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Company Examinations

REPORT ON THE EXAMINATION

of the

MOUNTAIN LIFE INSURANCE COMPANY

517 Airway Drive
Alcoa, Tennessee

as of

DECEMBER 31, 2003

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

EXHIBIT
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Alcoa, Tennessee
March 25, 2005

Honorable Kevin McCarty
Chair, Financial Condition (E) Committee
Secretary, Southeastern Zone
National Association of Insurance Commissioners
Director, Office of Insurance Regulation
Florida Department of Financial Services
200 East Gaines Street
Tallahassee, FL 34399

Honorable Paula A. Flowers
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioners:

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

MOUNTAIN LIFE INSURANCE COMPANY
ALCOA, TENNESSEE

Hereinafter generally referred to as the "Company", at its principal office, 517 Airway Drive, Alcoa, Tennessee 37701, and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee through the Examination Tracking System (ETS) of the National Association of Insurance Commissioners (NAIC). The examination commenced on March 1, 2004, at the Company's office in Alcoa, Tennessee. The examination was conducted under the association plan of the NAIC by examiners from the State of Tennessee.

SCOPE OF THE EXAMINATION

The period covered is from December 31, 1998, the date of the last examination, through the close of business on December 31, 2003, the date of this examination.

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

During the course of the examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2003. The Company's financial solvency and the degree thereof was thus established. Test checks, covering selected periods, were made of income and disbursement items, and a general review was made of the Company's operations, practices, and compliance with statutes, to the extent set forth in this report.

An examination of all assets and liabilities contained in the financial statement of this company was made, and individual items were verified with relative emphasis according to the size and potential impact on surplus funds with regard to policyholders.

An examination was made into the following matters:

Previous Examination Comments and Recommendations
Company History
Charter and Bylaws
Management and Control
Pecuniary Interest
Corporate Records
Fidelity Bonds and Other Insurance
Territory
Plan of Operation
Market Conduct Activities
Reinsurance
Commission Equity
Retirement Plan and Other Employee Benefits
Mortality and Loss Experience
Accounts and Records
Statutory Deposits
Litigation and Contingent Liabilities
Actuarial Review
Financial Statement

They are discussed in detail as follows:

PREVIOUS EXAMINATION COMMENTS AND RECOMMENDATIONS

The previous examination was made as of December 31, 1998, by examiners from the State of Tennessee. Their report on the examination contained one item of major criticism requiring corrective action by the Department of Commerce and Insurance. The adverse finding and its resolution was as follows:

- The Company was in violation of Tennessee Regulation §0708-1-46-.04. This occurred because the Company was not holding its securities under a custodial agreement at a qualified bank. The securities were held at a bank in the name of the brokerage firm.

Effective October 8, 1999 the Company executed an approved custodial agreement with a national bank. At that time the national bank acknowledged the receipt of $3,250,000 par value of U.S. Government and U.S. Government Agency securities to be held under the custodial agreement. On November 2, 1999, the national bank executed a Custodian Affidavit, Form C, which certified that the $3,250,000 of securities were being held in the Company's account. At November 2, 1999, the Company was in compliance with Tennessee Regulation §0708-1-46-.04. The compliance with the above regulation also brought the Company into compliance with the capital and surplus requirements.

COMPANY HISTORY

The Company was originally incorporated on July 31, 1972, under the laws of the State of Arizona and was issued a Certificate of Authority to commence business as a domestic limited stock life and disability company on October 4, 1972. On March 6, 1974, the Company applied to the Arizona Insurance Department for a full legal reserve status. On April 10, 1974, the Company was approved by the State of Arizona as a full legal reserve status life and disability company.

The company operated strictly as a reinsurance company and reinsured risks from Old Security Insurance Company of Kansas City, Missouri from its inception until July 13, 1977, when Old Security Insurance Company was placed in receivership. At that time, the Company negotiated a new reinsurance agreement with Appalachian National Life Insurance Company of Knoxville, Tennessee to reinsure risks assumed by them.

The Tennessee Department of Commerce and Insurance issued a Certificate of Authority on February 9, 1979 authorizing the Company to write credit life and credit accident and health insurance in Tennessee. The Company was authorized to write disability insurance on August 29, 1980, and life insurance on December 26, 1984.

The original authorized capital stock of the Company was 500,000 shares with a par value of $1.00 each. On November 22, 1978, the Company charter was amended to increase the authorized number of shares of capital stock to 1,000,000 with 850,000 shares issued and outstanding on this date. The charter was amended on October 27, 1982. Under this amendment, the authorized capital stock of the Company shall consist of 250,000 shares of common stock with a par value of $4.25 each. The means of effecting this exchange of $1.00 par value of common stock for $4.25 par value common stock was as follows:

All 850,000 shares of issued and outstanding $1.00 par value common stock of the Company were automatically converted into 209,478 shares of $4.25 par value common stock, amounting to an aggregate capital figure of $890,281.50. All certificates representing the 850,000 shares of $1.00 par value common stock were surrendered and canceled and a new certificate representing the $4.25 par value common stock was issued.

Upon issuance thereof, the Company transferred $40,281.50 from the surplus account to the capital stock account.

On April 20, 1983, all the issued and outstanding common stock of the Company was sold by the Bank of Maryville, Maryville, Tennessee, to Mountain Services Corporation, Alcoa, Tennessee, pursuant to the terms of an agreement of sale dated March 1, 1983. Consequently, the company became a direct subsidiary of Mountain Services Corporation.

On July 31, 1987, Mountain Services Corporation used $592,242 of the sale of stock proceeds to purchase an additional 25,817 shares of common stock in its wholly owned subsidiary at a purchase price of $22.94 per share. This transaction increased the capital stock by $109,722. The difference of $482,520 was transferred to gross paid in and contributed surplus.

On October 22, 1991, the Company amended its charter to increase the number of authorized shares of common stock to two million (2,000,000) with a $4.25 par value.

