REPORT ON EXAMINATION

of the

MID-WEST NATIONAL LIFE INSURANCE COMPANY of TENNESSEE

9151 Grapevine Highway

North Richland Hills, Texas 76180

as of

December 31, 2003

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Dept. Of Commerce & Insurance
Company Examinations

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
INSURANCE DIVISION
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
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North Richland Hills, Texas
March 15, 2005

Honorable Alfred W. Gross Chairman, NAIC Financial Condition (E) Committee Virginia Bureau of Insurance P. O. Box 1157 Richmond, Virginia 23218-1157	Honorable Paula A. Flowers Commissioner of Commerce & Insurance State of Tennessee 500 James Robertson Parkway Nashville, Tennessee 37219
Honorable Julianne M. Bowler Secretary, Northeastern Zone, NAIC Commissioner of Insurance Massachusetts Department of Insurance One South Station Boston, Massachusetts 02110-2208	Honorable Walter A. Bell Secretary, Southeastern Zone, NAIC Commissioner of Insurance Alabama Department of Insurance 201 Monroe Street, Suite 1700 Montgomery, Alabama 36104
Honorable Jorge Gomez Secretary, Midwestern Zone, NAIC Commissioner of Insurance Wisconsin Department of Insurance 125 South Webster Street Madison, Wisconsin 53702	Honorable John Morrison Secretary, Western Zone, NAIC Commissioner of Insurance Montana Department of Insurance 840 Helena Ave. Helena, Montana 59601

Commissioners:

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

MID-WEST NATIONAL LIFE INSURANCE COMPANY of TENNESSEE
NORTH RICHLAND HILLS, TEXAS

hereinafter and generally referred to as the "Company."

INTRODUCTION

This examination was arranged by the Department of Commerce and Insurance of the State of Tennessee under rules promulgated by the NAIC. It was commenced on May 3, 2004, and was conducted by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee. Due to the Company being licensed in many states, this examination is classified as an Association examination and therefore was called through the NAIC's Examination Tracking System. However, notice of intent to participate was not received from any other state.

This examination was originally called as a target examination as of September 30, 2003 with a commencement date of October 16, 2003. It was being conducted by two (2) duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee. The emphasis of the target examination was to verify that the Company had complied with the Order Adopting Examination Report with Modifications and Directives dated August 6, 2002. This Order detailed the Commissioner's Directives for compliance with the previous examination report made as of December 31, 1999. The target examination was converted into the full-scope financial examination as of May 3, 2004.

The previous examination was made as of December 31, 1999, by examiners of the State of Tennessee. Their report on examination contained many criticisms requiring corrective action by the Tennessee Department of Commerce and Insurance. The Company has corrected all but one of the problems mentioned in the last report. See Comments - Previous Examination section included under Scope of Examination on page 4.

Location of Books and Records:

The Company's original books and records are located in five (5) different areas throughout the United States.

1. North Richland Hills, Texas – The Company's main administrative office and NRH Division. The NRH Division handles the Company's association group accident and health business, individual accident and health, and some life business.
2. Oklahoma City, Oklahoma – The Company's statutory home office, OKC Division, FSD Division, and GA Division. The OKC Division includes life and accident and health business. The FSD Division stands for Financial Services Division and includes the Company's credit life business. The GA Division includes life and accident and health business and used to be located in Norcross Georgia.
3. St. Petersburg, Florida – The Company's SID Division. The SID Division stands for Student Insurance Division and includes group accident and health for students business.
4. Plano, Texas – The Company's SID Division. The Company's SID Division claim records are located in Plano, Texas.

5. Bedford, Texas – The Company's CMA Division. The CMA Division stands for Cornerstone Marketing of America Division and is related to the marketing division for the Company's association group accident and health business.

SCOPE OF EXAMINATION

This examination covers the period, January 1, 2000 through December 31, 2003, and includes any material transactions and /or events occurring subsequent to the examination date which were noted during the course of examination.

During the course of examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2003, in accordance with rules and procedures as prescribed by the statutes of Tennessee, the Company's state of domicile. The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) Examiners Handbook.

This examination is purely a financial examination made on the Company and does not include any review or procedures performed concerning Market Conduct matters. At the time of this examination, a multi-state market conduct examination was being planned and the Tennessee Department of Commerce and Insurance chose to participate in that effort.

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

The Company is audited annually as part of the audit conducted for the holding company system, of which it is a member, by an independent accounting firm. The auditors' workpapers for the year ended 2003 were made available to the examiners during the planning phase of this examination. Workpapers of the auditors' substantive testing and their documentation of the Company's procedures and verification of internal controls were relied upon where sufficient for the purposes of this examination. Copies of these workpapers are included in the examination files where appropriate.

A letter of representation, dated as of the date of this report and certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the work papers of this examination.

Comments - Previous Examination

The last financial condition examination as of December 31, 1999 did disclose some regulatory concerns. The Company has corrected all but one of the comments mentioned in the last report. The Order adopting the exam report listed four (4) main directives for the Company. These are:

1. Directed to comply with TCA § 56-11-206(c)(1) by changing its management in such a way as to assure its separate operating identity.

2. Directed to comply with TCA § 56-11-205 and Tenn. Company Rules and Regulations Ch. 0780-1-67 by filing and maintaining a complete and accurate Form B. Such registration statement shall contain the inclusion of the audited financial statements of the ultimate controlling persons, or such financial information which the Commissioner may accept in lieu of audited financial statements.

3. Directed to comply with TCA § 56-1-411(b)(1) by maintaining its books and records in such a manner as to be able to facilitate the examinations conducted by the Department. Such maintenance shall include, but not necessarily be limited to the recommendations made by the examiner-in-charge on pages 44 and 45 of the December 31, 1999 Report on Examination.

4. Directed to comply with TCA § 56-4-201 and 205 by paying all premium taxes due to the State of Tennessee for premiums received from citizens and residents of this state. The Company was further directed to compute the amount of taxes owed, including interest and penalties, and pay such amount within the time set-forth in the order. The Company was further directed to properly report and pay such amounts to the Department in the future.

Independent actuaries were utilized in the review of the Company's life and accident and health aggregate reserves, contract claims, and due and deferred premiums. In addition to their review, we asked the independent actuaries to make a determination if the Company had complied with two recommendations that the previous examination report made that were included in Directive #3 mentioned above and included on pages 44 and 45 of said report. These two (2) recommendations were:

1. Maintain a centralized set of actuarial work papers.
2. Better utilize computer valuation programs in its reserve process.

The independent actuaries found that the Company had corrected the previous problem concerning a centralized set of actuarial work papers and were now in compliance with this recommendation. However, they stated in regards to the use of computer valuation programs (Life-Pro), the Company appears to still be making a number of manual adjustments in setting their reserves. The independent actuaries stated that they believe the Company has made some

progress in better utilizing Life-Pro, however, it is their and our opinion that the Company can continue to better utilize this valuation system and eliminate the need for so many manual adjustments.

Another recommendation from the prior examination needs to be discussed. It concerns the recommendation made by the examiner-in-charge included under Directive #3 mentioned previously on page 44 of said report. It states:

- Maintain a single general ledger system.

After the previous examination the Tennessee Department of Commerce and Insurance and the Company agreed to a time frame in which the Company would be given to convert their multiple general ledgers into a single statutory general ledger system by March of 2005. The Company has just completed the process of converting their multiple general ledger system into a single statutory general ledger system. Before fully implementing the new system, they first tested the September 30, 2004 figures on a trial basis. After satisfaction with the test results, they converted the December 31, 2004 figures into the new single general ledger system and starting with January 1, 2005 will now have monthly reporting in the new system.

An examination was also made into the following matters:

- Company History
- Growth of Company
- Charter and Bylaws
- Management and Control
- Holding Company System
- Pecuniary Interest of Officers and Directors
- Corporate Records
- Fidelity Bond and Other Insurance
- Employee Benefits and Pension Plans
- Territory and Plan of Operation
- Schedule T – Premiums and Annuity Considerations
- Mortality and Loss Experience
- Reinsurance
- Unearned Ceding Commission
- Agreements with Parent, Subsidiaries and Affiliates
- Litigation and Contingent Liabilities
- Statutory Deposit
- Accounts and Records
- Financial Statements

These will be discussed as follows:

COMPANY HISTORY

The Company was organized under the laws of the State of Tennessee on March 1, 1965, and commenced business on May 21, 1965. On October 1, 1984, Mr. Ronald L. Jensen and Mr. Fred Harron, respectively, purchased 80% and 20% of the Company's capital stock from the Arkansas Commissioner and Rehabilitator for National Investors Life Insurance Company. On August 1, 1986, United Insurance Companies, Inc. (UICI) acquired 79 percent of the Company's outstanding capital stock from Mr. Jensen and Mr. Harron.

Effective August 1, 1996, UICI acquired an additional 19.9% of the Company's capital stock at a cost of $9.8 million. 18.6% of the stock was acquired from Mr. Ronald L. Jensen's five adult children and Onward and Upward, Inc., an entity wholly owned by members of the Jensen family. The remaining 1.1% of capital stock was acquired effective April 14, 1998, resulting in the ownership of 100% of the issued and outstanding capital stock of the Company.

The parent company's name was officially changed from United Insurance Companies, Inc. to UICI effective July 1, 1996.

At December 31, 2003, the Company had authorized capital stock of 2,000,000 shares of common stock with a par value of $2.50 per share, of which 1,000,000 shares were issued and outstanding for a capital paid up of $2,500,000. All of the outstanding shares were owned by UICI at the examination date. The parent company's stock is traded on The New York Stock Exchange under the symbol, "UCI".

The Company's capital structure appears in the 2003 Annual Statement as follows:

Common capital stock	$2,500,000
Gross paid in and contributed surplus	8,682,011
Unassigned funds (surplus)	90,426,198
Total capital and surplus	$101,608,209

The Company is a stock for profit life insurance company licensed to transact business in the District of Columbia, Puerto Rico and all states except Maine, New Hampshire, New York and Vermont. Its lines of business include ordinary life, interest sensitive whole life, credit life, credit disability, group medical, and student accident and health. Its major business line may be classified as "association group" medical coverage. The association group contracts generally require the insured's to be members of associations to which the group contracts are issued.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination according to its annual statements as filed with the Department of Commerce and Insurance, State of Tennessee:

Year	Admitted Assets	Liabilities	Capital and Surplus	Premiums and Annuity Considerations
2000	$217,498,080	$154,561,528	$62,936,552	$165,542,193
2001	271,873,622	202,950,113	68,923,509	205,991,939
2002	327,696,094	250,067,983	77,628,111	311,271,404
2003	397,002,004	295,393,795	101,608,209	406,996,048

CHARTER AND BYLAWS

The original Charter of the Company was approved by the Tennessee Insurance Commissioner and effected February 19, 1965. The stated purpose of the Company's Charter is to write in any and all forms allowed by law, insurance upon the lives and health of individuals and to reinsure all or any portion of its risks and to accept reinsurance from other companies. In addition, the Company's Charter recites other general and specific powers in detail. They are usual in nature and consistent with statute.

During the period of examination, the Company's Charter was amended once. A Charter amendment to change the Company's principal address was approved by the Tennessee Commissioner of Insurance on September 18, 2000. Prior to the period of examination, the Charter was last amended in 1990.

The Bylaws of the Company in effect at December 31, 2003, were adopted by the Board of Directors on May 21, 1974. The Bylaws provide for an annual shareholders meeting at which a Board of Directors is elected. Officers are elected by the board annually at the first board meeting after the annual shareholders meeting.

In the annual shareholders meeting on May 29, 2001, the shareholders amended the Company's Bylaws. The amendment removed and replaced Article I, Section 2 of the Bylaws that describes the annual meeting of the shareholders. This amendment was not disclosed in the Company's 2001 Annual Statement General Interrogatories Part 1 – Question 2.1 or filed with the Department of Insurance as required by Question 2.2. This Bylaw amendment should be filed with the Department of Insurance. There were no other Bylaw amendments during the period of examination.

Article III of the Company's Bylaws permits non-board member appointments to committees, other than the executive committee. This contradicts Tennessee Related Laws Section § 48-18-206 (a) which requires that all members of committees of the board, which exercise powers of the board, must be members of the board and serve at the pleasure of the directors. The Company should amend Article III of its Bylaws to allow only board members to be committee members.

Other than the issue just mentioned, the current Bylaws are such as generally found in corporations of this type 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 its shareholders.

Dividends to Stockholders

The Company paid three (3) ordinary cash dividends to its sole shareholder (UICI) during the period of examination. The first dividend during the exam period was paid on October 22, 2001 for $12 million, the second was paid on December 23, 2002 for $5 million, and the third was paid on December 22, 2003 for $5 million. The Company notified the Department of Commerce and Insurance of the three (3) ordinary cash dividends in accordance with Tenn. Code Ann. § 56-11-205 (e) on October 11, 2001, December 10, 2002, and December 11, 2003, respectively.

MANAGEMENT AND CONTROL

The Company's Bylaws state that the business and affairs of the corporation shall be managed by a Board of Directors who shall be elected at the annual meeting of the shareholders. The Company's Bylaws state that the number of directors shall be not less than five nor more than twenty-five (5-25) persons as set forth from time to time by resolution of the Board of Directors. Directors serve until the next annual meeting of the shareholders and thereafter, until a successor has been elected.

The following persons were duly elected by the sole shareholder on June 17, 2003 and were serving as members of the Board of Directors at December 31, 2003, except for Steven K. Arnold who resigned effective September 26, 2003:

Name
William J. Gedwed – Chairman of the Board
Glenn W. Reed
Phillip J. Myhra
James N. Plato
Robert B. Vlach
Steven K. Arnold
Mark D. Hauptman

The Bylaws provide that the officers of the corporation shall be a chairman of the board, a vice chairman of the board, a president, a vice-president, a secretary and a treasurer. The corporation may also have additional vice-presidents, and one or more assistant secretaries and assistant treasurers.

At the Board of Directors Meeting on June 17, 2003, the following officers were duly elected and were serving at December 31, 2003, except for Steven K. Arnold as mentioned previously:

Name	Title
William J. Gedwed	Chairman of the Board
Phillip J. Myhra	President, CEO and Chief Actuary
Robert B. Vlach	Vice President, Asst. Secretary and General Counsel
Glenn W. Reed	Vice President
Steven K. Arnold	Vice President
James N. Plato	Vice President
Emmanuel J. Pendola	Vice President
Mark D. Hauptman	Vice President
William J. O'Connor	Vice President
John F. Ames	Vice President and Actuary
Robert M. Williams	Vice President and Actuary
Robert J. Thomas, Jr.	Vice President
John E. Sartore	Vice President
Robert W. Hendren	Vice President and Asst. Treasurer
Skip W. Riley	Vice President
Paula S. Padgett	Vice President
Connie Palacios	Treasurer and Controller
Peggy G. Simpson	Secretary
Randolph D. Miller	Asst. Vice President and Appointed Actuary
Charles Wilson	Asst. Vice President and Actuary
Merlinda Johnson	Asst. Vice President
Carl Desrochers	Asst. Vice President
Richard L. Anderson	Assistant Secretary

Committees which exercise powers of the board of directors are the executive, investment and interest rate crediting committees. Members of these committees at the examination date were as follows:

Executive Committee

William J. Gedwed *
Phillip J. Myhra

* - denotes committee chairman

Investment Committee

William J. Gedwed * — * - denotes committee chairman
Phillip J. Myhra
Glenn W. Reed
Mark D. Hauptman
Patrick J. Mclaughlin # — # - denotes advisory member

Interest Rate Crediting Committee

James N. Plato
Mark D. Hauptman
Patrick J. Mclaughlin # — # - denotes advisory member

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-201. The Company is 100% owned by UICI, a Delaware corporation. UICI is a conglomerate that has both insurance and non-insurance holdings. The other insurance companies in the UICI group are The MEGA Life and Health Insurance Company (MEGA), Fidelity First Insurance Company and The Chesapeake Life Insurance Company. An organizational chart is included at the end of this report.

