

Report on Examination
of
American Pioneer
Life Insurance Company
Orlando, Florida
as of
December 31, 2002

By The
Office of Insurance Regulation
Florida Department of Financial Services

CONTENTS

SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION.....	2
REINSURANCE FUNDS WITHHELD.....	2
INFORMATION TECHNOLOGY.....	2
BONDS.....	3
POLICY LOANS.....	3
CASH.....	3
AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS.....	3
AGGREGATE RESERVE FOR ACCIDENT AND HEALTH POLICIES.....	3
FEDERAL INCOME TAXES DUE.....	3
RECEIVABLE FROM PARENT, SUBSIDIARIES & AFFILIATES.....	4
HISTORY.....	5
GENERAL.....	5
CAPITAL STOCK.....	5
PROFITABILITY OF COMPANY.....	6
DIVIDENDS TO STOCKHOLDER.....	6
MANAGEMENT.....	6
CONFLICT OF INTEREST PROCEDURE.....	7
CORPORATE RECORDS.....	8
ACQUISITIONS, MERGERS, & DISPOSALS.....	8
AFFILIATED COMPANIES.....	9
ADMINISTRATIVE SERVICES AGREEMENT - PENNSYLVANIA LIFE INSURANCE CO.	9
INTERCOMPANY SERVICES AGREEMENT.....	9
MISCELLANEOUS SERVICES AGREEMENT.....	9
ADMINISTRATIVE AGREEMENTS – OTHER.....	10
SERVICE EXPENSE REIMBURSEMENT AND COST SHARING AGREEMENT.....	10
EXPENSE ALLOCATION AGREEMENT.....	10
TAX ALLOCATION AGREEMENT.....	10
ORGANIZATIONAL CHART.....	11
FIDELITY BOND AND OTHER INSURANCE.....	12
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS.....	12
STATUTORY DEPOSITS.....	12
INSURANCE PRODUCTS AND RELATED PRACTICES.....	13
TERRITORY AND PLAN OF OPERATION.....	13
TREATMENT OF POLICYHOLDERS.....	13
WRITING RATIOS.....	13
REINSURANCE.....	14
ASSUMED.....	14
CEDED.....	14
ACCOUNTS AND RECORDS.....	15
ADMINISTRATIVE SERVICES AGREEMENTS.....	15
UNDERWRITING AND SERVICE AGREEMENT.....	16
CUSTODIAL AGREEMENT.....	16

INVESTMENT MANAGEMENT AGREEMENTS.....	16
TRUST AGREEMENT.....	16
FASTSTART AGREEMENT	16
MEDICAL EXPENSE CONVERSION PROGRAM AGREEMENT	16
PLAN SPONSOR SERVICES AGREEMENT	17
INFORMATION SYSTEMS CONTROLS.....	17
RISK-BASED CAPITAL.....	18
FINANCIAL STATEMENTS PER EXAMINATION.....	19
ASSETS	20
LIABILITIES, SURPLUS AND OTHER FUNDS.....	21
SUMMARY OF OPERATIONS	22
COMMENTS ON FINANCIAL STATEMENTS.....	23
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	24
SUMMARY OF FINDINGS.....	25
COMPLIANCE WITH PREVIOUS DIRECTIVES.....	25
CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION.....	25
AUTHORIZATION OF INVESTMENTS	25
REVIEW OF PRIOR EXAMINATION REPORT	25
WRITING RATIO VIOLATIONS	26
INFORMATION SYSTEMS CONTROLS.....	26
CONCLUSION	27

Tallahassee, Florida

February 18, 2004

Kevin M. McCarty, Director
Office of Insurance Regulation
Florida Department of Financial Services
Tallahassee, Florida 32399-0301

Diane Koken, Commissioner
Pennsylvania Insurance Department
Secretary, NAIC Northeastern Zone
1326 Strawberry Square, 13th Floor
Harrisburg, Pennsylvania 17120

John Oxendine, Commissioner
Georgia Department of Insurance
Secretary, NAIC Southeastern Zone
2 Martin Luther King, Jr. Drive
Floyd Memorial Bldg., 704 West Tower
Atlanta, Georgia 30334

Sally McCarty, Commissioner
Indiana Department of Insurance
Secretary, NAIC Midwestern Zone
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

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

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

Ladies and Gentlemen:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners, an examination has been made as of December 31, 2002 of the financial condition and corporate affairs of:

**AMERICAN PIONEER LIFE INSURANCE COMPANY
600 COURTLAND STREET
ORLANDO, FLORIDA 32804**

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 representatives of 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 May 12, 2003. The fieldwork commenced on May 19, 2003, and concluded on November 18, 2003. 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, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the National Association of Insurance Commissioners ("NAIC") as adopted by Rules 4-137.001(4) and 4-138.001, Florida Administrative Code ("F.A.C."), with due regard to the statutory 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 financial solvency of the Company.