On October 31, 1991, the Board of directors authorized the sole shareholder to purchase 105,883 shares of its 44.25 par value capital stock for $450,002.72. The Board also declared a stock dividend of 11,764 shares of $4.25 par value capital stock payable to the sole shareholder.

On July 1, 1994, Mountain Services Corporation transferred land and buildings with a net book value of $687,875 to the Company in exchange for 72,104 shares of the Company's stock.

In January 1995 Mountain Services Corporation contributed its investment in Smoky Mountain Life Insurance Company to the Company for the purpose of merging Smoky Mountain into the Company. The amount contributed to surplus was $442,591.

Effective December 30, 1999, Holston Valley Life Insurance Company, a wholly owned subsidiary of the Company, was merged with and into the Company. There was no exchange of shares, rather, the issued and outstanding stock of Holston Valley Life Insurance Company was cancelled. The capital and surplus accounts of the companies were combined. The articles of merger were approved by the Tennessee Department of Commerce and Insurance on December 21, 1999.

On April 30, 2000, the Company redeemed and retired 72,104 shares of common stock from Mountain Services Corporation at $13.17 per share. This was approved by the Tennessee Department of Commerce and Insurance on August 11, 2000.

At December 31, 2003, the Company had 352,942 shares of $4.25 par value stock outstanding. The Company had $1,500,004 in common capital stock, $1,000,000 gross paid in and contributed surplus and $519,056 in unassigned funds (surplus).

Growth of the Company:

Shown below is the growth of the Company from the date of organization through the date of this examination as shown in its annual statements.

Year	Credit Life Insurance In Force*	Net Premium Income	Admitted Assets	Surplus as Regards Policyholders
1972	$4,024	$120,090	$108,625	$28,843
1973	9,967	272,291	230,946	111,406
1974	14,467	569,167	345,485	103,366
1975	18,891	466,957	376,244	160,824
1976	15,058	607,145	520,656	229,865
1977	22,521	739,451	756,840	313,141
1978	27,899	993,593	1,719,164	388,667
1979	70,385	1,660,274	2,369,919	427,370
1980	106,978	632,993	2,463,134	428,741
1981	199,704	1,730,372	3,166,559	567,235
1982	394,865	1,641,515	4,003,739	642,511
1983	222,875	1,482,337	3,918,345	466,876
1984	629,520	1,998,381	4,375,341	741,042
1985	673,022	2,277,008	4,716,341	864,321
1986	726,555	1,490,209	5,041,792	964,232
1987	795,548	1,973,743	6,521,118	1,619,300
1988	814,965	2,536,261	7,906,521	1,620,920
1989	779,047	2,461,395	7,514,903	1,690,245
1990	730,696	2,016,027	7,102,303	1,759,239
1991	682,726	1,778,631	7,421,056	1,533,036
1992	704,986	1,869,466	7,710,982	1,677,752
1993	741,348	2,520,351	8,332,965	1,690,004
1994	818,624	3,390,366	10,744,870	2,108,533
1995	898,137	5,670893	11,552,381	2,199,593
1996	942,840	4,495,234	12,340,608	1,769,650
1997	935,613	4,703,622	13,906,486	2,238,953
1998	929,804	4,664,475	14,590,276	1,529,942
1999	921,394	4,254,102	16,493,362	2,345,850
2000	828,187	4,064,990	15,642,589	2,106,540
2001	774,785	3,916,438	15,037,136	1,716,284
2002	717,024	3,450,085	14,203,399	1,784,804
2003	631,061	2,688,298	13,299,414	1,519,056

* 000 omitted

CHARTER AND BYLAWS

Charter:

The Company was incorporated under the laws of the State of Arizona on July 31, 1972, but pursuant to the provisions of Chapter 511 of the Public Acts of 1978, State of Tennessee, the Company became a corporation organized for profit under the laws of the State of Tennessee effective July 30, 1979.

The purposes for which the Company was organized were:

(a) To engage as a stock insurance company in the general life and disability insurance business.
(b) To enter into and perform life and disability insurance contracts of all kinds, individual and group.
(c) To reinsure or accept reinsurance of all or any part of any risk.
(d) To make legally permissible investments of any kind.
(e) To purchase or otherwise acquire stock in securities of other corporations and to dispose of the same.
(f) To buy, lease and otherwise acquire real estate, personalty, appliances and equipment and to operate or use the same on a commission, lease or other basis.
(g) To enter into and perform contracts of every kind.
(h) To borrow or otherwise raise money for any corporate purpose and to give corporate evidence for the repayment thereof.
(i) To lend any of its surplus funds with or without security.
(j) To purchase, acquire, hold and sell its own stock and to exchange the same for stock in other corporations.
(k) To engage in reorganizations and mergers.
(l) Without limiting the generality of the foregoing powers and purposes, to do every thing or act necessary or expedient in carrying on the business of the corporations and which may be permitted by law.

There were no amendments to the charter during the period of examination.

Bylaws:

The bylaws of the Company are such as are generally found in corporations of this type. They are consistent with the charter and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the directors and the shareholders.

The bylaws may be amended or repealed at the annual meeting of the stockholders, or at a special meeting of the stockholders or Board of Directors held for such purples, after due written notice has been mailed to each such stockholder or director not less than five (5) days before the meeting is held, giving the reason for the calling of the meeting, with a copy of proposed amendment, and also giving the time and place said meeting is to be held. There were no amendments to the bylaws during the period under examination.

