Insurance Company on a coinsurance basis.

Unearned Ceding Commission:

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 is due at the termination of an agreement because the policies continue in full force. Substantially all 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 by Tenn. Code Ann.

§56-2-207(a)(2), except for the agreements with unauthorized reinsurers as discussed above. 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 (1) line. The Company's attention is directed to the Annual Statement Instructions, page two hundred seventy three (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 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. Tit. Dep't of Commerce and Ins., 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, no agreements were in violation at December 31, 2004. It is recommended that the Company completely comply with Tenn. Comp. R. Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05.

DIVIDENDS OR DISTRIBUTIONS

During the period under examination, there were no dividends or distributions made by the Company.

PECUNIARY INTEREST

There were no indications noted of a violation of the "Pecuniary Interest of Officers Prohibited" statute Tenn. Code Ann. §56-3-103.

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

Agreement for Administrative Services:

The members of the holding company system entered into an Agreement for Administrative Services with PLC effective October 1, 1988, and amended June 19, 1992, to include the Company. The agreement had an initial term of twelve (12) months, but has automatically renewed on each anniversary since inception.

Under the terms of the agreement, "costs of administrative services not otherwise

specifically provided for by separate agreements...which are provided by one 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."

Agreement for Investment Services:

The Company entered into an Agreement for Investment Services with PLC, effective August 19, 1992. Services included but not limited to 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 needed monthly, quarterly or annually

Fees for these services vary with the nature of the investment. For example, bond services are provided for five point five percent (5.5%) of interest income collected.

The Company filed this Agreement for approval by the Commissioner of TDCI as required by Tenn. Code Ann. §56-11-206(a)(2)(D). The TDCI approved this Agreement on July 14, 2004.

Agreement for Legal Services:

Effective January 1, 2004, the Company entered into an Agreement for Legal Services with PLC whereby PLC agrees to provide legal services for the Company including but 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 from time to time. 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:

Attorney	$145
Paralegals	$ 60 - $70
Assistants	$ 50

The Company filed this Agreement for approval by the Commissioner of TDCI as required by Tenn. Code Ann. §56-11-206(a)(2)(D). The TDCI approved this Agreement on October 12, 2004.

Agreement for Data Processing Programming Services:

Effective June 19, 1992, the Company and PLC entered into an Agreement for Data Processing Programming Services. The agreement had an initial term of twelve (12) months, but has been automatically renewed on each anniversary since inception in accordance with the contract.

Under the agreement, the appropriate costs of the services provided by PLC shall be billed and the Company agrees to 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 was effected January 1, 1988 and amended on November 9, 2004. 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 PLICO 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, the Parent (PLC) agrees to prepare or cause to be prepared and to file such returns and other appropriate documents as may be necessary on behalf 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 years' separate company tax of the Subsidiary. Any amount not carried back shall carry forward on a separate company basis. Any such carry forward 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 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 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. The Company signed an Assignment of Tax Refund Proceeds on September 9, 2003. The assignment stated that PLC will assign annually to the Company any and all monies refunded to PLC by the Internal Revenue Service ("IRS") which represent(s) the Company's tax payments to PLC.

The Company filed this Agreement for approval by the Commissioner of the TDCI as required by Tenn. Code Ann §56-11-206(a)(2)(D). The TDCI approved this Agreement on January 1, 1988.

Amended Administrative Services Agreement with PLAIC

The Company and PLAIC entered into an Administrative Services Agreement effective February 13, 2004. The Company will provide the following administrative services for PLAIC on certain of its insurance business:

Marketing
Compliance
Policy Holder Services
Policy Issue
Accounting and Financial Reporting
Licensing and Commission Payment
Underwriting

The charge to PLAIC for the services shall include all direct and indirectly allocable expenses. "The methods for allocating expenses to PLAIC shall be in conformity with customary insurance accounting practices consistently applied and determined in accordance with the requirements prescribed in the New York Department of Insurance

Regulation No. 33." As of December 31, 2004, there were no charges made by the Company for its services.

The Company filed this Agreement for approval by the Commissioner of the TDCI as

required by Tenn. Code Ann. §56-11-206(a)(2)(D). The TDCI approved this Agreement on March 30, 2004.

Guaranty Agreement:

Effective February 23, 1993, the Company entered into an agreement whereby its parent, PLICO, guaranteed that it will pay all insurance policy claims made by the holders or beneficiaries of the Company's policies which were issued after the date of the guaranty agreement in accordance with the terms of said policy. At year-end 2004, PLICO'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 Company reinsured six hundred fifty six million four hundred thousand dollars ($656,400,000) with third parties.

The agreement remains in effect until either the Company achieves a claims paying rating equal to or better than PLICO, or by written instructions delivered to Standards & Poors ninety (90) days prior to termination. The agreement will remain in effect for any policies outstanding at that time.

Agreements entered into by the Company during the previous examinations appeared to satisfy the requirements of Tenn. Code Ann. §56-11-206(a)(2)(D).

