

Report on Examination
of
Hannover Life
Reassurance Company of America
Orlando, Florida
as of
December 31, 2004

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

February 16, 2006

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0326

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

Gentlemen:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), 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, 2004, of the financial condition and corporate affairs of:

Hannover Life Reassurance Company of America
800 N. Magnolia Ave., Suite 1400
Orlando, Florida 32803-3268

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, 2002 through December 31, 2004. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2000. In lieu of conducting a statutory financial examination of the Company for the year 2001, the Office accepted the independent certified public accountant's (CPA) audit report on the Company's statutory-basis financial statements for that year pursuant to Section 624.316(2)(a), FS.

Planning for the current examination began on April 12, 2005. The fieldwork commenced on April 13, 2005 and was suspended on July 29, 2005, pending receipt and review of certain actuarial information from ceding insurers pertaining to policies reinsured by the Company. The fieldwork resumed on October 11, 2005 and concluded on October 27, 2005. 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 NAIC *Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions* as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (FAC), 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 they affect the Company's 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 CPA were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2004 annual statement. Transactions subsequent to December 31, 2004 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 in the area of contingent liabilities.

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, 2000, along with resulting action taken by the Company in connection therewith.

ACCOUNTS AND RECORDS

A review of the Information Systems Questionnaire completed by the Company indicated material exceptions. The Company did not have in effect records retention, disaster recovery, or business contingency plans. In addition, it did not have a written agreement for the use of a specific alternate site and computer hardware to restore data processing operations after the occurrence of a disaster, or a set of manual processing procedures for use until the electronic data processing function could be restored following a disaster. Resolution: The Company took sufficient corrective action.

CUSTODIAL AGREEMENT

The Company entered into a custodial agreement with First Union National Bank that did not comply with the requirements of Rule 69O-143.042, FAC. Resolution: The Company revised the custodial agreement to meet the requirements of Rule 69O-143.042, FAC.

HISTORY

GENERAL

The Company was incorporated in Florida on June 16, 1988, and commenced business on October 1, 1988 as the HIR Life of America Reassurance Company.

As of December 31, 2004, the Company was authorized to transact the following insurance coverage in Florida, in accordance with Section 624.401(1), FS:

Life and Variable Life	Group Life and Annuities
Credit Life and Health	Accident and Health
Credit Disability	Variable Annuities

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, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	250,000
Number of shares issued and outstanding	250,000
Total common capital stock	\$2,500,000
Par value per share	\$10.00

At December 31, 2004, the Company was wholly-owned by Hannover Ruckversicherung AG, which was 11.38% owned by Talanx AG. Talanx AG was wholly-owned by Haftpflichtverband der Deutschen Industrie V.a.G. An abbreviated organizational chart appears on page 9.

PROFITABILITY

For the period of this examination, the Company reported the following:

(In \$ Millions)	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net premiums	\$299.9	\$347.1	\$272.2
Total revenues	\$448.2	\$517.1	\$532.3
Net income (loss)	(\$5.2)	(\$1.4)	\$1.4
Total capital & surplus	\$85.9	\$85.0	\$87.8

DIVIDENDS

The Company did not pay any shareholder dividends during the period of this examination.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 628.231, FS. Directors serving as of December 31, 2004 were:

Directors

Name and Location	Principal Occupation
Wolf S. Becke Hannover, Germany	Board of Management Hannover Ruckversicherung AG
Dennis D. Braziel Orlando, Florida	Senior Vice President, Secretary, & Treasurer of the Company
William J. Kelty Chicago, Illinois	Partner - Lord, Bissell & Brook LLP
Elke A. Koenig Hannover, Germany	Board of Management Hannover Ruckversicherung AG
Steven B. Najjar New York, New York	President & Chief Executive Officer Clarendon Insurance Group, Inc.
Peter R. Schaefer Orlando, Florida	President & Chief Executive Officer of the Company
Wilhelm Zeller Hannover, Germany	Board of Management Hannover Ruckversicherung AG

At December 31, 2004, members of the principal committee(s) of the Board were:

