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COMMISSIONER OF
AGRICULTURE

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

February 16, 2007

Certified Mail

Kenneth A. Lewis, President
Templeton Funds Annuity Company
P.O. Box 33030
St. Petersburg, Florida 33733-8030

Dear Mr. Lewis:

Enclosed is the Office of Insurance Regulation report on the financial condition examination of Templeton Funds Annuity Company as of December 31, 2005. We have determined that no further modifications to the report are necessary; therefore, we consider it to be filed as of today.

Please have the enclosed affidavit signed by the company's officer in charge of its business in Florida, and return it to this office within thirty (30) days, as required by Section 624.319(5), Florida Statutes.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Alan Irvin".

C. Alan Irvin
Financial Administrator

...
C. ALAN IRVIN, CPA • FINANCIAL ADMINISTRATOR
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Affirmative Action / Equal Opportunity Employer

**State of Florida
Office of Insurance Regulation**

Affidavit

This affidavit is being filed with the Office of Insurance Regulation in accordance with Section 624.319(5), Florida Statutes, by the undersigned officer of Templeton Funds Annuity Company.

I hereby state that I am the officer in charge of the business in Florida of Templeton Funds Annuity Company; that I have read the report on the financial condition examination thereof by the Office of Insurance Regulation for the period ending December 31, 2005, filed on or about February 16, 2007; and that I will consider the recommendations made therein within a reasonable time.

Signature

Printed name

Title

Sworn to and subscribed before me this _____ day of _____, 2007.

Notary Public

My commission expires:

(SEAL)

Return within 30 days to:

Office of Insurance Regulation
Life & Health Financial Oversight
ATTN: C. Alan Irvin
200 E. Gaines St.
Tallahassee, FL 32399-0327

Report on Examination
of
Templeton Funds Annuity Company
St. Petersburg, Florida
as of
December 31, 2005

By The
State of Florida
Office of Insurance Regulation

Contents

SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION.....	2
HISTORY	3
GENERAL	3
CAPITAL STOCK.....	3
PROFITABILITY.....	4
DIVIDENDS.....	4
MANAGEMENT.....	4
CONFLICT OF INTEREST PROCEDURE	5
CORPORATE RECORDS.....	5
DIVESTITURES	6
AFFILIATED COMPANIES	6
SERVICE AGREEMENT	6
ORGANIZATIONAL CHART	7
FIDELITY BOND AND OTHER INSURANCE	8
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS	8
STATUTORY DEPOSITS	8
INSURANCE PRODUCTS AND RELATED PRACTICES.....	9
TERRITORY AND PLAN OF OPERATION	9
TREATMENT OF POLICYHOLDERS.....	9
REINSURANCE	10
ASSUMED.....	10
CEDED.....	10
ACCOUNTS AND RECORDS	11
RISK-BASED CAPITAL.....	11
CUSTODIAL AGREEMENT	11
THIRD PARTY ADMINISTRATOR (TPA) AGREEMENT	12
INDEPENDENT AUDITOR AGREEMENT	12
TAX SERVICES AGREEMENT	12

FINANCIAL STATEMENTS PER EXAMINATION.....	13
ASSETS	14
LIABILITIES, SURPLUS AND OTHER FUNDS.....	15
SUMMARY OF OPERATIONS	16
CAPITAL AND SURPLUS ACCOUNT.....	16
SEPARATE ACCOUNTS – ASSETS AND LIABILITIES.....	17
SEPARATE ACCOUNTS – SUMMARY OF OPERATIONS.....	17
COMMENTS ON FINANCIAL STATEMENTS.....	18
COMPARATIVE ANALYSIS OF CHANGES IN CAPITAL & SURPLUS	19
SUBSEQUENT EVENTS	20
SUMMARY OF FINDINGS.....	20
COMPLIANCE WITH PREVIOUS DIRECTIVES.....	20
CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION.....	20
CONCLUSION	21

Tallahassee, Florida

February 16, 2007

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

Glen Wilson, Commissioner
Minnesota Department of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101-2198

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

Eleanor Kitzman, Director
South Carolina Department of Insurance
Secretary, NAIC Southeastern Zone
P.O. Box 100105
Columbia, South Carolina 29202-3105

Commissioners McCarty, Gross, and Wilson and Director Kitzman:

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, 2005, of the financial condition and corporate affairs of:

**Templeton Funds Annuity Company
100 Fountain Parkway
St. Petersburg, Florida**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2003 through December 31, 2005. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2000. In lieu of conducting statutory financial condition examinations of the Company for the years 2001 and 2002, the Office accepted the independent certified public accountant's (CPA) audit reports on the Company's statutory-basis financial statements for those years pursuant to Section 624.316(2)(a), F.S.