PRIVACY

It was determined during this examination that the Company complied with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch., 0780-1-72 with respect to the privacy on non-public personal information.

FRAUD PLANS

The Company has anti-fraud plans in place which outline specific procedures to prevent, detect and investigate forms of insurance fraud pursuant to Tenn. Code Ann. §56-53-111.

MARKET CONDUCT ACTIVITIES

Rates, Policy Forms and Underwriting:

As discussed under caption "Territory and Plan of Operations," the Company offers Life insurance products which are represented by a level term series, three excess interest whole life ("EIWL") and four universal life products (individually and survivorship).

Policy forms and rates are filed in each state in which the Company is licensed. A control sheet is maintained for the products in each state.

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, reason, etc. For the five years under examination, the Company recorded seventy six (76) complaints with nineteen (19) of those in 2004.

The examiner reviewed certain complaints for the examination period and concluded that the Company takes timely and appropriate action in the disposition of complaints.

Claims:

Claims were reviewed in conjunction with samples selected for the actuary and "Contract Claims-Life" liability. The review indicates that the Company pays claims in a timely manner once all necessary documentation has been obtained.

Advertising:

The Company produces product brochures for its agents and brokers. These are not provided to the general public with the exception of the Due Diligence brochure which is updated annually for new financial data. General product information is also available on the Company's internet website.

LITIGATION AND CONTINGENT LIABILITIES

According to the Company's "Notes to Financial Statements" a number of civil jury verdicts have been returned against insurers and other providers of financial services involving sales practices alleging agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the insurer does business and other matters. Increasingly, these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments. The Company like other financial service companies, in the ordinary course of business, is involved in such litigation and arbitration. The Company cannot predict the outcome of any such litigation or arbitration.

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. The following are deposits with states where special deposits are **not** for the benefit of all policyholders, claimants, and creditors of the Company:

Jurisdiction	Description of Security	Par Value	Book Value	Market Value
Arkansas – Dept. of Insurance	US Treasury Note 6 ½%, Due 08-15-05 Cusip # AR00001	$ 100,000	$ 101,454	$ 102,434
Georgia – Dept. of Insurance	US Treasury Note 6 1/8%, Due 08-15-07 Cusip # GA00001	75,000	75,461	80,490
Massachusetts – Dept. of Insurance	US Treasury Note 6 1/8%, Due 08-15-07 Cusip # MA00001	500,000	503,071	536,600
New Mexico – Dept. of Insurance	US Treasury Note 6%, Due 08-15-09 Cusip # MN00001	25,000	28,209	27,572
	US Treasury Note 6 ½%, Due 08-15-05 Cusip # MN00002	100,000	101,454	102,434
North Carolina – Dept. of Insurance	US Treasury Note 6 1/8%, Due 08-15-07 Cusip # NC00001	40,000	40,246	42,928
	US Treasury Note 6%, Due 08-15-09 Cusip # NC00002	360,000	406,209	397,040
Virginia – Dept. of Insurance	US Treasury Note 6%, Due 08-15-09 Cusip # VA00001	250,000	282,090	275,723
Sub-Total		$1,450,000	$1,538,194	$1,565,221

The following are deposits with states where deposits are for the benefit of all policyholders, claimants, and creditors of the Company:

Jurisdiction	Description of Security	Par Value	Book Value	Market Value
Tennessee – Dept. of Insurance	US Treasury Note 6 1/8%, Due 08-15-07 Cusip # TN00001	$1,300,000	$1,308,103	$1,395,160
	US Treasury Note 6 ½%, Due 08-15-05 Cusip # TN00002	300,000	304,242	307,302
Sub-Total		$1,600,000	$1,612,345	$1,702,462
Grand Total		$3,050,000	$3,150,539	$3,267,683

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

ACCOUNTS AND RECORDS

A review of the Company's accounting system indicates that records appear to conform to Statutory Accounting Principles ("SAP") and to accurately reflect the operations of the Company during the period covered by this examination, except as noted below and otherwise commented upon in the section "Analysis of Changes in Financial Statement and Comments Resulting from Examination."

For each of the five (5) years covered by this examination, the Company prepared computer-generated "statutory" trial balances that were reconciled, proved in balance and traced to various exhibits and schedules of the respective annual statements by the examiners.

As discussed under caption "Management and Control" the Company has an agreement with the ultimate parent of the holding company system, PLC, under which PLC provides data processing and computer programming services to the Company. PLC's mainframe computer maintains custom and package software programs to support most facets of the Company's operations. A few specific services are provided by outside vendors. Company personnel have personal computer ("PC") access to these programs, as needed, through wide and local area networks and through internet access. Accounting records are produced mainly from SmartStream software, to which the Company converted in 1997, as well as from various source documents that include cash transaction records, journal entries and other specific entry documents.

PLC maintains both tape and disk data storage. Back-ups are kept offsite. In addition, PLC has a formal disaster recovery system that is well documented and tested by simulated disaster situations on a random basis.

