

Report on Examination
of
Peninsular Life Insurance Company

Lake Mary, Florida

as of

December 31, 2005

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

March 21, 2007

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Commissioners McCarty and Gross 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:

**Peninsular Life Insurance Company
1001 Heathrow Park Lane, Suite 5001
Lake Mary, Florida 32746**

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 September 13, 2006. The fieldwork commenced on November 6, 2006 and concluded on December 8, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this 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 and *Best's Insurance Reports* 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.

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.

Corporate Records

The prior examination report noted that the minutes of the Board of Directors meetings did not include evidence that directors reviewed the prior examination report. Resolution: The Company instituted a formal policy pertaining to the review of regulatory examination reports which requires each director to complete an affidavit indicating receipt of such report.

Custodial Agreement

The Company's custodial agreement with the Bank of New York did not comply with Rule 69O-143.042, F.A.C. Resolution: The Company amended the agreement in accordance with the requirements of the rule.

Bonds

In its 2000 annual statement, the Company reported an investment in a privately-placed bond in an amount in excess of that permitted by Section 625.141, F.S. Resolution: The Company disposed of the investment.

Receivables From Parent, Subsidiaries and Affiliates

The Company reported as an admitted asset an inter-company receivable in the amount of \$634,773 due from Constitution Life Insurance Company dating back to 1999 which was not settled until May 11, 2001. Resolution: The Company's current policy is to settle inter-company payables and receivables quarterly. Inter-company amounts are aged and any amounts over 90 days old are non-admitted.

HISTORY

GENERAL

The Company was incorporated in North Carolina and commenced business on January 10, 1910. It became a Florida domestic insurer on December 28, 2000.

As of the date of this examination, the Company was authorized to transact life, group life and annuities, credit life, credit disability, and accident and health insurance coverage in Florida, in accordance with Section 624.401, F.S. It did not write insurance during the period of this examination.

The Company's articles of incorporation were amended on August 23, 2004 providing for a change in the home address of the Company to Lake Mary, Florida.

CAPITAL STOCK

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	7,200,000
Number of shares issued and outstanding	1,208,599
Total common capital stock	\$2,719,348
Par value per share	\$2.25

At December 31, 2005, the Company was wholly-owned and controlled by American Pioneer Life Insurance Company which is an indirect subsidiary of Universal American Financial Corp. As more fully discussed on page 19, the Company was acquired on January 19, 2007. An abbreviated organizational chart appears on page 8.

PROFITABILITY

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net premiums	\$0	\$0	\$0
Total revenues	\$158,119	\$223,947	\$255,368
Net income	\$2,020	\$65,424	\$23,313
Total capital and surplus	\$5,859,299	\$5,858,413	\$5,786,614

DIVIDENDS

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

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:

Directors	
Name and Location	Principal Occupation
Richard A. Barasch New York, NY	Chairman and CEO Universal American Financial Corp.
Gary W. Bryant Longwood, FL	President and COO American Pioneer Life Insurance Company
William H. Cushman New Hartford, CT	Sr. Vice President - Financial Reporting Universal American Financial Corp.
Donald M. Gray Lake Mary, FL	Sr. Vice President and Treasurer American Pioneer Life Insurance Company
Robert A. Waegelein Pawling, NY	Executive Vice President Universal American Financial Corp.

The company's ultimate parent Universal American Financial Corp. conducted the meetings of the Audit, Executive, and Investment Committees on behalf of its subsidiaries including the Company. At December 31, 2005, members of the principal committees of the Board were:

Audit Committee	Executive Committee	Investment Committee
Linda Lamel	Richard A. Barasch	Richard A. Barasch
Patrick McLaughlin	Bradley Cooper	Bertram Harnett
Robert Wright	Bertram Harnett	Eric Leathers
	Patrick McLaughlin	Patrick McLaughlin
	Robert Spass	

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
Gary W. Bryant	President and Chief Executive Officer
Robert A. Waegelein	Executive Vice President
Michael A. Colliflower**	Sr. Vice President and Secretary
William H. Cushman	Sr. Vice President - Financial Reporting
Donald M. Gray	Sr. Vice President and Treasurer
Harold N. Lund	Sr. Vice President and Actuary
Frederick W. Rook, III	Sr. Vice President and CIO

** Resigned June 15, 2005. Replaced on April 10, 2006 by Steven Najjar

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 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, 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.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-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 69O-143.046, F.A.C., on May 2, 2006.

