STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

FIRST CONTINENTAL LIFE & ACCIDENT INSURANCE COMPANY

OF

SALT LAKE CITY, UTAH

AS OF
DECEMBER 31, 2001

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October 16, 2003

Honorable Alfred W. Gross, Chairman
NAIC Financial Condition (E) Committee
Insurance Commissioner
State of Virginia
Richmond, Virginia

Honorable John Morrison
Secretary, Western Zone NAIC
Director of Insurance
State of Montana
Helena, Montana

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State of Utah
Salt Lake City, Utah

Dear Sirs:

In accordance with your instructions and in compliance with the insurance laws of the State of Utah, an examination of the financial condition and business affairs of

FIRST CONTINENTAL LIFE & ACCIDENT INSURANCE COMPANY
Salt Lake City, Utah

hereinafter referred to as the "Company" or "FCL", was conducted as of December 31, 2001.

SCOPE OF EXAMINATION

The last examination was made as of December 31, 1998. The current examination covers the period from January 1, 1999 through December 31, 2001, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination. The current examination was conducted under the authority granted the Commissioner by Utah Code Annotated (U.C.A.) §31A-2-203, and was conducted in accordance with the procedures set forth in the National Association of Insurance Commissioners (NAIC) Examiners Handbook which was also authorized by U.C.A. §31A-2-203(6)(c).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period, verification of the payment of premium taxes to the states in which it was licensed, and a determination of its financial condition as of December 31, 2001. Assets were verified and valued, and liabilities were determined or estimated in accordance with rules and procedures as prescribed by the State of Utah, the Company's state of domicile. The examination was conducted in accordance with the generally accepted standards and procedures of

regulatory authorities relating to such examinations. It included tests of the accounting records and a review of the Company's affairs and practices to the extent deemed necessary.

The Company retained the services of Deloitte & Touche, a certified public accounting firm, to audit its financial records for the years under examination. Adjustments made by the firm to amounts reported by the Company in the balance sheet accounts "Accident and health premiums due and unpaid" and "Amounts recoverable from reinsurers" were relied on for examination purposes.

The consulting actuarial firm of Taylor-Walker & Associates, Inc., performed the actuarial portion of the examination. The firm's examination included a review of aggregate reserves for life policies and contracts, accident and health policies, and reserves for life and accident and health policy and contract claims.

A certificate of representation attesting to the Company's ownership of all assets and to the non-existence of unrecorded liabilities was signed by, and received from, the Company's management during the examination.

SUMMARY OF PRIOR EXAMINATION COMMENTS AND/OR RECOMMENDATIONS

The previous examination had the following seven comments and/or recommendations. Following the individual examination report comment/recommendation is the status of the comment/recommendations.

(1) An item disclosed in the prior examination report that was not adequately addressed was, an unexecuted written agreement between the Company and Group Hospitalization and Medical Services, Inc. (GHMSI)

Another item not adequately addressed was an unexecuted written agreement with Vista Trend Insurance Services, Inc., an insurance intermediary. This agreement was to supersede an agreement, dated July 1, 1988. The examiners recommend the Company obtain an executed copy from Vista Trend Insurance Services, Inc. (STATUS OF ADVERSE FINDINGS PREVIOUS REPORT OF EXAMINATION)

The contracts were executed subsequent to the last examination report. The agreement with Group Hospitalization and Medical Services, Inc. was cancelled during the Fall of 1999.

(2) There was a change in the control of the Company and an infusion of $3,000,000 to its surplus. Effective June 30, 1998, Wasatch Crest Mutual Insurance Company sold all of the Company's outstanding shares of common stock, and the shares of an affiliate Wasatch Crest Casualty Insurance Company, to Wasatch Crest Group, Inc., an investment subsidiary of Wasatch Crest Mutual Insurance Company. (HISTORY, AFFILIATED COMPANIES, AND ORGANIZATIONAL CHART)

Additional comments will be found in this examination report under the captions HISTORY, AFFILIATED COMPANIES AND ORGANIZATIONAL CHART of this examination.