The Company's GAAP and statutory financial statements are audited annually as part of the audit performed for PLC by an independent accounting firm. The independent

accountants issue an annual audit report for the Company separate from that of its parent and affiliates. Material weaknesses in the internal control structure of the Company under standards established by the American Institute of Certified Public Accountants ("AICPA") and the Sarbanes-Oxley Act for 2004 would be disclosed in this report and in a letter addressed to the Company's audit committee. No such weaknesses were noted in the letters issued in 2000 – 2003. At the time of this report, no Internal Control letter had been issued for 2004.

The independent accountants also performed a review of risk-based capital and concluded that the Company's total adjusted capital was in excess of the NAIC's risk based capital requirements at December 31, 2004. The examiners reviewed these calculations and noted no exceptions.

Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-65.07(3) states in part, no partner or other person responsible for rendering a report may act in the capacity for more than seven (7) consecutive years. In addition, the Federal Government recently passed the Sarbanes-Oxley Act, which requires publicly traded Companies to rotate the lead partners every five (5) years. The Company is in compliance with these rules.

The Company's parent maintains its own actuarial staff which is responsible for producing opinions on the Company's loss and loss adjustment expense reserves. For each of the years under review, the opinions were signed by an actuary who was appointed by the Board of Directors and who is a Fellow of the Society of Actuaries and member of the American Academy of Actuaries.

While the Company has limited operations in Kansas City, Kansas, and Brentwood, Tennessee, most of its records are located in its administrative office in Birmingham, Alabama. Tenn. Code Ann. §56-2-104(a)(5) requires that each domestic insurer's "principal place of business and primary executive, administrative and home offices and all original books and records… are or will be located and maintained in this state." The Company is exempted from Tenn. Code Ann. §56-2-104(a)(5) by subsection (A) which excepts domestic insurers " whose primary executive, administrative and home offices were located outside of the state prior to July 1, 1993."

Financial Statement

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

ASSETS

	Ledger Assets	NonAdmitted Assets	Net Admitted Assets
Bonds	$ 116,305,259		$ 116,305,259
Cash	15,432,995		15,432,995
Contract loans	1,074,625		1,074,625
Investment income due or Accrued	1,588,616		1,588,616
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	7,534,537	$ 19,788	7,514,749
Deferred premiums, agents' balances and installments booked but deferred and not yet due	56,197,631		56,197,631
Reinsurance:			
Amounts recoverable from reinsurers	14,774,328	499,126	14,275,202
Net deferred tax asset	23,300,202	16,623,841	6,676,361
Guaranty funds receivable or on deposit	1,284		1,284
Electronic data processing equipment and software	469,378	469,378	0
Furniture and equipment	173,801	173,801	0
Health care and other amounts receivable	338,047	338,047	0
Insolvency fund assessments	65,130		65,130
Totals	$ 237,255,833	$ 18,123,981	$ 219,131,852

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts		$111,899,334
Liability for deposit-type contracts		1,969,639
Policy and contract claims: Life		2,104,825
Premiums and annuity considerations for life contracts received in advance		999,245
Interest maintenance reserve		997,807
Commissions to agents due or accrued		6,193,417
General expenses due or accrued		1,245,776
Taxes, licenses and fees due or accrued		1,992,721
Current federal income taxes		5,485,133
Amounts withheld or retained by Company as agent or trustee		14,602
Amounts held for agents' account		51,785
Remittances and items not allocated		16,052,496
Asset valuation reserve		853,942
Payable to parent, subsidiaries and Affiliates		1,211,044
Total liabilities		$151,071,766
Common capital stock		$ 2,500,000
Gross paid-in and contributed surplus	$115,477,712	
Unassigned funds (surplus)	(49,917,626)	
Surplus		$ 65,560,086
Total capital and surplus		$ 68,060,086
Total		$219,131,852

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life contracts	$ 59,786,196
Net investment income	6,322,466
Amortization of Interest Maintenance Reserve	85,301
Commissions and expense allowances on reinsurance ceded	91,374,313
Aggregate write-ins for miscellaneous income	304
Totals	$157,568,580
Death benefits	$ 18,203,698
Disability benefits	3,645
Surrender benefits and withdrawals for life contracts	892,039
Interest and adjustments on contract or deposit-type contract funds	36,049
Increase in aggregate reserves for life contracts	35,416,543
Totals	$ 54,551,974
Commissions on premiums, annuity considerations, and deposit-type funds	$ 83,965,219
General insurance expenses	28,408,969
Insurance taxes, licenses and fees, excluding federal income taxes	7,605,216
Increase in loading on deferred and uncollected premiums	(10,298,654)
TOTALS	$164,232,724
Net gain from operations before dividends to policyholders and federal income taxes	$ (6,664,144)
Federal and foreign income taxes incurred	9,959,872
Net Income	$(16,624,016)