The examination included a review of the corporate records 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 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 are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

- Bonds & stocks
- Cash & short term investments

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.

REINSURANCE FUNDS WITHHELD

Funds withheld from a reinsurer were commingled with those withheld pursuant to another reinsurance agreement. The Company was directed to establish a separate trust account for the purpose of depositing withheld funds. Resolution: The Company complied with the directive.

INFORMATION TECHNOLOGY

The Company did not have a written business contingency plan and was directed to develop one. Resolution: The Company complied with the directive.

BONDS

The Company failed to report six bonds to the NAIC Securities Valuation Office and was directed to comply with Section 625.141, Florida Statutes ("F.S.") Resolution: During the current examination, no similar violations were noted.

POLICY LOANS

The Company had not recorded certain policy loans. Resolution: During the current examination, no similar violations were noted.

CASH

Certain cash disbursements had not been recorded. Resolution: During the current examination, no similar violations were noted.

AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS

The Company incorrectly reported accident and health receivable balances due from TPAs that were not collected within 90 days as admitted assets. Resolution: During the current examination, no similar violations were noted.

AGGREGATE RESERVE FOR ACCIDENT AND HEALTH POLICIES

The Company understated its accident and health reserves. Resolution: During the current examination, no similar violations were noted.

FEDERAL INCOME TAXES DUE

The Company incorrectly reported Federal income taxes recoverable as a reduction in its liabilities. Resolution: During the current examination, no similar violations were noted.

RECEIVABLE FROM PARENT, SUBSIDIARIES & AFFILIATES

The Company reported a \$610,730 note receivable due from an affiliate which lacked documentation and was not collateralized. The note, which was over 90 days due, was non-admitted. Resolution: During the current examination, no similar violations were noted.

HISTORY

GENERAL

The Company was incorporated in Florida on July 5, 1961 as American Pioneer Life Insurance Company.

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

Life	Accident & Health
Credit Life & Health	Credit Disability
Group Life & 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, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	1,999,800
Number of shares issued and outstanding	1,006,822
Total common capital stock	\$2,517,055
Par value per share	\$2.50

The Company is wholly-owned by American Exchange Life Insurance Company ("American Exchange"), which in turn is wholly-owned by Universal American Financial Corp. ("Universal"). A simplified organizational chart appears on page 11 of this report.

PROFITABILITY OF COMPANY

The Company reported a \$1.7 million net loss in 2000, net income of \$52,997 in 2001, and a \$2.3 million net loss in 2002. It reported premiums in years 2000, 2001, and 2002 of \$43.2 million, \$56.3 million, and \$74.5 million, respectively, and received capital contributions in those same years in the amounts of \$5.3 million, \$7.0 million, and \$3.0 million, respectively.

DIVIDENDS TO STOCKHOLDER

No dividends were paid by the Company during the period of this examination.

MANAGEMENT

At December 31, 2002, the Company's board of directors consisted of the following:

Directors

Name	Principal Occupation
Richard A. Barasch	President & CEO, Universal American Financial Corp.
Gary W. Bryant	President of the Company
Michael A. Colliflower	Sr. Vice President, General Counsel and Secretary of the Company
William H. Cushman	Vice President of Financial Reporting of the Company
Robert A. Waegelein	Sr. VP & CFO, Universal American Financial Corp.

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

Senior Officers

Name	Title
Gary W. Bryant	President
Michael A. Colliflower	Sr. Vice President, General Counsel & Secretary
Donald M. Gray	Vice President & Treasurer
Carl L. Cochrane	Vice President
William H. Cushman	Vice President
David A. Detmer	Vice President
Harold W. Jenkins	Vice President
Bradley D. Leonard	Vice President
Harold N. Lund	Vice President
John T. Mackin, Jr.	Vice President
Fredrick M. Taylor	Vice President
Robert A. Waegelein	Vice President
William E. Wehner, Jr.	Vice President

The Company's audit committee functions are performed by the audit committee of Universal.

