

Report on Examination
of
American Heritage
Life Insurance Company

Jacksonville, Florida

as of

December 31, 2002

By The
State of Florida
Office of Insurance Regulation

CONTENTS

SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
ACCOUNTS AND RECORDS	2
MANAGEMENT	3
CORPORATE RECORDS	3
REINSURANCE	4
INFORMATION TECHNOLOGY CONTROLS	5
HISTORY	6
GENERAL	6
CAPITAL STOCK	6
PROFITABILITY	7
DIVIDENDS	7
MANAGEMENT	8
CONFLICT OF INTEREST PROCEDURE	10
CORPORATE RECORDS	10
ACQUISITIONS, MERGERS, ETC.	10
AFFILIATED COMPANIES	11
INVESTMENT MANAGEMENT AGREEMENT	11
SERVICES AGREEMENT	11
COST SHARING AGREEMENT	11
ADMINISTRATIVE SERVICES & TPA AGREEMENTS	12
REINSURANCE AGREEMENT	12
ORGANIZATIONAL CHART	13
FIDELITY BOND AND OTHER INSURANCE	14
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS	14
STATUTORY DEPOSITS	15
INSURANCE PRODUCTS AND RELATED PRACTICES	15
TERRITORY AND PLAN OF OPERATION	15
TREATMENT OF POLICYHOLDERS	16
REINSURANCE	16
ASSUMED	16
CEDED	16

ACCOUNTS AND RECORDS.....	17
CUSTODIAL AGREEMENT	17
MGA AGREEMENTS.....	17
TPA AGREEMENTS.....	17
INDEPENDENT AUDITOR AGREEMENT.....	18
RISK-BASED CAPITAL.....	18
INFORMATION SYSTEMS CONTROLS	18
FINANCIAL STATEMENTS PER EXAMINATION	20
ASSETS.....	21
LIABILITIES, SURPLUS AND OTHER FUNDS	22
SUMMARY OF OPERATIONS.....	23
COMMENTS ON FINANCIAL STATEMENTS.....	25
ASSETS.....	25
LIABILITIES	25
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	26
SUMMARY OF FINDINGS	27
COMPLIANCE WITH PREVIOUS DIRECTIVES	27
CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION	27
CONCLUSION.....	29

Tallahassee, Florida

June 25, 2004

Kevin M. McCarty, Director
Florida Office of Insurance Regulation
101 Larson Bldg.
200 E. Gaines Street
Tallahassee, Florida 32399-0301

John Morrison, Commissioner
Montana Department of Insurance
Secretary, NAIC Western Zone
840 Helena Ave.
Helena, Montana 59601

Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chair, NAIC Financial Condition (E) Committee
P.O. Box 1157
Richmond, Virginia 23218

John Oxendine, Commissioner
Georgia Department of Insurance
Secretary, NAIC Southeastern Zone
2 Martin Luther King, Jr. Drive
Atlanta, Georgia 30334

Gentlemen:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes ("F.S."), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners ("NAIC"), we have conducted an examination as of December 31, 2002, of the financial condition and corporate affairs of:

**AMERICAN HERITAGE LIFE INSURANCE COMPANY
1776 AMERICAN HERITAGE LIFE DRIVE
JACKSONVILLE, FLORIDA 32224-6688**

hereinafter generally referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2000 through December 31, 2002. The Company was last examined by the Florida Office of Insurance Regulation (formerly, the Florida Department of Insurance) (the "Office") as of December 31, 1999.

Planning for the current examination began on September 16, 2003. The fieldwork commenced on October 20, 2003 and concluded on April 23, 2004. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was an association zone statutory financial examination conducted in accordance with the Financial Examiners Handbook, NAIC Accounting Practices and Procedures Manual, and the NAIC annual statement instructions as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code ("F.A.C."), with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the Company's financial solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC Insurance Regulatory Information System ("IRIS") ratio results, the A.M. Best Report, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant ("CPA") were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its 2002 annual statement. Transactions subsequent to December 31, 2002 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA for examination procedures related to legal representation letters.

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 1999, along with resulting action taken by the Company in connection therewith.