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, prior year	$ 79,211,471
Net income	(16,624,016)
Change in net deferred income tax	15,700,064
Change in nonadmitted assets and related items	(12,669,029)
Change in liability for reinsurance in unauthorized companies	2,565,839
Change in asset valuation reserve	(124,243)
Net change in capital and surplus for the year	(11,151,385)
Capital and surplus, December 31, current year	$ 68,060,086

Capital and Surplus Account

	2000	2001	2002	2003	2004
Total Capital and Surplus December 31, prior year	$23,036,628	$28,779,644	$39,837,811	$43,810,319	$79,211,471
Net income or (loss)	$(38,739,897)	$(4,395,909)	$(10,750,143)	$3,873,652	$(16,624,016)
Change in net unrealized capital gains or (losses)			(419,462)	419,462	
Change in net deferred income tax		7,027,543	10,748,168	(4,060,193)	15,700,064
Change in nonadmitted assets and related items	(468,777)	(2,310,490)	(6,530,558)	4,041,481	(12,669,029)
Change in liability for reinsurance in unauthorized companies		(561)	(4,368,541)	1,803,263	2,565,839
Change in asset valuation reserve	(48,310)	29,291	293,044	(676,513)	(124,243)
Cumulative effect of changes in accounting principles		708,293			
Surplus adjustment: Paid in	45,000,000	10,000,000	15,000,000	30,000,000	0
Net change in total capital and surplus for the year	$ 5,743,016	$11,058,167	$ 3,972,508	$35,401,152	$(11,151,385)
Total Capital and Surplus December 31, current year	$28,779,644	$39,837,811	$43,810,319	$79,211,471	$68,060,086

COMMENTS AND RECOMMENDATIONS

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

Comments:

1. The Company has received an LOC in the amount of forty two thousand dollars ($42,000). The LOC names PLC as the beneficiary rather than the Company. Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-63-.08 requires an LOC to be in the name of the ceding company. This LOC is, therefore, in violation of Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-63-.08. On May 31, 2005, the Company amended the LOC to replace PLICO with the Company's name.

2. The majority of the Company's reinsurance agreements cede premiums on a written basis, and, in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. 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 is due at the termination of an agreement because the policies continue in full force. 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. 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. (See page twenty five [25])

3. It was also noted that in prior years, many of the Company's reinsurance agreements were in violation of Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., 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. 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, no agreements were in violation at December 31, 2004. It is recommended that the Company completely comply with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05. (See page twenty six [26]

4. 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 ultimately find their

way to the Annual Statement. In addition it is suggested that the Company strive to adhere to the 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.

Recommendations:

1. The automatic and facultative coinsurance agreements which cover individual graded premium whole life policies, term life insurance policies, and individual universal life policies, effective March 1, 1999 were terminated for new business effective December 31, 1999. These agreements were between PLICO and Swiss Re Life & Health America, Inc.; however, in practice, these agreements are between the Company and Swiss Re Life & Health America, Inc. It is recommended that the Company amend these reinsurance agreements for full compliance with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05. (See page nineteen [19])

2. An automatic and facultative coinsurance agreement effective November 1, 2001, covers individual term life insurance policies written on the Company's Insta Term forms. The agreement is between PLAIC and Swiss Re Life & Health America, Inc. It is recommended that the Company amend this reinsurance agreement for full compliance with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05. (See page twenty [20])

3. The Company received an LOC in the amount of eighty million two hundred thousand dollars ($80,200,000). The LOC was dated January 3, 2005. The Company's attention is directed to Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-63-.10 that requires an LOC to be issued on or before the date of filing of the financial statement in order to obtain reinsurance credit. It is recommended that the Company comply completely with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-63-.10 in the future. (See page twenty one [21])

4. An automatic and facultative YRT agreement effective May 1, 1997, covers individual graded premium whole life insurance policies. The agreement is between PLICO and Transamerica Occidental Life Insurance Company; however, in practice, the agreement is

between the Company and Transamerica Occidental Life Insurance Company. It is recommended that the Company amend this reinsurance agreement for full compliance with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05. (See page twenty two 22)

5. The Company has an automatic and facultative coinsurance agreement effective May 1, 1997, that covers individual term life insurance policies. The agreement was terminated for new business effective February 28, 1999. The agreement is between PLICO and ING Reinsurance; however, in practice, the agreement is between the Company and ING Reinsurance. It is recommended that the Company amend this reinsurance agreement for full compliance with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-62-.05. (See page twenty four [24])

6. 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 Annual Statement Instructions, page two hundred seventy three (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 §56-44-102. (See page twenty six [26])

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 Empire General Life Assurance Corporation of Tennessee located in Birmingham, Alabama.

In such manner, it was found that as of December 31, 2004, the Company had admitted assets of two hundred nineteen million one hundred thirty one thousand eight hundred fifty two dollars ($219,131,852) and liabilities, exclusive of surplus, of one hundred fifty one million seventy one thousand seven hundred sixty seven dollars ($151,071,767). Thus, there existed for the additional protection of the policyholders, the amount of sixty eight million sixty thousand eighty six dollars ($68,060,086) 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, 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 specialist, Norman Chandler, CPA, CPCU, ARe of TaylorChandler LLC, of Montgomery, Alabama participated in the work of this examination.