The ultimate controlling party of the Company's holding company system is Mr. Ronald L. Jensen through his approximately 17% stock ownership of the Company's immediate parent, UICI. In addition, Mr. Jensen's adult children directly hold in the aggregate approximately 5.1% of the outstanding common stock of UICI. Mr. Jensen's adult children are also the stockholders of Onward and Upward, Inc., which holds approximately 5.8% of the outstanding common stock of UICI. Mr. Jensen disclaims any control either directly or indirectly over shares of UICI stock owned by other members of his family.

Downstream members of the UICI holding company system as reported in Schedule Y of the Company's 2003 Annual Statement included the following:

UICI (Holding Company – Delaware)	Percent %
Insurers and their Subsidiaries	
Mid-West National Life Insurance Co. of Tennessee – Tennessee	100%
The MEGA Life and Health Insurance Company – Oklahoma	100%
Fidelity First Insurance Company – Texas	100%
The Chesapeake Life Insurance Company – Oklahoma	100%
United Group Reinsurance, Inc. – Turks and Caicos Islands	100%
Financial Services Reinsurance, Ltd – Turks and Caicos Islands	100%
Non-Insurers and their Subsidiaries	
Benefit Administration for the Self Employed, L. L. C. – Iowa	80%

UICI Marketing, Inc. – Delaware	100%
Student Insurance Group – SR, Inc. – Delaware	100%
SF Holdings, Inc. – Texas	100%
AMLI Reality Co. – Delaware	100%
United Management Services, Inc. – New York	100%
UICI Acquisition Co. – Delaware	100%
New United Agency, Inc. – Delaware	100%
Performance Driven Awards, Inc. – Texas	100%
The National Student Association, LLC – Texas	100%
Success Driven Awards, Inc. – Texas	100%
Winterbrook Holdings, Inc. – Texas	100%
MCIS, LLC – New Jersey	72%
ZON Re – USA, LLC – Nevada	82.5%
UICI Funding Corp. 2 – Delaware	100%
CFLD-I, Inc. – Delaware	100%

Other up stream affiliated companies in which Mr. Jensen held an ownership interest as reported in Schedule Y of the Company's 2003 Annual Statement, were as follows:

Company	Ownership Percent (%)
Special Investment Risks, Inc. – Nevada	100%
NMC Holdings, Inc. – Nevada	30.77%
National Motor Club of America, Inc. – Texas	100%
C-NET, Inc. – Nevada	80%
Landen Bias Corporation – Arizona	100%
Richland State Bank – South Dakota	100%

Special Investment Risks, Inc. (SIR) was formerly known as United Group Association, Inc., a Texas corporation. SIR formerly marketed health insurance policies that were issued by AEGON USA and coinsured by insurers of the holding company system. Although certain assets of SIR, primarily agents' debit balances, were sold to members of the holding company system in 1997, SIR retained the right to receive all renewal commissions on policies written prior to January 1, 1997, including policies previously issued by AEGON USA and coinsured by insurers of the holding company system. During 2003, 2002, 2001 and 2000, the Company paid SIR total commissions of $6.1 million, $5.8 million, $6.3 million and $1.1 million, respectively, as reported in Schedule Y of the Company's Annual Statements.

For more information concerning Company affiliates, see the section titled "Agreements with Parent, Subsidiaries and Affiliates."

Although Mr. Jensen did serve as an officer and director of UICI, he did not serve as an officer or director of the Company during the examination period and, therefore, did not file conflict of interest statements with the Company.

PECUNIARY INTEREST OF OFFICERS AND DIRECTORS

The Company has established a conflict of interest policy for its officers and directors. Directors, officers and certain employees are required to complete a Policy on Business Conduct Annual Questionnaire. This questionnaire is used for all entities within the holding company system and persons required to complete the certificate sign only one form regardless of the number of positions they hold with different companies throughout the system. The examiner reviewed the questionnaires completed by the Company's directors and major officers for the period under review with no exceptions.

However, during the examination one issue was noted as a violation of the "Pecuniary Interest of Officers Prohibited" statute Tenn. Code Ann. § 56-3-103. During the period of examination, an advisory member of the Company's investment committee was also the owner and a director of one of the Company's investment advisors. The law states, "no member of a committee having any authority in the investment or disposition of its funds, shall accept, or be the beneficiary of, either directly or remotely, any fee, brokerage, commission, ...". The advisory member mentioned played a major role in the investment committee meetings and was actually the secretary of all of the Company's investment committee meetings during the examination period. It is recommended that the Company be in compliance with the "Pecuniary Interest of Officers Prohibited" statute Tenn. Code Ann. § 56-3-103 at all times.

CORPORATE RECORDS

The minutes of meetings of the Company's shareholders, Board of Directors and committee meetings were reviewed for the period under examination. They were found to be well written and appear to properly reflect the acts of these respective bodies.

From the beginning of the examination period until October 30, 2002, the Company only held investment committee meetings that were commingled with the other insurance subsidiaries of UICI. After that date, the Company did hold stand alone meetings and recorded minutes just for their own investment committee.

On November 26, 2002 the Company's Board of Directors constituted the Interest Rate Crediting Committee. The Committee Charter states that the committee will meet monthly, either in person or via teleconference. Written minutes of this committee's meetings are not kept.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured under certain insurance coverages being carried by its parent, UICI. The following is a summary of the various bonds and insurance policies that provided the enumerated coverages to the Company at December 31, 2003:

Type of Coverage	Limits of Liability
1. Fidelity bond, comprehensive crime, Form 25	$10,000,000 aggregate $ 5,000,000 each occurrence $ 50,000 single loss deductible
2. Commercial general liability	$ 2,000,000 general aggregate $ 1,000,000 each occurrence $ 1,000,000 personal & advertising injury $ 10,000 medical expense
3. Employee benefits liability	$ 1,000,000 each occurrence $ 1,000,000 aggregate
4. Commercial umbrella liability policy	$10,000,000 each occurrence and aggregate $ 10,000 single loss deductible
5. Business automobile Uninsured motorists	$ 1,000,000 each accident $ 1,000,000 each accident $ 2,000 medical payments
6. Directors and officers liability	$20,000,000 aggregate for policy period
7. Workers compensation liability A. Workers compensation B. Employers liability a. Bodily injury by accident b. Bodily injury by disease c. Bodily injury by disease	 Statutory limit $ 1,000,000 each accident $ 1,000,000 policy limit $ 1,000,000 each employee

Minimum fidelity coverage suggested in the National Association of Insurance Commissioners' Examiners Handbook for a company of the Company's size and premium volume is not less than $1,000,000, which the Company is well over. The bonds and policies affording the aforementioned coverages were inspected and appear to be in-force as of the date of this examination. All of the above policies were issued by companies licensed to transact business in the State of Tennessee.

EMPLOYEE BENEFITS AND PENSION PLANS

Full-time employees of entities in the holding company system are eligible to participate in the UICI benefit plans. The plans provided for term life, accidental death and dismemberment, short term income replacement, long term disability, Section 125 (flexible benefit), dental and comprehensive, network and PPO medical benefit plans.

UICI and its subsidiary employees are also eligible to participate in the UICI Employee Stock Ownership and Savings Plan. The plan has two (2) components. The first component of the plan allows for tax-deferred contributions (401-k). The second component of the plan constitutes an employee stock ownership plan (ESOP). The ESOP invests contributions made by UICI primarily in shares of UICI common stock providing eligible employees the opportunity to have an ownership interest in the Company.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2003, and as of the date of this examination report, the Company is a stock for profit life insurance company licensed to transact business in the District of Columbia, Puerto Rico and all states except Maine, New Hampshire, New York and Vermont. Certificates of Authority granted by the licensed states were reviewed and found to be in force at year-end 2003. The Company currently has no applications pending for admission to any other states.

In addition to its authorized writings, the Company also collects premiums in every state due to geographical moves by policyholders. Premium tax records were reviewed for all states in which the Company writes business and no exceptions were noted.

Plan of Operation

The Company's lines of business include ordinary life, interest sensitive whole life, credit life, credit disability, group medical, and student accident and health. Its major business line may be classified as "association group" medical coverage. The association group contracts generally require the insureds to be members of associations to which the group contracts are issued.

The Company operates as six (6) autonomous divisions, with each division generally marketing and administering different insurance products and/or providing administrative functions. The divisions are generally described as follows:

1. North Richland Hills, Texas Division (NRH): This division administers group accident and health coverages, including contracts with trusts for the Alliance for Affordable Services (AAS), formerly the Alliance for Affordable Health Care Services (AAHC), a membership association. Also administered by this division are accident and health risks assumed from two benefit trusts of the National Association for the Self Employed (NASE). This division also administers some individual accident and health coverages. Life business administration is limited to a closed block of interest-sensitive contracts. This division also administers the corporate operations.

2. Oklahoma City, Oklahoma Division (OKC): This division primarily administers closed blocks of life insurance business and reinsurance assumptions.

3. Student Insurance Division (SID): This division administers student accident and health policies covering students in grades kindergarten through grade 12, as well as college students.

4. Georgia Division or sometimes referred to as College Fund Life Division: This division primarily markets and administers interest sensitive policies designed to accumulate funds for college education. Policy riders were available with the policies which obligate the Company to provide student loans to qualifying policyholders. The Company discontinued offering this product in May 2003.

5. Financial Services Division (FSD): This division administers credit life and credit accident and health coverages. The Company cedes the large majority of its credit business.

6. Cornerstone Marketing of America Division (CMA): This division administers the Company's agency operations for the NRH Division. It is strictly a marketing division and does not have any business in-force as does the previous five (5) divisions just summarized. The Company had 6,700 licensed agents as of December 31, 2003.

Accident and Health Business:

For the four year period under review, premium income has been largely concentrated in the group accident and health line, which includes both traditional fee-for-service and preferred provider plans. The 2003 accident and health business represented approximately 96% of all premiums earned by the Company:

The Alliance for Affordable Services (AAS) memberships and the Company's insurance coverages are marketed simultaneously by Company agents and certificate holders are required in most states to be members of AAS to obtain the insurance coverages. However, subsequent cancellation of the association membership does not result in the cancellation of the insured's insurance coverage because AAS does not meet the definition of a "Bona Fide Association" under the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The certificates are therefore governed by the "Individual Market" requirements of HIPAA.

The National Association for the Self Employed (NASE) coverages are on members of that association. Most of the premiums have historically been reported by the Company as reinsurance assumed from employee welfare benefit plans and multiple employer welfare arrangements within the meaning of Sections 3(1) and 3(40), respectively, of the Employee Retirement Income Security Act of 1974, as amended. However, in certain states the Company issues separate group contracts which are recorded as direct business.

In addition to the 100% coinsurance agreements, under which the Company purports to assume the risk from the trust, the Company serves as a third party administrator under two other agreements relating to business assumed from the NASE trusts as follows:

1. A December 1, 1993, agreement with the Committee for comprehensive health benefit plans of the National Association for the Self-Employed, Inc. provides for the Company to act as a "Third Party Administrator" and as the "Plan Administrator" for three comprehensive health benefit plans offered by the National Association for the Self-Employed, Inc. Under the terms of the agreement, the Company administers all aspects of the three plans, excluding investment administration. These duties include both the collection of premiums and payments of claims. The Company's fees for this service is equal to (1) six percent of claims payments during the preceding month, (2) seven percent of "contributions" collected during the preceding month, and (3) cost containment and outside legal service charges.

2. An August 1, 1994, agreement with the Committee for the prescription drug benefit plans of the National Association for the Self-Employed, Inc. provides for the Company to serve as "Administrator" and/or "Claims Payor" as the administrator of all aspects of the National Association of the Self-Employed, Inc. Prescription Drug Benefits Plan, including collection of premiums and payment of claims. The Company's fee for the services is five percent of "contributions" collected during the previous month.

The student group accident and health business are group policies issued to educational institutions. One contract classification insures students in grades Kindergarten through grade 12 for accident only losses. Contract terms for this class of policy may cover all students of the school or may require individual applications. The other contract classification insures students of colleges and universities for accident and health losses under group contracts which require individual student applications. Under either classification, individual underwriting of the student is not required.

Life Business:

Life and annuity premiums represented only 4% of the Company's total insurance premiums earned for 2003. The Company's life business is administered by three separate divisions and can be categorized as follows: (1) college fund life business as maintained in the Georgia Division; (2) credit life business as maintained in the FSD Division; and (3) closed block life business as maintained in the OKC Division.

The college fund life business is an interest-sensitive whole life insurance product generally with an annuity rider and includes a child term rider. The child term rider included a special provision under which the Company commits to provide private student loans to help fund the named child's higher education, if certain restrictions and qualifications were satisfied. The Company's college fund life business and child term rider are further discussed later in the report under the captions,

Agreements with Parent, Subsidiaries and Affiliates, and Litigation and Contingent Liabilities. This product accounts for the majority of the Company's retained life premiums. The Company discontinued selling this product in May 2003.

The FSD division credit life business was primarily issued on automobile debt and was largely ceded to off shore reinsurers.

The OKC divisions' life business is largely renewal premiums on business acquired from other companies and no longer actively marketed.

Agency System:

The following is a summary of the Company's agency system by division:

1. North Richland Hills Division

The Company's marketing strategy in the association group or self-employed market is to remain closely aligned with its dedicated agent sales force. Substantially all of the health insurance products issued is sold through independent contractor agents associated with Cornerstone Marketing of America (Cornerstone), the agent operations or marketing division of the Company.

The Company's agents are independent contractors, and all compensation that agents receive is based upon the agents' levels of sales production. Cornerstone is organized into geographical regions, with each geographical region having a regional director, two additional levels of field leaders and writing agents (i.e., the agents that are not involved in leadership of other agents).

Cornerstone is responsible for the recruitment and training of their field leaders and writing agents. The Company believes that the primary factors in successfully recruiting and retaining effective agents and field leaders are the policies regarding advances on commissions, the quality of the sales leads provided, the availability and accessibility of equity ownership plans, the quality of the products offered, proper training, and agent incentives and support. Classroom and field training with respect to product content is required and made available to the agents.

2. Student Insurance Division

The Company markets their student insurance products to colleges and universities on a national basis through in-house account executives whose compensation is based primarily on commissions. Account executives make presentations to the appropriate school officials and if the Company is selected, they are endorsed as the provider of health insurance for students attending that school.

The kindergarten through grade 12 business is marketed primarily through third party agents and brokers in Washington, Florida, Arkansas, Louisiana, Oklahoma, Texas, Kansas, Oregon, North Carolina and South Carolina.