CONFLICT OF INTEREST PROCEDURE

The Company has 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 minutes of the shareholder, Board of Directors, and Executive and Investment Committee meetings were reviewed for the period under examination. The minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., except that there was no evidence that the investments were approved by the Board of Directors or by one of its authorized committees in accordance with Section 625.304, F.S. However, the Board of Directors met on July 15, 2003, and retroactively approved its 2001 and 2002 investments.

There was no documentation in the minutes that the Company's directors reviewed the previous examination report.

ACQUISITIONS, MERGERS, & DISPOSALS

On July 1, 2002, Universal transferred ownership of the Company to its subsidiary American Exchange. At December 31, 2002, American Exchange owned all of the outstanding stock of the Company. The ownership change was approved by the Office on September 5, 2002.

The Company owns 100% of Peninsular Life Insurance Company ("Peninsular"), a Florida domiciled stock life insurer. Peninsular was contributed to the Company by Universal on December 31, 2000.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 4-143.045(3), F.A.C. The latest holding company registration statement was filed with the State of Florida on April 10, 2003, as required by Section 628.801, F.S., and Rule 4-143.046, F.A.C.

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

ADMINISTRATIVE SERVICES AGREEMENT - PENNSYLVANIA LIFE INSURANCE Co.

In return for a fee, the Company provides administrative services to Pennsylvania Life Insurance Company pursuant to an agreement dated May 1, 1996. Services include policy approval, underwriting, policy issuance, premium billing, maintenance of commission records, claims administration, financial and actuarial services, and agent licensing services.

INTERCOMPANY SERVICES AGREEMENT

In return for a quarterly fee of \$4.50 per policy, the Company provides administrative services to WorldNet Services Corp. ("WorldNet"), Union Bankers Insurance Company, Constitution Life Insurance Company, and Marquette National Life Insurance Company, pursuant to an October 1, 2000 agreement. Services include policy issuance, agency, premium collection and accounting, claims, commission, policy owner, accounting, actuarial and compliance services.

MISCELLANEOUS SERVICES AGREEMENT

In return for a fee based on incurred expenses, the Company provides administrative services to American Progressive Life & Health Insurance Company pursuant to an April 13, 1998 agreement. Services include life, annuity and health insurance underwriting, policy issuance, premium and claims services.

ADMINISTRATIVE AGREEMENTS – OTHER

The Company provides underwriting and policy issuance services to American Exchange and WorldNet pursuant to a December 3, 1997 agreement. The Company also provides related actuarial and compliance functions to American Exchange on its life and health business. WorldNet provides policyholder and claims administration services to the Company related to its Medicare Supplement business pursuant to a February 1, 1996 agreement. WorldNet provides medical review services to the Company pursuant to a November 1, 1994 agreement. WorldNet provides telephone insurance application verification services to the Company pursuant to a February 1, 1996 agreement.

SERVICE EXPENSE REIMBURSEMENT AND COST SHARING AGREEMENT

PennCorp Financial, Inc. provides various services to the Company pursuant to an agreement dated January 1, 2000. Services include actuarial, tax, and investment compliance advice; government relations support; strategic planning; and general management, office, and systems support services.

EXPENSE ALLOCATION AGREEMENT

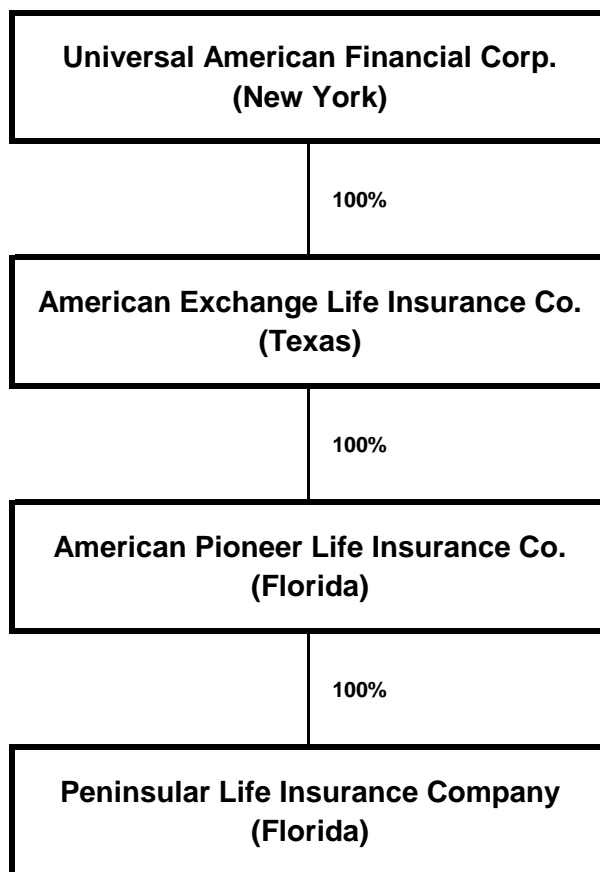
Universal provides expense allocation services to the Company pursuant to an agreement.