Respectfully submitted,

Gwendolyn J. Douglas, CFE, CIE
Examiner-in-Charge
Contract Examiner of Tennessee
Southeastern Zone, NAIC

David R. White, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

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

Donnie Nicholson,
Insurance Examiner, III
State of Tennessee
Southeastern Zone, NAIC

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

Bryant Cummings
Insurance Examiner, II
State of Tennessee
Southeastern Zone, NAIC

Mary B. Packard, CPA, CFE
State of Delaware Insurance Examiner
Northeastern Zone, NAIC

Richard McKnight, CFE, FLMI
State of Delaware Insurance
Examiner
Northeastern Zone, NAIC

EXAMINATION AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of the Company located in Birmingham, Alabama dated August 4, 2005, and made as of December 31, 2004, on behalf of the TDCI. 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.

Gwendolyn J. Douglas

Gwendolyn J. Douglas, CFE, CIE
Examiner-in-Charge
Contract Examiner for Tennessee
Southeastern Zone, NAIC

County Davidson

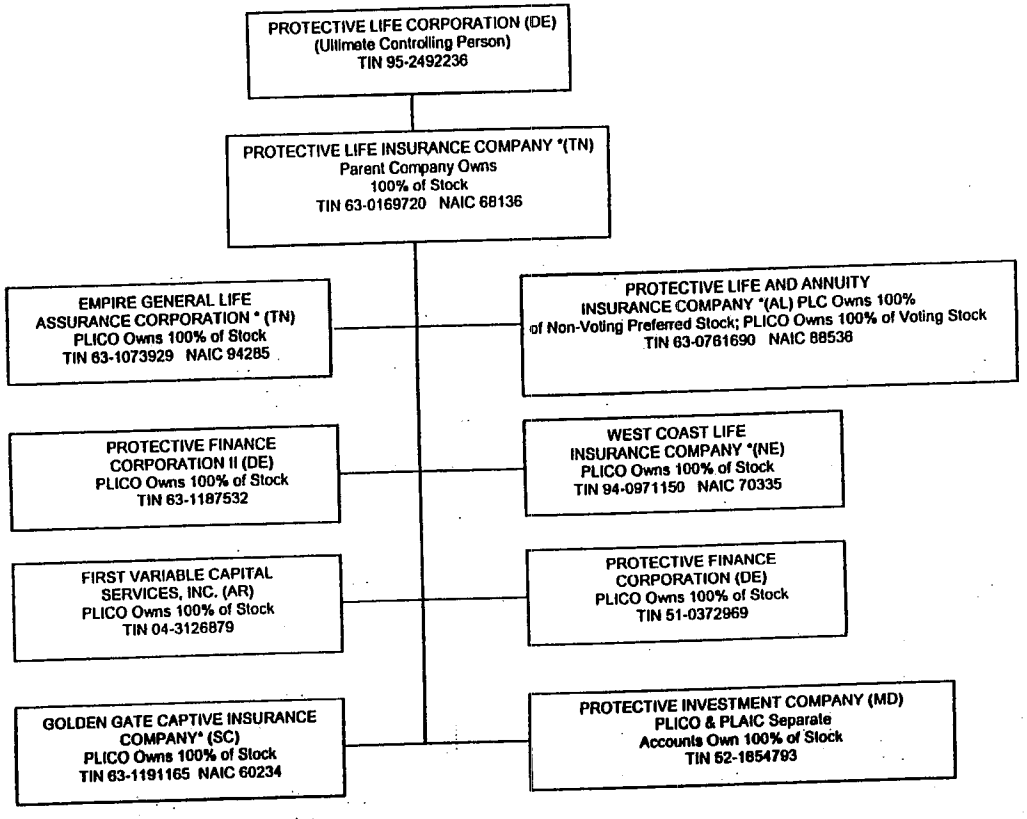
State Tennessee

Subscribed and sworn to before me this 8th day of August, 2005

Helen M. Dorsey
(NOTARY)