MANAGEMENT AND CONTROL

Management:

Management of the Company is vested in a Board of Directors which are elected annually by the stockholders. The maximum number of directors shall be fifteen (15); the minimum number of directors shall be three (3). The number of directors shall be fixed within these limits by the stockholders from time to time at their discretion. The directors shall hold their office until their successors shall have been elected and qualified. The duly elected directors serving at December 31, 2003 were as follows:

NAME	OCCUPATION
Philip M. Bachman, Jr.	Director, Mountain Services Corporation, President, Bachman-Bernard Motors, Director, Greene County Bank
David E. Line	President, Mountain Services Corporation and Mountain Life Insurance Company
Ray Smith	Director, Mountain Services Corporation, President, Ray Smith Chevrolet, Director, FirstBank
Joseph W. Winders, Jr.	Secretary/Treasurer, Mountain Services Corporation and Mountain Life Insurance Company

The number of directors serving was in compliance with the Company's charter.

The Company's bylaws provide that the Board of Directors may elect an Executive Committee which shall consist of not less than three members who are directors and of whom the Chairman of the Board, the President or an active Vice president shall be a member. The Executive Committee shall have and exercise all of the rights and powers of the Company during the intervals between the meetings of the Board.

The bylaws provide that the Board of Directors will elect annually a President, a Secretary, a Treasurer and there may be Chairman of the Board, one or more Vice Presidents, an Actuary or Consulting Actuary, Assistant Secretaries, Assistant Treasurers and a General Counsel as the Board may determine.

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

President	David Eugene Line
Secretary and Treasurer	Joseph Wilfred Winders, Jr.
Vice President and Asst. Secretary	Regina Hensley McPherson
Vice President	Mary Elizabeth Bunting
Vice President	Frank Irvin Hogsed
Second Vice President	Donna Price Yates

The President or Chairman of the Board of Directors shall preside at all meetings of the stockholders and of the Board of Directors, and in all matters of the Company. For his actions as such presiding officers, he shall conform to the usual parliamentary usages. Either the President of the Chairman of the Board shall attest by his signature to the minutes of the meetings over which he presides. The President shall attest by his signature or an imprint thereof all policies of insurance issued by the Company and shall perform such other duties as the Board of Directors may require.

Control:

The Company is 100% owned by Mountain Services Corporation, a Tennessee corporation. Mountain Services Corporation has no other subsidiaries. Approximately 142 shareholders own the 409,158 issued and outstanding shares of Mountain Services Corporation common stock. Two individuals each own or beneficially hold 10% or more

of the common stock of Mountain Services Corporation. An organizational chart is located at the last page of this examination report.

The following dividends were paid by the Company to its parent during the current examination period:

Year	Amount
1999	-0-
2000	-0-
2001	$398,824
2002	-0-
2003	-0-

The Company is a party to a management agreement with Mountain Services Corporation. The agreement commenced on January 1, 1998. The agreement may be extended for additional twelve month periods by mutual agreement of the parties. The extensions must be in writing.

The services provided by Mountain Services Corporation under the agreement are personnel, accounting, marketing, underwriting, claims, actuarial, investment and administrative. As compensation to Mountain Services Corporation for the performance of these services, the Company shall pay an amount equal to one percent (1%) of the Company's net written premiums during the term of the agreement. Payments are to be made quarterly. The total amount to be paid by the Company shall in no event exceed an amount equal to eighty percent (80%) of the Company's earnings. Earnings is defined as an amount equal to the total revenues received by the Company from all sources during the term of the agreement less all expenses reasonably incurred by the Company in connection with the operation of its business. Adjustments will be made quarterly in order to comply with the 80% cap on compensation.

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

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

CORPORATE RECORDS

The minutes of the Board of Directors and the Shareholder meetings were reviewed for the period of the examination. The minutes adequately approve and support the events and transactions of the Company.

FIDELITY BONDS AND OTHER INSURANCE

The Company and Mountain Services Corporation are listed as insureds on the following schedule of insurance maintained at December 31, 2003:

TYPE OF COVERAGE	AMOUNT	COVERAGE
Financial Institution Bond	$250,000	Fidelity
	250,000	On Premises Loss of Property
	250,000	In Transit Loss of Property
	250,000	Forgery and Alteration
	5,000	Deductible
Property	$1,575,000	Combined Buildings and Personal Property
	250	Deductible
	1,000,000	New Property Extension – Building
	500,000	New Property Extension - Contents
	5,000	Outdoor Signs
	25,000	Valuable Papers
	25,000	Accounts Receivable
	10,000	Pollutant Cleanup and Removal
	187,519	Equipment, Media and Data
	Actual Loss Sustained	Extra Expense
	Actual Loss Sustained	Loss of Business Income
Commercial General Liability	$10,000	Employee Dishonesty
	10,000	On Premises – Theft, Disappearance and Destruction of Money and Securities
	2,500	Off Premises
	1,000,000	Business Liability – Each Occurrence
	1,000,000	Fire, Explosion and Water Damage Legal Liability
	5,000	Medical Payments per Person
Commercial Umbrella Liability	$2,000,000	Each Occurrence
	$2,000,000	Annual Aggregate
Automobile	$1,000,000	Hired and Non-Owned Liability
	50,000	Hired Automobile Physical Damage
	100	Deductible – Comprehensive
	250	Deductible – Collision
Workers' Compensation	Statutory Limit	
Employer's Liability		
Bodily Injury by Accident	$500,000	Each Accident
Bodily Injury by Disease	500,000	Policy Limit
Bodily Injury by Disease	500,000	Each Employee

The above coverages were issued by companies licensed to transact business in the State of Tennessee. The Company has fidelity coverage in excess of the suggested minimum amount listed in the NAIC Financial Condition Examiners Handbook.

TERRITORY

As of December 31, 2003, the Company was licensed in Alabama, Arizona, Arkansas, Georgia, Indiana, Kentucky, Louisiana, Mississippi, Missouri, Tennessee and Texas. The Company has no current plans to expand into other jurisdictions.

The following chart shows the in force business in each state.