3. Oklahoma City and Georgia Division's (Life Insurance)

The life insurance divisions distribute their products primarily through two distribution channels. Commencing in the second quarter of 2002, the Cornerstone agents began to market their universal life and term products to individuals in the self-employed market.

With the help of Cornerstone, the life insurance divisions seek to leverage the significant health insurance customer base by positioning itself to offer those customers (self-employed individuals) universal life and term life products.

SCHEDULE T - PREMIUMS AND ANNUITY CONSIDERATIONS

State	Licensed? (Yes or No)	Life Insurance Premiums	Annuity Considerations	A&H Insurance Premiums	Deposit-Type Contract Funds
Alabama	YES	$1,245,478	$96,792	$1,379,957	$224
Alaska	YES	2,856	588	23,017	1
Arizona	YES	243,909	7,323	10,276,624	28
Arkansas	YES	198,970	6,124	1,249,352	21
California	YES	2,418,546	126,803	56,195,069	487
Colorado	YES	950,219	11,417	25,009,296	58
Connecticut	YES	44,314	544	6,927,639	0
Delaware	YES	7,340	246	401,458	18
District of Columbia	YES	1,378	300	2,116,014	0
Florida	YES	3,561,687	91,381	58,602,439	33,697
Georgia	YES	1,877,935	49,719	13,587,489	296
Hawaii	YES	6,146	80	53,423	0
Idaho	YES	118,819	3,297	5,935,044	6
Illinois	YES	730,255	291,443	15,499,170	70
Indiana	YES	232,861	22,527	11,524,887	2,926
Iowa	YES	41,781	2,210	2,622,880	6
Kansas	YES	86,439	11,686	114,618	27
Kentucky	YES	54,264	6,635	388,154	1,235
Louisiana	YES	119,488	45,940	8,674,898	0
Maine	NO	1,110	648	85,481	0
Maryland	YES	19,791	2,298	116,244	35
Massachusetts	YES	305,331	64,221	24,861,387	0
Michigan	YES	153,437	3,343	2,483,748	121
Minnesota	YES	36,980	8,888	59,327	2
Mississippi	YES	434,018	61,971	4,490,664	89
Missouri	YES	194,718	14,674	6,188,158	181
Montana	YES	4,402	900	192,154	2
Nebraska	YES	3,775	640	334,165	43
Nevada	YES	141,730	1,093	1,770,979	171
New Hampshire	NO	2,664	838	130,949	0

New Jersey	YES	7,838	205	1,116,596	12
New Mexico	YES	41,566	1,909	1,647,216	14
New York	NO	17,349	3,640	165,234	18
North Carolina	YES	1,525,113	172,593	14,929,742	14,870
North Dakota	YES	376	82	9,176	2
Ohio	YES	2,304,290	72,601	6,607,541	89
Oklahoma	YES	112,756	15,388	3,208,764	6,980
Oregon	YES	121,129	185	186,974	5
Pennsylvania	YES	32,974	1,164	2,700,799	19
Rhode Island	YES	17,650	40	1,018,981	0
South Carolina	YES	1,206,744	62,211	9,339,982	8,049
South Dakota	YES	2,488	808	29,199	20
Tennessee	YES	444,512	31,685	9,249,676	24,282
Texas	YES	1,789,743	162,735	26,687,381	2,453
Utah	YES	64,908	1,715	3,903,155	13
Vermont	NO	0	0	27,281	6
Virginia	YES	152,553	4,673	1,877,227	126
Washington	YES	696,217	19,967	24,037,352	16
West Virginia	YES	69,942	5,861	41,990	0
Wisconsin	YES	221,132	44,662	10,323,089	2
Wyoming	YES	11,100	230	229,859	834
Puerto Rico	YES	0	0	3,220,384	0
Canada	NO	1,322	0	0	0
Aggregate Other	XXX	40,056	0	0	0
Total Direct Business		$22,122,399	$1,537,620	$381,852,282	$97,554

MORTALITY AND LOSS EXPERIENCE

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

Ordinary Life

Year	Net Death Benefits Incurred	Reserves Released by Death	Actual Death Benefits Incurred	Expected Mortality	Mortality Experience Ratio
2000	$3,282,857	$146,604	$3,136,253	$6,490,446	48.33%
2001	4,628,734	248,626	4,380,108	7,564,713	57.91%
2002	3,961,228	196,366	3,764,862	7,266,190	51.82%
2003	5,751,661	348,996	5,402,665	5,461,645	98.92%

A&H

Year	Net Losses Incurred	Net Premiums Earned	Loss Experience Ratio
2000	$89,467,524	$139,762,870	64.02%
2001	112,395,829	180,245,826	62.36%
2002	167,746,511	283,649,562	59.14%
2003	226,656,156	384,809,322	58.90%
Total All Years	$596,266,020	$988,467,580	60.33%

REINSURANCE AGREEMENTS

Assumed Reinsurance – Life:

The Company assumes a very small block of life insurance from the U.S. Branch of The Canada Life Assurance Company, Michigan, under a coinsurance agreement originally effective January 1, 1982 between Crown Life Insurance Company and The Universe Life Insurance Company. The agreement provides automatic yearly renewable term (YRT) reinsurance on graded premium whole life plans, including waiver of premium and accidental death benefits, with binding limits up to $450,000 per life and a maximum limit of $5,000,000 on any one life. The amount assumed by the Company for 2003 totaled approximately $7,500.

Assumed Reinsurance – Accident and Health:

The Company assumes accident and health (A&H) premiums, primarily for prescription drug benefits, under an agreement effective December 1, 1993 with the Trustees of the National Association for the Self-Employed, Inc. Comprehensive Health Benefits Trust, Texas. The agreement is in the form of an automatic quota share treaty, and in accordance with an April 29, 1994 amendment, the Company assumes 100% of the A&H premiums written.

A special examination by the Department as of June 30, 1996 concluded that premiums received under this contract are direct premiums, rather than assumed, and are not exempt from the premium tax laws of Tennessee. As a result, the Company pays premium taxes to the State of Tennessee on a quarterly basis under protest.

Ceded Reinsurance – Life:

The Company writes individual ordinary life and term life insurance, with various riders such as for waiver of premium and accident death benefits, and small amounts of group life insurance and individual annuities.

Of the portion of the Company's individual life insurance business that is ceded under reinsurance agreements, most is assumed by Columbian Life Insurance Company, Illinois, under an automatic coinsurance agreement that was effective January 1, 2003. Through this agreement the Company cedes 100% of its "worksite marketing" business, which consists of the "CriticaLIFE" products sold in various states, up to a per life maximum of $250,000. The agreement excluded the "College First Life Insurance" policies which the Company ceased writing May 31, 2003.

The Company maintains several automatic reinsurance agreements with Optimum Re Insurance Company, Texas. The first agreement was effective January 1, 1992 and reinsures certain term life policies on an automatic YRT basis, except for a particular 15-year level premium whole life product which is ceded on a facultative basis. The Company's retention under this agreement is $50,000 with a maximum risk limit of $5,000,000 per life.

Under a second agreement with Optimum Re effective June 1, 1994, specific life policy forms, including accelerated living benefit and terminal illness riders, are ceded 50% to Optimum Re on a coinsurance basis up to a maximum of $100,000 per life. The agreement further provides for facultative placements up to a limit of $5,000,000 per life.

The third agreement with Optimum Re is on an automatic bulk basis and reinsures all of the Company's accidental death and dismemberment benefit coverages issued December 1, 2001 and subsequent up to a limit of $300,000 per life.

The Company's reinsurance agreement with Hannover Life Reassurance Company of America, Florida, effective August 15, 1980, cedes 100% certain ordinary life and annuity policies on an automatic coinsurance basis up to a maximum of $200,000 on any one life.

Under a June 28, 1994 agreement with Old Colony Life Insurance Company, formerly named Kennesaw Life and Accident Insurance Company, the Company issued "Certificates of Assumption" with respect to specified inforce individual life insurance policies that had been coinsured with Crown Life Insurance Company effective June 30, 1991. The Crown Life coinsurance agreement was retroceded to Capital Investors Life Insurance Company, which had merged with Security National Life Insurance Company, Utah, in 1990. Although Capital Investors was the surviving company, it changed its name to Security National Life Insurance Company in 1996. By the end of 1999, the Company had ceded 100% of the Certificates of Assumption to Security National. As Security National is an unauthorized reinsurer, the reinsurance arrangement with the Company incorporates a trust deposit with Wachovia Bank (formerly First Union Bank of Georgia) wherein assets are held in trust for the Company to secure the reinsurer's performance under the agreement.

On January 1, 1982 an automatic YRT reinsurance agreement was effective between The Universe Life Insurance Company and Crown Life Insurance Company. The Company assumed the obligations of The Universe Life under this agreement on June 30, 1992, and the U.S. Branch of The Canada Life Assurance Company acquired the obligations of Crown Life effective January

1, 1999. This agreement reinsures certain whole life insurance policies, including waiver of premium and accidental death benefits, up to a binding limit of $950,000 above the Company's $200,000 retention.

The Company is party to automatic YRT reinsurance agreements effective May 1, 1987 with Scottish Re Life Corporation (formerly ERC Life Reinsurance Corporation), Missouri; Optimum Re Insurance Company, Texas; and American United Life Insurance Company, Indiana, under which it cedes premiums generated by its "Universal Life 2" products including associated waiver of premium benefits. The reinsurers divide the premium evenly, one-third to each. The Company's retentions and the reinsurers' limits under this agreement are as follows:

Age of Insured Life	Company's Retention	Reinsurers' Limit
0 – 60	$100,000	$900,000
61 – 65	20,000	180,000
66 +	10,000	90,000

Effective April 1, 1972 the Company and Transamerica Occidental Life Insurance Company, Iowa, executed a facultative YRT reinsurance agreement whereby the Company cedes certain term life insurance, including associated waiver of premium and accidental death benefits, up to a reinsurance limit of $500,000 per life. The Company's retention ranges from $10,000 - $50,000 depending on the age of the insured and whether the risk is considered standard or substandard.

In addition to the above described cession agreements, the Company cedes 100% of a block of life business produced by Graycom, Inc. to its affiliate, Financial Services Reinsurance, LTD, a Turks and Caicos domiciled insurer, under a modified coinsurance agreement effective October 1, 1994. The Company administers this business for an allowance of 9% of premiums per month, and all reserves and supporting assets are retained by the Company. Annual premiums under this agreement have averaged approximately $123,000 for the period under examination.

Tenn. Code Ann. § 56-11-206(2)(C) requires that reinsurance agreements within a holding company system be submitted to the Department for prior approval if such agreements represent premium in excess of 5% of the insurer's surplus as regards policyholders. The reinsurance premiums under the Financial Services agreement for 1994 totaled -$68,007 while the Company reported surplus of $19,633,100 at December 31, 1993, the immediately preceding year-end. The premiums written in 2003 represented only 0.13% of the Company's surplus at December 31, 2003. It appears that the Company's agreement with its affiliate, Financial Services Reinsurance, LTD, is not subject to the above cited statute in that its premium transactions are not significant to the Company's surplus; therefore, the agreement did not need to be submitted to the Department for approval prior to its execution in 1994.

Ceded Reinsurance – Accident and Health:

The Company cedes none of the self-employment group business it writes or assumes. It does however, cede a portion of its accident and health business, its direct long-term care and Medicare supplement business, and the accidental death benefits that are incidental to some of its life insurance products.

Effective September 30, 2003, the Company and AF&L Insurance Company, Pennsylvania, and Senior American Life Insurance Company, Pennsylvania, (collectively, the "reinsurers") entered into an automatic coinsurance agreement which is pursuant to the terms of an Umbrella Reinsurance Transaction Agreement executed on that same date. Under these agreements the Company shall cede 100% of its long-term care, nursing home, home health care and Medicare supplement business (coverages that the Company no longer writes) to the reinsurers. While Senior American Life is party to the agreement, no premiums had been ceded to that company at December 31, 2003.

The Company is party to an automatic coinsurance agreement with Reassure America Life Insurance Company, Illinois, that was originally effective July 15, 1977 to cede non-cancelable/guaranteed renewable monthly indemnity accident and sickness policies, including optional benefit riders, and accidental death and dismemberment (AD&D) coverages. The agreement provides that Reassure America will assume 80% of each accident and sickness policy issued by the Company, including any optional benefits, and 100% of the AD&D coverages. The monthly benefit in force with the Company cannot exceed $1,500.

Effective April 1, 2003 the Company began ceding a portion of its Idaho small business group accident and health policies to the Idaho Individual High Risk Reinsurance Pool which was created under the Small Employer Health Insurance Availability Act (Idaho Code § 41-4711). Reinsurance is assumed by the Pool in accordance with Idaho Code § 41-5505 from insurers "issuing an individual basic, standard, catastrophic A, or catastrophic B health benefit plan." The Pool reimburses insurers for 90% of claims up to $25,000 per calendar year after a retention of $5,000 per individual.

Ceded Reinsurance – Credit Life and Credit Accident and Health:

The Company reinsures a portion of its credit life and credit accident and health (A&H) business through several coinsurance agreements. The primary agreement is with East Arkansas Gem Life Insurance Company, Arizona, which was effective February 1, 1995. Under this agreement, the Company cedes 100% of all liability, up to and including, $15,000 on credit life policies or certificates, and 100% of the monthly liability, up to and including, $250 on credit A&H policies or certificates, not to exceed $15,000 on any one risk, for policies written by named financial institutions.

The Company also has a reinsurance agreement for credit life and credit A&H with Reliance Reinsurance, LTD, Turks and Caicos, which was effective June 1, 1995. Under this agreement, the Company cedes 100% of all liability, up to and including, $15,000 on credit life policies or certificates, and 100% of the monthly liability, up to and including, $300 on credit A&H policies or certificates, not to exceed $15,000 on any one risk, for policies written by named Missouri financial institutions.

Effective August 1, 2003, the Company entered into a reinsurance agreement with Life Assurance Company, Inc., Oklahoma, under which the Company cedes 100% of its liabilities under "group, franchise or individual policies and/or contracts of credit life and/or credit accident and health insurance." The agreement does not contain any per life or monthly limits.

During the examination period, the Company also had credit life and credit A&H reinsurance agreements with Fun Protector Reinsurance, LTD, a Nevis Islands corporation, which were effective September 1, 1996. These agreements provide for the Company to cede 100% of all liability on any credit life policies and 100% of the monthly liability for all credit A&H policies issued to the debtors of certain named automobile dealerships. The agreement does not contain any per life or monthly limits.

Other Agreements:

Inactive Agreements: During the examination period, the Company also had life reinsurance agreements with the reinsurers listed below that are considered to be inactive as no new premiums are being ceded. The business inforce under these agreements is being allowed to "run off."

Reinsurance Company	Effective Date
American United Life Insurance Company	10/28/1985
Business Men's Assurance Company of America	06/08/1970
Gerling Global Life Insurance Company	01/01/1982
Swiss Re Life and Health America, Inc.	09/01/1998
Union Fidelity Life Insurance Company	06/16/1984

The following A&H reinsurance agreements are also considered to be inactive:

Reinsurance Company	Effective Date
American Accident Reinsurance Group	09/01/1997
Guardian Life Insurance Company of America	09/01/1999

Assignments: On January 1, 2003, the Company assigned all of its duties and obligations under a May 1, 2001 automatic coinsurance agreement with Hannover Life Reassurance Company of America to Columbian Life Insurance Company. The agreement reinsured certain term life policies and the associated riders.

