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Company Examinations

REPORT ON EXAMINATION

of the

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

Nashville, Tennessee

as of

December 31, 2003

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT
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Nashville, Tennessee
September 30, 2004

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

Dear Commissioner Flowers:

Pursuant to your instructions and in accordance with Tennessee insurance laws, regulations and resolutions adopted by the National Association of Insurance Commissioners (NAIC) an examination was made of the conditions and affairs of the

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

Nashville, Tennessee

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

INTRODUCTION

This examination commenced on May 17, 2004, and was conducted by an authorized representative of the Department of Commerce and Insurance, State of Tennessee. The last previous examination contained no criticism, hence there are no matters to report with respect to corrective measures or Department requirements arising as a result of such examination.

SCOPE OF EXAMINATION

This examination report covers the period from December 31, 1998, the date of the last previous examination, to the close of business on December 31, 2003, the date of this examination.

During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2003. The financial condition of the Association and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

An examination was made into the following matters:

History and Organization
Charter and Bylaws
Management and Control
Corporate Records
Fidelity Bonds and Other Insurance
Territory
Plan of Operation
Market Conduct Activities (includes privacy statement)
Reinsurance
Retirement Plan and Other Employee Benefits
Loss Experience
Accounts and Records
Statutory Deposits
Agreements with Parent, Subsidiaries and Affiliates
Pecuniary Interest Tenn. Code Ann. § 56-3-103
Commission Equity
Dividends or Distributions
Litigation
Subsequent Events
Financial Statement

They are discussed in detail as follows:

HISTORY AND ORGANIZATION

The Association was organized pursuant to and operates in accordance with the "Tennessee Life and Health Insurance Guaranty Association Act", effective July 1, 1989. Under provisions of this Act, the Commissioner of Insurance appointed nine (9) members to the Board of Directors. These nine members then submitted a "Plan of Operation" to the Commissioner of Insurance, which was approved, effective July 1, 1989.

CHARTER AND BYLAWS

No charter and bylaws are required to be filed as the Association was organized and operates in accordance with the "Tennessee Life and Health Insurance Guaranty Association Act" and the Association filed its "Plan of Operation" as required in 1989.

MANAGEMENT AND CONTROL

The Board of Directors is elected by member insurers as provided in Tenn. Code Ann. § 56-12-206. Regular meetings and special meetings of the Board of Directors may be held upon the request of any two (2) Board members. The Plan of Operation also states that the Board shall meet annually in the month of October, and also upon notice from the Commissioner of any insolvency of a member insurer.

The majority of the Board shall constitute a quorum for the transaction of business and the acts of a majority of the Board members present at a meeting shall be the acts of the Board.

The following were duly appointed Directors at December 31, 2003:

Name	Representative/Address
(1) American General Life and Accident Insurance Company	Sharon K. Roberson Chief Counsel Nashville, TN
(2) Tennessee Farmers Life Insurance Company	Hulet Chaney Chief Executive Officer Columbia, TN
(3) Blue Cross Blue Shield of Tennessee	William A. Everly. Senior Vice President Chattanooga, TN
Provident Life and Accident Insurance Co.	J. Michael Davis Vice President State Government Relations Portland, ME
Metropolitan Life Insurance Company	Barbara J. Gardner Vice President Gov. & Industry Relations Tulsa, OK
State Farm Life Insurance Company	G. Ron Nichols Vice President, Operations Murfreesboro, TN

Pan American Life Insurance Company	William T. Steen Senior Vice President General Counsel Corporate Secretary New Orleans, LA
Protective Life Insurance Company	Barrie Balzli Stokes Associate Counsel Birmingham, AL
Jefferson-Pilot Life Insurance Company	Frank Sutherland Vice President Insurance Counsel Greensboro, NC

(1) Chairman of the Board
(2) Vice Chairman of the Board
(3) Secretary/Treasurer of the Board

During the period under review, the Board held nine (9) meetings. Additionally, on the date specified in the Plan of Operation the Association held five (5) of the five (5) annual meetings.

Mr. Dan H. Elrod was named Administrator of the Association on July 1, 1989, and was serving in said position as of the date of this examination. Mr. Elrod acts as the business manager and legal counsel for the Association and is responsible for the general administration of its day-to-day operations.

