REPORT ON EXAMINATION

OF THE

UNITED AMERICAN INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

State of Delaware

Department of Insurance

Dover, Delaware

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2003 of the

UNITED AMERICAN INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: ______________________

DATE: 2ND JUNE, 2005

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 2ND DAY OF JUNE, 2005.

INSURANCE COMMISSIONER • STATE OF DELAWARE

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Insurance Commissioner

____

Deputy Insurance Commissioner

REPORT ON EXAMINATION

OF THE

UNITED AMERICAN INSURANCE COMPANY

AS OF

December 31, 2003

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 2ND day of JUNE, 2005.

TABLE OF CONTENTS

January 20, 2005

Honorable Alfred W. Gross
Chairman, Financial Condition
Subcommittee, NAIC
2301 McGee Street, Suite 800
Kansas City, Missouri 64108-2604

Honorable Susan F. Cogswell,
Commissioner
Secretary Northeastern Zone
Department of Insurance
P.O. Box 816
Hartford, Connecticut 06142-0816

Honorable Merwin Stewart, Commissioner
Secretary, Western Zone
State of Utah
Department of Insurance
State Office Building, #3110
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Honorable Sally McCarty,
Commissioner
Secretary Midwestern Zone
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Alfred W. Gross, Commissioner
Secretary Southeastern Zone
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Mathew Denn,
Commissioner
State of Delaware
Department of Insurance
841 Silver Lake Boulevard,
Suite 100
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority 04.009, dated August 18, 2004, an Association examination has been made of the affairs, financial condition and management of

UNITED AMERICAN INSURANCE COMPANY

hereinafter referred to as the "Company" incorporated under the laws of the State of Delaware. The examination was conducted at the principal offices of the Company located at 3700 Stonebridge Drive, McKinney, Texas 75070.

The report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2000. This comprehensive financial examination covered the period January 1, 2001, through December 31, 2003, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company Officials during the course of the examination.

The general procedure of the examination followed the rules established by the National Association of Insurance Commissioner's (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards. The examination was performed by representatives of the Delaware Department of Insurance representing the Northeastern Zone of the NAIC. No other states participated in the examination.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the work papers of this examination:

- Corporate Records
- Fidelity Bonds and Other Insurance
- Officers', Employees', and Agents' Welfare and Pension Plans
- Business in force by States
- Legal Actions
- Market Conduct:
  - Sales and Advertising
  - Underwriting
  - Complaint Handling

HISTORY

The Company was organized in Texas as a limited capital, stock life, health and accident insurance company on June 13, 1947, and commenced business on August 13, 1947.

Torchmark Corporation (Torchmark), a Delaware corporation, formed NU Life Insurance Company of Delaware with an incorporation date of August 14, 1981, as a wholly owned subsidiary of another Torchmark subsidiary, Globe Life and Accident Insurance Company (Globe), a Delaware company located in Oklahoma City, Oklahoma. Subsequently, Torchmark formed NU Life Insurance Company, a Delaware company, to facilitate the acquisition and redomestication of the Company from Texas to Delaware.

Globe purchased all of the outstanding common stock of the Company on December 31, 1981.

Torchmark formed NU Life Insurance Company and, on February 28, 1982, merged the Company into NU Life Insurance Company through NNU Life Insurance Company. The name of NU Life Insurance Company was then changed to United American Insurance Company, a Delaware company.

Torchmark acquired the Company as a direct subsidiary on August 31, 1993. This was accomplished by Globe receiving a $30,000,000 cash dividend from the Company. Globe then transferred all of the stock of the Company to Torchmark.

Capitalization

Pursuant to the Certificate of Incorporation, as amended, the Company is authorized to issue 5,000,000 shares of $1 par value common stock. The Company has 3,000,000 shares issued and outstanding resulting in common capital stock valued at $3,000,000.