(3) The Company's market conduct related operations were not in compliance with the provisions contained in the following: U.C.A. § 31A-22-610.5, § 31A-23-219(2)(a), § 31A-23-309; U.A.C. § Rule R590-101-4, § R590-76-8(C), § R590-130-7(A)(2), § R590-89-12.C. (INSURANCE PRODUCTS AND RELATED PRACTICES)

The Company adequately addressed the market conduct compliance issues during the period under examination.

(4) The Company provided aggregate stop loss reinsurance by an arrangement with Group Hospitalization and Medical Services, Inc. A written agreement had not been executed formalizing the terms and conditions. The examiners recommended that the Company get an executed agreement. (REINSURANCE-Reinsurance Assumed)

The contract was executed subsequent to the last examination report. The agreement with Group Hospitalization and Medical Services, Inc. was cancelled during the Fall of 1999.

(5) As of December 31, 1998, the Company's agreement with its investment custodian was not in compliance with U.A.C. § R590-178. A new agreement was executed April 19, 1999, that was in compliance. (ACCOUNTS AND RECORDS)

No additional comment was required for purposes of this examination.

(6) Information provided by those responsible for maintaining the electronic data processing equipment and informational systems indicated that business mission critical systems and non-critical applications were Year 2000 compliant. (ACCOUNTS AND RECORDS)

There was no indication that the Company experienced any difficulties as a result of Year 2000.

(7) The Company's minimum capital requirement at December 31, 1998, was $400,000. The authorized control level risk-based capital was $2,025,435. The Company's total adjusted capital was $6,316,603. (NOTES TO FINANCIAL STATEMENTS)

The Company filed the 2001 annual statement reflecting total adjusted capital of $1,783,138, and authorized control level risk-based capital of $1,706,567. This placed the Company at the Regulatory Action Level. Additional comments can be found under the CAPITAL AND SURPLUS heading of this examination.

HISTORY

General

The Company was organized as I.L.I.C. Insurance Company on May 3, 1979, under the laws of the State of Utah. During December 1979, the name was changed to First Continental Life and Accident Insurance Company. There was an approved merger with Ideal National Insurance Company on September 30, 1980.

As of December 31, 1986, the Company was wholly owned by First Continental Group, Inc., a Delaware corporation, with executive offices in Houston, Texas. On December 31, 1987, the Company was owned by Union Life Insurance Company (ULIC), a State of Arkansas domiciled company. Union Life Insurance Company was a subsidiary of LNUL Corporation, which in turn was a wholly owned subsidiary of Lomas & Nettleton Financial Corporation.

As of December 31, 1989, the Company was owned by Jefferson National Life Insurance Company, an Indiana domiciled company. Jefferson National Life Insurance Company was a subsidiary of Lomas Life Group, Inc., formerly LNUL Corporation, which in turn was a subsidiary of Lomas Financial Corporation. During 1989, Jefferson National Life Insurance Company relocated the company

from Little Rock, Arkansas to Indianapolis, Indiana. In November 1990, Lomas Financial Corporation sold the Company, and its then parent to JNL Holding Company, an indirect subsidiary of Conseco Capital Partners, LP, a Delaware limited partnership controlled by Conseco, Inc.

Effective December 31, 1991, Jefferson National Life Insurance Company sold all of the Company's outstanding common stock to Group Hospitalization and Medical Services, Inc., a non-profit corporation located in Washington, D.C. The former parent was paid an extraordinary dividend of $3,399,201 pursuant to the terms of the sale. In connection with the sale, all of the Company's insurance business, except its group life, group medical stop-loss, and short-term disability policies, was ceded under assumption reinsurance agreements.

Effective April 15, 1994, Group Hospitalization and Medical Services, Inc., sold all of the Company's outstanding shares of common stock to Energy Mutual Insurance Company, a property and casualty insurer domiciled in Utah. As of November 1994, Energy Mutual Insurance Company changed its name to Wasatch Crest Mutual Insurance Company (WCM).

Effective June 30, 1998, Wasatch Crest Group, Inc. (WCGI), obtained all of the issued and outstanding shares of the Company in the exchange of shares with WCM. In December 2000, WCM relinquished its shares of WCGI pursuant to a Form A approved by the Utah Insurance Commissioner under order dated November 27, 2000. WCGI continues to own all of the issued and outstanding shares of the Company.