Audit Committee

Dennis D. Braziel
William J. Kelty
Elke A. Koenig
Glen E. Martin
Peter R. Schaefer

Investment Committee

Dennis D. Braziel
Ranier Decker
Elke A. Koenig
Peter R. Schaefer

The following were the Company's senior officers as of December 31, 2004, as appointed by its board of directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Peter R. Schaefer	President & Chief Executive Officer
Dennis D. Braziel	Senior Vice President, Secretary, & Treasurer
Curt R. Hagelman	Senior Vice President - Chief Marketing Officer
Joseph A. Sikora	Senior Vice President & Chief Actuary

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, FS. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors, and Audit and Investment 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, FS, including the authorization of investments as required by Section 625.304, FS.

ACQUISITIONS AND MERGERS

There were no acquisitions or mergers during the period of examination.

SURPLUS DEBT

As of December 31, 2004, the Company was obligated for surplus notes in the total amount of \$48,104,614 to the following affiliates:

Holder	Maturity	Interest Rate	Amount
Hannover Ruckversicherungs-Aktiengesellschaft	12/4/2006	4.234%	\$23,104,614
Hannover Finance, Inc.	12/1/2009	4.450%	<u>25,000,000</u>
			<u>\$48,104,614</u>

The notes were approved by the Company’s board of directors and the Office. In accordance with Section 628.401, FS, the surplus note debt is included in the Company’s surplus.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, FS, and Rule 69O-143.046, FAC, on April 29, 2005.

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

INVESTMENT MANAGEMENT AGREEMENT

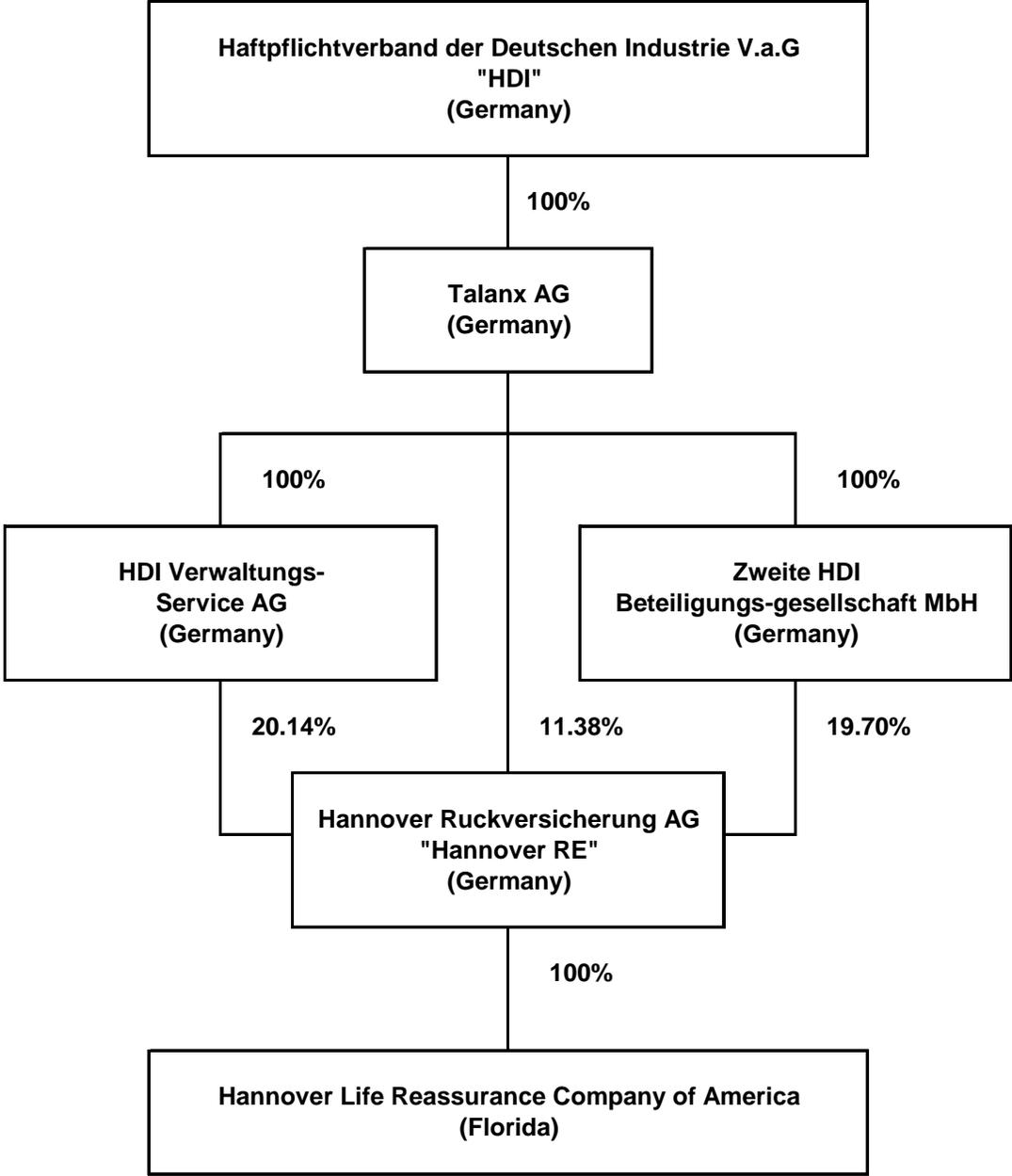
The Company entered into an investment management agreement with Hannover Ruckversicherung AG effective July 1, 2000, pursuant to which Hannover Ruckversicherung AG manages a portion of the Company's portfolio in accordance with the Company's investment guidelines. Fees paid to Hannover Ruckversicherung AG for these services amounted to \$874,872, \$672,901 and \$694,457 in years 2004, 2003, and 2002, respectively.