Jurisdiction	Ordinary Life Insurance in Force	Credit Life Insurance in Force	Total in Force
Alabama	$51,762,000	$55,842,000	$107,604,000
Arkansas	88,009,000	17,405,000	105,414,000
Georgia	16,348,000	78,655,000	95,003,000
Mississippi	300,000	335,000	635,000
Missouri	13,252,000	87,202,000	100,454,000
Tennessee	94,220,000	390,809,000	485,029,000
Total	**$263,891,000**	**$630,248,000**	**$894,139,000**

Business in Force by State:

Shown below are the figures for premiums by state in which the Company operated for the year ending December 31, 2003, as reported in Schedule T of the Company's Annual Statement:

State	Life Premium	Accident and Health Premium
Alabama	$1,054,825	$109,749
Arizona	-	-
Arkansas	782,495	82,619
Georgia	615,041	360,899
Indiana	-	-
Kentucky	-	-
Louisiana	-	-
Mississippi	(977)	-
Missouri	1,146,586	217,668
Tennessee	5,682,262	2,680,102
Texas	-	-
Total	**$9,280,232**	**$3,451,037**

PLAN OF OPERATION

The Company currently markets credit life, credit accident and health, ordinary life and group accidental death and dismemberment as their lines of business. The concentration of business is on the credit life and credit accident and health which is marketed primarily through banks and auto dealers. A small amount of business is marketed through finance companies which are owned by banks that do business with the Company.

MARKET CONDUCT ACTIVITIES

The following table depicts the policies issued by line and includes the reserve method.

Valuation Standard	Total	Ordinary	Credit (Group and Individual)
Gross Life Insurance			
1960 CSG, 3.5%	4,716,586		4,716,586
1980 CET 3.5%	8,392,897		8,392,897
1980 CSO NL 4.0%	337,172	337,172	
1980 CSO NL 4.5%	1,125,410	1,125,410	
1980 CSO CRV 5.0%	133,683	133,683	
1980 CSO NL 5.5%	108,702	108,702	
1980 CSO CRV 4.5%	502,487	502,487	
Gross Life Insurance – Total	15,316,937	2,207,454	13,109,483
Reinsurance Ceded	10,377,103	1,009,143	9,367,960
Net Life Insurance	4,939,834	1,198,311	3,741,523
Gross Accidental Death			
1959 ADB W/58 CSO 3.0%	1,931	1,931	
Gross Accidental Death	1,931	1,931	
Reinsurance Ceded	1,931	1,931	
Net Accidental Death	0	0	
Gross Disability – Active Lives			
1951 DIS W/58 COS 3.0%	1,019	1,019	
Gross Disability – Active Lives	1,019	1,019	
Reinsurance Ceded	415	415	
Net Disability – Active Lives	604	604	
Gross Miscellaneous Reserves			
Substandard	29,652	29,652	
Gross Miscellaneous – Total	29,652	29,652	
Reinsurance Ceded	15,961	15,961	
Net Miscellaneous Reserves	13,691	13,691	
Totals	**$4,954,129**	**$1,212,606**	**$3,741,523**

Advertising:

The only advertising done by the Company is in The Alabama Banker, The Missouri Banker and The Tennessee Banker magazines. Advertising brochures are placed in the banks which are doing business with the Company.

Rates and Filing of Forms:

All rates and form filings were reviewed and appear to be in compliance.

Underwriting:

All underwriting is done in the Company's home office and appears to be in compliance with the Company's underwriting manual.

Claims:

Once the Company receives the necessary information, claims appear to be handled in a timely and equitable manner and in accordance with policy provisions.

Complaints:

The Company's complaint register was reviewed and showed only a small number of complaints per year. The complaints generally dealt with claims that were denied. It appears that each complaint has been handled in a timely and correct manner. There were no inconsistencies noted during the review of this file.

Privacy Policy:

The Company has a written privacy policy. It is supplied to its policyholders in compliance with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0890-1-72.

REINSURANCE

Assumed Reinsurance:

The Company assumes a small block of credit life and credit accident and health (A&H) insurance from Southern Financial Life Insurance Company, Kentucky, under a modified coinsurance (ModCo) agreement effected December 1, 2001, although no business was actually assumed by the Company until fourth quarter 2003. The agreement provides for 100% coinsurance up to a maximum of $40,000 per insured life. While the Company is licensed in Kentucky, this agreement essentially allows it to write Kentucky business as a domestic insurer for premium tax purposes.

A portion of this business is then ceded to Ridgeway Life Insurance Company, a Tennessee limited capital reinsurance company, and London Life Reinsurance

Company, Pennsylvania, in accordance with the ModCo cession agreements described below.

Ceded Reinsurance – Credit Life and Credit Accident and Health:

The Company's primary reinsurance program is structured as a two-level approach with respect to its credit life and credit A&H business. For credit life, the first $10,000 - $25,000 of coverage is ceded to one of nine limited capital credit reinsurance companies, depending on the state in which the policy originates and the financial institution or automobile dealership through which the policy is written. Fifty percent (50%) of any amount above the first level, generally $12,500 - $70,000, is ceded to London Life Reinsurance Company, Pennsylvania, under an automatic modified coinsurance (ModCo) reinsurance agreement effected January 1, 2002. The Company's per risk maximum is $150,000, and thus its maximum retention under this structure is $70,000, which is the 50% not ceded to London Life above the amount ceded to a limited capital credit reinsurer.

The Company's reinsurance for credit A&H is structured similarly. The first $200 - $500 of monthly coverage is ceded to one of the limited capital credit reinsurers, and 50% of any amount above the first level, generally $225 - $900 per month, is ceded to London Life. The Company's per risk maximum is $2,000 with a maximum retention of $900 per month.