Dividends to Stockholders

Dividends paid during the period under examination were as follows:

Year	Amount
2003	$ 77,800,000
2002	$ 51,700,000
2001	$ 31,500,000

MANAGEMENT AND CONTROL

Management

The elected Directors of the Company at December 31, 2003, were as follows

Director	Principal Occupation or Other Business Affiliation
Charles Britton Hudson	Chairman, President and CEO of Torchmark
Mark Steven McAndrew	Chairman, President and CEO of United American Insurance Company, Globe and American Income Life Insurance Company, Chairman of Insurance Operations of Torchmark
Gary Lee Coleman	Executive Vice President and Chief Financial Officer of Torchmark; Executive Vice President, Treasurer and CFO of United American Insurance Company
Larry Mac Hutchison	Executive Vice President and General Counsel of Torchmark; Executive Vice President, Secretary and General Counsel of United American Insurance Company
Rosemary Jeanette Montgomery	Executive Vice President and Chief Actuary of Torchmark, United American Insurance Company and Globe

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

Mark Steven McAndrew	President and CEO
Gene Grimland	President, General Agency Marketing Division

Andrew Wayne King	President, Branch Office Marketing Division
Tony Gerald Brill	Executive Vice President, Administration
Gary Lee Colman	Executive Vice President, Treasurer and CFO
Vern Herbel	Executive Vice President, Marketing
Larry Mac Hutchison	Executive Vice President, Secretary and General Counsel
Rosemary Jeanette Montgomery	Executive Vice President and Chief Actuary
Danny Almond	Senior Vice President, Accounting
Douglas Linn Gockel	Senior Vice President, Special Markets
Charles Hudson	Senior Vice President
Randall D. Mull	Senior Vice President
Frederick Ronald Polston	Senior Vice President, General Agency
Steve L. Simmons	Senior Vice President, Sales Administration
William Edward Smallwood	Senior Vice President, General Agency
David Thorndike	Senior Vice President, Chief Information Officer
Glenn Williams	Senior Vice President, Direct Marketing
Jon A. Adams	Vice President, Financial Reporting/Treasury and Comptroller
Judy Adams	Vice President, Agency Licensing
Jefferey M. Alexander	Vice President
Elizabeth Ann Allen	Vice President, Claims Administration
Ann M. Braswell	Vice President, Policy Service
Jon Erbe	Vice President
Mike Gaisbauer	Vice President, Regulatory Compliance
Gene Green	Vice President, Manpower Development

Judy Hans	Vice President, Marketing and Publications
Peter Hendee	Vice President, Health Actuary
Randy Holmes	Vice President, Applications Programming
Joyce L. Lane	Vice President
Ben Lutek	Vice President, Illustration Actuary
Mike Majors	Vice President, Special Markets
Rick Mayton	Vice President, General Accounting
Karen McLaughlin	Vice President, Policy Benefits
Arvelia Miles	Vice President, Director of Human Resources
John M. Moser	Vice President, Underwriting and New Business
Cory Newman	Vice President, Sales Administration
Fred Poirier	Vice President, Special Markets
Kevin Scott Poynter	Vice President
Keith P. Ryan	Vice President, Associate Counsel and Assistant Secretary
Roger Smith	Vice President
Russell B. Tucker	Vice President, Assistant to the Chairman
W. Michael Pressley	Appointed Actuary

Section 4919 – "Change of directors, officers; notice" of the Delaware Insurance Code (the Code) states that:

> "Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers."

It was noted through a review of the various annual statement jurat pages as well as the minutes of the Board of Directors' meetings that there were changes in principal officers which had not been reported to the Delaware Insurance Commissioner. These changes should have been reported to the Delaware Insurance Commissioner in accordance with the Code. Therefore,

> **It is recommended that the Company comply with the provisions of Section 4919 of the Code regarding the proper reporting of changes in the principal officers and directors of the Company.**

Control

All outstanding shares are held by the parent, Torchmark Corporation, a Delaware corporation, with principal offices at 2001 Third Avenue South, Birmingham, Alabama 35233. Torchmark, an insurance and diversified financial services holding company, is traded on the New York Stock Exchange as TMK.

