

**REPORT ON EXAMINATION
OF**

RELIANCE LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2004

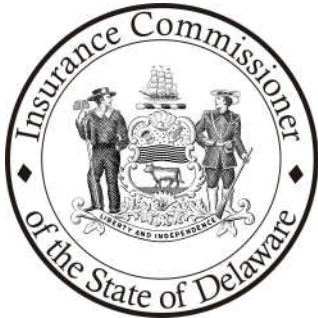
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2004 of the

RELIANCE LIFE INSURANCE COMPANY

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

ATTEST BY: Antoinette Handy

DATE: 12 May 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 12TH DAY OF MAY 2006.

Matthew Denn

Insurance Commissioner

REPORT ON EXAMINATION
OF THE
RELIANCE LIFE INSURANCE COMPANY
AS OF
December 31, 2004

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.

A handwritten signature in black ink, appearing to read "Matt Denn", written in a cursive style.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 12TH Day of MAY 2006.

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March 6, 2006

Honorable Mathew Denn
Insurance Commissioner
State of Delaware
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No 05.031, an examination has been made of the affairs, financial condition and management of the

Reliance Life Insurance Company

hereinafter referred to as "RLIC" or "Company". The examination was conducted at the offices of the Company, located at Three Parkway, Philadelphia, Pa. 19102.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 1999. This examination covers the period January 1, 2000 to December 31, 2004, 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.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments

Reliance Life Insurance Company

and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

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

HISTORY

RLIC was organized and incorporated as a stock insurance company under the laws of the State of Arizona as Arcadia National Insurance Company.

Subsequently, the Company's name was changed to Arcadia National Life Insurance Company and remained as such until Reliance Insurance Company (RIC) purchased the Company from Household Group on February 25, 1999. Simultaneously with the re-domestication of the Company to the State of Delaware on August 15, 1999, the Company's name was changed to the present corporate title.

The Company is a wholly owned subsidiary of Reliance Insurance Company. RLIC began producing new business in the first quarter of 2000 but by the second quarter of 2000, a management decision was made to stop production of all new business. RLIC ceased producing business in the third quarter of 2000 and the minimal amount of business remaining is in run-off.

On October 3, 2001, the Insurance Commissioner of the Commonwealth of Pennsylvania, in her capacity as Rehabilitator of Reliance Insurance Company petitioned the Commonwealth Court of Pennsylvania for a liquidation order. Reliance Insurance Company was declared insolvent and Commonwealth Court issued an order that placed RIC into liquidation.

M. Diane Koken, Insurance Commissioner of Pennsylvania and her successors in office were appointed as Liquidator of Reliance Insurance Company, and directed immediately to take possession of RIC's property, business and affairs, and liquidate RIC, in accordance with Pennsylvania law.

As part of the obligation to protect the interest of RIC's policyholders and other creditors and maximize the value of the Estate, it is the stated intent of the Liquidator of RIC to sell RLIC. No action has been taken in that regard as of the date of this Report.

CAPITALIZATION

The Company's Certificate of incorporation authorizes 5,000,000 shares of common stock, with a par value of One dollar (\$1.00) per share. RLIC has issued 2,500,000 shares of common stock; all of which are owned by Reliance Insurance Company.

The Company paid no dividends during the period under examination.

MANAGEMENT AND CONTROL

The Company's by-laws stipulate that: "the business of the corporation shall be managed by its Board of Directors..." RLIC's bylaws were amended April 1, 2002 to reduce the number of directors from a minimum of seven (7) to two (2). Directors shall hold office until their successors are elected.

The following directors were elected in 2002 and constituted the Board as of December 31, 2004:

David S. Brietling Arthur Mullin

In 2005, Arthur Mullin was replaced as a director by Marilyn Kincaid.

In 2002 and 2004, the Board of Directors elected the following individuals, who held office at year end 2004:

David S. Brietling	President
Arthur Mullin	Vice President & Treasurer
Marilyn Kincaid	Secretary
Leonard Nespoli	Assistant Treasurer

In 2005, Arthur Mullin was replaced as Vice President and Treasurer by Marilyn Kincaid, who also retained the office of Secretary.