ACCOUNTS AND RECORDS

The Company did not have approval from the Office to move its investment records from Jacksonville, Florida to Northbrook, Illinois. Resolution: On March 6, 2002, the Company requested the Office's approval to permanently locate its investment records in Northbrook, Illinois. On July 5, 2002, the Office granted the Company approval to maintain the records in the State of Illinois through July 5, 2003. On June 4, 2003, the Company requested the Office's approval to locate its investment records in Northbrook, Illinois for another year. On July 7, 2003 the Office granted the Company approval to maintain the records in the State of Illinois through July 5, 2004.

The Company's accounting records were not always accurately maintained as required by Section 607.1601(2), F.S. Resolution: During the current examination, we found that deficiencies noted during the prior examination related to the accuracy of the Company's accounting records had been corrected.

MANAGEMENT

The Company's directors, with the exceptions of directors Douglas and Morehead, were not elected by the stockholder to the Board in accordance with the Company's bylaws and Section 628.231, F.S.

Resolution: The directors were properly elected at the annual stockholder meeting on August 8, 2000.

While the Company utilized the audit committee of The Allstate Corporation, it had not established its own audit committee. Resolution: At its annual meeting on March 14, 2002, the Company's board of directors appointed The Allstate Corporation audit committee as the Company's audit committee.

CORPORATE RECORDS

There was no indication in the minutes of the Company's board of directors meetings that the Board authorized the Company's investments. Resolution: At its annual meeting on March 14, 2002, the Company's board of directors approved all investment transactions made by the Company as reflected in its 1997, 1998, and 1999 annual statements.

REINSURANCE

The reinsurance treaty and trust agreement with the Company's affiliate Colonial Reinsurance, Ltd. did not comply with the provisions of Section 624.610(3)(b), F.S., and Rules 69O-144.005(3)(a) and 69O-144.005 (4), F.A.C. Review of the reinsurance contract with this unauthorized, alien reinsurer, disclosed that it lacked the required service of process clause, and that the reinsurer failed to establish an acceptable trust agreement and trust account, as required by the contract and F.S. The resultant effect was to render approximately \$80 million in reinsurance recoverable assets and ceded liability credits reported in the Company's 1999 annual statement unsecured and, therefore, non-admissible.

Resolution: On June 22, 2001, the Office issued a Consent Order approving a Commutation and Release Agreement between the Company and Colonial Reinsurance, Ltd. Also approved was a Reinsurance Novation Agreement Endorsement between the Company, Colonial Reinsurance, Ltd., and various captive company reinsurers, to which Colonial retroceded the subject book of business. The Consent Order provided for acceptance of the reinsurance credits taken by the Company in its 1999 and 2000 annual statements upon execution of the aforementioned agreements, which provided for a direct reinsurance relationship between the Company and the various captive reinsurers. The Order also required execution of the agreements within six months of the Order's filing date and specified the Company's understanding and agreement that it would prospectively comply with Section 624.610, F.S., and Rule 69O-144.005, F.A.C. During our current examination, we found that the agreements had been executed as required.

INFORMATION TECHNOLOGY CONTROLS

The prior examination revealed certain weaknesses in the Company's internal controls over its information technology resources. We found that its mainframe and AS/400 computer procedures for implementing changes to source codes from test to production did not provide adequate control of the source codes. Resolution: During the current examination, we found that this had been corrected.

During the prior examination, we also found that the Company did not have a written business continuity plan, and that its disaster recovery plan was inadequate. Resolution: As more fully discussed beginning on page 18, this has not been corrected.

HISTORY

GENERAL

The Company was incorporated in Florida on September 11, 1956, and commenced business on December 27, 1956.

In accordance with Section 624.401(1), F.S., the Company was authorized to transact the following insurance coverage in Florida on December 31, 2002:

- Life
- Credit life and health
- Group life and annuities
- Credit disability
- Accident and health

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

CAPITAL STOCK

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	4,000,000
Number of shares issued and outstanding	3,311,316
Total common capital stock	\$3,311,316
Par value per share	\$1.00

At December 31, 2002, the Company was wholly-owned by American Heritage Life Investment Corporation, which in turn was wholly-owned by The Allstate Corporation. American Heritage Life Investment Corporation was acquired by The Allstate Corporation on October 31, 1999 for \$1.1 billion. A simplified organizational chart appears on page 13.