The Company has ModCo cession agreements with nine limited capital credit reinsurance companies which had insurance in force at December 31, 2003 as follows:

Limited Capital Credit Reinsurance Company	Credit Life Premiums	Credit A&H Premiums	Reserve Credit Taken	Trust Agreement Funds
Ridgeway Life Insurance Company, Alcoa, Tennessee	$100,706,458	$954,431	$3,158,112	$3,358,530
Ocoee Life Insurance Company, Alcoa, Tennessee	4,948,964	14,708	89,710	96,609
First Community Life Insurance Company, Alcoa, Tennessee	91,888,049	515,161	2,697,925	3,103,184
Middle Tennessee Life Insurance Co., Alcoa, Tennessee	58,907,583	480,507	1,513,970	1,608,991
Scenic City Life Insurance Company, Alcoa, Tennessee	45,484,668	249,078	1,698,763	1,867,285
Community Bank Life & Health Ins. Co., Hot Springs, Arkansas	8,958,365	43,962	133,493	153,529
Risk Associates Life Insurance Company, Phoenix, Arizona	20,766,507	48,778	342,353	376,845
Southern Foundation Life Insurance Co., Phoenix, Arizona	9,011,225	27,704	139,546	160,841
Georgia Community Life Insurance Co., Phoenix, Arizona	44,103,291	287,783	674,326	792,310

Risk Associates Life Insurance Company and Southern Foundation Life Insurance Company write only Alabama risks; Community Bank Life and Health Insurance Company writes only Arkansas risks; and Georgia Community Life Insurance Company writes only Georgia risks.

The Alcoa, Tennessee, companies listed above are licensed as limited capital credit reinsurers in Tennessee in accordance with Tenn. Code Ann. § 56-2-114(b) which requires that credit life and A&H reinsurers maintain capital of only $150,000. Accordingly, reserve credits taken by the limited capital credit reinsurers are secured by funds maintained under Trust Agreements executed in compliance with Tenn. Reg. 0780-1-63-.08 and .09. Therefore, the Company has been directed by the Department to report the limited capital credit reinsurance companies as unauthorized reinsurers so that funds held under trust agreements may be properly reported in the Company's annual statements. The remainder of the limited capital credit reinsurers listed above are not licensed in Tennessee, and as unauthorized reinsurers, also maintain funds under trust agreements to secure their reinsurance arrangements with the Company.

The credit A&H premiums above the amounts reinsured by the limited capital credit reinsurers and London Life are ceded to Southern Financial Life Insurance Company, Louisiana, under a ModCo reinsurance agreement, and thus, the Company retains no premiums or liabilities for credit A&H. (This company is not the same entity as the Kentucky company from which the Company assumes business, although the names are the same.) Southern Financial Life is not authorized in Tennessee, and therefore has entered into a security fund agreement with the Company to provide collateral to secure payment of any amounts due the Company.

The first layer of coverage on a portion of the Company's credit life and A&H business is retained by the Company rather than being ceded to the limited capital credit reinsurers. For these credit life policies, the Company retains the first $10,000 - $25,000 of coverage, depending on the state in which the policy is written, and then cedes 60% of the remaining premium, up to a maximum of $81,000, to London Life. The Company's per risk maximum is $150,000 with a maximum total retention of $75,000.

The credit A&H reinsurance is structured similarly with the Company retaining the first $200 - $500 of monthly coverage, and then ceding 60% of the remaining premium to London Life. The Company's per risk maximum is $2,000 per month with a maximum total retention of $1,100 per month.

Ceded Reinsurance – Other Life and Accident and Health:

The Company also writes ordinary life and term life insurance with various riders such as for waiver of premium and accident death benefits. Most of this business is ceded to Scottish Re (U.S.), Inc., Delaware, under a coinsurance agreement effected April 1, 1990. Under this agreement, the Company retains up to $25,000 of coverage and the reinsurer automatically accepts the excess up to the lesser of nine times the Company's retention or $225,000 per insured life. Scottish Re also participates in waiver of premium benefits up to a maximum of $3,000,000 per insured life, and accidental death benefits up to a maximum of $175,000 of per insured life.

A portion of the Company's annual renewable term (ART) life insurance is ceded to Optimum Re Insurance Company, Texas, under an automatic ModCo agreement effected August 1, 2003. The retention and limits are the same as for the Scottish Re agreement. The remainder of the ART business is ceded to Scottish Re as described above.

During calendar year 2003, the Company had a ModCo agreement with Combined Insurance Company of America, Illinois, under which it reinsured certain accidental death benefits which are sold as parts of "packaged" services by some financial institutions and automobile dealerships. As experience on this block of business has been good, the Company terminated this agreement, and effective January 1, 2004, is now retaining the business.

The Company has several reinsurance agreements in a run-off status as the result of replacement by similar agreements. A 1991 agreement with Lloyd's of London was terminated and replaced June 1, 1994 by an agreement with RGA Reinsurance Company, which was terminated and replaced January 1, 2002 by the London Life agreement described above. Also, a 1984 agreement with American United Life Insurance Company was terminated and replaced January 1, 1990 by an agreement Phoenix Mutual Life Insurance Company. Because of several subsequent acquisitions, this business is now being reinsured by Scottish Re and Optimum Re, as described above. The liabilities associated with the terminated American United Life agreement were acquired by Optimum Re on January 1, 2001 and are being allowed to run off.

Unearned Ceding Commission:

While the Company has several credit A&H agreements that cede premiums on an earned basis, most of the Company's reinsurance agreements cede premiums on a written basis. Therefore in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. However, all of the agreements provide that, in the event of termination, the reinsurance continues to apply to all policies in force until their expiry or cancellation in the normal course of business. That is, there is no return of premium or ceding commission at the termination of an agreement because the policies continue in full force. The type of business ceded by the Company – mainly credit life and credit A&H – is written on a monthly basis and all premiums and commissions are fully earned by the end of each month. All return premiums – those that are cancelled by policyholders prior to the end of the policy period – are settled by offset each month, and most agreements provide that ceding commissions are paid only on net premiums; that is, the written premiums less the returns. Also, the Company's agency agreement provides that all commissions on terminated policies are recoverable from the agents and may be offset against any amounts owed to the agents by the Company. Therefore, the Company is deemed to have no ultimate liability for unearned ceding commissions.