CORPORATE RECORDS

The examination noted several exceptions in the area of Corporate Records, due, in most part, from the insolvency-liquidation of the parent, Reliance Insurance Company, and the attendant loss of personnel. Among the exceptions noted:

Reliance Life Insurance Company

- While the Company's By-laws require annual meetings of the stockholders and Board of Directors, no meetings were held in 2001 and 2003.
- For a period from 2001 to April, 2002, there were no directors or officers of the Company.
- While the minutes of a stockholder meeting held in 2002 clearly amend the By-laws to reduce the number of directors to two (2), the actual By-laws document provided to the examination states that the number of directors shall be not less than three (3) nor more than thirteen (13).

It is recommended the Company conduct its operations in accordance with the By-Laws. It is further recommended the Company amend the By-Laws document to accurately reflect the number of directors.

HOLDING COMPANY SYSTEM

As noted above, the Company is a wholly owned subsidiary of Reliance Insurance Company (RIC), a Pennsylvania domiciled insurer.

Also as noted above, on October 3, 2001, RIC was declared insolvent by Commonwealth Court of Pennsylvania and placed in liquidation. In connection with the insolvency, the following subsidiary insurers were merged into RIC:

<u>Company</u>	<u>Domicile</u>
Reliance Ins. Co. of Illinois	Illinois
Reliance Direct Ins. Co.	Pennsylvania
Reliance National Indemnity Co.	Wisconsin
Reliance Universal Ins. Co.	California
United Pacific Ins. Co.	Pennsylvania
United Pacific Ins. Co. of N.Y.	New York
Reliance National Ins. Co.	Delaware
Reliance Surety Ins. Co.	Delaware
Reliance Lloyds	Texas

All rights and obligations of the merged companies have been assumed by RIC, as legal successor-in-interest to the merged companies.

GROWTH OF COMPANY

The amounts presented on the table below were obtained from the Company's filed annual reports:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Assets	\$9,336,035	\$9,290,297	\$9,125,120	\$8,976,061	\$8,643,812	\$8,482,816
Liabilities	155,457	171,352	149,583	125,088	193,716	223,673
Capital and Surplus	9,180,578	9,118,945	8,975,537	8,850,973	8,450,096	8,259,143
Net Income	89,175	145,713	202,941	329,576	188,253	3,045,143
Premiums	-947	-2,156	-9,832	-26,382	222,777	-52,723,685
Investment Income	125,174	167,616	249,490	452,163	504,947	1,704,858

As will be discussed in the following section of this Report, RLIC was acquired by Reliance Insurance Company in 1999. Before the acquisition by RIC, all of the Company's business was ceded via a Bulk Reinsurance and Assumption Agreement with a reinsurer in the Household Group. This is the reason for the large negative premium amount in 1999. The Company wrote business for a brief period in 2000 and wrote no new premiums from 2001 to 2004. The Company's sole source of revenue is Investment Income. The Company's policy and claim reserves have decreased steadily; most of the Company's reported liabilities are amounts due to the parent for administrative expenses.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was licensed to transact business in forty-three (43) states and the District of Columbia. The Company's licensing situation

Reliance Life Insurance Company

(number of licenses and specific states) remained unchanged during the examination period with one exception; in 2001, RLIC's license in Michigan was revoked.

Since the acquisition by RIC, the Company has written business for one brief period of time. In the first quarter of 2000, RLIC began writing credit life and credit accident and health business. However, by the second quarter of 2000, management decided to stop production of all new business. RLIC ceased producing business in the third quarter of 2000, and the minimal amount of business remaining is in run-off.

As noted in the "History" section of this report, it is the stated intention of the liquidator of Reliance Insurance Company to sell RLIC in order to realize the value of RLIC's Certificates of Authority.

Bulk Reinsurance and Assumption Agreement

Prior to February 25, 1999, Arcadia National Life Insurance Company ("Arcadia" or the Company) was owned by the Household Group. In order to sell the "shell" of the Company (its Certificates of Authority and required capital and surplus in each state) to RIC, a Bulk Reinsurance and Assumption Agreement with a Household Group subsidiary, Central National Insurance Company of Omaha, was arranged. The agreement, effective January 1, 1999, states that the Company is to cede its entire book of business to Central National. Subsequently Central National Insurance Company changed its name to Household Life Insurance Company.