Conflicts of Interest

The Company had a conflict of interest policy in place. Executed conflict of interest statements were reviewed for the appropriate officers and directors of the Company.

HOLDING COMPANY SYSTEM

The Company became a member of the Torchmark Holding Company on December 31, 1981. As previously noted, the Company was owned by Globe until August 1993 when Globe transferred its ownership via extraordinary dividend to Torchmark.

Organization Chart

The following organization chart shows the affiliates in the holding company. Each corporation is 100 percent owned by its immediate parent except United Investors Life Insurance Company, which is 81 percent owned by Liberty National Life Insurance Company and 19 percent owned by Torchmark.

Torchmark Corporation
- Liberty National Life Insurance Company
  - Brown-Service Funeral Homes Company, Inc.
  - Torch Royalty Company
  - United Investors Life Insurance Company*
    - UI Brokerage Services, Inc.
  - Liberty National GroupCare, Inc.
  - Liberty National Auto Club, Inc.
- Globe Insurance Agency, Inc.
- Globe Life and Accident Insurance Company
  - American Life and Accident Insurance Company
  - American Income Life Insurance Company
    - National Income Life Insurance Company
    - AILIC Receivables Corporation
    - American Income Marketing Services, Inc.
  - Globe Marketing Services, Inc.
  - Globe Insurance Agency, Inc.
- United American Insurance Company
  - First United American Life Insurance Company
- TMK Re, Ltd.
- Torchmark Capital Trust I**
- Torchmark Capital Trust II**

* 19 percent owned by Torchmark and 81 percent owned by Liberty National
** Special purpose business trust

Copies of the "Form B Holding Registration Statements" filed with the Delaware Insurance Department, during the period under examination, were reviewed. It appeared that the Company had complied with the provisions of Regulation 1801 of the Code.

MANAGEMENT AND SERVICE AGREEMENTS

Sale of Agents' Balances

On December 1, 2001, Torchmark purchased $39,600,000 of the Company's qualified agents' debit balances for a purchase price of $38,700,000. On December 30, 2002, Torchmark purchased $30,700,000 of the Company's qualified agents' debit balances for a purchase price of $30,000,000. The 2001 and 2002 sales agreements were approved by the Delaware Department of Insurance in accordance with Section 5005 (a)(2)a of the Code.

On December 15, 2003, Torchmark purchased $27,000,000 of the Company's qualified agents' debit balances for a purchase price of $26,322,679. The 2003 sale did not require the Commissioner's approval.

Service and Cost Allocation

The Company has been a party to an agreement with American Life and Accident Insurance Company (ALA) since 1983. Pursuant to the agreement, the Company provides personnel and administrative facilities to ALA and receives reimbursement for the cost incurred. During the period under examination, the Company billed ALA approximately $8,000 per month for related salary expense. ALA is a wholly owned subsidiary of Globe, is licensed under the laws of the state of Texas, and, as such, this agreement is subject to the continuing approval of the Texas Department of Insurance.

Consolidated Tax Agreement

The Company has been a party to an agreement with Torchmark and the affiliated companies since 1990, whereby, the Company is a part of a consolidated income tax filing. The agreement allocates the federal income tax liability in an amount equal to that which would have been reported had separate returns been filed.

Service Agreement

The Company entered into an inter-company service agreement with Torchmark effective January 1, 1991. Pursuant to the agreement, each party will provide, upon request, services to include strategic planning, management, financial, legal, auditing, investment management, insurance, accounting, employee benefits, and other advice and assistance as the parties may from time to time agree upon. Direct expenses are reimbursed and a separate fee is paid for other services.

Administrative Services Agreement

Effective March 19, 1998, the Company entered into an administrative services agreement with Park Avenue Life Insurance Company (Park), Family Service Life Insurance Company (FSLIC), and Sentinel American Life Insurance Company (SALIC). Pursuant to the agreement, the Company provides Park with administrative and other services in respect of all FSLIC policies as well as all policies of FSLIC's wholly-owned subsidiary, SALIC. The administrative services provided by the Company include policy administration, claims administration, billing administration, data transmission and other general administration services.