Also, SSAP #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 reinsurance agreements were reviewed and found to contain acceptable clauses for insolvency and arbitration in accordance with Tenn. Reg. 0780-1-63-.12. The agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines.

It was noted that some of the effective dates for the agreements reported in the 2003 Annual Statement were not correct. Also, the names of the most current reinsurers were not always being used (such as Scottish Re (U.S.), Inc.). Company management has indicated that these will be corrected in future filings.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

Medical benefits for employees of the Company are provided under a group contract with a company licensed to do business in Tennessee. The policy benefits are standard group benefits made available through a preferred provider network. The individual maximum lifetime benefit is $5,000,000.

A short-term disability plan is provided for full time employees, who have completed one year of service, for absences of five or more consecutive working days when the employee is hospitalized or under the care of a physician. Benefits are provided for up to 90 consecutive calendar days while the employee is totally disabled. After 90 days the long-term disability plan and procedures apply. The total benefits payable under the short-term disability plan are as follows:

Executive Officers:	100% of salary for a maximum of 90 continuous calendar days.
All other employees both exempt and nonexempt:	100% of salary or base pay for the first 30 consecutive calendar days; 80% of salary or base pay for each calendar day thereafter up to a maximum of 90 continuous days of disability.

Long-term disability benefits are provided for all full time employees who have completed one month of active employment. The basic benefit provides a base monthly payment of 60% of the first $5,000 up to age 65 for those employees becoming eligible for benefits prior to age 62. A survivor benefit is also provided.

Life insurance is provided for all full-time employees equal to one and a half times their basic annual salary rounded to the next higher $1,000 to a maximum of $200,000. Dependent spouse coverage is provided in the amount of $5,000. Coverage for children is provided in the amount of $100 to the age of six months and $5,000 from six months to age 19 or 23 if a full-time student.

The company pays for the employee life, health, long-term disability and short-term disability coverage. The Company pays one-half of the cost of dependent life and health insurance.

A dental coverage plan is made available to the Company's employees. The employees pay the premium for the coverage.

The Company provides a SIMPLE savings plan whereby the Company matches, on a dollar for dollar basis, the first 3% of an employee's deferred income amounts up to $6,000.

At least 8 ½ holidays are provided by the Company. All full-time employees as of January 1 each year are eligible for 10 days paid vacation after the probationary period. Employees who are full-time as of January 1 are allowed up to five personal leave days per year after the 90-day probationary period.

MORTALITY AND LOSS EXPERIENCE

The table below shows the mortality and loss experience as of December 31 for each year under examination.

Year	Mortality Experience	Loss Experience
1999	94.01%	69.82%
2000	83.16%	22.76%
2001	90.87%	23.07%
2002	87.33%	47.74%
2003	103.76%	(41.12%)

ACCOUNTS AND RECORDS

During the course of this examination, such tests were made as the audit procedures deemed necessary. These tests included substantial verification of postings, extensions and footings, and reconciliations of subsidiary ledgers to control accounts. General ledger trial balances were reconciled with corresponding copies of annual statements filed for the years 1999 through 2003.

Accounting records conform to generally accepted insurance accounting practices and appear to reflect properly the operations during the period and the status of the Company at the date of examination. The Company's records accurately allocate its premium among the various states for the purposes of premium tax remittances.

The Company retained the firm of Vardy & Co. to express an opinion on its statutory financial statements for 2002 and 2003. For the years from 1999 through 2001, the Company retained the firm of Pershing, Yoakley & Associates, P.C. as its independent auditor. Mountain Services Corporation also uses Pershing Yoakley & Associates, P.C., as its independent auditor. This firm is also under contract to perform an internal audit function for the Company. There were no material weaknesses reported during the period under review.

The Company uses the services of Wakely Actuarial Services, Inc. to review and produce an opinion on its loss and loss adjustment expense reserves. The actuaries producing such opinions are members of the American Academy of Actuaries and meet the Academy's qualification standards for signing statements of actuarial opinions on life reserves.

The risk-based capital report was reviewed and determined to be completed accurately.

The Company files a separate federal income tax return from that of its parent holding company.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2003:

Where Deposited and Description	Par Value	Statement Value	Market Value
Special Deposits:			
Georgia:			
United Peoples Bank,			
CD #17318, 1.65%, due 5/07/04	$ 75,000	$ 75,000	$ 75,000
Missouri:			
USTN, 5.875%, due 11/15/04	300,000	303,749	312,093
Total Special Deposits	**$375,000**	**$378,749**	**$387,093**
General Deposits:			
Tennessee:			
USTN, 4.75%, due 2/15/04	$300,000	300,014	301,313
FNMA, 4.375%, due 10/15/06	100,000	99,340	104,953
The Peoples National Bank,			
CD #B30270, 2.0%, due 4/20/04	100,000	100,000	100,000
Greene County Bank,			
CD #16898, 1.40%, due 5/21/04	200,000	200,000	200,000
Greene County Bank,			
CD #16902, 1.40%, due 5/22/04	100,000	100,000	100,000
American Fidelity Bank,			
CD #09948, 1.80%, due 6/22/05	250,000	250,000	250,000
Total General Deposits	**$1,050,000**	**$1,049,354**	**$1,056,266**
Grand Total Statutory Deposits	**$1,425,000**	**$1,428,103**	**$1,443,359**

The statutory deposits were confirmed directly with the states holding them.

LITIGATION AND CONTINGENT LIABILITIES

As of December 31, 2003, the Company had no pending litigation, other than that arising out of the normal course of business, which would adversely affect the financial condition of the Company.