Planning for the current examination began on June 26, 2006. The fieldwork commenced on July 5, 2006 and concluded on November 17, 2006. 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 condition 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 (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 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, *Best's Insurance Reports*, 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 2005 annual statement. Transactions subsequent to December 31, 2005 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 the "current federal and foreign income tax recoverable and interest thereon" account.

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.

Review of Financial Examination Report

The prior financial condition examination report included a finding that there was no documentation in the minutes of the Board that directors reviewed the previous financial condition examination report.

Resolution: Minutes of the August 6, 2002 regular meeting of the Board of Directors document the distribution of the prior examination report to each of the directors prior to the meeting. According to the minutes, the report was discussed and formally accepted at the meeting.

Accounts and Records

The Company's custodial agreement with First Union National Bank of Florida (now Wachovia Bank) did not comply with Rule 4-143.042 (f), (h), (j) and (n), F.A.C. Resolution: The Company entered into a new custodial agreement with Wachovia Bank dated July 15, 2002, which complied with the rule.

HISTORY

GENERAL

The Company was incorporated in Florida on January 25, 1984, and commenced business on June 1, 1984 as Securities Fund Annuities, Inc. Its current name was adopted on October 19, 1987.

As of the date of this examination, the Company was authorized to transact the following insurance coverage in Florida, in accordance with Section 624.401, F.S.:

- Life
- Group life and annuities
- Reinsurance only
- Variable annuities
- Variable life

The Company did not write insurance in any line of business during the period of this examination, but continued to administer its variable annuity contracts.

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, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	2,500,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

At December 31, 2005, the Company was wholly-owned and controlled by Franklin Agency, Inc., which in turn was wholly-owned by Franklin Resources, Inc. (FRI). An abbreviated organizational chart appears on page 7.

PROFITABILITY

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

(In thousands)	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net premiums	\$0.0	\$0.0	\$0.0
Total revenues	\$570.2	\$551.6	\$587.5
Net income	\$405.8	\$373.3	\$298.7
Total capital & surplus	\$11,971.3	\$11,579.8	\$11,204.6

DIVIDENDS

The Company did not pay any shareholder dividends during the three-year period ended December 31, 2005.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S. Directors serving as of December 31, 2005 were:

Name and Location	Principal Occupation
Louie N. Adcock, Jr. St. Petersburg, Florida	Attorney - Fisher & Sauls, P.A.
Richard P. Austin Safety Harbor, Florida	Retired president of the Company
Thomas C. Banzhof Plymouth Minnesota	Retired president of Franklin Agency, Inc.
Gordon W. Campbell Tierra Verde, Florida	Retired chairman of Mercantile Bank
Kenneth A. Lewis San Mateo, California	President, Chief Executive Officer, and Treasurer of the Company

The Company maintained an audit committee in accordance with Section 624.424(8), F.S. At December 31, 2005, its members were:

Audit Committee

Gordon W. Campbell, Chairman
Louie N. Adcock, Jr.

A third member of the Audit Committee passed away in 2005. At its annual meeting on February 21, 2006, the Board appointed three members to the Committee.

The following were the Company's senior officers as of December 31, 2005, as appointed by its board of directors in accordance with the Company's bylaws:

Senior Officers	
Name	Title
Kenneth A. Lewis	President, Chief Executive Officer, and Treasurer
Vickie S. Nuzzo	Senior Vice President and Chief Operating Officer
Karen L. Skidmore	General Counsel, Vice President, and Secretary
Timothy Stearns	Chief Compliance Officer
James M. Davis	Assistant Vice President and Chief Compliance Officer of Templeton Retirement Annuity and Templeton Immediate Variable Annuity Separate Accounts

CONFLICT OF INTEREST PROCEDURE

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

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors, and Audit 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. A review of the prior report of examination by the Office was documented in the minutes of the Board.