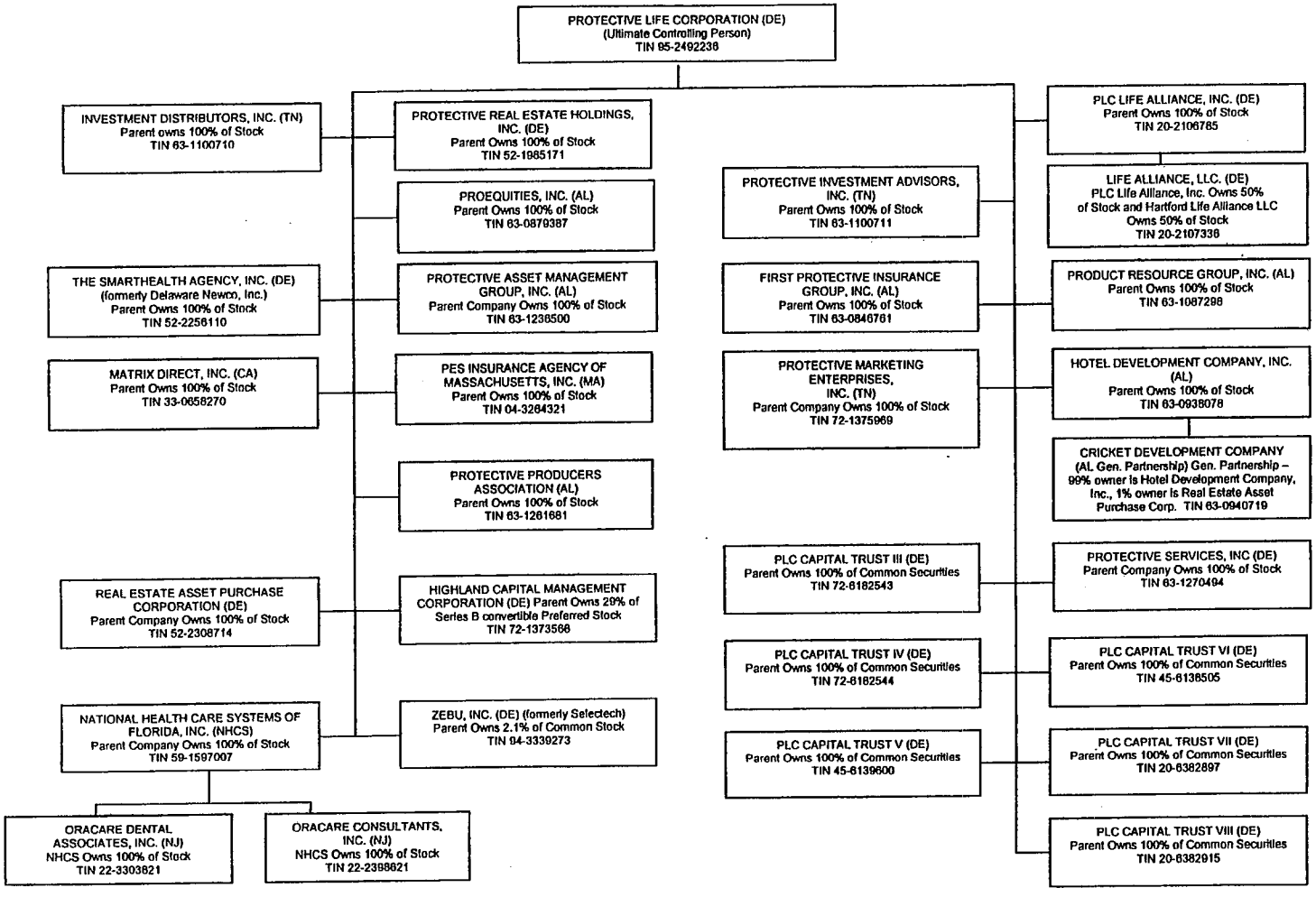
My Commission Expires:
03/25/2006

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

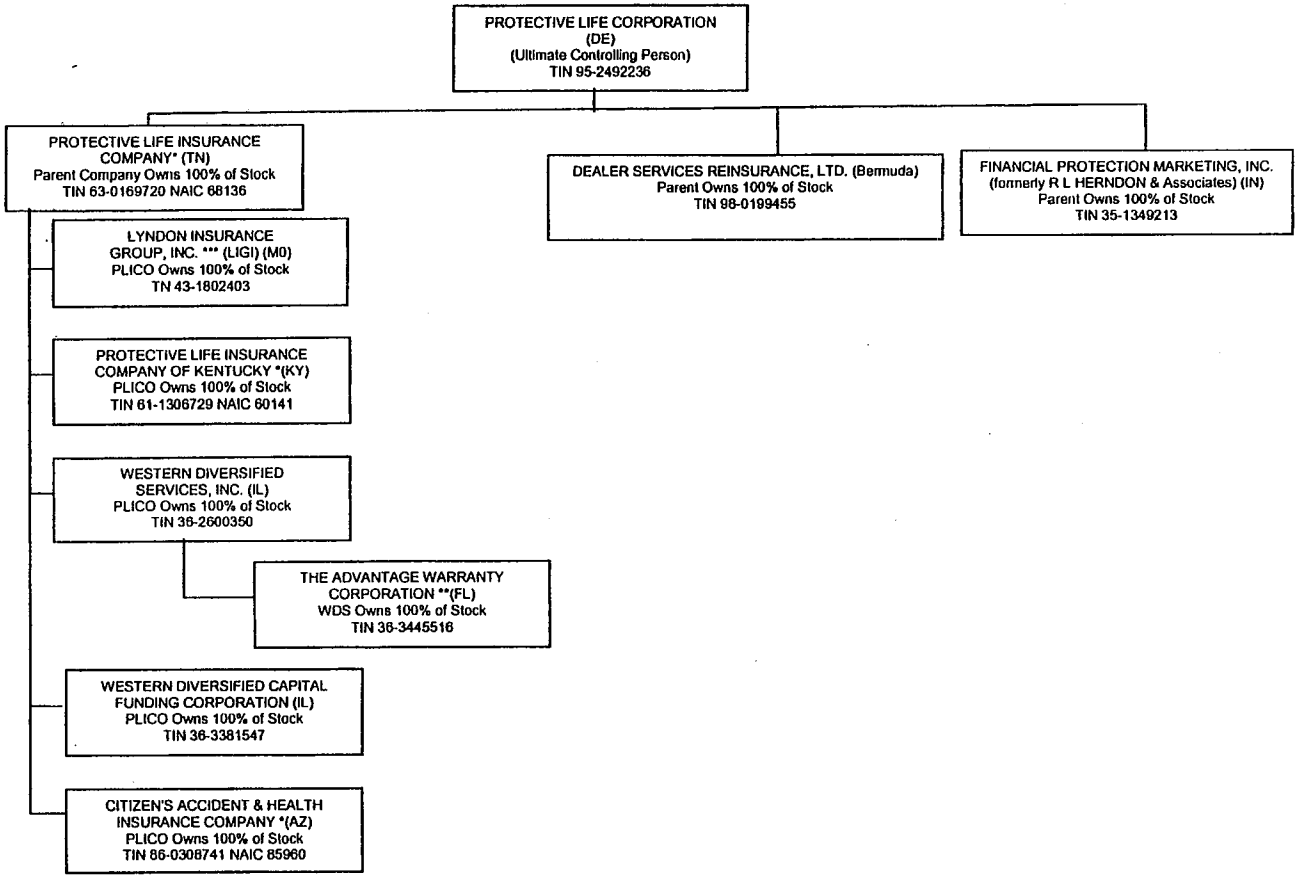


*Denotes Insurance Company

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

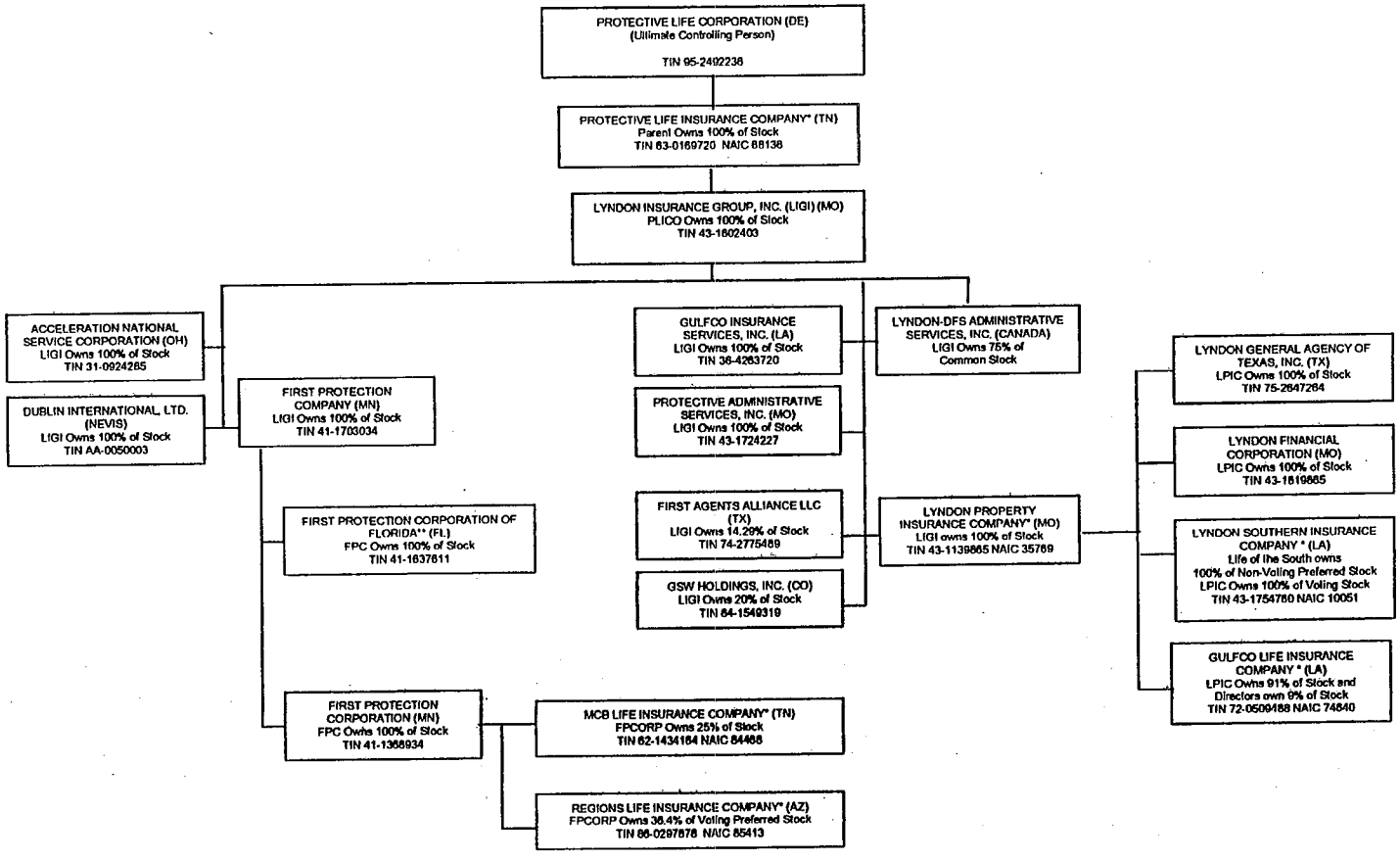


Protective Life Corporation Organizational Chart
as of December 31, 2004
Page 3 of 4
Asset Protection Division – Page 1 of 2



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

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

Empire General Life Assurance Corporation
Post Office Box 2606
Birmingham, AL 35202
205-268-1000

Protective

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Dept. Of Commerce & Ins.
Company Examinations

August 11, 2005

Don Spann
Insurance Examination Director
State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Re: Empire General Life Assurance Corporation
Financial Examination as of December 31, 2004

Dear Mr. Spann:

I hereby acknowledge receipt of the *"Report on Examination of Empire General Life Assurance Corporation"* (the "Company" or "EG") as of December 31, 2004 (the "Report") referred to in your letter dated August 8, 2005. The purpose of this letter is to respond to the issues raised in the "Recommendations" section of the Report found on pages 41-42.

RECOMMENDATIONS

Recommendations Nos. 1, 4, and 5 relate to reinsurance agreements involving Protective Life Insurance Company ("PLICO") that should have been amended when EG recaptured all of its business from PLICO, back in 2000. As you may recall, EG originally reinsured all of its business to