Service Agreement

The Company entered into a service agreement with First United American Life Insurance Company (FUALIC), effective November 1, 1994. The agreement was replaced with the service agreement effective as of August 1, 2000. Pursuant to the new service agreement, the Company will provide underwriting, claims and administrative support services for Medicare supplement and other health insurance policies, to life insurance policies sold by FUALIC's agency force and to life policies sold in connection with FUALIC's military business. The Company will also provide data processing and accounting services, and legal and actuarial services as FUALIC requires.

The service agreement with FUALIC had not been filed with the Delaware Department of Insurance, as required by Section 5005(a)(2)d of the Code.

It is recommended that the Company file its affiliated agreement with FUALIC in compliance with Section 5005 (a)(2)d of the Code.

Affiliate Agreements

The prior report recommended that agreements be written with the Company's affiliates Liberty National Life Insurance Company (LNL), Globe, and American Income Life Insurance Company (AILIC), which had cost sharing/service arrangements with the Company. Review of the inter-company general ledger accounts showed that transactions occurred between the Company and its affiliates LNL, Globe, and AILIC, whereby no cost sharing or service agreements existed.

It is again recommended that the Company comply with Section 5005(a)(2)d of the Code and file service and/or cost sharing agreements with its affiliates for which it provides services or participates in cost sharing.

TERRITORY AND PLAN OF OPERATION

The Company writes business in all states except New York, and is also authorized to transact business in the District of Columbia and certain Canadian provinces.

The Company writes ordinary life, individual annuities, and accident and health business. The accident and health business emphasized the production of senior health care; principally Medicare supplement, long-term care business, and non-Medicare supplement. The Medicare supplement business constituted approximately 80 percent of the direct health premium writings and almost two-thirds of the Company's direct premium volume. As of the examination date, these products were marketed nationwide through approximately 31,092 independent agents, approximately 2,029 exclusive agents, and utilized direct response.

GROWTH OF THE COMPANY

Comparative financial data, as reported in the Company's financial statements, was as follows:

Year	Net Admitted Assets	Capital and Surplus	Gross Written Premium	Net Income
2003	$1,041,221,228	$187,638,602	$933,278,677	$78,785,812
2002	910,905,952	176,544,720	824,695,670	69,799,333
2001	923,117,731	159,059,805	812,102,274	51,027,311
2000	839,504,530	106,269,017	745,344,009	31,122,384

The Company's assets increased by approximately $130,000,000 in 2003, due to the increase in annuity sales, where net proceeds were utilized to purchase bonds. Capital and surplus increased by approximately $11,000,000 in 2003 due in part to current year earnings of $79,000,000, less dividends paid of $77,800,000, plus an increase in net deferred income tax of $7,300,000. Gross written premium increased by approximately $108,000,000 in 2003. Life premiums decreased by approximately 2.6 percent, while health premiums increased by approximately 2 percent. The increase in health premiums was due to rate increases over the past several years. Actual health policies in force decreased by .2 percent.

The Company continued to sustain growth and remained profitable while paying large dividends to its parent.

MARKET CONDUCT

Agent's Licensing

The commission rates under long term care business contracts exceeded the limits established by Delaware Regulation 1404, Section 27.1 and 27.2. This was noted in the prior report on examination, formerly Delaware Regulation 63, Section 24.

It is again recommended that the Company amend agent contracts pertaining to commission rates on long term care business to comply with Delaware Regulation 1404, Section 27.1 and 27.2.

During the current examination, management implemented procedures to amend commission rates, effective December 15, 2004.

Claims Practices

The Company offers an Automatic Claim Filing service (ACF), an optional claims delivery service offered as ancillary to its Medicare supplement plans. Currently the Company offers only one program, UA Partners. The UA Partners is a discount health and services program offered to its Medicare supplement policyholders, life and supplemental health policyholders and stand alone (persons not insured by the Company). The program costs $6.95 per month and provides for discounts on dental, vision, hearing, prescription drugs, chiropractic and ACF to Medicare supplement policyholders.