SERVICE AGREEMENT

The Company provides financial and accounting services to Hannover Re Real Estate Holdings, Inc. (Holdings) pursuant to an agreement effective January 1, 2002. Under the terms of the agreement, services provided by the Company include providing a full time employee to: liaison with the portfolio asset manager, coordinate the activities of independent public accountants, prepare audit schedules and financial statements, maintain bank accounts, prepare monthly reports, and offer accounting advice and assistance to Holdings. Fees received for these services amounted to \$113,539, \$104,599, and \$105,049 in years 2004, 2003, and 2002, respectively.

An abbreviated organizational chart as of December 31, 2004 reflecting the holding company system is shown below. Schedule Y of the Company's 2004 annual statement provided the names of all related companies in the holding company group.

**Hannover Life Reassurance Company of America
Organizational Chart
December 31, 2004**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$2.5 million with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1,750,000.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company provides numerous fringe benefits to eligible employees to include group medical, life, and long-term and short-term disability insurance, and a 401(k) savings plan. In addition, it offers its employees educational assistance and paid vacation and sick leave. A defined benefit retirement plan is provided to eligible employees with benefits based on years of service and the employee's average monthly compensation.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various other governments as required or permitted by law:

Holder	Description	Rate	Due	Par	Market
Florida	U.S. Treasury Bond	7.25%	5/15/16	\$225,000	\$281,671
Florida	U.S. Treasury Bond	7.25%	5/15/16	300,000	375,563
Florida	U.S. Treasury Bond	5.38%	2/15/31	<u>300,000</u>	<u>324,375</u>
Total Florida Deposits				\$825,000	\$981,609
Massachusetts	U.S. Treasury Bond	5.38%	2/15/31	<u>200,000</u>	<u>216,250</u>
Total Special Deposits				<u>\$1,025,000</u>	<u>\$1,197,859</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company writes no direct business; all of its premium revenues are from reinsurance activities.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was authorized or accredited in Puerto Rico and 34 U.S. states, and was licensed in the following eleven U.S. states:

Alaska	Indiana	Michigan	Utah
California	Kansas	Nebraska	Washington
Florida	Massachusetts	Ohio	

TREATMENT OF POLICYHOLDERS

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The Company assumed insurance primarily on a coinsurance basis from two affiliates and 198 non-affiliated companies. It ceded insurance primarily on a coinsurance basis to two affiliates and 20 non-affiliated companies. The reinsurance agreements reviewed were found to comply with Florida Statutes and NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2002, 2003, and 2004, pursuant to Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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 Orlando, Florida, where this examination was conducted.