CORPORATE RECORDS

Minutes of annual meetings of the members and Board of Directors of the Association were reviewed for the period under examination. Such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

FIDELITY BOND AND OTHER INSURANCE

The Association did not have employee dishonesty coverage for the period under examination. However, the Administrative staff of the Association is covered by the Professional Liability Policy of their employer, Miller & Martin PLLC, attorneys at law, Nashville, Tennessee.

The Association did not have Directors and Officers or Errors and Omissions Coverage for the period under examination. Tenn. Code Ann. § 56-12-216 provides:

(a) There shall be no liability on the part of and no cause of action of any nature shall arise against any member insurer, the association or its agents or employees, the board of directors, or the commissioner or his representatives for any actions taken by them in the performance of their powers and duties under this part.

(b) Such immunity shall extend to the participation in any organization of one (1) or more state associations of similar purposes and to any such organization and its agents or employees.

TERRITORY

The Association is composed of all insurance companies authorized to write life, annuity or accident and health business in Tennessee. The Association provides coverage to Tennessee residents who are insured by, or beneficiaries of, insurance policies issued by member companies. The Association's responsibility to Tennessee residents with respect to insolvent companies is determined by line of business as follows:

Life
Annuity
Health
Life and annuity contracts issued in connection with plans qualified under Internal Revenue Code, Section 403 (b)

PLAN OF OPERATION

The operations of the Association are governed by the Tennessee Life and Health Insurance Guaranty Association Act (Tenn. Code Ann. § 56-12-201, et seq.) ("Act") and its Plan of Operation adopted pursuant to the Act and approved by the Commissioner. The Association is composed of all insurance companies authorized to write life, annuity or accident and health business in Tennessee. The Association is governed by a Board of Directors composed of nine (9) member companies elected by the members and approved by the Commissioner. The Board of Directors has created an Executive Committee, Nominating Committee and Administration Committee to facilitate the administration of the Association. The Association provides coverage to Tennessee residents who are insured by, or beneficiaries of, insurance policies issued by member companies.

The obligations of the Association to provide coverage are triggered upon a finding of insolvency and an order of liquidation with respect to a member company. The Act also provides limited, discretionary authority for the Association to provide coverage in the event a member company becomes impaired, but to date, the Association has not exercised this discretionary authority, and has provided coverage only in the event of insolvency and liquidation.

The limits of coverage provided by the Association to Tennessee residents are as follows:

$300,000 in life insurance death benefits
$100,000 in cash surrender or present value in annuity benefits
$100,000 in health insurance benefits
$300,000 aggregate limit for all benefits with respect to any one life

The Association's responsibility to Tennessee residents with respect to insolvent companies is determined by line of business as follows:

Life
Annuity
Health
Life and annuity contracts issued in connection with plans qualified under Internal Revenue Code, Section 403 (b)

The Association's responsibilities to provide coverage to Tennessee residents are funded by pro rata assessments of member companies. Each member's share of an assessment is determined according to the following pro-ration formula:

Member company TN premium for the three (3) years prior to the date of insolvency for the affected line of business - divided by TN premium for all companies for affected line of business

The Association's capacity to assess member companies is limited by calendar year to two percent (2%) of each company's average annual premium for the three (3) years prior to the date of insolvency.

In providing coverage to Tennessee residents, the Association is authorized to pay claims, reinsure the business of the insolvent company and to issue substitute coverage. The Association is also authorized to participate in other organizations with respect to multi-state insolvencies. The Association is a member of the National Organization of Life and Health Guaranty Associations ("NOLHGA"), which is an umbrella organization composed of the state life and health guaranty associations. NOLHGA coordinates the efforts of its members in dealing with multi-state insolvencies. All of the insolvencies affecting the Association during the current examination period have been multi-state and only one of the insolvencies, Franklin American Life Insurance Company, was a company domiciled in Tennessee. The Franklin American Life Insurance Company insolvency was addressed in the previous examination as of December 31, 1998 as a subsequent event. In most instances, the Association has met its obligation to Tennessee residents by participating financially in assumption reinsurance arrangements pursuant to which financially sound companies have reinsured the policy obligations of the insolvent companies.