Capital Stock

The Company had authorized 2,000,000 shares of common stock with a par value of $1.50 per share. As of December 31, 2001, there were 1,666,667 issued and outstanding shares. All shares were issued to WCGI.

Dividends to Policyholders

The Company paid no dividends to policyholders during the period covered by this examination.

Management

As of December 31, 2001, the following five individuals were serving as members of the board of directors:

Director/Address	Principal Occupation
John A. Igoe San Rafael, California	Acting Chairman, President & Chief Executive Officer - Wasatch Crest Group Chief Executive Officer – Wasatch Crest Insurance Company
Judy K. Adlam Mill Valley, California	President LWP Claims Administrators, Inc.
Dennis T. Larson Highland, Utah	Executive Vice President, Chief Financial Officer, Treasurer & Secretary - Wasatch Crest Group & Wasatch Crest Insurance Company

Director/Address	Principal Occupation
Charles W. Wilcox Bend, Oregon	Resigned as a Director 1/31/02
SheriLynn Erickson Murray, Utah	Vice President & Controller – Wasatch Crest Group & Wasatch Crest Insurance Company

Officers serving at December 31, 2001, were as follows:

Officer	Office
John A. Igoe	Chairman, President & Chief Executive Officer
Dennis T. Larson	Executive Vice President, Chief Financial Officer, Treasurer and Secretary
SheriLynn Erickson	Vice President & Controller

As of the date of the most recent insurance holding company registration statement filed by the Company with the Utah Insurance Department, May 27, 2003, Dennis Larson, SheriLynn Erickson and Richard A. Veed were reported as the only remaining directors of the Company. Mr. Veed has been a managing partner of AAM Investment Banking Group since July, 1993. Mr. Larson was reported as the President and Chief Executive Officer. SheriLynn Erickson was reported as the Vice President, Controller, and Chief Financial Officer.

Conflict of Interest Procedure

The Company did not provide the requested conflict of interest statements during the examination.

Corporate Records

The examination report generated by the Utah Insurance Department as of December 31, 1998, was reviewed by the board of directors on August 10, 2000.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Company had a quota share agreement with Western Mutual Insurance Company, effective January 1, 2000. The Company assumed 90% of medical claims up to $1,000,000 per insured for business written in the states of Washington, Arizona and New Mexico, and assumed 50% of medical claims up to $1,000,000 for business written on behalf of the Montana Retailers Association.

The Company had a quota share agreement with Wasatch Crest Mutual Insurance Company (WCM), effective June 30, 1999, for 95% of WCM's ultimate net loss for new and renewal accident and health policies; and 95% quota share of the ultimate net loss for all accident and health losses paid after the effective date arising out of any company's policies issued prior to June 30, 1999.

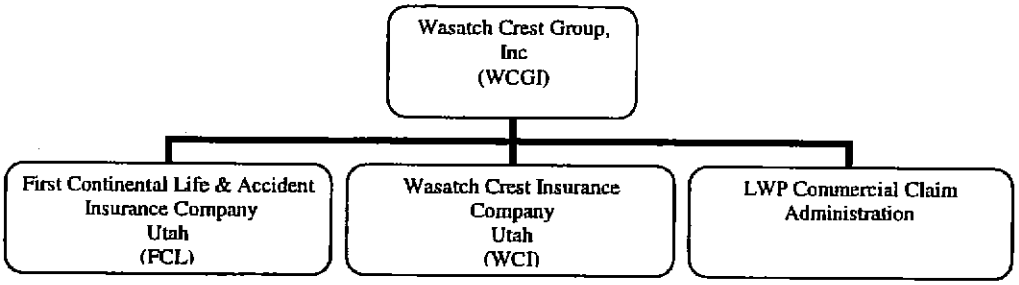
The Company had an assumption reinsurance agreement with Electric Mutual Benefit Association (EMBA), effective December 31, 2000, whereby, the Company assumed all liability and responsibility for the payment of all benefits incurred by EMBA under the Group Term Life Insurance Program.