RISK-BASED CAPITAL

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

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

CUSTODIAL AGREEMENT

Pursuant to a custodial agreement with the Company, Wachovia Bank provides custodial services to the Company. The agreement calls for Wachovia Bank to hold and safely keep Company securities. Fees related to the agreement were \$105,678, \$102,406, and \$103,040 in years 2004, 2003 and 2002, respectively.

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with the independent audit firm of KPMG LLP to conduct its annual audit during the period under review. Fees related to this agreement were \$210,000, \$426,786 and \$350,000 in years 2004, 2003, and 2002, respectively.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2004, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

Hannover Life Reassurance Company of America
Assets
December 31, 2004

	Per Company	Examination Adjustments	Per Examination
Bonds	\$751,375,123	\$0	\$751,375,123
Preferred stocks	16,873,729	0	16,873,729
First liens - mortgage loans on real estate	9,809,422	0	9,809,422
Cash, cash equivalents, & short-term investments	25,992,524	0	25,992,524
Contract loans	2,022,231	0	2,022,231
Other invested assets	<u>14,000,000</u>	<u>0</u>	<u>14,000,000</u>
	820,073,029	0	820,073,029
Investment income due and accrued	15,439,276	0	15,439,276
Uncollected premiums and agents' balances	133,225,730	0	133,225,730
Amounts recoverable from reinsurers	8,104,830	0	8,104,830
Funds held by or deposited with reinsured companies	79,557,151	0	79,557,151
Other amounts receivable under reinsurance contracts	46,844,599	0	46,844,599
Net deferred tax asset	2,714,000	0	2,714,000
Electronic data processing equipment and software	143,099	0	143,099
Receivables from parent, subsidiaries and affiliates	<u>118,950,705</u>	<u>0</u>	<u>118,950,705</u>
Total assets	<u><u>\$1,225,052,419</u></u>	<u><u>\$0</u></u>	<u><u>\$1,225,052,419</u></u>

Hannover Life Reassurance Company of America
Liabilities, Surplus and Other Funds
December 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$234,462,973	\$0	\$234,462,973
Aggregate reserve for A&H contracts	38,904,260	0	38,904,260
Contract claims - Life	49,427,170	0	49,427,170
Contract claims - Accident & Health	77,728,445	0	77,728,445
Policyholders' dividends	2,224,344	0	2,224,344
Other amounts payable on reinsurance	57,520,432	0	57,520,432
Interest maintenance reserve	6,344,526	0	6,344,526
Commissions & allowances payable on reinsurance assumed	60,518,508	0	60,518,508
General expenses due or accrued	2,384,546	0	2,384,546
Taxes, licenses and fees due or accrued	1,031,541	0	1,031,541
Amounts withheld or retained by company as agent or trustee	7,435	0	7,435
Remittances and items not allocated	13,191,683	0	13,191,683
Borrowed money	1,314,043	0	1,314,043
Asset valuation reserve	1,682,933	0	1,682,933
Reinsurance in unauthorized companies	527,551	0	527,551
Funds held under reinsurance treaties with unauthorized reinsurers	576,340,155	0	576,340,155
Funds held under coinsurance	<u>15,558,952</u>	<u>0</u>	<u>15,558,952</u>
Total liabilities	<u>1,139,169,497</u>	<u>0</u>	<u>1,139,169,497</u>
Surplus and Other Funds			
Surplus notes	48,104,614	0	48,104,614
Gross paid in and contributed surplus	85,404,632	0	85,404,632
Unassigned funds (surplus)	<u>(50,126,324)</u>	<u>0</u>	<u>(50,126,324)</u>
Surplus	83,382,922	0	83,382,922
Common capital stock	<u>2,500,000</u>	<u>0</u>	<u>2,500,000</u>
Total surplus and other funds	<u>85,882,922</u>	<u>0</u>	<u>85,882,922</u>
Total liabilities, surplus and other funds	<u><u>\$1,225,052,419</u></u>	<u><u>\$0</u></u>	<u><u>\$1,225,052,419</u></u>