PLICO, and PLICO retroceded certain amounts to other reinsurance companies. In 2000, EG recaptured all of that business from PLICO, and the agreements with other reinsurance companies were to be amended to reflect a direct agreement between EG and those reinsurance companies. We could not locate the amendments for several treaties. Recommendation No. 1 requests that the reinsurance agreement effective May 1, 1999 (treaty code SA236-99) between PLICO and Swiss Re Life & Health America, Inc. ("Swiss Re") be amended. Recommendation No. 4 requests that the reinsurance agreement effective May 1, 1997 (treaty code 5865-48) between PLICO and TransAmerica Occidental Life Insurance Company be amended. Recommendation No. 5 requests that the reinsurance agreement effective May 1, 1997 (treaty code 0197-1975) between PLICO and ING Reinsurance be amended. For each of these agreements, the Company has prepared appropriate amendments and expects to have them executed in the near future.

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Company Examinations

Recommendation No. 2 indicates that the coinsurance agreement effective November 1, 2001 between Protective Life and Annuity Insurance Company ("PLAIC") and Swiss Re for policies written on the Company's Insta Term forms, should be amended. We respectfully submit that this agreement should not be amended. It appears that the PLAIC/Swiss Re coinsurance agreement was provided to the examiners by mistake instead of the separate reinsurance agreement between EG and Swiss Re also dated November 1, 2001. The EG/Swiss Re reinsurance agreement was provided to the