Terminations: The following agreements have been terminated by the Company, although some premiums had not completely "run off" at December 31, 2003:

Effective September 1, 2002, the Company's April 1, 1987 reinsurance agreement with Allianz Life Insurance Company of North America, which reinsured certain life insurance plans on a yearly renewable term basis, was terminated.

A January 1, 1995 coinsurance agreement with London Life International Reinsurance Group, under which the Company reinsured certain credit life and credit A&H business, was terminated September 30, 2000.

On May 31, 1989, the Company's facultative YRT agreement with Munich American Reassurance Company, as effective June 16, 1979, was terminated for new business. The agreement had ceded certain life policies with any associated waiver of premium and accidental death benefits.

A July 1, 1994 quota share agreement with various underwriters, under which the Company reinsured Texas employers occupational accidental death and dismemberment business, was terminated June 30, 2001.

Recaptures: On July 31, 2001, the Company recaptured the credit life and credit A&H risks it had ceded through a July 1, 1994 agreement with Investors Equity Reinsurance Company, Ltd.

Effective March 1, 1992, the Company implemented recapture procedures for the life policies and associated waiver of premium benefits it had ceded to Munich American Reassurance Company through a March 1, 1978 facultative coinsurance agreement.

Discontinued Products: According UICI's 2003 annual report, the Company ceased writing Medicare supplement and long-term care products, as well as its College Fund Life products, in May 2003. Reinsurance associated with this business will "run off" as the policies expire.

Letters of Credit and Trust Agreements:

London Life International Reinsurance Group has established an irrevocable Letter of Credit for the Company in the amount of $1,285,000. This amount exceeds the total of the reserve credit and the Company's recoverable for paid and unpaid losses at December 31, 2003, and satisfies the requirements of Tenn. Code Ann. § 56-2-209(a)(2).

Other unauthorized reinsurers have executed trust agreements with the Company and report funds held under these agreements to secure the Company's reinsurance recoverables and reserve credits at December 31, 2003 as follows:

Reinsurance Company	Life Premiums	A&H Premiums	Reserve Credits and Recoverables	Trust Agreement Funds
East Arkansas Gem Life Insurance Company, Phoenix, Arizona	$68,706	$14,086	$204,940	$354,740
Fun Protector Reinsurance, LTD, Island of Nevis	(105)	48,643	58,561	172,431
Reliance Reinsurance, LTD, Turks and Caicos	25,056	12,357	87,181	95,000
Security National Life Insurance Company, Salt Lake City, Utah	102,567	1,640	6,772,576	6,780,616

Tenn. Code Ann. § 56-2-209 states that reserve credits may be taken for unauthorized reinsurance in an amount not to exceed the

> "funds held by or on behalf of the ceding insurer, including funds held in trust for the ceding insurer, under a reinsurance contract with such assuming insurer as security for the payment of obligations thereunder, if such security is held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer . . .".

If utilized, trust accounts must be "qualified" as defined by Tenn. Reg. 0780-1-63-.09 which stipulates that a "trust agreement shall create a trust account into which assets shall be deposited" and that the "trust agreement shall be established for the sole benefit of the beneficiary [Company]" who "shall have the right to withdraw assets from the trust account at any time." With regard to the Company's funds held as security for unauthorized reinsurance, the following are noted:

1) The Trust Deposit Agreement between the Company, East Arkansas Gem Life Insurance Company and Stillwater National Bank and Trust Company, Oklahoma, as effective October 11, 2000, appears to comply with the above cited regulation. However, only $34,740 of the $354,740 in trust funds reported are being held at Stillwater National Bank at December 31, 2003. The following are held separately in the reinsurer's name: $30,000 in the form of a Certificate of Deposit (CD) in a custodial account at Piggott State Bank, Arkansas; $100,000 in a CD at Citizens State Bank, Oklahoma; $75,011 in a CD at MidFirst Bank, Oklahoma; $75,000 in a CD at Union Planters Bank, Arkansas; and $20,000 in a CD at Regions Bank, Alabama. The Company has no trust agreements with any of the above banks other than Stillwater National Bank. The other banks provided letters confirming that the deposits are in the exclusive control of the Company, but the Company could provide no documentation of the listed signatories' authorization to access the accounts. Therefore, it appears that only $34,740 of the $354,740 in funds reported as held in trust for the Company by East Arkansas Gem Life Insurance Company are eligible as security for reserves credits and reinsurance recoverables under Tenn. Code Ann. § 56-2-209.

2) The Reinsurance Custodial Trust Agreement between the Company, Fun Protector Reinsurance, LTD, and Huron National Bank, Michigan, as effective April 15, 1997, appears to comply with the above cited regulation. However, only $22,431 of the $172,431 in trust funds reported are being held at Huron National Bank at December 31, 2003. The following are held separately in the reinsurer's name: $100,000 in the form of two Certificates of Deposit (CDs) in a custodial account at FirstState Bank, Michigan; and $50,000 in a CD at Southwest State Bank, Oklahoma. The Company has no trust agreements with any of the above banks other than Huron National Bank. The other banks provided letters confirming that the deposits are in the exclusive control of the Company, but the Company could provide no documentation of the listed signatories' authorization to access the accounts. Therefore, it appears that only $22,431 of the $172,431 in funds reported as held in trust for the Company by Fun Protector Reinsurance, LTD, are eligible as security for reserves credits and reinsurance recoverables under Tenn. Code Ann. § 56-2-209.

3) The Reinsurance Custodial Trust Agreement between the Company, Reliance Reinsurance, LTD, and Security National Bank (since acquired by Arvest Bank, Oklahoma) appears to comply with the above cited regulation, although it contains no effective date. The balance in this account is $16,687 at December 31, 2003. However, this amount was not reported by the Company in Schedule S, Part 4. The $95,000 reported is in the form of two Certificates of Deposit (CDs) at First National Bank Sarcoxie, Missouri, in the reinsurer's name. The Company has no trust agreement with First National Bank Sarcoxie. First National provided a letter confirming that the deposits are in the exclusive control of the Company, but the Company could provide no documentation of the listed signatories' authorization to access the accounts. It appears that only $16,687 of the $95,000 in funds reported as held in trust for the Company by Reliance Reinsurance, LTD, is eligible as security for reserves credits and reinsurance recoverables under Tenn. Code Ann. § 56-2-209.

4) The Custodial Agreement between the Company, Security National Life Insurance Company, and Wachovia Bank, North Carolina (formerly Crown Life Insurance Company, Capital Investors Life Insurance Company and First Union Bank of Georgia, respectively), as originally effective June 30, 1991, appears to comply with the above cited regulation. The balance in this account is $6,780,616 at December 31, 2003. By amendment dated June 28, 1994, both the Company and The MEGA Life and Health Insurance Company, an affiliate of the Company, replaced Crown Life as beneficiaries in the agreement, although neither the Company nor MEGA Life has signed the amendment. The Wachovia account is in the name of "Capital Inv/United Co. Trust," the original parties to the agreement. Company management has been advised of this and is in the process of having the names on the account changed to reflect the current parties to the custodial agreement. Also, MEGA Life does not currently reinsure any business with Security National, but could have claim to trust funds in the event that a reinsurance agreement was executed in the future, and to the

extent that one insurer reported trust funds as security for unauthorized reinsurance and reserve credits, the other could not. It would be advisable for the Company and MEGA to execute separate trust agreements with Security National and Wachovia Bank.

The following table presents the amounts for unauthorized reinsurance that are not eligible as security for reserves credits and reinsurance recoverables under Tenn. Code Ann. § 56-2-209, and must therefore, be established as a liability for unauthorized reinsurance:

Unauthorized Reinsurer	Amount of Reserve Credit	Eligible as Security under Tenn. Code Ann. § 56-2-209	Amount of Liability for Unauthorized Reinsurance
East Arkansas Gem Life Insurance Co.	$ 204,940	$ 34,740	$ 170,200
Fun Protector Reinsurance, LTD	58,561	22,431	36,130
Reliance Reinsurance, LTD	87,181	16,687	70,494
Total			$ 276,824

Regarding the foregoing, it is recommended that the funds reported as security for unauthorized reinsurance reserve credits be held in the Company's exclusive control, or in a qualified trust as defined by Tenn. Reg. 0780-1-63-.09, in compliance with Tenn. Code Ann. § 56-2-209.

Unearned Ceding Commission:

Nearly all of the Company's reinsurance agreements cede premiums on a written basis, and therefore, in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. However, all of the agreements provide that in the event of termination, the reinsurance continues to apply to all policies in force until their expiry or cancellation in the normal course of business. That is, there is no return of premium or ceding commission at the termination of an agreement because the policies continue in full force. Also, most of the Company's reinsurance agreements provide that ceding commissions be paid based on net premiums; that is, on written premiums less the return premiums (those that are cancelled by policyholders prior to the end of the policy period), and the agreements provide for monthly settlements, including any return premiums and any associated ceding commissions, by offset. Therefore, the Company is deemed to have no ultimate liability for unearned ceding commissions.

SSAP #61 states that if the reinsurance agreements contain "a persistency guarantee which provides for return of the excess commission, the ceding entity must record the excess commission as a liability." None of the Company's reinsurance agreements contain such persistency guarantees.

Other Considerations:

All of the Company's active reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit by Tenn. Code Ann. § 56-2-207(a)(2), except for the agreements with unauthorized reinsurers discussed above. All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines.

It was noted that some of the reinsurers' names and domiciliary addresses, and the effective dates for some agreements, reported in the 2003 Annual Statement have been carried forward from previous financial statements and are not correct. Also, the Company reported reserve credits for one of its A&H reinsurers, Reassure America Life Insurance Company, as life reserve credits on Schedule S, Part 3, Section 1, rather than on Section 2. The Company's attention is directed to Tenn. Code Ann. § 56-1-501(b) which requires that an annual statement "shall be completed and filed in accordance with annual statement instructions established by the commissioner." Tenn. Code Ann. § 56-44-102 requires that this same statement be filed with the NAIC. It is recommended that the Company comply completely with Tenn. Code Ann. § 56-1-501(b) and 56-44-102.

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company had several agreements with affiliated companies in effect as of December 31, 2003. The following are summaries of the agreements in effect as of this examination for the Company:

Agreement for Services with MEGA Life and Health Insurance Company (MEGA):

Effective January 1, 2002, the Company entered into an Agreement for Services with its affiliate, MEGA. The agreement is between MEGA and "The Subscribing Affiliates", whereby "Subscribing Affiliate" refers collectively to all, or severally to any, of the companies owned or controlled by MEGA or its sole shareholder, UICI, which from time to time contract to receive services from MEGA under this Agreement by executing a Schedule attached to this Agreement. A Subscribing Affiliate may enter into a Schedule to receive services in connection with a specified line of business, specified service or a specified service location.

According to the terms and provisions of the Agreement, MEGA agrees to provide the Company with certain administrative services for its internal operations and processing its insurance business. Such services include general administration, claims handling, computer services, premium billing, policyholder services, investments and relations with regulatory authorities.

The Company has no employees of its own. All services necessary to its business are provided by MEGA pursuant to the Agreement. The Company pays MEGA a fee based on a stated formula

each month for these services. Transactions under the Agreement for Services were reviewed for compliance with the Agreement and charges appear to be commensurate with services rendered.

The Company filed this Agreement for approval by the Commissioner of Insurance as required by Tenn. Code Ann. § 56-11-206 (2)(A). The Department of Commerce and Insurance approved this Agreement on December 27, 2001.

Administrative Services Agreement with MEGA and HealthAxis Imaging Services (HAIS):

Effective May 1, 1999, the Company entered into an Administrative Service Agreement with its affiliates, MEGA and HealthAxis Imaging Services (HAIS) (formerly known as Insurdata Imaging Services), whereby HAIS provides administrative and claim data services for MEGA and Mid-West.

The parties to the Agreement have filed four (4) separate amendments to the original Agreement. The effective dates of the four (4) amendments are January 1, 2000, January 1, 2001, January 1, 2002, and January 1, 2003, respectively.

HAIS ceased being an affiliate of the Company on September 30, 2003 and administrative fees paid by the Company under the agreement for the year ended December 31, 2003 totaled $0.

The Company filed this Agreement and the four (4) amendments for approval by the Commissioner of Insurance as required by Tenn. Code Ann. § 56-11-206 (2)(A). The Department of Commerce and Insurance approved this Agreement on April 12, 1999. The four (4) amendments were approved by the Department on December 16, 1999, December 20, 2000, December 21, 2001, and June 6, 2003, respectively.

Service Agreement with Performance Driven Awards, Inc. (PDA):

Effective July 1, 2002, the Company, for and on behalf of its Cornerstone Marketing of America Division, entered into a Service Agreement with an affiliate, Performance Driven Awards, Inc. (PDA). According to the terms and provisions of the Agreement, PDA wishes to obtain administrative services from Cornerstone in regards to the sale of association memberships and prescription drug products. Cornerstone will do all keying, mailing, processing, billing, collecting and accounting.

The fee for these services for PDA is calculated and payable based on a proportional percentage of revenues. The agreement has an expiration date of December 31, 2004 unless renewed by the parties.

The Company filed this Agreement for approval by the Commissioner of Insurance as required by Tenn. Code Ann. § 56-11-206 (2)(A). The Department of Commerce and Insurance approved this Agreement on July 3, 2002.

Administrative Services Agreement with UICI Marketing, Inc. (UICIM):

Effective January 1, 2002, the Company entered into an Administrative Service Agreement with an affiliate, UICI Marketing, Inc. (UICIM). According to the terms and provisions of the Agreement, UICIM will maintain and update data compilation containing the names and addresses of prospective insureds for the Company. Services to be provided by UICIM include keying, processing, updating, manipulation, merging and purging of the records and transmitting the updated information to the Company electronically.

The parties to the Agreement filed a first amendment to the original Agreement in early 2003. The effective date of the first amendment was January 1, 2003. The first amendment changes only section 2 of the Administrative Service Agreement with respect to the payment of fees. The changes are as follows:

Price Per Lead	**1st Amendment Changes**	**Original Agreement**
Direct Mail Leads	$26.00	$24.50
Telemarketing Leads	$13.00	$12.00
Radio Leads	$39.00	$42.00
Internet / Email Leads	$9.00	$9.00
B Leads	$0.10	$0.10
DM Leads	$0.25	$0.25

The Company filed this Agreement and the first amendment for approval by the Commissioner of Insurance as required by Tenn. Code Ann. § 56-11-206 (2)(A). The Department of Commerce and Insurance approved this Agreement on December 31, 2001. The first amendment was approved by the Department on February 27, 2003.

Service Agreement with MEGA and The National Student Association, LLC. (NSA):

Effective January 1, 2002, the Company entered into a Service Agreement with its affiliates, MEGA and The National Student Association, LLC, (NSA), pursuant to which MEGA provides management, accounting and administrative services to NSA. In addition, Mid-West remits to NSA all dues it collects on behalf of NSA from its policyholders, and administers the payment of NSA's bonus plan for Mid-West agents. Funds for the bonus plan will be pre-funded into an existing Mid-West bank account prior to payment.