PROFITABILITY

The Company reported net losses of \$13.0 million, \$6.0 million, and \$33.0 million on total revenues of \$570.6 million, \$507.4 million, and \$725.6 million, in years 2002, 2001, and 2000, respectively. Its total premium and annuity considerations were \$405.0 million, \$362.3 million, and \$580.2 million in those same years.

DIVIDENDS

The Company did not pay any shareholder dividends during the period of this examination. Rather, it received capital contributions in the total amount of \$81.4 million during years 2002, 2001, and 2000.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 628.231, F.S. Directors serving as of December 31, 2002 were:

Directors

Name & Location	Principal Occupation
Charles C. Baggs Jacksonville, Florida	Executive Vice President and Chief Administrative Officer of the Company
David A. Bird Jacksonville, Florida	President of the Company
Gregory J. Guidos Jacksonville, Florida	Chief Financial Officer and Treasurer of the Company
William H. Monie, Jr. Jacksonville, Florida	Chief Marketing Officer of the Company
Steven E. Shebik Northbrook, Illinois	Sr. Vice President and Chief Financial Officer of Allstate Financial Corp.
Casey J. Sylla Northbrook, Illinois	President of Allstate Financial Corp.
Michael J. Velotta Northbrook, Illinois	Vice President, Secretary & General Counsel of Allstate Financial Corp.

The following senior officers were appointed by the Board of Directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
David A. Bird	President
Charles C. Baggs	Exec. Vice President & Chief Administrative Officer
Gregory J. Guidos	Exec. Vice President, Chief Financial Officer & Treasurer
William H. Monie, Jr.	Exec. Vice President & Chief Marketing Officer
Dennis P. Adams	Sr. Vice President - Workplace Sales
Laura J. Clark	Sr. Vice President & Chief Accounting Officer
Don O. Fennell	Sr. Vice President - Workplace Sales Support
Curtis S. Sheldon	Sr. Vice President - Actuarial Department
Gary S. Stere	Sr. Vice President, Secretary & General Counsel
Anton Wanderon	Sr. Vice President - Credit Division

The Company's board of directors appointed the following committees in accordance with Section 607.0825, F.S.:

**Employee Profit Sharing
Retirement Program
Trustees**

David A. Bird, Chairman
 Russell H. Furtick
 Dennis Gomez
 William H. Monie, Jr.
 Mary Ann Wright

**Management Security
Plan Benefit
Committee**

David A. Bird, Chairman
 Dennis Gomez
 William H. Monie, Jr.
 Casey J. Sylla
 Mary Ann Wright

On March 14, 2002, the Company's board of directors voted to utilize the audit committee of The Allstate Corporation.

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement defining conflicts of interest and requiring that any such conflict of interest be brought to the attention of management. The policy statement does not require directors, officers, or key personnel to sign conflict of interest disclosure statements.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors, and committee meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 625.304, F.S.

ACQUISITIONS, MERGERS, ETC.

In December of 2001, AHL Select HMO, Incorporated, a subsidiary of the Company, was dissolved and its net assets of \$1,413,912 were transferred to the Company.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), F.A.C. Its latest holding company registration statement was filed with the State of Florida on April 7, 2003, as required by Section 628.801, F.S., and Rule 690-143.046, F.A.C.

The following agreements were in force between the Company and its affiliates:

INVESTMENT MANAGEMENT AGREEMENT

Allstate Investment LLC performs investment management services for the Company and other affiliates of The Allstate Corporation pursuant to an investment management agreement. Services include: purchasing and selling investments in accordance with the Company's investment policies and guidelines; conducting investment research; and advising and reporting to the Company's board of directors.