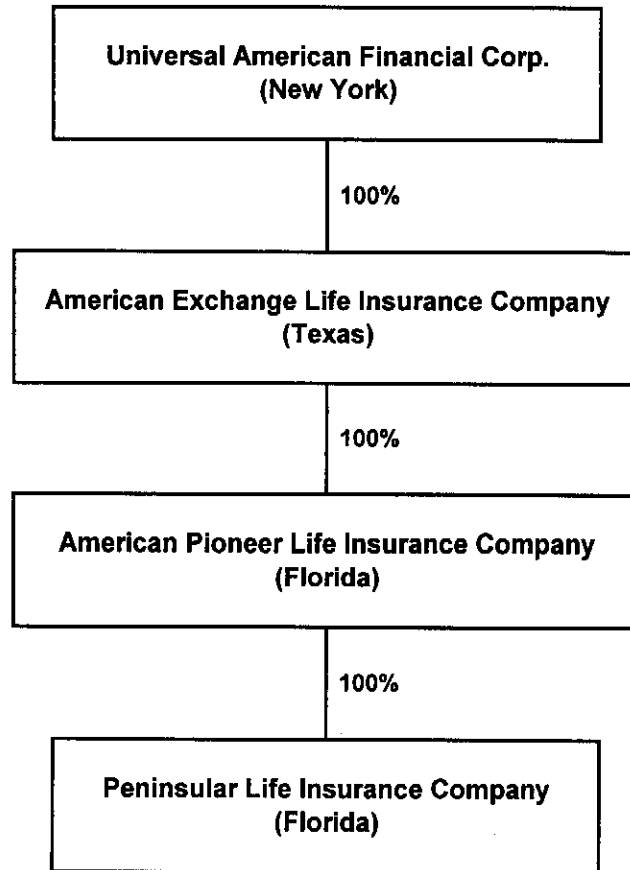
The following agreement was in force between the Company and its affiliates on December 31, 2005:

EXPENSE ALLOCATION AGREEMENT

Universal American Financial Corp. performed all managerial functions for the Company pursuant to an October 1, 1999 agreement. Pursuant to the agreement, Universal American Financial Corp. allocated to the Company expenses incurred on its behalf, which amounted to \$147,397, \$63,769, and \$52,761 in years 2003, 2004, and 2005, respectively.

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.

**Peninsular Life Insurance Company
Organizational Chart
December 31, 2005**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$5 million with a deductible of \$100,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$2 million.

STATUTORY DEPOSITS

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

Holder	Description	Rate	Due	Par Value	Market Value
Florida	U.S. Treasury Note	6.13%	8/15/2007	\$1,250,000	\$1,283,100
Florida	U.S. Treasury Note	4.63%	5/15/2006	<u>250,000</u>	<u>250,255</u>
Total Florida deposits				1,500,000	1,533,355
Alaska	U.S. Treasury Note	6.13%	8/15/2007	150,000	153,972
Georgia	U.S. Treasury Note	4.63%	5/15/2006	15,000	15,015
Georgia	Evergreen MMF			30,000	30,000
Indiana	U.S. Treasury Note	5.50%	2/15/2008	200,000	204,476
New Mexico	U.S. Treasury Note	6.13%	8/15/2007	125,000	128,310
North Carolina	U.S. Treasury Note	6.13%	8/15/2007	300,000	307,944
North Carolina	U.S. Treasury Note	4.63%	5/15/2006	100,000	100,102
South Carolina	U.S. Treasury Note	6.13%	8/15/2007	225,000	230,958
South Dakota	U.S. Treasury Note	6.13%	8/15/2007	125,000	128,310
Tennessee	U.S. Treasury Note	6.13%	8/15/2007	125,000	128,310
Virginia	U.S. Treasury Note	6.13%	8/15/2007	<u>230,000</u>	<u>236,090</u>
Total special deposits				<u><u>\$3,125,000</u></u>	<u><u>\$3,196,842</u></u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company did not issue any new insurance policies during the period of this examination.