NSA will reimburse Mid-West for all direct costs in connection with the services performed hereunder.

An addendum to the Agreement specifically pertaining to the services performed by MEGA (i.e., an increase in administrative fees per NSA member per month) was approved by the Oklahoma Department of Insurance on April 8, 2003.

The Company filed this Agreement for approval by the Commissioner of Insurance as required by Tenn. Code Ann. § 56-11-206 (2)(A). The Department of Commerce and Insurance approved this Agreement on November 20, 2001.

Cost Sharing Agreement between Mid-West, MEGA, Chesapeake Life Insurance Company (CLICO), Fidelity First Insurance Company (FFIC) and UICI:

Effective March 1, 2003, the Company entered into a Cost Sharing Agreement with its insurance affiliates, MEGA, CLICO and FFIC, and its parent, UICI. According to the terms and provisions of the Agreement, the parties will enter an agreement to allocate and share the costs of auditing, accounting fees, insurance premiums, and reimbursement of rent to MEGA by UICI for leased office space allocated to corporate employees of UICI.

UICI will hire independent auditors to perform quarterly and annual audits of the consolidated financial statements of UICI and their subsidiaries, which includes the statutory audit of Mid-West. Each subsidiary will reimburse UICI for their portion of the audit fees on an annual basis. UICI will place insurance coverage on behalf of each subsidiary, and they in-turn, will reimburse UICI for their allocated portion of the fees.

The Company filed this Agreement for approval by the Commissioner of Insurance as required by Tenn. Code Ann. § 56-11-206 (2)(A). The Department of Commerce and Insurance approved this Agreement on March 26, 2003.

Loan Underwriting and Processing Agreement with MEGA and Richland State Bank:

Effective June 12, 2000, the Company entered into a Loan Underwriting and Processing Agreement with its affiliates, MEGA and Richland State Bank, whereby the College Fund Life Division of MEGA and Mid-West will underwrite, review, process, and provide information to the Bank to permit the Bank to approve or disapprove prospective student loans, which the Bank plans to sell and transfer to UICI Funding Corporation (UFC) pursuant to that certain Loan Origination and Purchase Agreement made as of the effective date between the Bank, UFC and UICI. An affiliate company, CFLD-I, Inc., a Delaware special purpose corporation and UFC entered into a Student Loan Purchase Agreement dated April 1, 2001, whereby CFLD-I will purchase from UFC certain College First Student Loans owned by UFC for cash at 100% of principal thereof and accrued interest thereon.

The Company's compensation for services under this Agreement will be in the form of an underwriting and processing fee.

The Company filed this Agreement for approval by the Commissioner of Insurance on June 12, 2000 as required by Tenn. Code Ann. § 56-11-206 (2)(A). Since no correspondence was received by the Company from the Department of Commerce and Insurance, the Agreement was deemed approved by them on July 28, 2000.

Tax Allocation Agreement between UICI and current members of the "Affiliated Group":

Effective January 1, 2002, the Company entered into a Tax Allocation Agreement with their parent, UICI, by becoming a member of the "Affiliated Group". The Agreement allows the members of the Affiliated Group to file their federal income tax return on a consolidated basis with their parent, UICI.

The Agreement states the parties to the Agreement elect to allocate their tax liability during consolidated return years by the method defined in section 1504(a) of the Internal Revenue Code. The consolidated tax liability is allocated to each member of the consolidated group based upon the percentage of each member's tax computed on a separate return basis to the total tax so computed for all members. Transactions under the Tax Sharing Agreement were reviewed for compliance with the Contract with no exceptions.

The Company filed this Agreement for approval by the Commissioner of Insurance as required by Tenn. Code Ann. § 56-11-206 (2)(A). The Department of Commerce and Insurance approved this Agreement on April 3, 2002.

LITIGATION AND CONTINGENT LIABILITIES

During the period of examination and as of December 31, 2003, the Company is a party to various pending legal proceedings arising in the ordinary course of business, including some asserting significant damages arising from claims under insurance policies, disputes with agents and other matters. Based in part upon the opinion of its counsel as to the ultimate disposition of such lawsuits and claims, Company management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company's financial condition or results of operations.

Association Group Litigation

In addition, the Company, its parent (UICI) and its affiliate (MEGA) are named parties in a number of lawsuits challenging the nature of the relationship between the Company and the association that has made available to its members the Company's health insurance products. These lawsuits stem from Mid-West and MEGA being the health insurance writers to several large associations (National Association for the Self Employed & Alliance for Affordable Services), where the plaintiffs claim the Associations, UICI and its insurance subsidiaries did not disclose the affiliations between these organizations. UICI and Mid-West have been successful in getting class action status combining some of these suits and on October 15, 2004 the U. S. District Court for the Northern District of Texas issued a final order and judgment approving the Company's previously announced Settlement Agreement.

Under the Association Group Settlement Agreement terms, Mid-West and MEGA have agreed to include enhanced disclosures in their marketing and sales materials with respect to the contractual relationships between UICI and the insurance companies, on the one hand, and the associations, on the other hand, and Mid-West and MEGA have agreed to enter into an injunction with respect to certain business practices. In addition, members of a nationwide class consisting of current and former insureds will be entitled to relief in the form of free insurance coverage for a period of months under a personal accident policy and receive discounts on association membership fees. The settlement also contemplates the payment of attorneys' fees to counsel for the plaintiff class.

UICI as a whole reserved $25 million as of December 31, 2003 for this settlement agreement. However, Mid-West only accounts for approximately 20% of this total. The Company reserved for this settlement an accrued amount as of 12/31/03 and 9/30/04 to be $5,016,667 and $5,468,573, respectively.

UICI, Mid-West and MEGA continue to be parties to certain other pending "association group" cases in other states, and the Company continues its ongoing efforts to bring such cases to a successful resolution. The Company currently believes that resolution of those cases will not have a material adverse effect on the Company's financial condition or results of operations.

College Fund Life Division, Child-Term Rider and Student Loans

In May 2003, the Company ceased writing policies that include a commitment for a private student loan. However, the Company is committed to honoring any prior policy that was issued with the option to apply for a student loan.

The policyholder / insured notifies the Company of their desire to apply for a student loan and the Company then sends the applicant a Loan Application & Promissory Note form and a Collateral Assignment form to be completed. The completed Loan Application & Promissory Note form is processed in accordance with Richland State Bank (Company Affiliate) underwriting guidelines and then submitted to Richland State Bank for final approval. Once a loan is approved, the Collateral Assignment is noted and attached to the policy. In the event the loan goes into default, the cash value is applied to reduce or payoff the loan balance. If the borrower dies, the benefit proceeds are used to reduce or payoff the loan balance.

These loans are funded by an affiliate, CFLD-I, Inc. thru securitizations completed in April 2002 and 2001 for $50.0 million and $100.0 million, respectively. As of December 31, 2003, the Company had outstanding commitments to fund student loans for the years 2004 through 2025. The interest rates on these commitments are principally variable (national prime plus 2%). Loans are limited to the cost of school or prescribed maximums. These loans are generally guaranteed as to principal and interest by an appropriate guarantee agency and are also collateralized by either the related insurance policy or the co-signature of a parent or guardian. The total commitment for the next five school years and thereafter as well as the amount CFLD-I, Inc. expects to fund considering utilization rates and lapses are as follows:

Year	Total Commitment	Expected Funding
2004	$75,053,000	$9,286,000
2005	76,337,000	7,933,000
2006	79,503,000	6,480,000
2007	76,284,000	5,049,000
2008	71,209,000	3,660,000
2009 and thereafter	179,933,000	5,903,000
Total	$558,319,000	$38,311,000

STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained the following deposits with the named jurisdictions or custodians as of December 31, 2003. The following are deposits with states where special deposits are **not** for the benefit of all policyholders, claimants, and creditors of the Company:

Jurisdiction	Description of Security	Par Value	Book Value	Market Value
Arizona - Dept. of Insurance	US Treasury Note 6.875%, Due 05-15-06 Cusip # 912827-X8-0	$150,000	$152,195	$166,734
Arkansas - Dept. of Insurance	US Treasury Note 6.875%, Due 05-15-06 Cusip # 912827-X8-0	210,000	215,523	233,428
Georgia - Dept. of Insurance	US Treasury Note 6.875%, Due 05-15-06 Cusip # 912827-X8-0	53,000	53,776	58,913
Massachusetts - Dept. of Insurance	US Treasury Note 6.875%, Due 05-15-06 Cusip # 912827-X8-0	510,000	517,463	566,896
North Carolina - Dept. of Insurance	US Treasury Note 6.875%, Due 05-15-06 Cusip # 912827-X8-0	410,000	445,650	455,740
South Carolina - Dept. of Insurance	US Treasury Note 6.875%, Due 05-15-06 Cusip # 912827-X8-0	155,000	157,268	172,292
Virginia - Dept. of Insurance	US Treasury Note 10.375%, Due 11-15-09 Cusip # 912810-CK-2	75,000	74,835	80,789
Sub-Total		$1,563,000	$1,616,710	$1,734,792

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

Jurisdiction	Description of Security	Par Value	Book Value	Market Value
Florida - Dept. of Insurance	US Treasury Note 6.875%, Due 05-15-06 Cusip # 912827-X8-0	$240,000	$249,228	$266,774
Idaho - Dept. of Insurance	US Treasury Note 6.875%, Due 05-15-06 Cusip # 912827-X8-0	200,000	202,927	222,312
New Mexico - Dept. of Insurance	US Treasury Note 6.875%, Due 05-15-06 Cusip # 912827-X8-0	100,000	101,463	111,156
Tennessee - Dept. of Insurance	US Treasury Note 6.875%, Due 05-15-06 Cusip # 912827-X8-0	1,245,000	1,270,547	1,383,892
Sub-Total		1,785,000	1,824,165	1,984,134
Grand-Total		$3,348,000	$3,440,875	$3,718,926

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

ACCOUNTS AND RECORDS

Tennessee Regulation § 0780-1-65.07 (3) states that no certified public accounting firm or other person responsible for rendering a report may act in that capacity for more than seven (7) years. In addition, the Federal Government recently passed the Sarbanes-Oxley Act, which requires publicly traded Companies to rotate the lead partners every five (5) years. The Company is in compliance with these rules as they switched accounting firms in 2002 and now have KPMG LLP as their public accountants.

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to establish values for assets and liabilities appearing in the Company's financial statements. Test checks, for selected periods, were made of premium receipts, investment income, interest due and accrued, claim payments, and other disbursements. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed and sample tested for correctness. These test checks and reviews revealed no material discrepancies.

The records system and operating personnel are provided through contractual arrangements with the Company's affiliate, The MEGA Life and Health Insurance Company, which, in turn, contracts with other affiliated and non-affiliated parties for services.

As discussed in the previous examination report of December 31, 1999, the Company's accounts and records systems are extremely fragmented. Its filed annual statement is a consolidation of seven sub-annual statements (Oklahoma City, Cornerstone Agency, Midwest Capital, Student Insurance Division, Financial Services Division, Georgia and North Richland Hills). Each of these division's sub-annual statements are prepared by one of the four separate operating divisions (North Richland Hills, Texas; Cornerstone Agency, Bedford, Texas; Oklahoma City, Oklahoma and Student Insurance Division, St. Petersburg, Florida.)

Each division's general ledger system uses different account codes and does not interface with the other division's ledger systems in any significant manner.

Policy administration systems and record file layouts are also different for each division.

During the current examination, reconciliations were performed using the Company's December 31, 2003, Annual Statement divisional worksheet, which contains all Seven Divisions, matching such worksheet to the Working Trial Balances for each Division, utilizing the seven sub-annual statements for each Division, then reconciling such amounts to the December 31, 2003 consolidated annual statement. This process of reconciliation was extremely tedious due to the number of Working Trial Balances for each Division as well as the number of sub-annual statements for the various divisions, plus the number of requests to management when trying to accomplish the reconciliation of certain accounts. However, during the reconciliation of the 2000, 2001 and 2002 trial balances, management was instrumental in providing the Examiners with the account numbers which reconciled to the account balances. This process eliminated the numerous requests to management and such reconciliations were performed in an expeditious manner.

The previous examination report's Order with Modifications and Directives dated August 6, 2002, issued a directive to the Company to maintain a single general ledger system for all of its operations. In a letter from Company management dated October 7, 2002, the Company indicated implementing a Magnitude system, first to its GAAP statement, then implementing this Magnitude system to its Statutory statement. According to management's timeframe, it would take 12 to 18 months for the GAAP then another 9 to 12 months for the Statutory. The Tennessee Department of Commerce and Insurance agreed to this timeframe which gave the Company until March of 2005 to implement the single statutory general ledger system. The Company completed its GAAP conversion in May 2004, when it provided us with a copy of the first Quarter 2004 GAAP statement prepared on the Magnitude system.

The Company has just completed its statutory conversion to a single general ledger system. Before fully implementing the new system, they first tested the September 30, 2004 figures on a trial basis. After satisfaction with the test results, they converted the December 31, 2004 figures into the new single general ledger system and starting with January 1, 2005 will now have monthly reporting in the new system.

Subsequent to the date of this examination, Management has indicated that there will be ledgers for Cash, Statutory and GAAP. The cash and statutory ledgers will be combined to form a statutory combined ledger. The GAAP adjustment ledger will be combined with the statutory combined ledger to form a GAAP combined ledger.