SERVICES AGREEMENT

The Company reimburses The Allstate Corporation for operating expenses incurred by The Allstate Corporation on behalf of the Company, pursuant to a services agreement. The Company is charged for the cost of these operating expenses based on the level of services provided. Operating expenses, including compensation and retirement and other benefit programs allocated to the Company were \$2.7 million, \$2.2 million, and \$1.5 million, in years 2002, 2001, and 2000, respectively.

COST SHARING AGREEMENT

Corporate overhead and certain other expenses are allocated to the Company and Keystone State Life Insurance Company pursuant to a cost sharing agreement between them. The companies are reimbursed for other expenses or costs paid by one company on behalf of the other.

ADMINISTRATIVE SERVICES & TPA AGREEMENTS

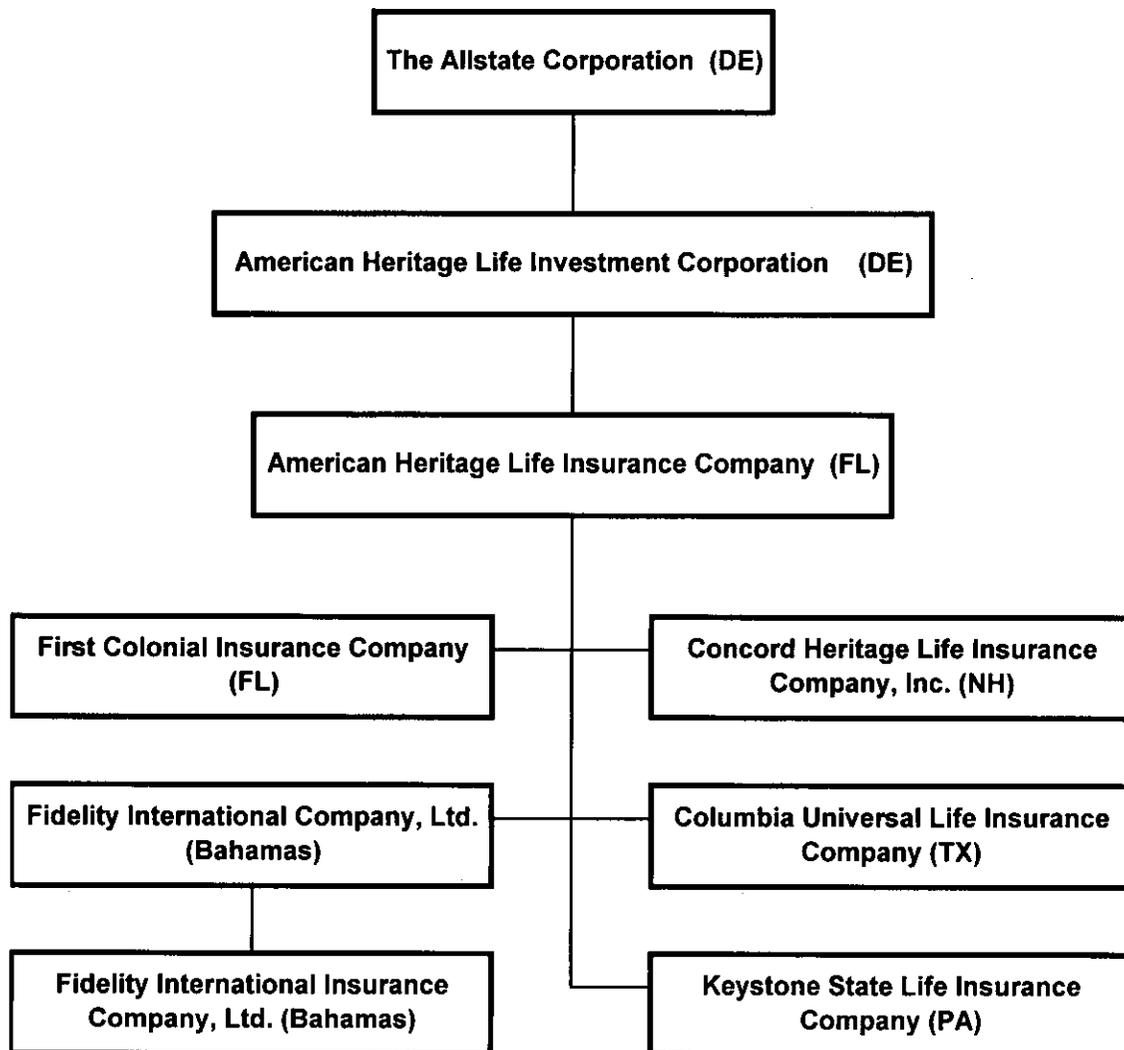
The Company provides services to Allstate Life Insurance Company of New York pursuant to an administrative services agreement. Services provided include underwriting, policy owner, claims, marketing, actuarial, legal, and accounting services. The Company is reimbursed for direct expenses and allocable overhead costs incurred. The administrative services agreement provides that the Company may furnish services through one or more of its affiliates. The Company entered into an agreement with American Heritage Service Company, a non-insurer, calling for American Heritage Service Company to administer claims for Allstate Life Insurance Company of New York.