examiners and is referenced in the third paragraph on page 20 of the examination report. The confusion results from the fact that PLAIC also markets products called Insta Term in NY and these products are covered by the reinsurance agreement between PLAIC and Swiss Re that was mistakenly provided to the examiners. Therefore, we respectfully request that this recommendation and the fourth paragraph on page 20 of the examination report be removed.

Recommendation No. 3 indicates that a letter of credit must be issued on or before the date of filing of the financial statement in order to obtain reinsurance credit. This relates to the $80,200,000 letter of credit dated January 3, 2005 that the Company secured for business ceded to XL Life. The Company will comply with this Recommendation in the future.

Recommendation No. 6 indicates that the Company should report each reinsurance agreement separately on Schedule S of its Annual Statement. In the past the Company had a practice of grouping certain similar agreements together on a single line on Schedule S. The Company will report each agreement separately on Schedule S in future Annual Statements.

We appreciate the Department's efforts to complete the examination and offer the Company suggestions for improvement. We look forward to working with you in the future.

Should you have any questions, please feel free to call me at 205-268-3596.

Sincerely,

Charles D. Evers, Jr.
Vice President, Corporate Accounting

Cc: Douglas K. Adam, President
Steven G. Walker, Sr. Vice President and Controller
Deborah J. Long, Sr. Vice President, Secretary and General Counsel