Financial Statement

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

Assets

	Ledger Assets	Non-Ledger Assets	Non-Admitted Assets	Net-Admitted Assets
Bonds	$363,463,415			$363,463,415
Cash and short-term investments	10,697,682			10,697,682
Contract loans	3,116,377			3,116,377
Investment income due and accrued	4,496,120			4,496,120
Uncollected premiums and agents' balances in course of collection	151,558			151,558
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,953,657			3,953,657
Amounts recoverable from reinsurers	161,836			161,836
Other amounts receivable under reinsurance contracts	111,598			111,598
Net deferred tax asset	10,233,734			10,233,734
Guaranty funds receivable or on deposit	190,315			190,315
Electronic data processing equipment and software	296,102			296,102
Receivable from parent, subsidiaries and affiliates	115,850			115,850
Health care and other amounts receivable	13,760			13,760
Totals	$397,002,004	$0	$0	$397,002,004

Liabilities, Surplus and Other Funds

Aggregate reserve for life contracts		$90,820,752
Aggregate reserve for accident and health contracts		28,948,623
Liability for deposit-type contracts		1,503,330
Contract claims:		
Life		2,295,756
Accident and health		134,940,779
Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts:		
Dividends apportioned for payment to December 31, 2004		27,315
Premiums and annuity considerations for life and accident and health contracts received in advance		1,424,992
Contract liabilities not included elsewhere:		
Surrender values on canceled contracts		34,677
Other amounts payable on reinsurance		431,122
Interest Maintenance Reserve (IMR)		1,763,454
General expenses due and accrued		19,007,585
Taxes, licenses and fees due or accrued		2,235,587
Current federal and foreign income taxes		4,044,867
Unearned investment income		89,644
Amounts withheld or retained by company as agent or trustee		432,906
Amounts held for agents' account, including agents' credit balances		2,551,631
Remittances and items not allocated		2,927,419
Liability for unauthorized reinsurance		276,824
Payable to parent, subsidiaries and affiliates		1,494,194
Aggregate write-ins for liabilities:		
Unclaimed property		419,162
Total Liabilities		$295,670,619
Common capital stock	$2,500,000	
Gross paid in and contributed surplus	8,682,011	
Unassigned funds (surplus)	90,149,374	
Total Capital and Surplus		101,331,385
Totals		$397,002,004

Summary of Operations

Premiums and annuity considerations for life and A&H contracts	$406,996,048	
Considerations for supplementary contracts with life contingencies	158,698	
Net investment income	17,707,141	
Amortization of Interest Maintenance Reserve (IMR)	316,924	
Commissions and expense allowances on reinsurance ceded	935,386	
Aggregate write-ins for miscellaneous income	3,825,093	
Total Income		$429,939,290
Death benefits	$5,513,904	
Matured endowments	86,080	
Annuity benefits	1,184,126	
Disability benefits and benefits under A&H contracts	225,515,400	
Surrender benefits and withdrawals for life contracts	8,002,334	
Interest and adjustments on contract or deposit-type contract funds	158,204	
Payments on supplementary contracts with life contingencies	237,757	
Increase in aggregate reserves for life and A&H contracts	4,107,854	
Total Benefits		244,805,659
Commissions on premiums, annuity considerations and deposit - type contract funds	$69,340,595	
Commissions and expense allowances on reinsurance assumed	484,264	
General insurance expenses	65,803,136	
Insurance taxes, licenses and fees, excluding federal income taxes	9,327,964	
Increase in loading on deferred and uncollected premiums	(1,505,440)	
Aggregate write-ins for deductions	7,364	
Total Expenses		143,457,883
Total Benefits and Expenses		$388,263,542
Net gain from operations before dividends to policyholders and federal income taxes		41,675,748
Dividends to policyholders		26,611
Net gain from operations after dividends to policyholders and before federal income taxes		41,649,137
Federal and foreign income taxes incurred		18,520,658
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)		23,128,479
Net realized capital gains or (losses) less capital gains tax (excluding taxes transferred to the IMR)		(2,036,219)
Net Income		$21,092,260

Capital and Surplus Account

	2000	2001	2002	2003
Total Capital and Surplus December 31, previous year	$57,114,888	$62,936,552	$68,923,509	$77,628,111
Net income or (loss)	$15,334,927	$13,758,857	$14,858,856	$21,092,260
Change in net unrealized capital gains or (losses)	458,400	(690,785)	(107,134)	107,659
Change in net deferred income tax	-0-	570,123	5,892,996	2,033,154
Change in non-admitted assets and related items	(8,870,139)	(2,964,028)	(8,740,613)	5,297,809
Change in liability for reinsurance in unauthorized companies	(707,572)	707,572	-0-	(276,824)
Change in asset valuation reserve	(412,905)	(162,377)	1,468,005	401,508
Cumulative effect of changes in accounting principles	-0-	6,677,558	-0-	-0-
Surplus adjustment:				
Paid in	18,953	90,037	332,492	47,708
Dividends to stockholders	-0-	(12,000,000)	(5,000,000)	(5,000,000)
Net change in total capital and surplus for the year	$5,821,664	$5,986,957	$8,704,602	$23,703,274
Total Capital and Surplus December 31, current year	$62,936,552	$68,923,509	$77,628,111	$101,331,385

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

ASSETS

None.

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate Reserves for Life Contracts: $90,820,752

The amount shown above is the same as what was reported by the Company in its 2003 Annual Statement. However, the independent actuaries that were contracted by the Tennessee Department of Commerce and Insurance that performed the review of this item made some recommendations to the Company.

The Company uses approximation methods to compute the reserves held for accidental death benefits, disability – active life benefits, and miscellaneous plans with no reserve factors on Life Pro. It is recommended that the Company do the following:

1. Recommended in future valuations that the Company use appropriate accidental death benefit reserve factors based on the 1959 Accidental Death Benefit Table that vary by issue age, duration and benefit period.
2. Recommended in future valuations that the Company use appropriate waiver reserve factors based on the 1952 Disability Study that vary by issue age, duration, benefit period and premium to be waved.
3. Recommended in future valuations that the Company begins utilizing appropriate reserve factors for miscellaneous plans with no reserve factors on Life Pro.

Liability for Unauthorized Reinsurance: $276,824

The amount shown above is $276,824 more than what was reported by the Company in its 2003 Annual Statement. **REASON:** The Company has a number of separate deposits held in banks under reinsurance treaties that are reported as funds held in trust for the Company that are **not** eligible as security for reserve credits and reinsurance recoverables under Tenn. Code Ann. § 56-2-209, and must therefore, be established as a liability for unauthorized reinsurance. In addition, it is recommended that the funds reported as security for unauthorized reinsurance reserve credits be held in the Company's exclusive control, or in a qualified trust as defined by Tenn. Reg. 0780-1-63-.09, in compliance with Tenn. Code Ann. § 56-2-209.

It was noted that the Company had a few errors reported in its 2003 Annual Statement, Schedule S. The Company's attention is directed to Tenn. Code Ann. § 56-1-501(b) which requires that an annual statement "shall be completed and filed in accordance with annual statement instructions established by the commissioner." Tenn. Code Ann. § 56-44-102 requires that this same statement be filed with the NAIC. It is recommended that the Company comply completely with Tenn. Code Ann. § 56-1-501(b) and 56-44-102.

Total Capital and Surplus:	$101,331,385

Total Capital and Surplus as established by this examination is $276,824 less than what was reported by the Company in its December 31, 2003 Annual Statement. For this examination, we increased liability for unauthorized reinsurance by $276,824. This amount is outlined in the subsequent schedule which shows the change to capital and surplus. This change is discussed in detail under the appropriate captions elsewhere in this report.

Tenn. Code Ann. § 56-2-(114-115) require an insurer of this Company's type to maintain a minimum capital and surplus of $2,000,000. Therefore, the Company as of December 31, 2003, for this examination does maintain the required minimum capital and surplus as stated in the Tennessee Insurance Laws.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AS THEY AFFECT SURPLUS

Item	Reclassification	Increase	Decrease	Surplus
Total Capital and Surplus per Company				$101,608,209
Liability for unauthorized reinsurance			$276,824	
Totals	$0	$0	$276,824	
Total Decrease per Examination				(276,824)
Total Capital and Surplus per Examination				$101,331,385

COMMENTS AND RECOMMENDATIONS

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

Comments:

1. Comments – Previous Examination – Page 4

The last financial condition examination as of December 31, 1999 did disclose some regulatory concerns. The Company has corrected all but one of the comments mentioned in the last report.

Independent actuaries were utilized in the review of the Company's life and accident and health aggregate reserves, contract claims, and due and deferred premiums. In addition to their review, we asked the independent actuaries to make a determination if the Company had complied with two recommendations that the previous examination report made that were included in the Order Adopting Examination Report Directive #3 and included on pages 44 and 45 of said report. These two (2) recommendations were:

1. Maintain a centralized set of actuarial work papers.
2. Better utilize computer valuation programs in its reserve process.

The independent actuaries found that the Company had corrected the previous problem concerning a centralized set of actuarial work papers and were now in compliance with this recommendation. However, they stated in regards to the use of computer valuation programs (Life-Pro), the Company appears to still be making a number of manual adjustments in setting their reserves. The independent actuaries stated that they believe the Company has made some progress in better utilizing Life-Pro, however, it is their and our opinion that the Company can continue to better utilize this valuation system and eliminate the need for so many manual adjustments.

2. Charter and Bylaws – Page 7

During the examination there were two (2) comments noted under charter and bylaws. These were:

A. In the annual shareholders meeting on May 29, 2001, the shareholders amended the Company's Bylaws. The amendment removed and replaced Article I, Section 2 of the Bylaws that describes the annual meeting of the shareholders. This amendment was not disclosed in the Company's 2001 Annual Statement General Interrogatories Part 1 – Question 2.1 or filed with the Department of Insurance as required by Question 2.2. This Bylaw amendment should be filed with the Department of Insurance.

B. Article III of the Company's Bylaws permits non-board member appointments to committees, other than the executive committee. This contradicts Tennessee Related Laws Section § 48-18-206 (a) which requires that all members of committees of the board, which exercise powers of the board, must be members of the board and serve at the pleasure of the directors. Subsequent to the examination as of date, the Company corrected this problem by filing an Amended and Restated By-Laws that complied with Tennessee Related Laws Section § 48-18-206 (a). The Amended and Restated By-Laws were adopted by the Company's Board of Directors on September 21, 2004 and filed with the Department of Commerce and Insurance on September 24, 2004.

3. Reinsurance Agreements and Liability for Unauthorized Reinsurance – Page 20 and 43

It was noted that the Company had some errors in the effective dates reported in its 2003 Annual Statement, Schedule S which did not correspond to the effective dates of the respective Agreements. The Company's attention is directed to Tenn. Code Ann. § 56-1-501(b) which requires that an annual statement "shall be completed and filed in accordance with annual statement instructions established by the commissioner." Tenn. Code Ann. § 56-44-102 requires that this same statement be filed with the NAIC. It is recommended that the Company comply completely with Tenn. Code Ann. § 56-1-501(b) and § 56-44-102.

4. Aggregate Reserve for Life Contracts – Page 43

The item's balance was not changed for our examination. However, the independent actuaries that were contracted by the Tennessee Department of Commerce and Insurance that performed the review of this item made some recommendations to the Company.

The Company uses approximation methods to compute the reserves held for accidental death benefits, disability – active life benefits, and miscellaneous plans with no reserve factors on Life Pro. It is recommended that the Company do the following:

A. Recommended in future valuations that the Company use appropriate accidental death benefit reserve factors based on the 1959 Accidental Death Benefit Table that vary by issue age, duration and benefit period.
B. Recommended in future valuations that the Company use appropriate waiver reserve factors based on the 1952 Disability Study that vary by issue age, duration, benefit period and premium to be waved.
C. Recommended in future valuations that the Company begins utilizing appropriate reserve factors for miscellaneous plans with no reserve factors on Life Pro.

Recommendations:

1. Pecuniary Interest of Officers and Directors – Page 12

During the examination one issue was noted as a violation of the "Pecuniary Interest of Officers Prohibited" statute Tenn. Code Ann. § 56-3-103. During the period of examination, an advisory member of the Company's investment committee was also the owner and a director of one of the Company's investment advisors. The law states, "no member of a committee having any authority in the investment or disposition of its funds, shall accept, or be the beneficiary of, either directly or remotely, any fee, brokerage, commission, ...". The advisory member mentioned played a major role in the investment committee meetings and was actually the secretary of all of the Company's investment committee meetings during the examination period. It is recommended that the Company be in compliance with the "Pecuniary Interest of Officers Prohibited" statute Tenn. Code Ann. § 56-3-103 at all times.

2. Reinsurance Agreements and Liability for Unauthorized Reinsurance – Page 20 and 43

The Company has a number of separate deposits held in banks under reinsurance treaties that are reported as funds held in trust for the Company that are **not** eligible as security for reserve credits and reinsurance recoverables under Tenn. Code Ann. § 56-2-209, and must therefore, be established as a liability for unauthorized reinsurance. The total amount of the liability for unauthorized reinsurance that will be created for this examination is $276,824. In addition, it is recommended that the funds reported as security for unauthorized reinsurance reserve credits be held in the Company's exclusive control, or in a qualified trust as defined by Tenn. Reg. 0780-1-63-.09, in compliance with Tenn. Code Ann. § 56-2-209.

CONCLUSION

The customary 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 Mid-West National Life Insurance Company of Tennessee located in North Richland Hills, Texas.

In such manner, it was found that as of December 31, 2003, the Company had admitted assets of $397,002,004 and liabilities, exclusive of surplus, of $295,670,619. Thus, there existed for the additional protection of the policyholders, the amount of $101,331,385 in the form of common capital stock, gross paid in and contributed surplus and unassigned funds.

The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Michael A. Mayberry, FSA, MAAA, and David M. Dillon, FSA, MAAA, of the contracting actuarial firm, Lewis & Ellis, Inc., Richardson, Texas, participated in the work of this examination.

Respectfully submitted,

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Gwendolyn J. Douglas
Insurance Examiner, CFE, CIE
Contract Examiner for Tennessee
Southeastern Zone, NAIC

Rebecca E. Walker
Insurance Examiner, III
State of Tennessee
Southeastern Zone, NAIC

Scott Creel
Insurance Examiner, II
State of Tennessee
Southeastern Zone, NAIC

Brian H. Sewell
Insurance Examiner, II
State of Tennessee
Southeastern Zone, NAIC

EXAMINATION AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Mid-West National Life Insurance Company of Tennessee located in North Richland Hills, Texas dated March 15, 2005, 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 the facts therein set forth are true to the best of his knowledge, information and belief.

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

County Davidson

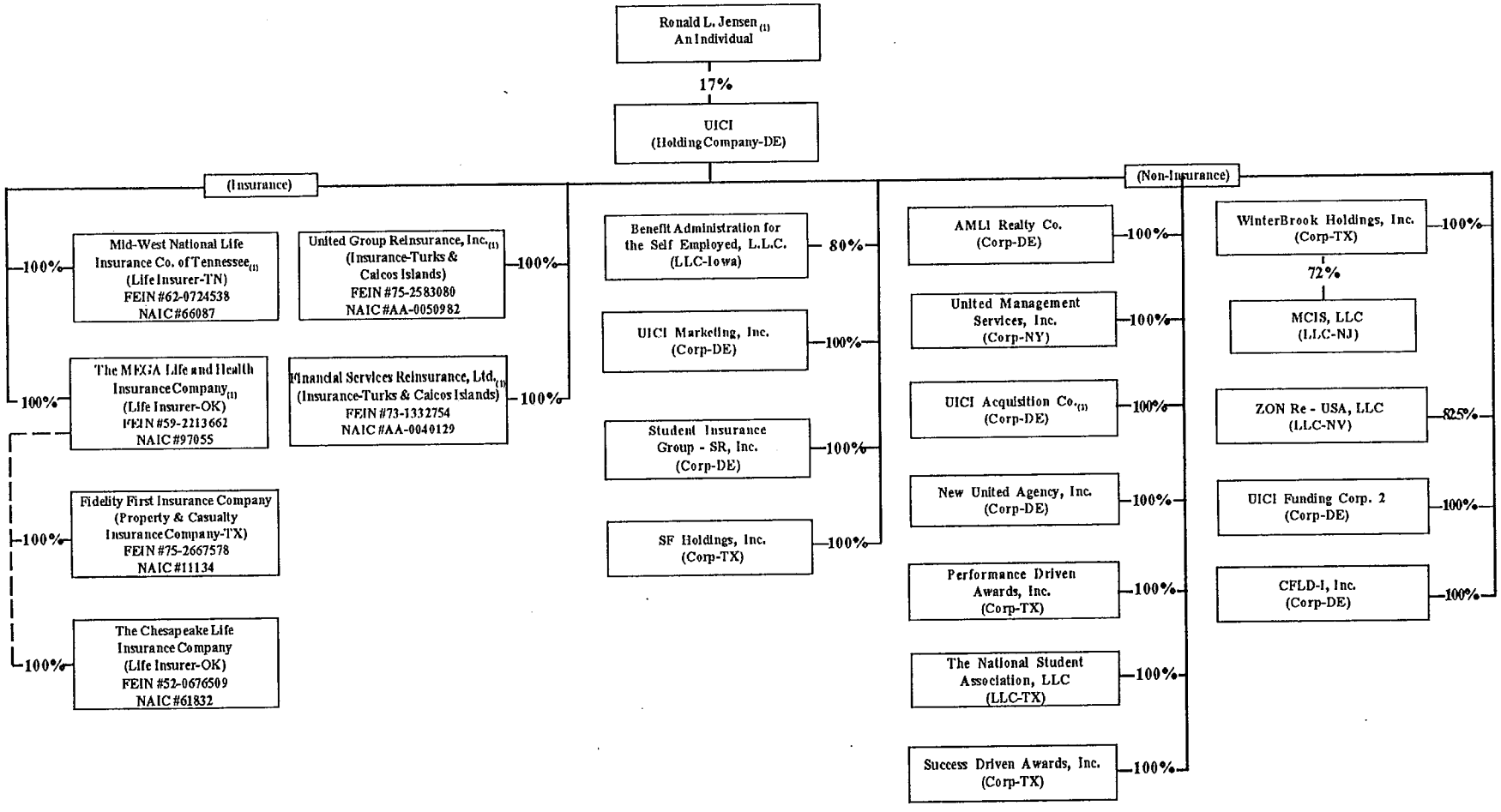
State Tennessee

Subscribed and sworn to before me
this 15th day of
April, 2005

Helen W. Dorsey
(NOTARY)