REINSURANCE AGREEMENT

Pursuant to a reinsurance and administrative services agreement between the Company and its subsidiary, Columbia Universal Life Insurance Company ("CUL"), certain insurance programs involving life and annuity products are automatically reinsured by CUL. Under terms of the agreement, CUL accepts the risk, and markets and administers business under the programs, and the Company issues the related policies.

A simplified organizational chart as of December 31, 2002 reflecting the holding company system is shown below. Schedule Y of the Company's 2002 annual statement provided the names of other related companies in the holding company group.

**American Heritage Life Insurance Company
Organizational Chart
December 31, 2002**



FIDELITY BOND AND OTHER INSURANCE

The Company is included in The Allstate Corporation fidelity bond for up to \$25 million, which adequately covers the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company provides benefits to eligible employees including group medical, disability, dental care, vision care, vacation, and sick leave. Qualified employees are offered profit sharing and 401(k) retirement programs. Additionally, key employees may participate in a stock option plan.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	U.S. Treasury Bond, 11.875%, due 11/15/03	\$200,000	\$218,250
FL	U.S. Treasury Bond, 8.125%, due 8/15/19	3,935,000	5,480,717
FL	U.S. Treasury Bond, 7.25%, due 8/15/22	100,000	130,156
FL	U.S. Treasury Bond, 6.25%, due 2/15/03	100,000	100,594
FL	U.S. Treasury Bond, 11.875%, due 11/15/03	375,000	409,219
FL	U.S. Treasury Bond, 9.375%, due 2/15/06	550,000	671,000
	Total Florida deposits	<u>\$5,260,000</u>	<u>\$7,009,936</u>
GA	U.S. Treasury Bond, 7.25%, due 5/15/04	10,000	10,803
GA	U.S. Treasury Bond, 11.875%, due 11/15/03	25,000	27,281
NV	U.S. Treasury Bond, 10.75%, due 2/15/03	1,500,000	1,516,875
NV	U.S. Treasury Bond, 7.25%, due 8/15/22	1,500,000	1,952,344
NM	U.S. Treasury Bond, 8.125%, due 8/15/21	100,000	140,719
NC	U.S. Treasury Bond, 11.875%, due 11/15/03	100,000	109,125
OH	U.S. Treasury Bond, 9.375%, due 2/15/06	100,000	122,000
	Total special deposits	<u>\$8,595,000</u>	<u>\$10,889,083</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company markets ordinary life, individual accident and health, annuities, group life, group accident and health, credit life and credit accident and health products through licensed agents and brokers.

TERRITORY AND PLAN OF OPERATION

At December 31, 2002, the Company was authorized to transact insurance in Puerto Rico, the U.S. Virgin Islands, the District of Columbia, and all U.S. states except New York.

TREATMENT OF POLICYHOLDERS

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), F.S., and maintained a claims procedures manual that included detailed procedures for handling life and accident and health policy claims.

REINSURANCE

The reinsurance agreements reviewed were found to meet NAIC standards with respect to the standard insolvency, arbitration, indemnification, and termination clauses, transfer of risk, and reporting and settlement information deadlines.

Reinsurance agreements were reviewed by the Company's appointed actuary and utilized in determining the ultimate loss opinion.