DIVESTITURES

In February of 2001, FRI indicated its intent to divest itself of the Company. The Company expressed its intention to explore various options including the potential sale of the Company's operation which, as of the date of the examination, had not occurred.

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, as required by Section 628.801, F.S., and Rule 690-143.046, F.A.C., on July 17, 2006.

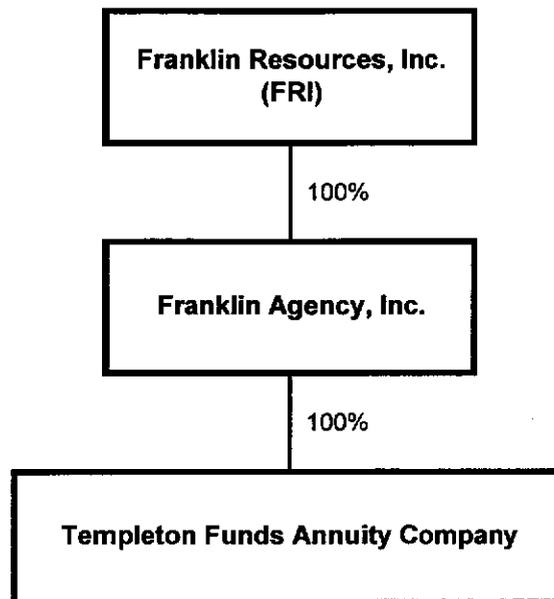
The following agreement was in force between the Company and its affiliates on December 31, 2005:

SERVICE AGREEMENT

The Company entered into a service agreement with FRI on August 11, 1998. Pursuant to the agreement, FRI provided personnel, office facilities, investment services, information systems, and other goods and services to the Company, directly or through its subsidiaries. The Company reimbursed FRI for certain direct costs and was charged a monthly fixed fee based on a periodic estimate of allocated costs. Fees amounted to \$30,000 in 2003 and 2004, and \$72,000 in 2005.

An abbreviated organizational chart as of December 31, 2005 reflecting the holding company system is shown below. Schedule Y of the Company's 2005 annual statement provided the names of all related companies in the holding company group.

**Templeton Funds Annuity Company
Organizational Chart
December 31, 2005**



FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured under FRIs insurance program, and maintained fidelity bond coverage of up to \$210 million with a deductible of \$250,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$150,000.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no direct employees. Services were provided by Franklin Templeton Companies, LLC, an affiliate, pursuant to a service agreement. At December 31, 2005, the affiliate provided its eligible employees with a comprehensive health plan, dental coverage, vision coverage, long-term disability insurance, and life insurance. It also provided them with a defined contribution pension plan and a 401(k) retirement plan.

STATUTORY DEPOSITS

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

Holder	Description	Rate	Due	Par	Market
Florida	U.S. Treasury Bond	9.25%	2/15/2016	\$500,000	\$692,910
Florida	U.S. Treasury Bond	6.125%	11/15/2027	500,000	603,360
Florida	U.S. Treasury Bond	8.75%	5/15/2017	300,000	411,960
Florida	U.S. Treasury Bond	5.50%	8/15/2028	700,000	787,087
Total Florida Deposits				2,000,000	2,495,317
Arkansas	U.S. Treasury Bond	12.00%	8/15/2013	200,000	237,282
Georgia	U.S. Treasury Bond	13.25%	5/15/2014	35,000	44,573
Indiana	U.S. Treasury Bond	13.25%	5/15/2014	100,000	127,352
Massachusetts	U.S. Treasury Bond	8.25%	5/15/2017	600,000	823,920
Nevada	U.S. Treasury Bond	12.00%	8/15/2013	200,000	237,282
New Mexico	U.S. Treasury Bond	8.25%	5/15/2017	100,000	137,320
North Carolina	U.S. Treasury Bond	5.50%	8/15/2028	300,000	337,323
North Carolina	U.S. Treasury Bond	6.125%	11/15/2027	100,000	120,672
South Carolina	U.S. Treasury Bond	13.125%	5/15/2014	125,000	159,190
Virginia	U.S. Treasury Bond	6.125%	11/15/2027	250,000	301,680
Total Special Deposits				\$4,010,000	\$5,021,911

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company administered single premium immediate variable lifetime annuity contracts.