My Commission Expires
03/25/2006

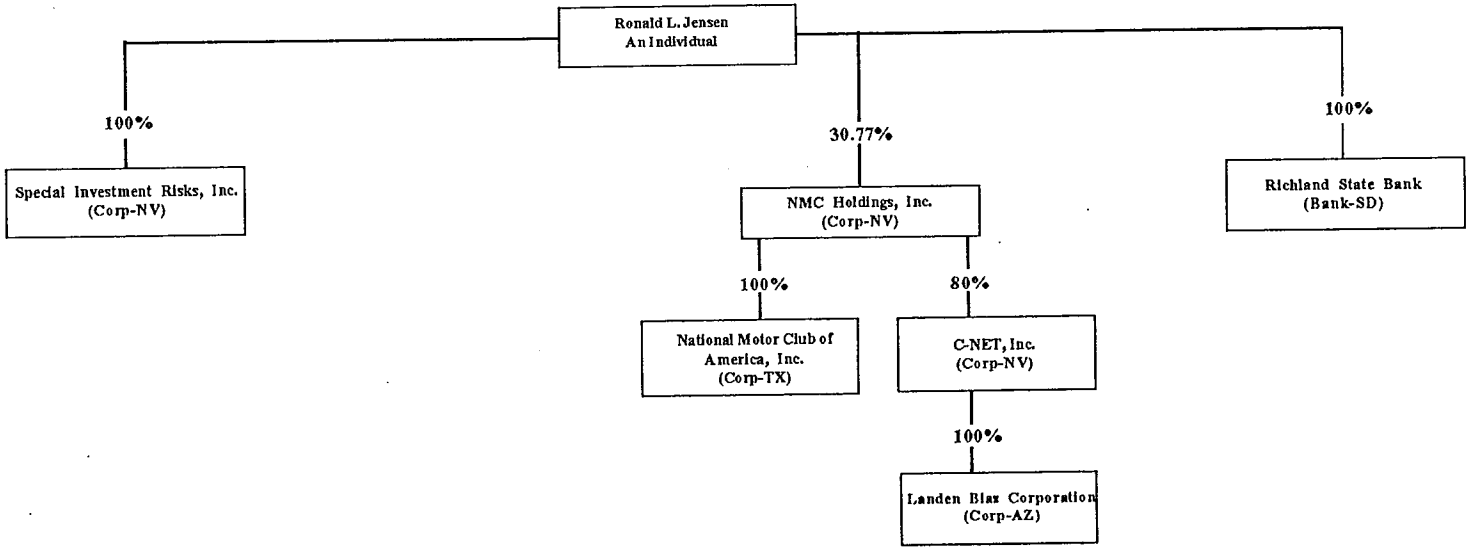
ORGANIZATIONAL CHART FOR UICI
HOLDING COMPANY SYSTEM AS OF DECEMBER 31, 2003



(1) UICI through its affiliates has a 2.91% equity investment interest in AMLI Residential Properties Trust, a Maryland real estate investment trust ("AML"). In addition, Jensen has less than a 1% equity investment interest in AML.

(2) UICI Acquisition Corp. is an inactive shell corporation formed for the purpose of serving as an acquisition entity in connection with possible future acquisition and business combination transactions.

ORGANIZATIONAL CHART FOR UICI
HOLDING COMPANY SYSTEM AS OF DECEMBER 31, 2003



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05/16/05 Copy forwarded to Eric Stansell NBUD

UICI

9151 Grapevine Hwy, MC-30 • N. Richland Hills, TX 76180

Phillip J. Myhra

Voice: (817) 255-3121
Fax: (817) 255-5444
Email: phil.nmyhra@uici.net

President
The MEGA Life and Health Insurance Company
Mid-West National Life Insurance Company of Tennessee
Chesapeake Life Insurance Company

May 10, 2005

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Company Examinations

State of Tennessee
Department of Commerce and Insurance
Insurance Division
500 James Robertson Parkway
Nashville, Tennessee 37219

Attention: Dori Spann
Insurance Examination Director

Re: Financial Condition Examination of Mid-West National Life Insurance Company of Tennessee –
Made as of December 31, 2003

Dear Ms. Spann:

Thank you for your letter of April 19, 2005 (received on April 26, 2005), with which you enclosed a copy of the Examination Report of Mid-West National Life Insurance Company of Tennessee made as of December 31, 2003. While we are disappointed that all of the comments in our March 31, 2005 letter were not addressed, we nonetheless wish to advise you that we accept the Report.

As your letter provides, we wish to bring to your attention and request reconsideration of one matter raised in our earlier correspondence. We believe that a review of your records, and the enclosures, will indicate that a slight correction to the Report is warranted.

Under the caption "Comments and Recommendations", it was previously suggested:

> "We request that a revision be made, under the heading entitled 'Charter and Bylaws', to include corrective language to reflect that both of the referenced amendments were incorporated into the Amended and Restated By-Laws. These amendments were approved by the Board of Directors on September 21, 2004 and submitted to the Tennessee DOI on September 24, 2004. The Tennessee Department's letter acknowledging receipt of the Amended and Restated By-Laws also advised that 'there is no approval required from this Department'. The recommended actions contained in this section should be revised to point out that the examination findings were rectified subsequent to the review period but prior to completion of the examination."

A copy of the Amended and Restated By-Laws adopted by the Board of Directors on September 21, 2004 incorporating the 2001 amendment and an amendment to Article III, Section 1 deleting language

EXHIBIT
B

allowing non-board member appointments to committees, was filed with the Tennessee Department of Insurance on September 24, 2004. The receipt of the Amended and Restated By-Laws was acknowledged by the Department.

Paragraph 2. B in the Report's "Comments and Recommendations" Section recognizes this submission, but paragraph 2. A, does not. We believe that the last sentence of paragraph 2. A, which addresses the 2001 amendment, should also be corrected. For your convenience, I am including a copy of the submission, which includes the amendments reflecting these provisions, and the Department's acknowledgement.

We would appreciate your favorable consideration of these comments and request that the Report be corrected as indicated.

Please feel free to contact me at (817) 255-3121 or by e-mail at phil.myhra@uici.net, if you have any questions.

Yours truly,

Phillip J. Myhra

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RAdA/PJM/tm
Attachments

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State of Tennessee
Department of Commerce and Insurance.
Financial Affairs Section / Analytical Unit 0576
500 James Robertson Parkway, 4th Floor
Nashville, TN 37243
(615) 741-1633

October 1, 2004

Peggy G. Simpson
Mid-West National Life Insurance Company of Tennessee
9151 Grapevine Hwy.
North Richland Hills, TX 76180

RE: Amended and Restated By-Laws

Peggy:

The Insurance Division has reviewed the amended and restated by-laws and found these to be completely in order. In the cover letter dated September 22, 2004, you stated that you would appreciate our approval as soon as possible. There is no approval required from this Department. We accept the new by-laws as filed.

If you have any questions, please contact me at (615) 741-7292 or Bob Ribe at (615) 741-5072.

Sincerely,

Matthew Miller
Insurance Analyst

9-27-04

The MEGA Life and Health Insurance Company
Mid-West National Life Insurance Company of Tennessee
The Chesapeake Life Insurance Company
Fidelity First Insurance Company

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Via Overnight Delivery

September 22, 2004

Mr. Matthew Miller
Insurance Analyst
Tennessee Department of Insurance
Financial Affair Section
Analytical Unit 0576
500 James Robertson Parkway, 4th Floor
Nashville, TN 37243

RE: Amended and Restated By-Laws

Dear Mr. Miller:

Enclosed for your approval please find Amended and Restated By-Laws of Mid-West National Life Insurance Company of Tennessee, which were duly adopted by the Board of Directors on September 21, 2004.

I have enclosed a marked copy to show the changes made to the By-Laws currently in effect. The yellow highlights (Article I, Section 2, and Article II, Section 1) reflect changes previously adopted by the Board. The red-lined changes are new changes.

I would appreciate your review and approval as soon as possible, so that the Restated By-Laws can be submitted to the remaining State Departments of Insurance.

Sincerely,

Peggy G. Simpson

Peggy G. Simpson

Enclosures

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9-27-04
09-30-04
RTR

AMENDED AND RESTATED

BY-LAWS

of

MID-WEST NATIONAL LIFE INSURANCE COMPANY OF TENNESSEE

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Company Examinations

ARTICLE I – STOCKHOLDERS

Section 1 – Place of Meeting - All meetings of the Stockholders shall be held in the city of the principal office of the corporation unless the Board of Directors by resolution shall designate for purposes of such meeting that it be held at some other place, either within or without this State, and include in the notice of such meeting a designation of such place of the meeting. A Stockholders meeting called by any person or group other than the Board of Directors shall be held only at the principal office of the corporation.

Section 2 – Annual Meeting – The annual meeting of the Stockholders of the corporation shall be held in each year at such time and at such place, either within or without the State of Tennessee, as shall be designated from time to time by the Board of Directors and stated in the notice of meeting. At such meeting, the Stockholders shall elect the entire Board of Directors and shall transact such other business as properly may come before the meeting.

Section 3 - Special Meetings – Special meetings of the Stockholders may be called by the President, the Chairman of the Board, the Executive Committee, the Board of Directors or by the holders of not less than one-tenth (1/10th) of all the shares entitled to vote at the meeting.

Section 4 – Notice of Meetings – Prior to any meeting of the Stockholders, a written or printed notice stating the place, day and hour of the meeting, and, in the case of a Special meeting, the purpose or purposes for which the meeting is called, shall be delivered, either personally or by mail, by or at the direction of the Chairman of the Board, the President, the Secretary, the Executive Committee, the Board of Directors or by the Stockholder or Stockholders calling the meeting, to each Stockholder of record entitled to vote at such meeting. Such notice shall be given no less than ten (10) nor more than sixty (60) days before the date of the meeting. Any Stockholder may waive notice of any meeting by the execution of a written waiver and consent to such meeting or by attendance at such meeting without raising an objection to any defect of notice to such Stockholder.

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Financial Affairs/Analytical

Section 5 – Quorum and Voting Requirements – A majority of the shares entitled to vote, represented in person or by proxy, duly convened, shall

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Company Examinations

AMENDED AND RESTATED ~~AND AMENDED~~

BY-LAWS

of

MID-WEST NATIONAL LIFE INSURANCE COMPANY OF TENNESSEE

ARTICLE I – STOCKHOLDERS

Section 1 – Place of Meeting - All meetings of the Stockholders shall be held in the city of the principal office of the corporation unless the Board of Directors by resolution shall designate for purposes of such meeting that it be held at some other place, either within or without this State, and include in the notice of such meeting a designation of such place of the meeting. A Stockholders meeting called by any person or group other than the Board of Directors shall be held only at the principal office of the corporation.

Section 2 – Annual Meeting – The annual meeting of the Stockholders of this corporation shall be held in each year at such time and at such place, either within or without the State of Tennessee, as shall be designated from time to time by the Board of Directors and stated in the notice of meeting. At such meeting, the Stockholders shall elect the entire Board of Directors and shall transact such other business as properly may come before the meeting.

Section 3 - Special Meetings – Special meetings of the Stockholders may be called by the President, the Chairman of the Board, the Executive Committee, the Board of Directors or by the holders of not less than one-tenth (1/10th) of all the shares entitled to vote at the meeting.

Section 4 – Notice of Meetings – Prior to any meeting of the Stockholders, a written or printed notice stating the place, day and hour of the meeting, and, in the case of a Special meeting, the purpose or purposes for which the meeting is called, shall be delivered, either personally or by mail, by or at the direction of the Chairman of the Board, the President, the Secretary, the Executive Committee, the Board of Directors or by the Stockholder or Stockholders calling the meeting, to each Stockholder of record entitled to vote at such meeting. Such notice shall be given no less than ten (10) nor more than sixty (60) days before the date of the meeting. Any Stockholder may waive notice of any meeting by the execution of a written waiver and consent to such meeting or by attendance at such meeting without raising an objection to any defect of notice to such Stockholder.

Section 5 – Quorum and Voting Requirements – A majority of the shares entitled to vote, represented in person or by proxy, duly convened, shall constitute a quorum for the purposes of conducting the business of the corporation at any Stockholders meeting. The Stockholders present at a duly organized meeting can continue to do business until adjournment notwithstanding the withdrawal of enough Stockholders to leave less than a quorum. The affirmative vote of the majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the Stockholders unless the vote of a greater number of voting by classes is required by law with respect to such matter. Unless otherwise provided in the Articles of Incorporation, or an amendment thereof, every Stockholder of record shall be entitled, at each meeting of the Stockholders and upon each proposal presented at such meeting, to one (1) vote for each share of stock standing in his name on the books of the corporation.

Section 6 – Adjournment – In the absence of a quorum at the opening of any meeting of the Stockholders, or any meeting at which a quorum is present, may be adjourned by the vote of a majority of the shares entitled to vote at the meeting which are represented at the meeting by the holders thereof in person or by proxy. If after adjournment of any meeting the Board shall fix a new record date for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record on the new record date entitled to notice as provided in Section 4 of this Article I.

Section 7 – Closing Transfer Books and Fixing Record Date – For the purpose of determining Stockholders entitled to notice of or to vote at any meeting of Stockholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of Stockholders for any proper purpose, the Board of Directors of the corporation may provide that the stock transfer books are closed for the purpose of determining Stockholders entitled to notice of or to vote at a meeting of Stockholders, such books shall be closed for a least ten (10) days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for such determination of Stockholders, such date in any case

to be not more than forty (40) days and, in case of a meeting of Stockholders, not less than ten (10) days prior to the date on which the particular action, requiring such determination of Stockholders, is to be taken. When a determination of Stockholders entitled to vote at any meeting has been made as provided in this Section, such determination shall apply to any adjournment thereof.