Hannover Life Reassurance Company of America
Summary of Operations
For the Year Ended December 31, 2004

Premiums & annuity considerations - Life and A&H contracts		\$299,924,317
Net investment income		36,873,683
Amortization of interest maintenance reserve		1,537,668
Commissions & expense allowances on reinsurance ceded		83,710,898
Reserve adjustments on reinsurance ceded		13,873,014
Aggregate write-ins for miscellaneous income		<u>12,232,833</u>
		448,152,413
Death benefits	\$97,550,964	
Matured endowments	24,086	
Annuity benefits	431,053	
Disability benefits and benefits under A&H contracts	85,673,433	
Surrender benefits and withdrawals for life contracts	38,355,243	
Interest & adjustments on contract funds	399,022	
Payments on supplementary contracts	63,639	
Increase in aggregate reserves for life & A&H contracts	<u>32,933,185</u>	
	255,430,625	
Commissions & allowances on reinsurance assumed	151,788,343	
General insurance expenses	13,663,864	
Insurance taxes, licenses, & fees	4,285,894	
Aggregate write-ins for deductions	<u>24,638,929</u>	<u>449,807,655</u>
		(1,655,242)
Dividends to policyholders		<u>4,762,261</u>
		(6,417,503)
Net realized capital gains		<u>1,174,930</u>
Net income (loss)		<u><u>(\$5,242,573)</u></u>

**Hannover Life Reassurance Company of America
Capital & Surplus Account
For the Year Ended December 31, 2004**

Capital and surplus, December 31, 2003		\$85,049,595
Net income (loss)	(\$5,242,573)	
Change in net unrealized capital gains or (losses)	(540,438)	
Change in net deferred income tax	3,303,574	
Change in nonadmitted assets and related items	(350,344)	
Change in liability for reinsurance in unauthorized companies	(119,124)	
Change in asset valuation reserve	(1,116,258)	
Change in surplus as a result of reinsurance	4,898,490	
Examination adjustments	<u>0</u>	<u>833,327</u>
Capital and surplus, December 31, 2004		<u><u>\$85,882,922</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Aggregate Reserves and Contract Claims

\$400,522,848

The Company's actuary rendered an opinion that amounts carried in the Company's December 31, 2004 balance sheet reasonably provided for all of the Company's contract reserve and claim obligations under the terms of its agreements. The Office actuary concluded, based on his review and analysis of data provided by the Company, that the aggregate liability was not materially misstated.

**Hannover Life Reassurance Company of America
Comparative Analysis of Changes in Capital & Surplus
December 31, 2004**

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

Capital & Surplus - December 31, 2004, per annual statement			\$85,882,922
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease)</u>
Assets	\$1,225,052,419	\$1,225,052,419	\$0
Liabilities	\$1,139,169,497	\$1,139,169,497	<u>\$0</u>
Net change in capital & surplus			<u>0</u>
Capital & Surplus - December 31, 2004, per examination			<u><u>\$85,882,922</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the December 31, 2000 examination report issued by the Office.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The current financial condition examination did not result in any material findings of non-compliance with statutes, rules, or other requirements on the part of the Company.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Hannover Life Reassurance Company of America** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$85,882,922, which was in compliance with Section 624.408, FS. Its minimum capital and surplus at December 31, 2004 was \$36,631,926.

In addition to the undersigned, Kenneth V. Carroll, Financial Examiner/Analyst, Russell K. Judge, Financial Examiner/Analyst, Kerry A. Krantz, Actuary, Carolyn M. Maynard, CFE, Financial Specialist, David C. Schleit, CPA, Financial Examiner/Analyst Supervisor, and Steven A. Steele, Financial Specialist, participated in this examination.

Respectfully submitted,

Walter F. Banas, CIE
Financial Specialist
Florida Office of Insurance Regulation