Surplus Debentures

The Company had no surplus debentures issued, retired or in place during the current examination period or as of December 31, 2001.

AFFILIATED COMPANIES

As of December 31, 2001, the Company was 100% owned by WCGI and was a member of a holding company system. The following chart reflects the holding company affiliations:



During July 2003, Wasatch Crest Insurance Company was placed into formal liquidation proceedings by the Third Judicial District Court, Salt Lake County, State of Utah, due to the insurer's adverse financial condition.

Transactions with Affiliates

Effective January 1, 2000, WCGI and the Company entered into a formalized cost sharing agreement pursuant to which WCGI provided labor, work space, equipment, data processing and other mutually agreed upon services to the Company. The Company agreed to reimburse WCGI for the services, labor, facilities and equipment provided on its behalf.

Subsequent Events

During 2002, the Company advanced its parent, WCGI, $1,700,000. The transfer was made in violation of Utah Code Annotated (U.C.A.) Subsection 31A-16-106(1)(b) which required the Company's written notification to the Commissioner about the intended transaction at least 30 days prior to the transaction. The Company made the transfer without notifying the Commissioner.

Another indirect series of transfers was made in violation of U.C.A. § 31A-16-106(1)(b) during 2003. The Company assigned the rights to receivables arising from a reinsurance agreement with an unaffiliated company. The reinsured entity was instructed by management of the Company to disburse the amount owed under the reinsurance agreement directly to WCGI, the holding company, instead of the Company. The net effect of the referenced transactions was to convert a $125,000 receivable from a viable third party to a $125,000 receivable from the holding company, WCGI.

The above referenced transfers were not disclosed in updates to the Company's holding company registration statements due the Commissioner within 15 days after the end of the month in which it learned of the transactions. The failure of the Company to update its registration statements and to

appropriately disclose, to the Commissioner, these significant transfers to WCGI was a violation of U.C.A. § 31A-16-105.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured under several insurance policies along with its parent and affiliated companies.

There was a financial institution bond with an aggregate liability of $1,000,000, subject to a single loss limit of liability of $1,000,000 and a single loss deductible of $10,000. The NAIC suggested minimum amount of fidelity insurance for a company of this size was $300,000 to $350,000.

The Company also participated in commercial lines, commercial catastrophe, and employment practices liability insurance. The directors and officers were provided a director's and officer's and company reimbursement policy. This policy had a $100,000 retention for each claim. The limit was $5,000,000. Overlying this policy was an excess director's and officer's and company reimbursement policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As of December 31, 2001, the Company had no employees, and therefore, had no pension, stock ownership or insurance plans.

STATUTORY DEPOSITS

To comply with the statutes of the various state insurance departments, the following securities were on deposit as of December 31, 2001. Funds held not for the benefit of all policyholders are restricted as workers compensation funds.

Name of State	Statement Value	Market Value
Funds held not for the benefit of all policyholders:		
Arkansas Department of Insurance	$ 100,000	$ 108,719
Idaho Department of Insurance	325,000	335,736
Michigan Department of Insurance	50,000	52,688
New Mexico Department of Insurance	100,000	105,656
North Carolina Department of Insurance	600,000	628,034
South Carolina Department of Insurance	175,000	188,939
Virginia Department of Insurance	125,000	135,195
Georgia Department of Insurance	80,000	80,000
Total held not for the benefit of all policyholders:	$1,555,000	$1,634,967
Funds held in trust for all policyholders:		
Utah Department of Insurance	4,115,000	4,349,842
Total held in trust for all policyholders:	$4,115,000	$4,349,842
Grand Totals:	$5,670,000	$5,984,809

Pursuant to Utah Code Annotated (UCA) § 31A-4-105, the Company was required to maintain a deposit in the amount of its minimum capital requirement. The Company's minimum capital requirement in Utah was $400,000 as determined by (UCA) § 31A-5-211(2)(a). The deposits are held at Regions Bank in Arkansas, Wachovia Bank in Georgia, Wells Fargo Bank in Idaho, National Bank of Detroit Michigan, Bank of Santa Fe in New Mexico, Wachovia Bank in North Carolina, Bank of America in South Carolina, Suntrust bank in Virginia and Wells Fargo Bank in Salt Lake City, Utah.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting Practices

As of December 31, 2001, the Company wrote group term life policies, whole life policies and two different group dental plans. Group dependent term life, accident and dismemberment, disability and waiver of premium.