ACTUARIAL REVIEW

D. Joeff Williams, FSA, MAAA, of Actuarial Management Resources, Inc. performed an actuarial examination of the following balance sheet items:

Aggregate reserve and deposit funds for policies and contracts included on Page 3, Line 1	$4,954,129
Aggregate reserve and deposit funds for policies and contracts included on Page 3, Line 2	1,571
Net deferred life premiums on Page 2, Line 12.2	73,790
Policy and contract claim liability end of current year included on Page 3, Line 4.1	165,695

The period under examination covered calendar years 1998 through 2003, with emphasis of the actuarial portion of the examination being balance sheet items as of December 31, 2003. The block of business is term and whole life plans and credit life and credit disability plans. The credit plan is the largest product line. The products are sold in Alabama, Arkansas, Georgia, Missouri, and Tennessee.

The appointed actuary submitted an unqualified actuarial opinion in support of the policy reserves and claims liability, along with the premiums due and deferred. The actuarial opinion noted that the company is exempt from the requirement of an asset adequacy analysis to determine the appropriateness of the policy reserves. No asset adequacy analysis or cash flow testing was done for the purpose of this examination.

The approach taken to verify the policy reserves was to consider each of the blocks of business separately, i.e., the whole life block, the ordinary block, and the credit block.

The whole life block consists of four large whole life policies. The policy reserves are based on the 1980 CSO ALB Male 5.50% table using CRVM methodology and curtate functions.

The ordinary block consists of annually renewable term and five to thirty year decreasing term plans, primarily. The policy reserves are based on the 1980 CSO ALB Male/Female, Smoker/Nonsmoker 4.00%/4.50%/5.00% table using either CRVM or NL methodology and semicontinuous functions. Additionally, substandard extra reserves were based on 50% of the substandard extra premium, which is an accepted approximation. There are also a few Accidental death benefit and waiver of premium riders in force. The ADB riders used the 1959 ADB morbidity table combined with the 1958 CSO Male 3.00% mortality table, which is greater than the required combination of 1980 CSO. The WP riders used the 1951 Disability morbidity table combined with the 1958 CSO mortality table at 3.00%, which is greater than required.

The Credit Life in force reserves are based on 130% of the 1980 CSO Male table at 3.50% for business written in the state of Tennessee and 100% of the 1960 CSG table at 3.50% for business written in their other states. The Credit Disability in force

reserves use a "Rule of Anticipation" formula in order to calculate the Unearned Premium Reserves.

Results:

a. With respect to the whole life block the reserve basis for two of the policies should be 4.50% rather than 5.50%. This would result in an increase in reserves of $390 gross and net.
b. With respect to the whole life block either semicontinuous functions or an approved approximation to semicontinuous functions should be used. This would result in an increase in reserves of $1,993 gross and $215 net.
c. With respect to credit life the company is using 130% of the 1980 CSO table rather than the 1980 CET table. At most ages (those generally found written in conjunction with credit life) this will produce results that are sometimes higher and sometimes lower. One state in which the company is writing credit life business is Arkansas, and their valuation requirement is 130% of an acceptable table. The company is also using an approximation to the amount of insurance remaining in force (remaining months in force plus one divided by the original term in months) rather than the actual amount in force that is shown in the reserve run, but in all cases this produces a reserve that is higher than required.
d. With respect to credit disability the company is using the "Rule of Anticipation" in determining the unearned premium reserve. This produces a reserve that is slightly higher than the reserve required by most of the states (i.e., the "Rule of 78").

Summary:

In light of materiality guidelines, Actuarial Management Resources, Inc. concludes that Mountain Life Insurance Company has held sufficient reserves on an aggregate basis as of December 31, 2003; therefore, for purposes of this report, Actuarial Management Resources, Inc. recommends no financial adjustment to the reserves. Actuarial Management Resources, Inc.'s review verified that the items enumerated in this actuarial examination report appear fairly stated.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities, capital and surplus, and summary of operations at December 31, 2003, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

ASSETS

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 2,760,921	$ -	$ 2,760,921
Real estate - occupied by the company	603,095	-	603,095
Real estate - held for the production of income		-	
Cash and short-term investments	6,988,788	-	6,988,788
Investment income due and accrued	37,137	-	37,137
Uncollected premiums or agents' balances in the course of collection	174,983	-	174,983
Deferred premiums, agents' balances and installments booked but deferred and not due	73,790		73,790
Amounts recoverable from reinsurers	1,657,798	-	1,657,798
Other amounts receivable under reinsurance Contracts	697,027	-	697,027
Federal and foreign income tax recoverable	74,326	-	74,326
Guaranty funds receivable or on deposit	217,074	-	217,074
Receivable from parent, subsidiaries and affiliates	9,505	-	9,505
Aggregate write-ins for other than invested assets	4,970	-	4,970
Total Assets	$ 13,299,414	$ -	$ 13,299,414

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts		$4,954,129
Aggregate reserve for accident and health contracts		1,571
Contract claims – life		165,695
Premiums and annuity considerations received in advance		1,897,642
Contract liabilities not included elsewhere - other amounts payable on reinsurance		224,341
Commissions to agents due or accrued		167,055
General expenses due or accrued		55,376
Taxes, licenses & fees due or accrued		115,930
Amounts withheld or retained by company as agent or trustee		730
Amounts held for agents' accounts		28,460
Remittances and items not allocated		58,090
Aggregate write-ins for liabilities		2,611,335
Total liabilities		**10,280,354**
Common capital stock		$1,500,004
Gross paid in and contributed surplus	$1,634,645	
Unassigned funds	(115,589)	
Surplus		1,519,056
Total capital and surplus		3,019,060
Total liabilities, capital and surplus		**$13,299,414**

SUMMARY OF OPERATIONS

Premiums and annuity considerations	$ 2,688,298
Net investment income	238,034
Commissions & expense allowances on reinsurance ceded	5,265,573
Aggregate write-ins for miscellaneous income	39,152
Totals	**8,231,057**
Death benefits	1,376,082
Disability benefits and benefits under accident and health contracts	(12,500)
Surrender benefits and withdrawals for life contracts	48,988
Interest and adjustments on contract or deposit-type contract funds	69,333
Increase in aggregate reserves for life and accident and health contracts	(455,075)
Totals	**1,026,828**
Commissions on premiums, annuity considerations and deposit-type funds	5,519,479
Commissions and expense allowances on reinsurance assumed	15,578
General insurance expenses	1,637,784
Taxes, licenses and fees	350,175
Increase in loading on deferred and uncollected premiums	(1,651)
Totals	**7,521,365**
Net gain from operations before federal income taxes	(317,136)
Federal income taxes incurred	(51,388)
Net Income	**$ (265,748)**