Insolvencies and Impairments as of 12/31/2003

Insolvent/Impaired Company Name	Date of Insolvency/Impairment
Amalgamated Labor Life Insurance Company	07/09/89
American Chambers Life Insurance Company	05/08/00
American Integrity Insurance	06/25/93
American Sun Life Insurance Company	10/18/89
American Western Life Insurance Company	08/28/97
Andrew Jackson Life Insurance Company	03/26/93
Atlantic and Pacific Life Insurance Company of America	10/08/93
Centennial Life Insurance Company	05/27/98
Coastal States Life Insurance Company	10/01/96
Confederation Life Insurance Company	08/12/94
Diamond Benefits Life/Life Assurance Co. of PA	12/88 and 01/10/91
Executive Life Insurance Company	12/06/91
Fidelity Bankers Life Insurance Company	05/13/91 - rehab
Fidelity Mutual Life Insurance Company	11/06/92 - rehab
First Capital Life Insurance Company	05/14/91 - rehab
First National Life Insurance Company	08/05/97
First National Life Insurance Company of America	06/29/99
Florida Life Insurance Company	11/18/97
Franklin American Life Insurance Company	10/25/99
George Washington Life Insurance Company	06/03/91
Georgia Life and Health Insurance Company	10/27/93
Guarantee Security Life Insurance Company	08/12/91
Integrated Resources Life Insurance Company	01/27/94
Inter-American Insurance Company of Illinois	12/23/91
International Financial Services Life Insurance Company	11/30/99
Investment Life Insurance Company of America	04/02/93
Kentucky Central Life Insurance Company	08/18/94 (affirmed 05/11/95)
Legacy Life Insurance Company	08/22/91
Legion/Villanova Insurance Companies	04/01/02 - rehab
Life of Indiana Insurance Company	06/01/90
London Pacific and Annuity Company	08/19/02 - rehab
Mid-Continent Life Insurance Company	04/14/97 - rehab
Midwest Life Insurance Company	08/26/91
Monarch Life Insurance Company	06/09/94 - rehab
Mutual Benefit Life Insurance Company	11/01/94
Mutual Security Life Insurance Company	12/06/91
National Affiliated Investors Insurance Company	04/26/00

National American Life Insurance Company	05/31/96
National Heritage Life Insurance Company	11/21/95
New Jersey Life Insurance Company	06/02/93
Old Colony Life Insurance Company	06/30/94
Pacific Standard Life Insurance Company	04/28/94
Penn Treaty Network America Insurance Company	09/01/01 - rehab, corrective action plan ongoing
Reliance Insurance Company	10/04/01
Settler's Life Insurance Company	05/14/99
Statesman National Life Insurance Company	06/10/99
Summit National Life Insurance Company	11/01/94
Underwriters Life Insurance Company	11/27/91
Underwriters National Assurance Company	06/20/91 - rehab
United Equitable Life Insurance Company	12/20/91

MARKET CONDUCT ACTIVITIES

A review of market conduct activities is not within the scope of the examination performed and not applicable to the Association. The Association writes no policies.

REINSURANCE

A review of reinsurance activities as related to an insurance company is not within the scope of the examination performed and not applicable to the Association.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Association has no employees and as such offers no retirement plan or other employee benefits.

LOSS EXPERIENCE

A review of loss experience as derived from the annual statement of an insurance company is not within the scope of the examination performed and not applicable to the Association.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary. Accounting records conform to generally accepted accounting practices and appear to properly reflect the operations during the period under examination and the status of the Association at the date of examination.

The Association uses a customized software system (MAS) (90) modified to conform to Government Accounting Practices. This system has the capability of calculating assessments to member Companies; however, the Association contracts with Thornthwaite and Company for these calculations. It is the policy of the Association to prepare its financial statement on the basis of cash receipts and disbursements without regard to any revenue or expense accruals which may exist at year end.

All original books and records are located at the office of the administrator. The physical address of the administrator is as follows:

Tennessee Life and Health Insurance Guaranty Association
c/o Miller & Martin PLLC
1200 One Nashville Place
150 4th Ave. S.
Nashville, TN 37219-2433

An audit of the Association is conducted annually by a nationally recognized independent accounting firm. The physical location of the firm is as follows:

Ernst & Young LLP
SunTrust Financial Center
Suite 1100
424 Church St.
Nashville, TN 37219

STATUTORY DEPOSITS

Not applicable. The Association is not required to make any statutory deposits.

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Association, at its annual board meeting, considers the appointment, for the following year, of an individual to serve as the administrator for the Associations activities. Mr. Dan Elrod, a partner with the law firm Miller & Martin, PLLC has served in this capacity since the inception of the Association and has been approved to serve for the next year. Mr. Elrod is retained on an annual basis pursuant to board approval of a letter of engagement. The Association reimburses the law firm for time spent by Mr. Elrod and his assistant Ms. Renee Birdwell related to the Association. The law firm also provides office space to the Association for $200 per month. Payments made in 2003 to Miller & Martin, PLLC were in the total amount of $68,443.