Territory and Plan of Operation

The Company was licensed in forty-two jurisdictions. The Company was not able to provide a current certificate of authority for seven states. The license issued by the State of Washington was suspended on January 3, 2002. The audit report generated by the certified public accounting firm retained by the Company to audit it's records as of December 31, 2002, disclosed that the Company was under temporary license suspension with 22 state insurance departments due to insufficient capital and surplus.

In accordance with the provisions of Utah Code Annotated (UCA) §31A-4-115, on May 3, 2002, the Company filed a plan of orderly withdrawal with the Utah Department of Insurance that indicated that the premium volume for 2002 would decrease by more than 75%. The withdrawal event was the result of the cancellation of the directly written group accident and health business in 2001 and the cancellation of all the assumed accident business by June 30, 2002. Disclosures in the Management Discussion and Analysis supplement to the 2002 Annual Statement stated the Company's operations for the year ended December 31, 2002, consisted of a small amount of individual life, group life and run-off of the medical business.

Advertising and Sales Material

The Company indicated that all advertising supplies were destroyed. The Company also stated that there were no radio or television ads used between January 1, 1999, and December 31, 2001.

Treatment of Policyholders

There was no procedure manual for the handling of complaints. There was a memo describing the handling of complaints received from policyholders by employees of the Wasatch Crest Group. There were seven (7) complaints received by the Utah Insurance Department.

REINSURANCE

Assumed

The Company assumed excess of group life and associated benefits from Western Mutual Insurance Company. Western Mutual Insurance Company retained $20,000 of group life benefits and

10% of the short term weekly income benefits. The Company reinsurers the excess of the issue limits over Western Mutual Insurance Company's retention up to a maximum of $50,000 life and weekly income benefits.

The Company had a quota share agreement with Western Mutual Insurance Company, effective January 1, 2000. The Company assumed 90% of medical claims up to $1,000,000 per insured for business written in the states of Washington, Arizona and New Mexico, and assumed 50% of medical claims up to $1,000,000 for business written on behalf of the Montana Retailers Association. For policies written in excess of $1,000,000, Western Mutual or its reinsurer shall be liable for claims in excess of $1,000,000.

The Company had a quota share agreement with Wasatch Crest Mutual Insurance Company (WCM), effective June 30, 1999, for 95% of WCM's ultimate net loss for new and renewal accident and health policies becoming effective on or after June 30, 1999; and 95% quota share of the ultimate net loss for all accident and health losses paid after the effective date arising out of any company's policies issued prior to June 30, 1999.

The Company had an assumptive reinsurance agreement with Electric Mutual Benefit Association (EMBA), effective December 31, 2000, whereby, the Company assumed all liability and responsibility for the payment of all benefits incurred by EMBA under the Group Term Life Insurance Program.

Ceded

The Company ceded to Beneficial Life Insurance Company its net amount of risk in excess of $50,000 per life, on its keyman life policies. The amount of reinsurance was the net amount of risk of the Company in excess of the retention limit of $50,000 per life, on policies issued by the Company on its keyman life policy form. This agreement covered all such policies in force and issued after the effective date of July 1, 1998.

The Company ceded to Life Reinsurance Corporation of America, 50% of the first $50,000 face amount, plus 100% of the excess up to an overall maximum benefit of $500,000 of its voluntary group life risks on an automatic basis. On a facultative basis, the Company ceded 75% of the first 100% and 100% of the balance up to an overall maximum of $500,000.

The Company ceded excess group life and associated benefits, except for voluntary group, with Lincoln National Life Insurance Company. The Company retained $25,000 of the group life and none of the group accidental death and dismemberment benefits. There was a conversion addendum to the agreement.