Automatic Claim Filing has been in place since 1986. In 2003, all optional, non-insurance services and programs offered by the Company produced net income to the Company of $12,817,687. Prior to March 1, 2003, ACF could be purchased separately; however, subsequent to the aforementioned date ACF can only be purchased separately in the states of Alabama and Kansas. It is the Company's position that ACF is not an insurance product as it does not assume any insurable risk, nor is the value received by its customers the reimbursement of medical or health-related services that those customers have received.

It is the Company's contention that ACF provides for the automatic electronic transfer of claims data from the Medicare carriers in the various states to the Company; thus, assuring that Medicare supplement policyholder's claims are received promptly, resulting in the more timely receipt of claims than if they did not have ACF. The Company asserted that if a Medicare participating provider has the beneficiary assign both their Medicare and Medigap payments to the participating provider and the provider files the claim under OBRA 4081 guidelines (Medigap) with the Medicare Part B carrier, then, even without ACF, the Carrier may choose to send the claim electronically so long as the Company has in place the facility to receive electronic filings. A review of the electronic claims data related to Delaware Medicare supplement policyholders for the month of September 2004 indicated that out of 836 policyholders, 812 were ACF participants and 23 did not participate in ACF. For Delaware Medicare supplement policyholders who did not elect the Company's ACF service, the Company processed 1 Medigap claim (received electronically) and 27 paper claims (non-Medigap) during the month of September 2004.

Social Security Act section 1842(h)(3)(B) provides that the carrier may enter into agreements for the transmittal of claim information to companies electronically and that the carrier shall impose user fees for the transmittal of claim information, whether electronically or otherwise. The Company pays a net user fee of $.35 per claim for all claims transferred electronically by the carrier. The Company maintained that ACF greatly speeds up claim filing on behalf of its ACF customers and virtually guarantees no lost claims.

REINSURANCE

Ceded

The principal reinsurers for the Company's ceded business were its affiliates, Globe and United Investors Life Insurance Company (United Investors).

The agreement with Globe, effective January 1, 1987, provided a 100 percent cession of all business generated by Globe agents and written on the Company's paper. Effective January 1, 1997, the agreement was amended to no longer cover Medicare Supplement, nursing home or other health insurance issued after the effective date. The amendment did not affect the aforementioned contracts issued before the effective date or life insurance issued before or after January 1, 1997.

The agreement with United Investors, entered into January 1, 1997, provided for the 100 percent coinsurance of all of the Company's annuity business. The Company continued to hold the investments related to the policies ceded under this agreement. The funds held for reserves under this agreement were $269,810,609, $271,580,825 and $374,170,332 in 2001, 2002, and 2003, respectively.

The agreement with United Investors provided, among other things, that settlement would occur on a quarterly basis; however, the Company settled annually during the period under examination. This was also noted in the prior report on examination.

It is again recommended that the Company settle its reinsurance balances in accordance with the terms of the agreement.

A contract with CIGNA whereby the Company ceded long term care business remained active for “run-off” business only.

Assumed

The Company assumed no business.

ACCOUNTS AND RECORDS

The Company's records are maintained on computer. During 1999 the Company changed the automated accounting system from a Lotus based system to the CLARUS accounting system. The Company's trial balance and adjusting entries were traced to the annual statement, and items were linked from schedule to schedule. It appeared that the Company's accounting fairly disclosed its financial position.

During the review of cash, it was noted that the Company routinely adjusts the bank balance to match the ledger balance when performing reconciliations. This was noted in the prior report. Therefore,

It is again recommended that the Company accurately reconcile the bank balance and ledger balance for cash accounts.

In addition, the review of cash found that some accounts carried old reconciling items. This was noted in the prior report. Therefore,

It is again recommended that the Company clear old outstanding items and other reconciling items in its cash accounts in a timely manner.