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

Members of the board of directors are not compensated by the Association for their services as board members and may be reimbursed for expenses incurred by them as members of the board, subject to approval by the board. All members of the board of directors of the Association are requested to execute a "Conflict of Interest Policy Statement" annually. Executed statements from all but one board member were located in the CPA workpapers. The one board member not returning a "Conflict of Interest Policy Statement" had retired from her company and is scheduled to rotate off of the board in the current year.

COMMISSION EQUITY

A review of commission equity issues, if any, would not apply to the operations of the Association.

DIVIDENDS OF DISTRIBUTIONS

No dividends or distributions to members have been made. A review of dividends of distributions would not be applicable to the operations of the Association.

LITIGATION

As of examination date, December 31, 2003, there was no pending or threatened litigation nor were there any unasserted claims and assessments against the Association.

SUBSEQUENT EVENTS

There have been no new insolvencies or impairments reported subsequent to effective date of exam, December 31, 2003.

FINANCIAL STATEMENT

There follows a comparative financial statement covering the years 1999-2003 as developed by this examination.

	1999	2000	2001	2002	2003
ASSETS					
Cash and cash equivalents	$219,386	$168,388	$1,699,610	$274,376	$121,808
Investments	$31,093,161	$30,088,152	$32,922,538	$36,546,881	$36,386,907
Total Assets	$31,312,547	$30,256,540	$34,622,148	$36,821,257	$36,508,715
LIABILITIES	0	0	0	0	0
TOTALS	$31,312,547	$30,256,540	$34,622,148	$36,821,257	$36,508,715
SUMMARY OF OPERATION					
RECEIPTS					
Assessments	$750	$7,311,230	$200,836	$905	$208,853
Interest	$2,164,110	$2,024,357	$1,698,509	$1,150,630	$544,195
Estate Settlements	$4,431,563	$2,214,231	$5,537,445	$2,507,195	$264,021
Premiums	$230	$242,138	$187,410	$1,228	$542
Total Receipts	$6,596,653	$11,791,956	$7,624,200	$3,659,958	$1,017,611
DISBURSEMENTS					
Claims paid	$3,779,407	$11,686,241	$2,705,120	$1,212,553	$1,009,373
Outside services	$394,401	$1,117,301	$516,447	$205,973	$273,554
Dues	$34,232	$32,974	$34,645	$39,828	$44,295
Other	$7,519	$11,447	$2,380	$2,495	$2,931
Total Disbursements	$4,215,559	$12,847,963	$3,258,592	$1,460,849	$1,330,153
Excess (deficiency) of receipts over disbursement	$2,381,094	($1,056,007)	$4,365,608	$2,199,109	($312,542)
Fund balance at beginning of year	$28,931,453	$31,312,547	$30,256,540	$34,622,148	$36,821,257
Fund balance at year end	$31,312,547	$30,256,540	$34,622,148	$36,821,257	$36,508,715

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

The annual audit of the Associations financial statements by Ernst & Young LLP, resulted in a proposed reclassification in the amount of $564,275 from Investments to Cash Equivalents due to the high liquidity of the money market funds. This proposed change does not affect the financial condition of the Association.

COMMENTS AND RECOMMENDATIONS

Although minor differences were noted during the course of this examination, none affected the operations of the Association or the fund balance at December 31, 2003.

Based on the results of this examination, it appears that the Association is in compliance with Tennessee Life and Health Insurance Guaranty Association Act (Tenn. Code Ann. § 56-12-201, et seq.) ("Act").

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 the Tennessee Life and Health Insurance Guaranty Association, Nashville, TN.

In such manner, it was determined that, as of December 31, 2003, the Association had admitted assets of $36,508,715 and that all of such funds were available for payment of claims and related expenses.
The courteous cooperation extended by the Association during the course of the examination is hereby acknowledged.

Respectfully submitted,

Michael W. Lamb
Insurance Examiner

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of the Tennessee Life and Health Insurance Guaranty Association dated August 17, 2004, and made as of December 31, 2003, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Michael W. Lamb
Insurance Examiner
State of Tennessee

Subscribed and sworn to before me

this 4th day of

October, 2004

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/25/06