TERRITORY AND PLAN OF OPERATION

At December 31, 2005, the Company was authorized to transact insurance in the District of Columbia and the following U.S. states:

Alabama	Indiana	Montana	South Carolina
Alaska	Kansas	Nebraska	South Dakota
Arizona	Kentucky	Nevada	Tennessee
Arkansas	Louisiana	New Jersey	Texas
California	Maine	New Mexico	Utah
Colorado	Maryland	North Carolina	Vermont
Florida	Massachusetts	North Dakota	Virginia
Georgia	Michigan	Ohio	Washington
Hawaii	Minnesota	Oklahoma	West Virginia
Idaho	Mississippi	Oregon	Wisconsin
Illinois	Missouri	Rhode Island	Wyoming

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 procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

ASSUMED

The Company assumed single premium variable immediate annuity business from Allianz Life Insurance Company of North America (Allianz) on a 50% modified coinsurance basis. The agreement became effective October 14, 1994, and was terminated for new business effective October 1, 2000. Existing business reinsured under the agreement was not affected by the termination.

CEDED

The Company did not cede any risks during the period under review.

The reinsurance agreement was found to meet NAIC requirements with respect to the standard insolvency and arbitration clauses, transfer of risk, reporting, and settlement information deadlines. The Company's appointed actuary reviewed the reinsurance agreement and utilized it in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2003, 2004, and 2005, 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 St. Petersburg, 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

At July 15, 2002, the Company entered into an institutional custody agreement with Wachovia Bank, formerly known as First Union National Bank of Florida. The agreement met the requirements of Rule 69O-143.042, F.A.C. Fees related to this agreement, exclusive of bank service and sweep fees, were \$3,257, \$3,412, and \$3,240 in years 2003, 2004, and 2005, respectively.

THIRD PARTY ADMINISTRATOR (TPA) AGREEMENT

The Company renewed its agreement with Mouton & Company, Inc., an actuary and pension administration firm, for TPA services relating to its annuity contracts for the three-year period beginning October 1, 2004. The agreement was for a comprehensive listing of services that included maintaining annuity contract files and accounting records of transactions, calculating benefit distributions, calculating reserves each month, and servicing the needs of contract owners. Fees related to this agreement, inclusive of a retainer fee, were \$64,589, \$67,134, and \$77,610 in years 2003, 2004, and 2005, respectively.

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with PricewaterhouseCoopers LLP to audit its financial statements. Fees related to the annual agreements were \$46,000 in each of years 2003, 2004, and 2005.

TAX SERVICES AGREEMENT

The Company contracted with PricewaterhouseCoopers LLP to prepare its federal and state income tax returns and assist in the calculation of succeeding year estimated tax payments. Fees related to the annual agreements were \$26,800, \$26,802, and \$27,747 in years 2003, 2004, and 2005, respectively.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2005, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

Templeton Funds Annuity Company
Assets
December 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$11,254,566	\$0	\$11,254,566
Cash and short-term investments	876,144	0	876,144
	<u>12,130,710</u>	<u>0</u>	<u>12,130,710</u>
Investment income due & accrued	206,062	0	206,062
Current federal income tax and interest thereon	3,517	0	3,517
Aggregate write-ins for other than invested assets	102,323	0	102,323
	<u>12,442,612</u>	<u>0</u>	<u>12,442,612</u>
Separate Accounts	9,211,781	0	9,211,781
Totals	<u><u>\$21,654,393</u></u>	<u><u>\$0</u></u>	<u><u>\$21,654,393</u></u>

**Templeton Funds Annuity Company
Liabilities, Surplus and Other Funds
December 31, 2005**

	Per Company	Examination Adjustments	Per Examination
Interest maintenance reserve	\$381,355	\$0	\$381,355
General expenses due or accrued	83,324	0	83,324
Transfers to Separate Accounts	(9,047)	0	(9,047)
Asset valuation reserve	9,436	0	9,436
Payable to parent, subsidiaries & affiliates	6,203	0	6,203
	<u>471,271</u>	<u>0</u>	<u>471,271</u>
Separate Accounts	9,211,781	0	9,211,781
Total liabilities	<u>9,683,052</u>	<u>0</u>	<u>9,683,052</u>
Gross paid in & contributed surplus	6,012,663	0	6,012,663
Unassigned funds (surplus)	3,458,678	0	3,458,678
Surplus	<u>9,471,341</u>	<u>0</u>	<u>9,471,341</u>
Common capital stock	2,500,000	0	2,500,000
Totals capital and surplus	<u>11,971,341</u>	<u>0</u>	<u>11,971,341</u>
Totals	<u><u>\$21,654,393</u></u>	<u><u>\$0</u></u>	<u><u>\$21,654,393</u></u>