Section 8 – Action Without Meeting – Any action required by law to be taken at a meeting of the Stockholders, or any action which may be taken at a meeting of the Stockholders, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the Stockholders entitled to vote with respect to the subject matter thereof, which shall have the same force and effect as a unanimous vote of the Stockholders and may be stated as such in any articles or documents filed pursuant to law.

ARTICLE II – BOARD OF DIRECTORS

Section 1 – Number, Term and Qualifications – The Board of Directors shall consist of not less than five nor more than twenty-five (5-25) persons as set forth from time to time by resolution of the Board of Directors who accept such position and agree to perform the duties incumbent upon them as provided by these By-Laws and the laws of this State, who need not be Stockholders of the corporation. No person shall serve as a director unless he shall have attained a majority under the laws of this State. A director shall serve for a term to expire at the next annual meeting of the Stockholders and until his successor shall have been elected and qualified.

Section 2 – General and Special Powers – The business and affairs of the corporation shall be managed by the Board of Directors. The Directors shall be authorized jointly to take any and all action and to exercise any power not reserved to the Stockholders, on behalf of the corporation which the corporation is authorized or empowered to do, which is not otherwise expressly prohibited by the Articles of Incorporation, these By-Laws or the laws of this State.

Section 3 – Regular Meetings – The Board of Directors shall meet annually immediately following the Annual Stockholders Meeting which shall be deemed a regular meeting of the Board. The Board of Directors shall hold regular meetings at such times and places as the Board of Directors may designate from time to time by resolution. No notice of any regular meeting of the Board shall be necessary. Neither the business to be transacted at, nor the purpose of, any regular meeting of the Board of Directors need to be specified in any notice in the event a notice is given of a regular meeting, unless such is otherwise expressly provided for in these By-Laws, the Articles of Incorporation of the corporation or the laws of this State.

Section 4 – Special Meetings – A special meeting of the Board of Directors may be held at any time or place upon written call thereof by the President, Chairman

of the Board, or any two Board of Director members, specifying the time and place of such meeting, the business proposed to be transacted thereat and the purpose of such meeting. Such notice shall be given either personally or by mail not less than two (2) days prior to such meeting unless the directors shall expressly waive such requirement of notice in writing or consent to such meeting by attendance thereat without raising an objection to any defect of notice to such director.

Section 5 – Removal of Directors and Vacancies – Directors may be removed from office with or without cause by vote of the Stockholders at a meeting called expressly for that purpose; and Directors may be removed with cause by a majority of the entire Board of Directors, which shall include final conviction of a felony, declaration of unsound mind by a court order, adjudication of bankruptcy, non-acceptance of office or conduct prejudicial to the interest of the corporation. A vacancy on the Board of Directors shall exist when a director dies or resigns or when he is removed by the Stockholders or by virtue of newly created directorship(s) resulting from an increase in the authorized number of directors. Any vacancy, including a vacancy resulting from the removal of a director with our without cause, occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board. Directors so chosen shall hold office until the next annual election and until their successors are duly elected and qualified.

Section 6 – Quorum and Voting – A majority of the number of directors specified in Section 1 of this Article II shall constitute a quorum for the transaction of business. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

ARTICLE III – EXECUTIVE AND OTHER COMMITTEES

Section 1 – Creation of Executive and Other Committees – The Board of Directors may create from its membership an executive committee to consist of not less than two (2) directors which shall be authorized to exercise all authority of the Board of Directors in the intervals between the meetings of the Board of Directors with respect to the business affairs of the corporation. Such Executive Committee shall be subject to the control and direction of the Board of Directors and serve at the pleasure of the Board of Directors. The Board of Directors may otherwise create such additional committees~~, whose members need not be directors~~, with general or limited authority as designated from time to time by the Board, who shall likewise serve at the pleasure of the Board.

Section 2 – Limitation on Actions and Effect Thereof – The Executive Committee shall not be authorized to take any action or conduct any matter specifically prohibited by applicable laws of this State. Otherwise, an act or authorization by the Executive Committee within the authority lawfully delegated to it shall be the act or authorization of the directors for all legal purposes,

provided, however, that such action by the directors shall not operate to relieve the Board of Directors of any responsibility imposed upon it by law.

Section 3 – Action by Executive Committee – The Executive Committee may act by a majority of its members at a meeting or informally without a meeting provided all members consent to such informal action.

ARTICLE IV – OFFICERS

Section 1 – Positions Authorized – The officers of the corporation shall consist of a Chairman of the Board, ~~who shall be the Chief Executive Officer of the corporation, a Vice Chairman of the Board,~~ a President ~~(who shall be a member of the Board)~~, one or more Vice Presidents, a Secretary, a Treasurer and one or more Assistant Secretaries and Assistant Treasurers and such further officers as the Board or the Executive Committee may from time to time designate. Any two or more offices may be held by the same person, except the offices of President and Secretary or Assistant Secretary.

Section 2 – Method of Selection – The Chairman of the Board, ~~Vice Chairman of the Board,~~ President, Secretary and Treasurer shall be elected annually by a majority vote of the Directors present at a duly convened Annual Meeting of the Board of Directors or at any meeting duly convened thereafter who shall serve until the next Annual Meeting of the Board of Directors or until their successor shall be elected and qualified. Any other officer may be elected in such manner as deemed appropriate, from time to time, by the Board of Directors or Executive Committee. The Board of Directors may, from time to time, prescribe the duties incumbent upon any officer by resolution provided the same is not inconsistent with these By-Laws.

Section 3 – Removal of Officers – Any officer may be removed by the Board of Directors whenever in its judgment the best interests of the corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of such person so removed. Election or appointment of an officer or agent shall not of itself create any contract rights. A majority vote of the entire Board of Directors shall be necessary to remove any officer of the corporation holding the position of Chairman of the Board, ~~Vice Chairman of the Board,~~ President, Secretary, or Treasurer, but any other officer may be removed by a majority of the Board of Directors present at any duly convened meeting or by action of the Executive Committee.

Section 4 – Salaries – The salaries of the officers of the corporation shall be fixed from time to time by the Board of Directors. No officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the corporation. Any payments made to an officer of the corporation such as a salary, commission, bonus, interest, or rent, or entertainment expense incurred by him, which shall be disallowed in whole or in part as a deductible expense by

the Internal Revenue Service shall be reimbursed by such officer to the corporation to the full extent of such disallowance. It shall be the duty of the directors, as a Board, to enforce payment of each amount disallowed. In lieu of payment by the officer subject to the determination of the directors, proportionate amounts may be withheld from his future compensation payments until the amount owed to the corporation has been received.

Section 5 – Surety Bonds – In case the Board of Directors shall so require, any officer or agent of the corporation shall execute to the corporation a bond in such sum and with such surety or sureties as the Board of Directors may direct, conditioned upon the faithful discharge of his duties.

Section 6 – Chairman of the Board – The Chairman of the Board ~~shall be the Chief Executive Officer of the corporation and~~ shall preside at all meetings of the Board of Directors~~, Executive Committee~~ and Stockholders.

~~**Section 7 – Vice Chairman of the Board** – In the absence of the Chairman of the Board, the Vice Chairman shall assume all the authority and duties of the Chairman~~.

Section 7~~8~~ – The President – In the absence of the Chairman of the Board, the President shall assume all the authority and duties of the Chairman. The President shall be the Chief Executive Officer of the Company, and~~The President~~, subject to the superior authority of the Chairman of the Board and subject to the direction of the Board of Directors, shall have general charge of the business, affairs, and property of the corporation, and general supervision over its officers and agents. In the absence of the Chairman of the Board, he shall preside at meetings of the Board of Directors~~, Executive Committee~~ and Stockholders, and he shall see that all orders and resolutions of the Board of Directors and Executive Committee are carried into effect. He may sign, with any other officer thereunto duly authorized, certificates of the stock of the corporation, the issuance of which shall have been duly authorized, and may sign and execute in the name of the corporation, with any other officer thereunto duly authorized, deeds, mortgages, bonds, contracts, agreements or other instruments duly authorized by the Board of Directors, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent. From time to time he shall report to the Chairman of the Board and also to the Board of Directors and to the Executive Committee all matters within his knowledge which the interests of the corporation may require to be brought to their attention. He shall also perform such other duties as are given to him by these By-Laws or as from time to time may be assigned to him by the Board of Directors, or by the Chairman of the Board.

Section 8~~9~~ – The Vice Presidents – Each of the Vice Presidents shall have such powers and do and perform such acts as from time to time may be designated or required by the Board of Directors, the Executive Committee, the

Chairman of the Board or the President acting under such titles as may be designated to each of them by the Board of Directors or the Executive Committee.

Section 9~~10~~ – The Secretary – The Secretary shall:

(a) Record all the proceedings of the meetings of the Stockholders, Board of Directors, and Executive Committee in a book or books to be kept for that purpose;

(b) Cause all notices to be duly given in accordance with the provisions of these By-Laws and as required by statute;

(c) Whenever any committee shall be appointed in pursuance of a resolution of the Board of Directors, furnish the Chairman of such committee with a copy of such resolution;

(d) Be custodian of the records and of the seal of the corporation, and cause such seal to be affixed to all certificates representing stock of the corporation prior to the issuance thereof, and to all instruments the execution of which on behalf of the corporation under its seal shall have been duly authorized;

(e) See that the lists, books, reports, statements, certificates, and other documents and records required by statute are properly kept and filed;

(f) Have charge of the stock books of the corporation and cause the stock and transfer books to be kept in such manner as to show at any time the amount of stock of the corporation issued and outstanding, the names alphabetically arranged, and the addresses of the holders of record thereof, the number of shares held by each, and the date when each became such holder of record; and

(g) In general, perform all duties incident to the office of Secretary and such other duties as are given to him by these By-Laws or as from time to time may be assigned to him by the Board of Directors or the President, the Executive Committee or the Chairman of the Board.

Section 10~~1~~ – Assistant Secretaries – At the request of the Secretary or in his absence or disability, the Assistant Secretary shall have all the powers of and be subject to all restrictions upon the Secretary. The Assistant Secretaries shall perform such other duties as from time to time may be assigned to them respectively by the Board of Directors, the Executive Committee, the Chairman of the Board, the President, or the Secretary.

Section 11~~2~~ – The Treasurer – The Treasurer shall:

(a) Have charge of and supervision over and be responsible for the funds, securities, receipts and disbursements of the corporation;

(b) Cause the moneys and other valuable effects of the corporation to be deposited in the name and to the credit of the corporation in such banks or trust companies or with such bankers, or other depositories as shall be selected by the Board of Directors, or to be otherwise dealt with in such manner as the Board of Directors may direct;

(c) Cause the funds of the corporation to be discharged by checks or drafts upon the authorized depositories of the corporation, same to be drawn in the manner and by the officers as may be determined from time to time by the Board of Directors; and cause to be taken and preserved proper vouchers for all money disbursed;

(d) Render to the Board of Directors, the Executive Committee, the Chairman of the Board or the President, whenever requested, a statement of the financial condition of the corporation and of all his transactions as Treasurer;

(e) Cause to be kept at the principal office of the corporation correct books of account of all business and transactions and exhibit such books to any director upon applications at such office during business hours; and

(f) In general, perform all duties incident to the office of Treasurer and such other duties as are given to him by these By-Laws or as from time to time may be assigned to him by the Board of Directors or the President, the Executive Committee or the Chairman of the Board.

Section 12~~3~~ – Assistant Treasurer – At the request of the Treasurer or in his absence or disability, the Assistant Treasurer shall perform all the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all restrictions upon the Treasurer. The Assistant Treasurer shall perform such other duties as from time to time may be assigned him by the Board of Directors, the Executive Committee, the Chairman of the Board, the President or the Treasurer.

ARTICLE V – INDEMNIFICATION OF OFFICERS AND DIRECTORS

Every present or former officer or director of this corporation shall be entitled to indemnification or reimbursement from the corporation to the full extent permitted by applicable laws of this State, both as now in effect and as hereafter amended.

ARTICLE VI – CAPITAL STOCK

Section 1 – Certificates of Stock – Certificates of stock, numbered and with the seal of the corporation affixed, signed by the Chairman of the Board, President or a Vice President and the Secretary or an Assistant Secretary, shall be issued to each Stockholder certifying the number of shares owned by him in the corporation. When such certificates are signed by a transfer agent acting in behalf of the corporation and a registrar, the signature of such officers may be facsimile.

Section 2 – Lost Certificates – A new certificate of stock may be issued in the place of any certificate theretofore issued by the corporation, alleged to have been lost or destroyed, and the directors may, in their discretion, require the owner of the lost or destroyed certificates or his legal representative, to give the corporation a bond, in such sum as they may direct, not exceeding double the value of the stock, to indemnify the company against any claim that may be made against it on account of the alleged loss of any such certificate.

Section 3 – Transfer of Shares – The shares of stock of the corporation shall be transferable only upon the books by the holders thereof in person or by their duly authorized attorneys or legal representatives, and upon such transfer the old certificates shall be surrendered to the corporation by the delivery thereof to the person in charge of the stock and transfer books and ledgers, or to such other person as the directors may designate, by whom they shall be cancelled, and new certificates shall thereupon be issued. A record shall be made of each transfer, and whenever a transfer shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of the transfer. Transfers of shares shall be by appropriate endorsement as provided by the Uniform Commercial Code or such other laws as are properly applicable.

ARTICLE VII – CORPORATE SEAL

Section 1 – Corporation to Use Seal – The corporation shall have seal bearing the name of the corporation which shall be in form of a circle as follows:

Section 2 – Use of Seal – The seal of the corporation shall be affixed to all official documents of the corporation, except such as shall transpire in the ordinary course of business of the corporation where the same shall not be necessary.

ARTICLE VIII – MISCELLANEOUS PROVISIONS

Section 1 – Checks, Drafts, Notes – All checks, drafts or other orders for the payment of money, notes or other evidence of indebtedness issued in the name of the corporation shall be signed by such officer or officers, agent or agents of the corporation, and in such manner as shall, from time to time, be determined by resolution of the Board of Directors.

Section 2 – Notice and Waiver of Notice – Whenever any -notice required by these By-Laws is to be given, personal notice is not meant unless expressly so stated; and any notice so required shall be deemed to be sufficient if given by depositing the same in a post office in a sealed, prepaid wrapper, addressed to the person entitled thereto at his last known address, and such notice shall be deemed to have been given on the day of such mailing. Any notice required to be given under these By-Laws may be waived by the person entitled to receive notice of any meeting except as otherwise provided by statute.

ARTICLE IX – METHOD OF AMENDING BY-LAWS

Section 1 – The directors by the affirmative vote of two-thirds (2/3rds) of all the directors of the corporation, may at any meeting, provided the substance of the proposed amendment shall have been stated in the notice of the meeting, amend or alter, repeal, or change any of these By-Laws without any action on the part of the stockholders.

The foregoing Amended and Restated~~ment of~~ By-Laws of the corporation have been duly adopted this 21st day of September, 2004~~1~~, by action of the Board of Directors of the corporation pursuant to the Articles of Incorporation, prior By-Laws of the corporation and the laws of this State and shall supersede all prior By-Laws or amendments thereto of the corporation.

Peggy G. Simpson, Secretary of
MID-WEST NATIONAL LIFE INSURANCE
COMPANY OF TENNESSEE,
a Tennessee Insurance Company