TAX ALLOCATION AGREEMENT

The Company entered into a tax allocation agreement with its parent American Exchange in March of 2002. Under the terms of the agreement, the Federal income tax provision is computed on a separate company basis. Loss producing members of the consolidated group are reimbursed for their losses when and if the loss members utilize their losses on a separate company basis. Intercompany balances are settled quarterly.

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 all related companies in the holding company group.

**AMERICAN PIONEER LIFE INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2002**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$5 million, which adequately covered the suggested minimum amount recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company provides medical, dental, group life insurance, and flexible spending account benefits to eligible full time employees. In addition, Company employees are eligible to participate in Universal's 401(k) 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 state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	U.S. Treasury Note, 6.0%, 8/2004	\$500,000	\$536,875
FL	Southern CA Gas, 7.5%, 6/2023	500,000	512,500
FL	Tribune Company, 6.875%, 11/2006	550,000	612,205
FL	Cincinnati Gas & Elec., 7.2%, 10/2023	500,000	513,015
FL	Pitney Bowes Cr., 8.55%, 9/2009	50,000	61,014
FL	U.S. Treasury Note, 5.75%, 11/2005	<u>300,000</u>	<u>331,593</u>
Total Florida special deposits		<u>2,400,000</u>	<u>2,567,202</u>
AR	FHLMC, 6.5%, 6/2011	450,000	475,101
GA	Evergreen Institutional MMF	50,000	50,000
IN	U.S. Treasury Note, 3.625%, 8/2003	250,000	253,985
NM	U.S. Treasury Note, 4.625%, 5/2006	100,000	107,844
NC	U.S. Treasury Note, 3.625%, 2/2007	200,000	205,750
NC	U.S. Treasury Note, 7.25%, 8/2004	200,000	218,750
SC	FHLMC, 6.5%, 6/2011	650,000	686,257
VA	FHLMC, 6.5%, 6/2011	<u>100,000</u>	<u>105,578</u>
Total special deposits		<u><u>\$4,400,000</u></u>	<u><u>\$4,670,467</u></u>

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact insurance in the District of Columbia and in the following states in accordance with Section 624.401, F.S.:

Alabama	Louisiana	Oklahoma
Arizona	Maryland	Oregon
Arkansas	Mississippi	South Carolina
Colorado	Missouri	South Dakota
Florida	Montana	Tennessee
Georgia	Nebraska	Texas
Idaho	Nevada	Utah
Indiana	New Mexico	Virginia
Iowa	North Carolina	Washington
Kansas	North Dakota	West Virginia
Kentucky	Ohio	Wyoming

TREATMENT OF POLICYHOLDERS

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

WRITING RATIOS

The ratio of the Company's annual gross written accident and health premiums to surplus exceeded 10 to 1 on March 31, 2002, June 30, 2002, September 30, 2002, and September 30, 2003; and the ratio of its annual net written accident and health premiums to surplus exceeded 4 to 1 on September 30, 2003, in violation of Section 624.4095, F.S.

REINSURANCE

The Company's reinsurance agreements were found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, reporting, and settlement information deadlines.

ASSUMED

The majority of reinsurance assumed is life with individual coinsurance on a funds withheld basis.

CEDED

The Company ceded risk on a quota share and excess of loss basis to both authorized and unauthorized reinsurers. The majority of the ceded insurance is individual modified coinsurance with funds withheld.