**Templeton Funds Annuity Company
Summary of Operations
For The Year Ended December 31, 2005**

Net investment income		\$545,424
Amortization of interest maintenance reserve		19,968
Aggregate write-ins for miscellaneous income		<u>4,805</u>
		570,197
Annuity benefits	\$3,987,748	
Commissions and expense allowance		
on reinsurance assumed	107,181	
General insurance expenses	300,538	
Insurance taxes, licenses, & fees	116,684	
Net transfers to (from) Separate Accounts, net of reinsurance	(1,695,090)	
Aggregate write-ins for deductions	<u>(2,796,340)</u>	<u>20,721</u>
Net gain from operations before income taxes		549,476
Federal and foreign income taxes		<u>143,667</u>
Net income		<u><u>\$405,809</u></u>

**Templeton Funds Annuity Company
Capital and Surplus Account
For The Year Ended December 31, 2005**

Capital and surplus - December 31, 2004	\$11,579,844
Net income	405,809
Change in nonadmitted assets and related items	(6,775)
Change in asset valuation reserve	(7,537)
Examination adjustments	<u>0</u>
Capital and surplus - December 31, 2005	<u><u>\$11,971,341</u></u>

**Separate Accounts of
Templeton Funds Annuity Company**

**Assets and Liabilities
December 31, 2005**

	Per Company	Examination Adjustments	Per Examination
Assets:			
Common stocks	<u>\$9,211,781</u>	<u>\$0</u>	<u>\$9,211,781</u>
Liabilities:			
Aggregate reserve for annuity contracts	\$9,202,734	\$0	\$9,202,734
Other transfers to general account due or accrued	<u>9,047</u>	<u>0</u>	<u>9,047</u>
	<u>\$9,211,781</u>	<u>\$0</u>	<u>\$9,211,781</u>

**Summary of Operations
For the Year Ended December 31, 2005**

Net investment income and capital gains and losses		\$802,145
Annuity benefits	\$1,445,107	
Net transfer of reserves from Separate Accounts	<u>144,115</u>	
	1,589,222	
Fees associated with charges for investment management, administration, and contract guarantees	105,868	
Increase in aggregate reserves	<u>(892,945)</u>	<u>802,145</u>
Net gain from operations		<u>\$0</u>

COMMENTS ON FINANCIAL STATEMENTS

AGGREGATE RESERVE FOR ANNUITY CONTRACTS

\$9,202,734

The independent actuary appointed by the Board of Directors rendered an opinion that the amount carried on the Company's Separate Accounts balance sheet as of December 31, 2005 made adequate provision for the anticipated cash flows required by the contractual obligations and related expenses of the Company. The Office actuary reviewed work papers provided by the Company and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate reserve was not materially misstated.

**Templeton Funds Annuity Company
Comparative Analysis of Changes in Capital & Surplus
December 31, 2005**

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, 2005 - per annual statement			\$11,971,341
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Surplus</u>
Assets	\$21,654,393	\$21,654,393	\$0
Liabilities	\$9,683,052	\$9,683,052	\$0
Net change in capital & surplus			<u>0</u>
Capital & surplus, December 31, 2005 - per examination			<u><u>\$11,971,341</u></u>

SUBSEQUENT EVENTS

During the second quarter of 2006, the Company distributed a shareholder dividend in the amount of \$1.4 million, as approved by the Office.

Pursuant to a recapture and release agreement effective May 1, 2006 between Allianz and the Company, Allianz recaptured the 50 percent modified coinsurance share it had previously ceded to the Company.

In October of 2006 the Company filed a request with the Office to re-domesticate to the State of Minnesota pursuant to the provisions of Section 628.525, F.S. The Office approved the request on December 28, 2006.

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

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

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 **Templeton Funds Annuity Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$11,971,341 which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2005 was \$1,500,000.

In addition to the undersigned, Kerry A. Krantz, Actuary, and David C. Schleit, CPA, AFE, Financial Examiner/Analyst Supervisor, participated in this examination.

Respectfully submitted,


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