ASSUMED

The Company assumed insurance, primarily on a coinsurance basis, from two subsidiaries and 14 unaffiliated companies. In addition, it assumed credit reinsurance on a coinsurance basis from approximately 147 unaffiliated producer-owned alien captive reinsurers.

CEDED

The Company ceded insurance, primarily on a coinsurance basis, to 42 unaffiliated companies. In addition, it ceded certain credit insurance policies on a coinsurance basis to 254 unaffiliated producer-owned alien captive reinsurers that are unauthorized in Florida.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for years 2002, 2001, and 2000, pursuant to Section 624.424(8), F.S. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, F.A.C.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office is located in Jacksonville, Florida, where this examination was conducted.

The following agreements were in effect between the Company and non-affiliates:

CUSTODIAL AGREEMENT

The Company contracted with Citibank for the safekeeping of its securities. The safekeeping agreement was found to comply with the requirements of Rule 69O-143.042, F.A.C.

MGA AGREEMENTS

At December 31, 2002, the Company had in effect managing general agents agreements with three companies which are authorized to underwrite, adjust and pay claims, cede reinsurance, bind coverage and collect premiums.

TPA AGREEMENTS

At December 31, 2002, the Company had in effect third party administrator agreements with two companies which are authorized to pay and adjust claims, bind coverage, collect premiums and cede reinsurance.

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with Deloitte & Touche LLP to audit its statutory-basis financial statements.

RISK-BASED CAPITAL

The Company reported its risk-based capital at an adequate level.

INFORMATION SYSTEMS CONTROLS

The Company provides information technology services to First Colonial Insurance Company ("First Colonial"), a wholly-owned subsidiary of the Company. Computer Aid, Inc., a computer audit specialist, evaluated the adequacy of information systems controls of First Colonial in conjunction with an examination by the Office. All of First Colonial's information technology services are provided by the Company. Because the two companies share most of their information technology operations, controls and procedures, the findings of the computer audit specialist are generally applicable to both companies.

The review by the computer audit specialist emphasized logical and physical security of information systems, comprehensive contingency planning, information technology governance, policies and procedures, and the information systems audit function. It included logical and physical security functions associated with local and wide area networks.

The review of information systems controls was completed prior to a planned November 7, 2003 consolidation of the Company's data center with that of the The Allstate Corporation's data center in Hudson, Ohio.

The computer audit specialist assessed the Company's information systems controls as generally good; however, it noted that the Company did not have a formal comprehensive business continuity plan, nor did it have a disaster recovery plan for other than its mainframe platform.

The Office's report on its prior examination of the Company as of December 31, 1999 included a finding that the Company did not have a written business continuity plan, and that its disaster recovery plan was inadequate. The Company was directed to update its disaster recovery plan and implement a written business continuity plan.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain statements of the Company's financial position at December 31, 2002, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

AMERICAN HERITAGE LIFE INSURANCE COMPANY
ASSETS
DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$783,080,153	\$0	\$783,080,153
Preferred stocks	5,402,451	0	5,402,451
Common stocks	79,960,326	0	79,960,326
First liens - mortgage loans on real estate	133,382,432	0	133,382,432
Properties occupied by the company	26,448,073	0	26,448,073
Policy loans	519,041,422	0	519,041,422
Cash and short-term investments	42,564,155	0	42,564,155
Other invested assets	1,141,868	0	1,141,868
Receivable for securities	40,000	0	40,000
Reinsurance ceded:			
Amounts recoverable from reinsurers	1,915,418	0	1,915,418
Commissions and expense allowances due	1,362,724	0	1,362,724
Other amounts receivable under contracts	706,127	0	706,127
Electronic data processing equipment and software	1,747,563	0	1,747,563
Federal and foreign income tax recoverable	28,139,459	0	28,139,459
Guaranty funds receivable or on deposit	549,570	0	549,570
Life insurance premiums and annuity considerations deferred and uncollected	7,108,114	0	7,108,114
Accident and health premiums due and unpaid	12,737,384	0	12,737,384
Investment income due and accrued	27,948,028	0	27,948,028
Receivable from parent, subsidiaries and affiliates	1,126,146	0	1,126,146
Aggregate write-ins for other than invested assets	48,825,681	0	48,825,681
Totals	\$1,723,227,094	\$0	\$1,723,227,094