An assessment of the overall control environment was performed by INS Services, Inc., an internal control specialist team. INS Services, Inc. examined the Company's responses to the Examination Planning Questionnaire Exhibit C, interviewed management, reviewed systems, performed judgmental and statistical samples of Company records evidencing execution of the Company's information systems control procedures, and various other tests of controls to assess the pervading control environment. As a result of the examination performed by INS Services, Inc., the assessment of the overall control risk related to information systems controls at the Company is medium for those policies and procedures that had been in place as of December 31, 2003. In some areas a substantive examination approach was taken in response to the risk rating of medium.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2003.

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account
Analysis of Examination Changes

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

It should be noted that the assets and liabilities are stated as of the last working date on or before the 24th of December 2003.

Analysis of Assets
December 31, 2003

	Ledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$830,526,169	$0	$830,526,169	
Preferred stocks	51,780,827	0	51,780,827	
Common stocks	53,048,297	0	53,048,297	
Real estate: Properties occupied by the company	9,372,870	0	9,372,870	
Cash and short-term investments	19,381,664	0	19,381,664	
Contract loans	4,272,642	0	4,272,642	
Other invested assets	15,082,134	0	15,082,134	
Receivable for securities	1,810,202	0	1,810,202	
Investment income due and accrued	15,387,918	0	15,387,918	
Uncollected premiums and agents' balances in course of collection	5,162,275	121,890	5,040,385	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	11,983,322	0	11,983,322	
Other amounts receivable under reinsurance contracts	973,122	0	973,122	
Current federal and foreign income tax recoverable and interest thereon	289,000	0	289,000	
Net deferred tax asset	100,549,000	80,072,000	20,477,000	
Guaranty funds receivable or on deposit	474,564	0	474,564	
Electronic data processing equipment and software	421,951	0	421,951	
Receivable from parent, subsidiaries, and affiliates	149,618	0	149,618	
Health care and other amounts receivable	12,105,834	12,105,834	0	
Other assets nonadmitted	713,818	713,818	0	
Aggregate write-ins for other than invested assets:				
Prepaid premium tax	749,544	0	749,544	
Memberships and deposits	190,000	190,000	0	
Totals	$1,134,424,771	$93,203,542	$1,041,221,229	

Liabilities, Surplus and Other Funds
December 31, 2003

		Notes
Aggregate reserve for life contracts	$137,327,792	1
Aggregate reserves for accident and health contracts	173,920,908	2
Liability for deposit-type contracts	31,552	
Contract claims:		
Life	4,301,000	
Accident and health	93,852,000	
Premiums and annuity considerations received in advance	7,150,899	
Interest maintenance reserve	15,576,741	
Commissions to agents due or accrued	685,861	
General expenses due or accrued	1,757,979	
Taxes, licenses and fees due or accrued	1,625,084	
Unearned investment income	50,000	
Amounts withheld or retained by company as agent or trustee	3,644,578	
Amounts held for agents' account	4,908,087	
Remittances and items not allocated	966,771	
Net adjustment in assets and liabilities due to foreign exchange rates	90,032	
Liability for benefits for employees and agents	6,847,969	
Asset valuation reserve	7,870,490	
Payable to parent, subsidiaries and affiliates	5,554,239	
Funds held under coinsurance	374,170,322	
Payable for securities	13,087,681	
Aggregate write-ins for liabilities:		
Nursing home adjustments	129,316	
Returned checks	33,325	
Total liabilities	$853,582,626	
Common capital stock	3,000,000	
Gross paid in and contributed surplus	87,500,000	
Unassigned funds (surplus)	97,138,602	
Total capital and surplus	$187,638,602	
Total	$1,041,221,228	