The Company cedes insurance on a coinsurance with funds withheld basis to European Reinsurance Company of Zurich ("ERZ") pursuant to a portfolio indemnity reinsurance treaty. Ceding companies are prohibited by Rule 4-144.010(2)(a)5, F.A.C., from paying reinsurance premiums or other fees or charges to reinsurers which are greater than the direct premiums collected by the ceding companies. The Office's actuary interpreted the ERZ treaty as possibly permitting such payment, in violation of the rule. The Company disagreed with this interpretation. However, subsequent to the date of this examination, the Company and ERZ entered into a treaty amendment in order to more clearly preclude any possible violation of the rule.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for years 2000, 2001 and 2002, in accordance with Section 624.424(8), F.S. Supporting work papers were prepared by the CPA as required by Rule 4-137.002, 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 maintained its principal operational offices in Orlando, Florida, where this examination was primarily conducted. As discussed on page 17, the review of the Company's information systems controls was conducted in Pensacola, Florida.

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

ADMINISTRATIVE SERVICES AGREEMENTS

The Company provides administrative services to West Coast Life Insurance Company pursuant to a September 1, 1996 agreement. Services provided include underwriting, policy issuance, premium billing, annual statement preparation and mailing, claims administration, policyholder, financial, and actuarial services.

Morgan-White Administrators provides premium billing and collection to the Company pursuant to a November 1, 1996 agreement. In addition, Morgan-White Administrators provides administrative services to the Company pursuant to an agreement dated January 1, 1996. Services provided include underwriting, premium billing and collection, and claims services.

UNDERWRITING AND SERVICE AGREEMENT

Allen Medical Claims Administrators, Inc. provides marketing and claims services to the Company pursuant to a January 1, 2000 agreement.

CUSTODIAL AGREEMENT

The Bank of New York provides securities safekeeping services to the Company pursuant to an April 25, 2001 agreement.

INVESTMENT MANAGEMENT AGREEMENTS

AAM Advisors, Inc. provides investment management services to the Company pursuant to an October 1, 1996 agreement, and Conning Asset Management Company provides investment management services to the Company pursuant to a June 1, 2001 agreement.

TRUST AGREEMENT

The Company is a party to a June 1, 2000 trust agreement with Hannover Life Reassurance Company of America and Chase Manhattan Bank in connection with a coinsurance funds withheld reinsurance arrangement with Hannover on ceded annuity business.

FASTSTART AGREEMENT

E-Nable Corporation provides customer information to the Company pursuant to a December 2, 2001 agreement.

MEDICAL EXPENSE CONVERSION PROGRAM AGREEMENT

On November 1, 1999, the Company entered into an agreement with Gerber Life Insurance Company to offer a conversion privilege related to comprehensive major medical policies issued by the Company to certain employers. Under the terms of the agreement, Gerber makes available to eligible

participants the privilege of obtaining medical expense conversion insurance without evidence of insurability.

PLAN SPONSOR SERVICES AGREEMENT

The Company entered into an agreement with Medical Security Card Co., Inc. to make available to its policyholders a plan to entitle them to purchase prescriptions from certain participating pharmacies.

INFORMATION SYSTEMS CONTROLS

The Company's computer processing and support services are performed by an affiliate CHCS, Inc. On behalf of the Office, computer audit specialist Dixon Odom PLLC reviewed the Company's information systems controls. The review consisted of an assessment of the Company's general and application controls through interviews, process observation, and examination of relevant Company-provided documentation at the CHCS, Inc. Pensacola service center. This review resulted in a finding that the Company's general and application controls were not entirely adequate in the areas of authorization, problem management, and segregation of duties. Specifically:

- Programmers have had full, unmonitored access to production object code libraries and data on the AS/400 computer system.
- There were no documented problem escalation procedures covering processing errors or physical and logical security incidents.
- End users had access to the AS/400 command line, which could allow them to bypass application and operating system security.
- There was no documented, annual review of user security settings on the Alicomp Mainframe or AS/400 computer systems to ensure that those settings remain appropriate per job responsibilities.