INTER-COMPANY AGREEMENTS

RLIC has no employees. RIC provides virtually all administrative, management, investment and claim services to the Company under an Administrative Services

Reliance Life Insurance Company

Agreement. RIC provides these services at cost. The Administrative Services Agreement provides for quarterly settlements of inter-company balances. The examination noted that the Company and RIC have not settled the inter-company balance since year end 2002. At December 31, 2004, RLIC reported a liability of \$108,802 as payable to Parent, Subsidiaries and Affiliates. This liability increased to \$211,203 in 2005.

It is recommended the Company and RIC settle inter-company balances quarterly in accordance with the Administrative Services Agreement between the two parties.

RLIC also participates in the consolidated federal income tax of RIC and its subsidiaries.

FINANCIAL STATEMENTS

The Company's financial position on December 31, 2004 and the results of operations for 2004 are presented in the following statements

	ASSETS			
	<u>Assets</u>	Non-admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$1,217,417		\$1,217,417	1
Cash and short-term investments	8,063,601		8,063,601	1
Investment income due and accrued	55,017		55,017	
Current federal income tax recoverable	34,224	\$34,224		
Net deferred tax asset	662,000	662,000		
TOTALS	<u>\$10,032,259</u>	<u>\$696,224</u>	<u>\$9,336,035</u>	

LIABILITES, SURPLUS AND OTHER FUNDS

		Notes
Aggregate Reserves:		
Life	\$1,523	2
Accident and health	32,925	2
Contract claims		
Life	5,011	2
Accident and health	7,196	2
Payable to parent, subsidiaries and affiliates	<u>108,802</u>	
 Total liabilities	 <u>\$155,457</u>	
Common capital stock	\$2,500,000	
Gross paid in and contributed surplus	5,597,063	
Unassigned funds	<u>1,083,515</u>	
 Total Capital and Surplus	 <u>\$9,180,578</u>	
 TOTAL	 <u>\$9,336,035</u>	

SUMMARY OF OPERATIONS

Premiums and annuity considerations	\$(947)
Net Investment Income	<u>125,174</u>
Totals	\$124,227
 Increase in aggregate reserves	 (13,673)
Commissions	(327)
General Insurance Expenses	28,550
Insurance taxes, licenses and fees	79,123
Write off of uncollectibles	<u>4,916</u>
Net gain from operations	25,638
Federal and foreign taxes incurred	<u>63,537</u>
 Net Income	 <u>\$89,175</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2003		\$9,118,945
Net income	\$89,175	
Change in non-admitted assets	(72,000)	
Change in net unrealized capital gains	44,458	
Net change in Capital and Surplus		<u>61,633</u>
Capital and Surplus, December 31, 2004		<u>\$9,180,578</u>

EXAMINATION ADJUSTMENTS

The examination will propose no financial adjustments.

NOTES TO FINANCIAL STATEMENTS

Note #1, Bonds, Cash and Short-term Investments

On the 2004 Annual Statement, the Company reported the following invested assets:

Bonds	\$1,217,416
Cash	501,961
Short-term investments	<u>7,561,640</u>
Total	<u>\$9,281,018</u>

The examination noted that a significant portion of the Company's invested assets are held as statutory deposits by or for nine (9) insurance departments.

Invested assets held as statutory deposits	\$6,867,416
Invested assets not on deposit	<u>2,413,602</u>
Total	<u>\$9,281,018</u>

Note #2 Policy and Claim Reserves.

Also on the 2004 Annual Statement, RLIC reported the following policy and claim reserves:

Page 3, line 1, Aggregate Policy Reserves	Life			
		Direct	\$380,949	
		Ceded	<u>379,426</u>	
	2004 AS	Net	<u>\$1,523</u>	
Page 3, line 2, Aggregate Policy Reserves	A&H	2004 AS		
		Gross	\$18,671	
Active Life Reserve		Ceded	<u>15,357</u>	
	UPR	Net	<u>\$3,314</u>	
Claim Reserve		Present Value		
		Gross	\$50,113	
		Ceded	<u>20,502</u>	
		Net	<u>\$29,611</u>	
	2004 AS			\$32,925
Page 3, lines 4.1 and 4.2 Claim Reserves	In course of settlement			
		Direct	\$5,376	
		Ceded	<u>5,376</u>	
		Net	<u>\$0</u>	
	IBNR	Direct	\$21,766	
		Ceded	<u>9,559</u>	
		Net	<u>\$12,207</u>	
	2004 AS			\$12,207

The Company's policy and claim reserves as of December 31, 2004 were certified by Gregory W. Hintz, FSA, MAAA, FLMI, the Company's valuation actuary.