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, prior year		3,284,808
Net Income	(265,748)	
Net change in capital and surplus for the year		(265,748)
Capital and surplus, December 31, current year		**$ 3,019,060**

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

Capital and surplus, December 31, 1998	**$ 183,749**
Net income	94,638
Change in nonadmitted assets	3,152,639
Surplus adjustments: Paid in	721,270
Capital and surplus, December 31, 1999	**4,152,296**
Net income	403,858
Capital changes: Paid in	(306,442)
Surplus adjustments: Paid in	(643,168)
Capital and surplus, December 31, 2000	**3,606,544**
Net income	8,569
Dividends to stockholders	(398,825)
Capital and surplus, December 31, 2001	**3,216,288**
Net income	(181,480)
Surplus adjustments: Paid in	250,000
Capital and surplus, December 31, 2002	**3,284,808**
Net income	(265,748)
Capital and surplus, December 31, 2003	**$ 3,019,060**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

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

COMMENTS AND RECOMMENDATIONS

Comments:

1. The Company lists on Schedule A – Part 1 a parcel of property with three local addresses (517, 527 and 533 Airway Drive) as being occupied by the Company. This property is three separate buildings that are approximately the same size in total square footage, with three separate mailing addresses. The buildings at 517 and 533 Airway Drive are 100 percent occupied by the Company, while the building at 527 Airway Drive is leased to two tenants, along with an office maintained by one of the Company's Vice Presidents. Local county tax records show the building at 517 Airway Drive on one parcel of land with a separate tax record and the buildings at 527 and 533 Airway Drive together on another parcel of land with a shared tax record.

   SSAP #40 (Real Estate Investments) states that any real estate which is owned by and is more than 50% occupied by the reporting entity and its affiliates shall be considered property occupied by the Company, and also, that property which does not meet this 50% requirement shall be classified as "property held for the production of income". Because the buildings at 527 and 533 Airway Drive are treated as a single property by local taxing authorities, the Company exceeds the 50 percent occupancy required for this property to be treated as occupied by the Company, along with 517 Airway Drive, which is treated separately, and is 100 percent occupied by the Company.

Recommendations:

These recommendations relate to the actuarial analysis performed by Actuarial Management Resources, Inc. as part of the examination.

1. Mountain Life Insurance Company should either use semicontinuous functions on their whole life policies or use an approved approximation. (This is addressed in NAIC Actuarial Guideline XXXII.) This would result in an increase in reserves of $1,993 gross and $215 net.

2. Mountain Life Insurance Company should use 4.50% interest in the reserve calculations for the two whole life policies issued in 1997, since this is the required rate for new issues during that year.

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Mountain Life Insurance Company, Alcoa, Tennessee.

In such manner, it was determined that, as of December 31, 2003, the Company had admitted assets of $13,299,414 and liabilities, exclusive of capital, of $10,280,354. Thus, there existed for the additional protection of the policyholders, the amount of $3,019,060 in the form of common capital stock, gross paid-in and contributed surplus and unassigned funds (surplus).

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, Juli-Kay Baumann, ARe, CFE, CPCU, and Gregory Bronson, examiners representing the State of Tennessee, and D. Joeff Williams, FSA, MAAA, of Actuarial Management Resources, Inc., participated in the completion of this examination.

Respectfully submitted,

Rhonda Bowling-Black

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

Brian Sewell

Brian Sewell
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

B.K. Shah

Bhavna Shah
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Mountain Life Insurance Company dated March 4, 2005 and made as of December 31, 2003, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda L. Bowling-Black

Rhonda L. Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me this

28th day of March, 2005

Helen W. Dorsey

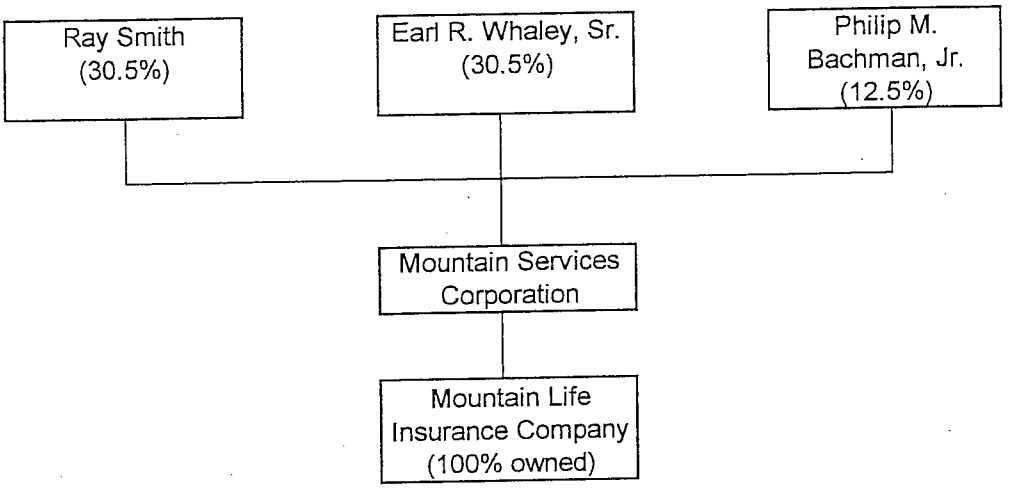
Notary

County Davidson

State Tennessee

Commission Expires 03/25/2006

ORGANIZATIONAL CHART



No other individual controls more than 10% of the outstanding stock.