AMERICAN HERITAGE LIFE INSURANCE COMPANY
LIABILITIES, SURPLUS & OTHER FUNDS
DECEMBER 31, 2002

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life policies & contracts	\$1,304,603,937	\$0	\$1,304,603,937
Aggregate reserve for A&H policies & contracts	133,221,089	0	133,221,089
Liability for deposit-type contracts	5,729,571	0	5,729,571
Policy & contract claims - life	14,097,849	0	14,097,849
Policy & contract claims - accident and health	28,956,570	0	28,956,570
Dividends not yet apportioned	107,416	0	107,416
Coupons and similar benefits	58,490	0	58,490
Premiums and annuity considerations received in advance	3,639,707	0	3,639,707
Commissions to agents due or accrued	6,904,101	0	6,904,101
Commissions and expense allowances on reinsurance	392,629	0	392,629
General expenses due or accrued	6,047,995	0	6,047,995
Taxes, licenses and fees due or accrued	1,466,951	0	1,466,951
Unearned investment income	1,115,388	0	1,115,388
Amounts withheld or retained as agent or trustee	361,966	0	361,966
Amounts held for agents' account	9,990,944	0	9,990,944
Remittances and items not allocated	6,464,744	0	6,464,744
Asset valuation reserve	6,619,572	0	6,619,572
Reinsurance in unauthorized companies	3,151,228	0	3,151,228
Funds held under reinsurance treaties	824,831	0	824,831
Payable to parent, subsidiaries and affiliates	237,788	0	237,788
Drafts outstanding	342,927	0	342,927
Funds held under coinsurance	22,215,235	0	22,215,235
Aggregate write-ins for liabilities	3,726,571	0	3,726,571
Total liabilities	1,560,277,499	0	1,560,277,499
Capital & Surplus			
Gross paid in and contributed surplus	175,983,980	0	175,983,980
Unassigned funds (surplus)	(16,345,701)	0	(16,345,701)
Surplus	159,638,279	0	159,638,279
Common capital stock	3,311,316	0	3,311,316
Total capital & surplus	162,949,595	0	162,949,595
Total liabilities, capital and surplus	\$1,723,227,094	\$0	\$1,723,227,094

AMERICAN HERITAGE LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002

Income

Premiums and annuity considerations		\$404,993,594
Net investment income		105,330,704
Amortization of interest maintenance reserve		(1,543,144)
Commissions and expense allowances on reinsurance ceded		58,135,346
Aggregate write-ins for miscellaneous income		<u>3,698,492</u>
		570,614,992
Death benefits	\$70,881,013	
Matured endowments	52,961	
Annuity benefits	4,519,437	
Disability benefits and benefits under A&H contracts	127,769,432	
Coupons, guaranteed annual pure endowments	31,269	
Surrender benefits and withdrawals for life contracts	42,081,034	
Interest and adjustments on contracts	742,934	
Increase in aggregate reserves for life and A&H contracts	<u>40,150,777</u>	
	286,228,857	
Commissions on premiums and annuity considerations	111,254,844	
Commissions and expenses on reinsurance assumed	86,552,256	
General insurance expenses	77,885,984	
Insurance taxes, licenses and fees	11,866,550	
Increase in loading on deferred and uncollected premiums	513,520	
Aggregate write-ins for deductions	<u>5,583,078</u>	
		<u>579,885,089</u>
Net gain (loss) before dividends, income taxes, & capital gains / losses		(9,270,097)
Dividends to policyholders		<u>121,260</u>
Net gain (loss) before income taxes, & capital gains / losses		(9,391,357)
Federal and foreign income taxes incurred		<u>(1,951,268)</u>
Net gain (loss) from operations before capital gains or losses		(7,440,089)
Net realized capital gains or (losses)		<u>(5,557,424)</u>
Net income (loss)		<u><u>(\$12,997,513)</u></u>