As noted above, RLIC cedes a significant portion of its policy and claim reserves as per the 100% Bulk Reinsurance and Assumption Agreement with Household Life Insurance Company. This Agreement covers all of the Company's business in force as of January 1, 1999. In reviewing the cessions to Household Life, the Company relied on statements from Gerard Lunemann, FSA, MAAA, Vice President and Chief Actuary, Household Life Insurance Company.

No exceptions were noted and the Company's policy and claim reserves are accepted for purposes of this report.

SUBSEQUENT EVENTS

The Company's financial statements filed subsequent to the December 31, 2004 examination date were reviewed. The Company remains inactive and continues to run-off the business written in 2000 and prior. RLIC continues to be licensed in 44 jurisdictions.

As per a statement from management, the Insurance Commissioner of the Commonwealth of Pennsylvania, as liquidator of Reliance Insurance Company, still intends to sell RLIC to maximize the value of the Company's licenses. However, as this Report is written, there are no prospects for an immediate sale of the Company.

STATUS OF PRIOR EXAMINATION RECOMMENDATIONS

The previous examination contained four recommendations:

- That the Company properly report Gross Paid In and Contributed Surplus on all future financial statements.

The current examination noted compliance with this recommendation.

- That the Company reports the correct par value and common stock shares issued on all future annual statements.

The current examination noted compliance with this recommendation

- That the Company cancels and reissues its common stock share certificates to accurately reflect the name and owner of the Company.

The current examination noted compliance with this recommendation

- That the Company executes an Administrative Services Agreement with Reliance Insurance Company, to cover the services provided by the parent, the fees charged, and the reimbursement of said expenses.

The current examination noted compliance with this recommendation.

RECOMMENDATIONS

The Company's attention is directed to the following:

It is recommended the Company conduct its operations in accordance with the By-laws. It is further recommended the Company amend the By-laws document to accurately reflect the number of directors. (See Corporate Records, page 5).

It is recommended the Company and RIC settle inter-company balances quarterly in accordance with the Administrative Services Agreement between the two parties. (See Inter-Company Agreements, page 8).

SUMMARY COMMENTS

The following items of significance were noted during the examination:

- The Company is a wholly owned subsidiary of Reliance Insurance Company.
- RLIC began producing new business in the first quarter of 2000 but by the second quarter of 2000, a management decision was made to stop production of all new business. RLIC ceased producing business in the third quarter of 2000 and the minimal amount of business remaining is in run-off.
- On October 3, 2001, the Insurance Commissioner of the Commonwealth of Pennsylvania, in her capacity as Rehabilitator of Reliance Insurance Company petitioned the Commonwealth Court of Pennsylvania for a liquidation order. Reliance Insurance Company was declared insolvent and Commonwealth Court issued an order that placed RIC into liquidation.

M. Diane Koken, Insurance Commissioner of Pennsylvania and her successors in office were appointed as Liquidator of Reliance Insurance Company, and directed immediately to take possession of RIC's property, business and affairs, and liquidate RIC in accordance with Pennsylvania law.

As part of the obligation to protect the interest of RIC's policyholders and other creditors and maximize the value of the Estate, it is the stated intent of the Liquidator of RIC to sell RLIC. No action has been taken in that regard as of the date of this report.

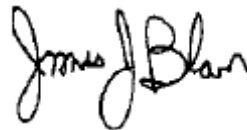
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>Current Examination</u>	<u>12/31/1999 Examination</u>	<u>Changes Increases (Decreases)</u>
Assets	<u>\$9,336,035</u>	<u>\$8,482,816</u>	<u>\$853,219</u>
Liabilities	\$155,457	\$223,673	\$(68,216)
Capital and Surplus	\$9,180,578	\$8,259,143	\$921,435
Totals	<u>\$9,336,035</u>	<u>\$8,482,816</u>	<u>\$853,219</u>

The examination was conducted by the undersigned.

Respectfully submitted,



James J. Blair Jr., CFE, CPA
Supervisor
Insurance Department
State of Delaware