The Company had excess of loss reinsurance under its group medical policies with American National Insurance Company. This covered the business in force on February 1. 2001 or issued or renewed on or after that date, for claims incurred during the period February 1, 2001 to January 31, 2002. Also included was business issued to Western Coal Carriers Union, effective August 1, 2001, for claims incurred during the period August 1, 2001 to January 31, 2002; and business issued to the Energy West Mining Company, effective October 1, 2001, for claims incurred during the period October 1, 2001 to January 31, 2002. The Company's retention levels were $50,000 o the first $250,000, Overlying this were second, third and fourth excess of loss layers which carried the reinsured limits to $3,000,000.

The Company's medical expense conversions were reinsured with Celtic Life Insurance Company. Celtic offered conversion coverage to employer groups who are self funded or fully funded with respect to group medical expense plans covering employees and their dependents. The conversion

privilege was available to participants whose coverage has terminated. In addition, Celtic agreed to offer conversion coverage to employer groups who have been issued contracts of stop-loss insurance by Great American Reserve Insurance Company and have been reinsured by the Company.

The Company had granted permission to Total Dental Administrators Health Plan, Inc. (TDAHP) to market TDAHP's prepaid dental products which included a supplemental payment component, insured by FCL, payable to participating plan dentist for specified procedures. The supplemental components are specified dental procedures of the prepaid plan that are eligible for an additional payment by the plan. In October 2002, the Company sold the business to Companion Life for $709,000, and was on the risk if the losses exceed the $709,000 amount. As of December 31, 2001, the losses totaled $308,753. There was a "true up" date of May 15, 2001, which was the date the Company and the reinsurer used to determine if the Company owed additional monies to the Companion Life or was due a refund.

ACCOUNTS AND RECORDS

The accounts and records of the Company consist of a general ledger, journals, registers, statistical records, and other records normally maintained by a life insurance company. Most of the records are maintained on a mainframe electronic data processing system. Data from the mainframe was used by the Company to prepare annual and quarterly statement exhibits, schedules, and other financial statements.

A trial balance was extracted from the accrual basis general ledger as of December 31, 2001, and the accounts were reconciled to the Company's annual statement. Individual ledger accounts for the years 1999 and 2000 were reconciled individually as deemed necessary.

The Company retained the services of an independent certified public accounting firm to audit its financial and operating records for the 1999, 2000 and 2001 Annual Statement reporting periods.

Item nine, contained in the general section of the *Annual Statement Instructions* for life, accident and health companies promulgated by the National Association of Insurance Commissioners (NAIC), states, "If this report does not contain the information asked for in the blanks or are not prepared in accordance with these instructions, they will not be considered filed." In addition, Utah Code Annotated (UCA) § 31A-2-202(6) requires that "All information submitted to the commissioner shall be accurate and complete."

During the review of the Company's operations, the following record keeping deficiencies were noted:

- The Company did not produce certain requested information during the course of this examination. The Company's rationale for not providing the requested information was that it was unavailable or could not be found. This indicated a deficiency in the segregation of accounting of transactions with its affiliates, as well as inadequate record keeping procedures, and resulted in disruption to and delay in the examination process.

- The Company recorded all securities acquired and one security sold on the 2001 annual statement using the settlement date rather than the trade date as required by the NAIC Accounting Practices and Procedures Manual SSAP No. 26, paragraph 4, page 26-3.

- The Company listed, as restricted, statutory deposits on the 2001 annual statement with states that did not restrict the deposits.

- Wasatch Crest Group, Inc. could not provide the examination with all of the databases that comprise the accident and health paid claims. The lack of being provided all databases prevented the examination from accurately identifying the direct claims paid for each company. The incomplete direct claims paid information for Wasatch Crest Mutual Insurance Company results in incomplete reinsurance assumed information for the Company. Additionally the lack of all paid claims information resulted in the examination not being able to reconcile the paid claim databases to the actuarial lag schedule provided to the actuary to determine the incurred but not reported reserves.

FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2001, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2001
Summary of Operations – For the Year Ended December 31, 2001
Capital and Surplus Account – January 1, 1999 Through December 31, 2001

First Continental Life & Accident Insurance Company
Balance Sheet as of
December 31, 2001

ASSETS

	Amount	Notes
Bonds	$ 5,580,523	
Policy loans	381	
Cash and short-term investments	1,234,501	
Amounts recoverable from reinsurers	185,373	
Accident and health premiums due and unpaid	1,658,846	
Investment income due and accrued	101,565	
Receivable from parent, subsidiaries and affiliates	500	
TOTAL ASSETS	$ 8,761,689	

LIABILITIES

Aggregate reserve for life policies and contracts	$ 763,029	
Aggregate reserve for accident and health policies	290,129	
Policy and contract claims – Life	19,500	
Policy and contract claims – Accident and Health	4,955,319	
Other amounts payable on reinsurance	714,532	
Interest maintenance reserve	98,545	
Commissions to agents due or accrued	81,029	
General expenses due or accrued	57,989	
Federal and foreign income tax	(3,167)	
Remittances and items not allocated	146,148	
Asset valuation reserve	370	
Funds held under reinsurance treaties	19,512	
TOTAL LIABILITIES	7,142,935	
Common capital stock	2,500,001	
Gross paid in and contributed surplus	6,061,958	
Unassigned funds	(6,943,205)	
TOTAL CAPITAL AND SURPLUS	1,618,754	(1)
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$ 8,761,689	

First Continental Life & Accident Insurance Company
Summary of Operations
for the Year Ended December 31, 2001

	Amount
Premiums and annuity considerations	$ 32,521,908
Net investment income	465,543
Amortization of Interest Maintenance Reserve	2,308
Totals	$ 32,989,759
Death benefits	660,263
Disability benefits and benefits under accident and health policies	27,672,815
Increase (decrease) in aggregate reserves for life and accident and health policies	(64,573)
Totals	$ 28,268,505
Commissions on premiums and annuity considerations	1,308,923
Commissions and expense allowances on reinsurance assumed	4,176,457
General insurance expenses	2,664,001
Insurance taxes, licenses and fees, excluding federal income taxes	174,239
Aggregate write-ins for deductions: miscellaneous expense	1,671
Totals	$ 36,593,796
Net gain from operations before dividends to policyholders and federal income taxes	(3,604,037)
Dividends to policyholders	-0-
Net gain from operations after dividends to policyholders and before federal income taxes	(3,604,037)
Federal income taxes incurred	-0-
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(3,604,037)
Net realized capital gains or losses less capital gains tax and transferred to the IMR	(312)
Net income	$ (3,604,349)

First Continental Life & Accident Insurance Company
Capital and Surplus Account
January 1, 1999 Through December 31, 2001

	1999	2000	2001
Capital and surplus December 31, prior year	$ 5,811,798	$ 4,198,683	$ 5,217,495
Net income	(1,661,539)	945,891	(3,604,349)
Change in net unrealized capital gains or (losses)			
Change in nonadmitted assets and related items	50,924	74,168	
Change in reserve on account of change in valuation basis			
Change in asset valuation reserve	(2,500)	(1,247)	5,608
Surplus adjustment: Paid in			
Aggregate write-ins for gains and losses in surplus			
Net change in capital and surplus for the year	(1,613,115)	1,018,812	(3,598,741)
Capital and surplus December 31, current year	$ 4,198,683	$ 5,217,495	$ 1,618,754

COMMENTS ON FINANCIAL STATEMENT

(1) Capital and Surplus $1,618,754

For examination purposes, the capital and surplus was determined to be $1,618,754, which is $164,014 less than reported by the Company in its' 2001 annual statement. The difference reflects the net of a $211,511 reduction to "Accident and health premiums due and unpaid," and a $47,497 increase in "Amounts recoverable from reinsurers." The adjustments to the amounts reported by the Company were done so to recognize adjustments made by the certified public accounting firm retained by the Company and relied on for examination purposes. The Company's capital fulfilled the requirements of U.C.A. § 31A-5-211 which required the Company to maintain minimum capital in the amount of $400,000. (Balance Sheet)

As of December 31, 2001, in accordance with U.C.A. § 31A-17, Part VI, the Company reported an authorized control level risk based capital (RBC) requirement in the amount of $1,706,567. It's total adjusted RBC was determined to be $1,619,124, for examination purposes, which placed the Company at the Authorized Control Level.