Summary of Operations
For the Year Ended
December 31, 2003

Premiums and annuity considerations for life and accident and health contracts	$744,994,911
Net investment income	56,411,102
Amortization of Interest Maintenance Reserve	2,366,794
Commissions and expense allowances on reinsurance ceded	14,665,449
Aggregate write-ins for miscellaneous income	
ACF fees	14,507,070
Nursing home business	305,000
Family Service Life administrative income	833,000
Stand alone partners fees	61,464
Total	$834,144,790
Death benefits	$23,272,953
Matured endowments	$96,070
Disability benefits and benefits under accident and health contracts	426,158,567
Surrender benefits and withdrawals for life contracts	2,467,390
Interest and adjustments on contract or deposit-type contract funds	33,298
Increase in aggregate reserves for life and accident and health contracts	7,119,496
Total	$459,147,774
Commissions on premiums, annuity considerations and deposit-type contract funds	140,707,410
General insurance expenses	67,991,127
Insurance taxes, licenses and fees, excluding federal income taxes	18,686,976
Increase in loading on deferred and uncollected premiums	(1,077,105)
Aggregate write-ins for deductions:	
ACF fees ceded	1,689,383
Investment income adjustment on coinsurance	26,842,963
Total expenses	$713,988,528
Net gain from operations before dividends to policyholders and federal income taxes	$120,156,262
Net gain from operations after dividends to policyholders and before federal income taxes	$120,156,262
Federal income taxes incurred	41,481,688
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	$78,674,574
Net realized capital gains or (losses) less capital gains tax and transferred to the IMR	111,238
Net income	$78,785,812

Capital and Surplus Account
December 31, 2003

Capital and surplus December 31, previous year	$176,544,720
Net income	$78,785,812
Change in net unrealized capital gains or (loses)	2,148,382
Change in net unrealized foreign exchange capital gain (loss)	1,520,849
Change in net deferred income tax	7,281,000
Change in nonadmitted assets and related items	2,010,344
Change in asset valuation reserve	(1,942,505)
Dividends to stockholders	(77,800,000)
Aggregate write-ins for gains and losses in surplus	
Ceding commission received on reinsurance ceded	(910,000)
Net change in capital and surplus for the year	$11,093,882
Capital and surplus December 31, current year	$187,638,602

Analysis of Examination Changes
December 31, 2003

No financial changes were made for examination report purposes.

NOTES TO THE FINANCIAL STATEMENT

(1) Aggregate Reserve for Life Policies and Contracts $137,327,792

This liability is reported on page 3, line 1 and in Exhibit 5 of the 2003 Annual Statement.

The reserve breakdown in Exhibit 5, by type of benefit is as follows:

Benefit Type	Reserve Amount
Life Insurance	$134,343,872
Annuities	0
Supplementary Contracts with Life Contingencies	0
Accidental Death Benefits	273,547
Disability – Active Lives	10,318
Disability – Disabled Lives	13,532
Miscellaneous	2,686,523
Total	$137,327,792

The examination process emphasized the reserves as of December 31, 2003, and included an in depth review of asset adequacy/cash flow testing analysis performed annually as part of the Actuarial Opinion Memorandum. The liability appears to be fairly stated and is calculated using valuation parameters that appear to be substantially free of material error. Based on the review of asset adequacy/cash flow testing analysis and the review of Company workpapers supporting this liability, no additional actuarial reserves were required as of December 31, 2003.

An underlying data review was made, whereby samples of randomly selected policies from the Company's business segments were used to test the validity of valuation data. Validity testing indicated that the data underlying the Company's reserve segments were substantially free of material error. Inclusion testing was also performed in order to gain confidence that the valuation extract files were essentially complete. The inclusion testing indicated that the valuation extract files were essentially complete.

(2) Aggregate Reserve for Accident and Health Policies $173,920,908

This liability is reported on page 3, line 2 and in Exhibit 6 of the Annual Statement. The reserve is for Medicare supplement, hospital-medical-surgical, long term care and a small amount of disability business. The reserve breakdown is as follows:

Unearned premium reserves	$ 89,099,205
Additional contract reserves	131,010,178
Claim reserve	15,342,000
Total (Gross)	$235,451,383
Reinsurance ceded	61,530,475
Total (Net)	$173,920,908

The liability appears to be fairly stated, and the Company's conclusion that additional reserves are not necessary appears reasonable. An underlying data review was made and inclusion testing performed. No exceptions were noted.