**AMERICAN HERITAGE LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2002**

Capital and Surplus

Capital & surplus - December 31, 2001	\$155,802,364
Net income (loss)	(12,997,513)
Change in net unrealized capital gains or losses	(7,729,697)
Change in net deferred income tax	1,642,937
Change in nonadmitted assets and related items	(8,503,644)
Change in liability for reinsurance in unauthorized companies	(737,766)
Change in asset valuation reserve	8,985,412
Paid in surplus adjustments	<u>26,487,502</u>
	162,949,595
Examination adjustments	<u>0</u>
Capital & surplus - December 31, 2002	<u><u>\$162,949,595</u></u>

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Federal Income Tax Recoverable **\$28,139,459**

On its 2002 annual statement, the Company overstated the amount of its "Federal income tax recoverable" by \$3,134,309. However, because the amount of the overstatement is not material to the Company's surplus, no examination adjustment has been made.

Aggregate Write-Ins For Other Than Invested Assets **\$48,825,681**

On its 2002 annual statement, the Company overstated the amount of its "aggregate write-ins for other than invested assets" by \$880,491. However, because the amount of the overstatement is not material to the Company's surplus, no examination adjustment has been made.

LIABILITIES

Aggregate Reserves and Contract Claims **\$1,480,879,445**

An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2002 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion.

General Expenses Due or Accrued **\$6,047,995**

On its 2002 annual statement, the Company understated the amount of its "general expenses due or accrued" by \$184,402. However, because the amount of the understatement is not material to the Company's surplus, no examination adjustment has been made.

**AMERICAN HERITAGE LIFE INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS
DECEMBER 31, 2002**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital & surplus, December 31, 2002 - per annual statement			\$162,949,595
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Surplus</u>
Assets	\$1,723,227,094	\$1,723,227,094	\$0
Liabilities	\$1,560,277,499	\$1,560,277,499	<u>\$0</u>
Net change in capital and surplus			<u>0</u>
Capital & surplus, December 31, 2002 - per examination			<u><u>\$162,949,595</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the findings reported in the 1999 examination report issued by the Office, except with respect to information technology controls.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2002.

Information Technology Controls

In the prior examination, we noted certain weaknesses in the Company's internal controls over its information technology resources, specifically that the Company did not have a written business continuity plan and that its disaster recovery plan was inadequate. As more fully discussed beginning on page 18, this has not been corrected. During our current examination, we noted that the Company still did not have a formal comprehensive business continuity plan, nor did it have a disaster recovery plan for other than its mainframe platform. **The Company is again directed to adopt a written comprehensive business continuity plan, and to update its disaster recovery plan and include all of its significant information technology resources.**

Reporting Errors

As more fully discussed on page 25, on its 2002 annual statement, the Company: overstated the amount of its "Federal income tax recoverable" by \$3,134,309; overstated the amount of its "aggregate write-ins for other than invested assets" by \$880,491; and understated the amount of its "general expenses due or accrued" by \$184,402. However, because these amounts are not material to the Company's surplus, no examination adjustments have been made. **The Company is directed to properly report the amounts of its assets and liabilities in accordance with Part I of Chapter 625, F.S., on future statements filed with the Office.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Heritage Life Insurance Company** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

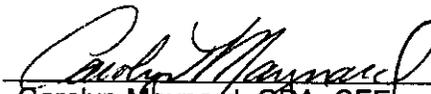
Per examination findings, the Company's total capital and surplus was \$162,949,595, which was in compliance with Section 624.408, F.S.

In addition to the undersigned, Computer Aid, Inc., Walter F. Banas, Financial Examiner/Analyst II, Stephen Feliu, Financial Examiner/Analyst I, Kerry A. Krantz, Actuary, and Ming Zhu, Actuarial Analyst, participated in this examination.

Respectfully submitted,


Richard J. Schaaf, CPA
Financial Specialist
Florida Office of Insurance Regulation


Kenneth L. Wise, CFE, CIE
Senior Insurance Examiner
Nevada Division of Insurance
Representing the NAIC Western Zone


Carolyn Maynard, CPA, CFE
Financial Specialist
Florida Office of Insurance Regulation