Subsequent to the examination date and as of December 31, 2002, in accordance with U.C.A. § 31A-17, Part VI, the Company reported total adjusted Risk Based Capital in the amount of $729,777 and an Authorized Control Level RBC in the amount of $186,653.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Items of significance or special interest contained in this report are summarized below:

1. During the review of the Company's operations, record keeping and control deficiencies were encountered indicating a deficiency in the segregation of accounting of transactions with its affiliates, as well as inadequate record keeping procedures. These deficiencies resulted in disruption to and delay in the examination process. (**ACCOUNTS AND RECORDS**)

2. As of December 31, 2001, in accordance with U.C.A. § 31A-17, Part VI, the Company reported an authorized control level risk based capital (RBC) requirement in the amount of $1,706,567. It's total adjusted RBC was determined to be $1,619,124 which placed the Company at the Authorized Control Level. (**COMMENTS ON FINANCIAL STATEMENT** - (1) Capital and Surplus)

3. As of December 31, 2001 the Company's capital and surplus was determined to be $1,618,754, which is $164,014 less than reported by the Company in its' 2001 annual statement. The Company's capital fulfilled the requirements of U.C.A. § 31A-5-211 which required the Company to maintain minimum capital in the amount of $400,000. (**COMMENTS ON FINANCIAL STATEMENT** - (1) Capital and Surplus)

4. In May 2002, subsequent to the examination date and in accordance with the provisions of Utah Code Annotated (UCA) §31A-4-115, the Company filed a plan of orderly withdrawal with the Commissioner that indicated that the premium volume for 2002 would decrease by more than 75%. Pursuant to the plan, a large majority of the accident and health business assumed by the Company was cancelled prior to the second quarter 2002. The group accident and health business written directly was cancelled in the forth quarter 2001. (**INSURANCE PRODUCTS AND RELATED PRACTICES** - Territory and Plan of Operation)

5. In 2002, subsequent to the examination date, $1,700,000 of the Company's funds were transferred to Wasatch Crest Group (WCGI) in violation of U.C.A. Subsection 31A-16-106(1)(b). In 2003, $125,000 of the Company's funds were transferred to WCGI in violation of U.C.A. Subsection 31A-16-106(1)(b). The Company did not subsequently disclose this transfers of funds to WCGI in holding company registration statements and/or updates thereto. The failure to disclose this information in holding company registration statements and/or updates thereto constituted a violation of U.C.A. § 31A-16-105. (**AFFILIATED COMPANIES** - Transactions with Affiliates)

6. Conflict of interest questionnaires, completed by officers and directors of the Company, were requested. However, none were provided the examination. (**HISTORY** - Conflict of Interest Procedure)

7. In July 2003, subsequent to the examination date, the Company's affiliate, Wasatch Crest Insurance Company, was placed into liquidation due to the insurer's adverse financial condition. (**AFFILIATED COMPANIES**)

8. The audit report generated by the certified public accounting firm retained by the Company to audit it's records as of December 31, 2002, disclosed that the Company was under temporary license suspension with 22 state insurance departments due to insufficient capital and surplus. (**INSURANCE PRODUCTS AND RELATED PRACTICES** - Territory and Plan of Operation)

9. As of December 31, 2002, subsequent to the examination date, in accordance with U.C.A. § 31A-17, Part VI, the Company reported total adjusted RBC in the amount of $186,653 and an Authorized Control Level RBC in the amount of $729,777. (**COMMENTS ON FINANCIAL STATEMENT** - (1) Capital and Surplus)

CONCLUSION

In addition to the undersigned, Allen J. Hart, CFE, Senior Examiner-Utah, and Faanu Laufiso, Examiner-Utah, Robert C. Murphy, CFE, CIE, FLMI, and Taylor-Walker & Associates, Inc.-Actuaries, join the undersigned in acknowledging the assistance extended by representatives of the Company during this examination.

Respectfully submitted,

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Utah Insurance Department