RISK-BASED CAPITAL

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

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial 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 PIONEER LIFE INSURANCE COMPANY
ASSETS
DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$90,561,124		\$90,561,124
Preferred stocks	545,853		545,853
Common stocks	5,764,504		5,764,504
First liens - mortgage loans on real estate	870,883		870,883
Policy loans	5,773,605		5,773,605
Cash & short-term investments	1,512,332		1,512,332
Receivable for securities	5,031		5,031
	<u>105,033,332</u>	<u>0</u>	<u>105,033,332</u>
Amounts recoverable from reinsurers	46,695		46,695
Commissions & expense allowances due	2,401,804		2,401,804
EDP equipment & software	278,652		278,652
Federal income tax recoverable	1,667,479		1,667,479
Premiums & annuity considerations uncollected	2,258,451		2,258,451
Accident & health premiums due & unpaid	427,569		427,569
Investment income due & accrued	1,436,110		1,436,110
Receivable from parent, subsidiaries & affiliates	1,729,373		1,729,373
Amounts due from agents	545,880		545,880
Aggregate write-ins for other than invested assets	16,892,332		16,892,332
Totals	<u>\$132,717,677</u>	<u>\$0</u>	<u>\$132,717,677</u>

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

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$38,411,691		\$38,411,691
Aggregate reserve for A&H contracts	18,905,886		18,905,886
Liability for deposit-type contracts	526,730		526,730
Contract claims: Life	615,263		615,263
Contract claims: A&H	7,521,259		7,521,259
Premiums & annuity considerations received in advance	1,178,537		1,178,537
Provision for experience rating refunds	132,309		132,309
Other amounts payable on reinsurance	3,805,556		3,805,556
Interest maintenance reserve	259,921		259,921
Commissions to agents	334,129		334,129
General expenses due or accrued	835,286		835,286
Taxes, licenses and fees due or accrued	1,491,245		1,491,245
Amounts withheld or retained by company as agent or trustee	338,449		338,449
Amounts held for agents' account	144,645		144,645
Remittances & items not allocated	2,975,544		2,975,544
Asset valuation reserve	577,562		577,562
Funds held under reinsurance treaties with unauthorized reinsurers	12,382,735		12,382,735
Payable to parent, subsidiaries and affiliates	1,504,693		1,504,693
Funds held under coinsurance	15,579,614		15,579,614
Aggregate write-ins for liabilities	<u>82,557</u>		<u>82,557</u>
Total liabilities	107,603,611	<u>0</u>	107,603,611
 Capital & Surplus			
Gross paid in and contributed surplus	\$30,447,694		\$30,447,694
Unassigned funds (surplus)	<u>(7,850,683)</u>		<u>(7,850,683)</u>
Surplus	22,597,011	0	22,597,011
Common capital stock	<u>2,517,055</u>		<u>2,517,055</u>
Total capital & surplus	<u>25,114,066</u>	<u>0</u>	<u>25,114,066</u>
Total liabilities, capital and surplus	<u><u>\$132,717,677</u></u>	<u><u>\$0</u></u>	<u><u>\$132,717,677</u></u>

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

Premiums & annuity considerations for life & A&H contracts		\$74,480,727
Net investment income		5,729,761
Amortization of interest maintenance reserve		(79,124)
Commissions & expense allowances on reinsurance ceded		61,384,176
Aggregate write-ins for miscellaneous income		<u>(54,236,947)</u>
		87,278,593
Death benefits	\$4,592,407	
Matured endowments	9,467	
Annuity benefits	743,595	
Disability benefits & benefits under A&H contracts	43,142,190	
Coupons, guaranteed annual pure endowments & similar benefits	1,817	
Surrender benefits & withdrawals for life contracts	1,587,940	
Interest & adjustments on contract or deposit-type contract funds	35,742	
Payments on supplementary contracts with life contingencies	1,135	
Increase in aggregate reserves for life & A&H contracts	<u>(47,062,418)</u>	
	3,051,875	
Commissions on premium, annuities, & deposit-type contract funds	52,325,395	
Commissions & expense allowances on reinsurance assumed	451,396	
General insurance expenses	28,226,933	
Insurance taxes, licenses, & fees	4,766,640	
Increase in loading on deferred & uncollected premiums	72,849	
Aggregate write-ins for deductions	<u>(632,510)</u>	
		<u>88,262,578</u>
Gain (loss) before dividends, income taxes, & capital gains/losses		(983,985)
Dividends to policyholders		4,496
Gain (loss) before income taxes, & capital gains/losses		<u>(988,481)</u>
Federal income taxes		317,635
Gain (loss) before capital gains/losses		(1,306,116)
Net realized capital gains (losses)		<u>(1,041,274)</u>
Net income (loss)		<u><u>(\$2,347,390)</u></u>
Capital and surplus - December 31, 2001		\$24,257,404
Net income (loss)		(2,347,390)
Change in net unrealized capital gains or (losses)		(148,796)
Change in net deferred income tax		606,269
Change in nonadmitted assets and related items		(262,779)
Change in asset valuation reserve		9,358
Paid in surplus		<u>3,000,000</u>
		25,114,066
Examination adjustments		0
Capital and surplus - December 31, 2002		<u><u>\$25,114,066</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$57,317,577