COMPLIANCE WITH PRIOR REPORT

The Company's compliance with prior examination recommendations was reviewed. The Company complied with all prior examination recommendations with the exception of the following:

1. As noted under the caption Management and Service Agreements, the prior report recommended that agreements be written with the Company's affiliates LNL, Globe, and AILIC, which had cost sharing/service arrangements with the Company. Review of the inter-company general ledger accounts showed that transactions occurred between the Company and its affiliates LNL, Globe, and AILIC, whereby no cost sharing or service agreements existed.

   It is again recommended that the Company comply with Section 5005(a)(2)d of the Code and file service and/or cost sharing agreements with its affiliates for which it provides services or participates in cost sharing.

2. As noted under the caption Market Conduct, the commission rates under long term care business contracts exceeded the limits established by Delaware Regulation 1404, Section 27.1 and 27.2. This was noted in the prior report on examination, formerly Delaware Regulation 63, Section 24.

   It is again recommended that the Company amend agent contracts pertaining to commission rates on long term care business to comply with Delaware Regulation 1404, Section 27.1 and 27.2.

3. As noted under the caption Reinsurance, the agreement with United Investors provided, among other things, that settlement would occur on a quarterly basis; however, the Company settled annually during the period under examination. This was also noted in the prior report on examination.

   It is again recommended that the Company settle its reinsurance balances in accordance with the terms of the agreement.

4. As noted under the caption Accounts and Records, the Company routinely adjusts the bank balance to match the ledger balance when performing reconciliations. This was noted in the prior report.

It is again recommended that the Company accurately reconcile the bank balance and ledger balance for cash accounts.

In addition, the review of cash found that some accounts carried old reconciling items. This was noted in the prior report.

It is again recommended that the Company clear old outstanding items and other reconciling items in its cash accounts in a timely manner.

RECOMMENDATIONS

1. Management and Control - It is recommended that the Company comply with the provisions of Section 4919 of the Delaware Insurance Code regarding proper reporting of changes in principal officers and directors of the Company. (p. 7)
2. Management and Service Agreements – It is recommended that the Company file its affiliated agreement with FUALIC in compliance with Section 5005(a)(2)d of the Delaware Insurance Code. (p. 10)
3. Management and Service Agreements – It is again recommended that the Company comply with Section 5005(a)(2)d of the Code and file service and/or cost sharing agreements with its affiliates for which it provides services or participates in cost sharing. (p. 11 and 23)
4. Market Conduct – It is again recommended that the Company amend agent contracts pertaining to commission rates on long term care business to comply with Delaware Regulation 1404, Section 27.1 and 27.2. (p. 13 and 23)

5. Reinsurance – It is again recommended that the Company settle its reinsurance balances in accordance with the terms of the agreement. (p. 15 and 23)

6. Accounts and Records – It is again recommended that the Company accurately reconcile the bank balance and ledger balance for cash accounts. In addition, it is again recommended that the Company clear old outstanding items and other reconciling items in its cash accounts in a timely manner. (p. 16 and 24)

SUBSEQUENT EVENTS

On July 12, 2004, the Board of Directors approved the election of Vern D. Herbel as president and chief executive officer of the Company.

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2003, was determined to be as follows:

Admitted Assets	$1,041,221,228
Liabilities	$ 853,582,626
Capital and Surplus	187,638,602
Total	$1,041,221,228

Since the last examination as of December 31, 2000, total assets have increased $201,716,698. Liabilities have increased $120,317,113, and capital and surplus have increased $81,369,585 in the same period.

ACKNOWLEDGMENT

The assistance rendered by the officers and employees of the Company during the course of the examination are hereby acknowledged.

In addition to the undersigned, Giles W. Larkin, CFE, Don Hollier, CFE, Joseph M. Funkhouser, James Boswell, CCP, and John McGeever, CPA, CISA, participated in the examination. Frank G. Edwards, Jr., ASA, MAAA, INS Consultants, Inc., completed the actuarial portion of this examination.

Respectfully Submitted,

Jean Alton, CFE
Examiner-In-Charge
Department of Insurance
State of Delaware
Northeastern Zone, NAIC