The Company's appointed actuary 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's actuary reviewed work papers provided by the Company and concurred with this opinion.

**AMERICAN PIONEER 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		\$25,114,066																				
	<table style="width: 100%; border-collapse: collapse; margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="width: 33%;"></th> <th style="width: 33%; text-align: center;"><u>Per Company</u></th> <th style="width: 33%; text-align: center;"><u>Per Exam</u></th> <th style="width: 33%; text-align: center;"><u>Increase (Decrease) In Surplus</u></th> </tr> </thead> <tbody> <tr> <td>Assets</td> <td style="text-align: right;">\$132,717,677</td> <td style="text-align: right;">\$132,717,677</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Liabilities</td> <td style="text-align: right;">\$107,603,611</td> <td style="text-align: right;">\$107,603,611</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Net change in capital and surplus</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">0</td> </tr> <tr> <td>Capital & surplus, December 31, 2002, per examination</td> <td></td> <td></td> <td style="text-align: right; border-top: 3px double black;">\$25,114,066</td> </tr> </tbody> </table>		<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Surplus</u>	Assets	\$132,717,677	\$132,717,677	\$0	Liabilities	\$107,603,611	\$107,603,611	\$0	Net change in capital and surplus			0	Capital & surplus, December 31, 2002, per examination			\$25,114,066	
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Surplus</u>																			
Assets	\$132,717,677	\$132,717,677	\$0																			
Liabilities	\$107,603,611	\$107,603,611	\$0																			
Net change in capital and surplus			0																			
Capital & surplus, December 31, 2002, per examination			\$25,114,066																			

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken necessary action to comply with the comments contained in the Office's 1999 examination report.

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.

AUTHORIZATION OF INVESTMENTS

As discussed on page 8, there was no evidence that the Company's investments were approved by its board of directors or by an authorized committee of its board of directors as required by Section 625.304, F.S. **The Company is directed to comply with Section 625.304, F.S., regarding the authorization of its investments.**

REVIEW OF PRIOR EXAMINATION REPORT

As discussed on page 8, there was no documentation in the minutes of meetings of the Company's board of directors that directors reviewed the previous examination report. **We recommend that the Company's board of directors review all regulatory examination reports and document such review.**

WRITING RATIO VIOLATIONS

As discussed on page 13, the ratio of the Company's annual gross written accident and health premiums to surplus exceeded 10 to 1 on March 31, 2002, June 30, 2002, September 30, 2002, and September 30, 2003; and the ratio of its annual net written accident and health premiums to surplus exceeded 4 to 1 on September 30, 2003, in violation of Section 624.4095, F.S. **The Company is directed to maintain a ratio of annual gross written accident and health premiums to surplus of not more than 10 to 1, and a ratio of annual net written accident and health premiums to surplus of not more than 4 to 1, in accordance with Section 624.4095, F.S.**

INFORMATION SYSTEMS CONTROLS

A review of the Company's general and application controls resulted in a finding that they were not entirely adequate in the areas of authorization, problem management, and segregation of duties. **The Company is directed to correct the deficiencies found to exist in its general and application controls, as more specifically described on page 17.**

CONCLUSION

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

Per examination findings, the Company's surplus as regards policyholders was \$25,114,066, which was in compliance with Section 624.408, F.S.

In addition to the undersigned, Walter Banas, CIE, Financial Examiner II; Robert Meszaros, Financial Specialist; Stephen Feliu, Financial Examiner I; Richard Schaaf, CPA, Financial Specialist; Ruth Lieberman, CPA, AFE, Financial Specialist; Kerry A. Krantz, F.S.A., M.A.A.A., Actuary; and Dixon Odom PLLC participated in this examination.

Respectfully submitted,

Steven A. Steele, Financial Specialist
Office of Insurance Regulation