TERRITORY AND PLAN OF OPERATION

At December 31, 2005, the Company was authorized to transact insurance in the District of Columbia and all U.S. states except Connecticut, Hawaii, Iowa, Michigan, Nevada, New Hampshire, New Jersey, New York, Rhode Island, and Vermont.

REINSURANCE

The Company ceded 100% of its existing direct business to Occidental Life Insurance Company of North Carolina in an assumption reinsurance agreement dated July 30, 1999.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company was exempt from the requirement to have an annual audit of its statutory-basis financial statements conducted by an independent CPA, pursuant to Section 624.424(8)(b), F.S.

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 was located in Lake Mary, Florida, where this examination was conducted.

RISK-BASED CAPITAL

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

INFORMATION SYSTEMS CONTROLS

As part of this financial condition examination, Highland Clark, LLC, a computer audit specialist engaged by the Office, conducted an in-depth review of the adequacy of the Company's information systems controls. The review was of controls as documented by the Company in its NAIC Exhibit C (Evaluation of Controls in Information Systems Questionnaire), and was conducted in the Company's Lake Mary, Florida offices. While Highland Clark, LLC concluded that the Company's information systems general and application controls were generally adequate, it did note certain weaknesses in the Company's logical and physical security, which the Company agreed to address.

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

Custodial Agreement

On September 23, 1993, the Company entered into a custodial agreement with the Bank of New York for the holding and safekeeping of the Company's securities. The agreement was amended on June 17, 2002.

FINANCIAL STATEMENTS PER EXAMINATION

The following three 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.

Peninsular Life Insurance Company
Assets
December 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$3,729,855	\$0	\$3,729,855
Cash, cash equivalents, and short-term investments	2,055,450	0	2,055,450
	<u>5,785,305</u>	<u>0</u>	<u>5,785,305</u>
Investment income due and accrued	156,427	0	156,427
Other amounts receivable under reinsurance contracts	25	0	25
Net deferred tax asset	5,702	0	5,702
Totals	<u><u>\$5,947,459</u></u>	<u><u>\$0</u></u>	<u><u>\$5,947,459</u></u>

**Peninsular Life Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2005**

Liabilities	Per Company	Examination Adjustments	Per Examination
Interest maintenance reserve	\$4,621	\$0	\$4,621
General expenses due or accrued	4,328	0	4,328
Taxes, licenses and fees due or accrued	68,015	0	68,015
Current federal and foreign income taxes	88	0	88
Asset valuation reserve	2,189	0	2,189
Payable to parent, subsidiaries and affiliates	8,919	0	8,919
Total liabilities	<u>88,160</u>	<u>0</u>	<u>88,160</u>
Capital and Surplus			
Gross paid in and contributed surplus	3,028,495	0	3,028,495
Unassigned funds (surplus)	111,456	0	111,456
Surplus	<u>3,139,951</u>	<u>0</u>	<u>3,139,951</u>
Common capital stock	2,719,348	0	2,719,348
Totals of capital and surplus	<u>5,859,299</u>	<u>0</u>	<u>5,859,299</u>
Totals	<u><u>\$5,947,459</u></u>	<u><u>\$0</u></u>	<u><u>\$5,947,459</u></u>

Peninsular Life Insurance Company

Summary of Operations For The Year Ended December 31, 2005

Net investment income		\$157,022
Amortization of interest maintenance reserve		858
Commissions and expense allowances on reinsurance ceded		239
		<u>158,119</u>
General insurance expenses	\$39,343	
Insurance taxes, licenses and fees	116,668	156,011
		<u>2,108</u>
Net gain from operations before federal income taxes		88
Federal and foreign income taxes incurred		<u>88</u>
Net income		<u>\$2,020</u>

Capital and Surplus Account For The Year Ended December 31, 2005

Capital and surplus - December 31, 2004		\$5,858,416
Net income	\$2,020	
Change in net deferred income tax	7	
Change in nonadmitted assets and related items	(849)	
Change in asset valuation reserve	(295)	883
		<u>883</u>
Capital and surplus - December 31, 2005		<u>\$5,859,299</u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$0

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, 2005 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. 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 liability was not materially misstated.

Peninsular Life Insurance Company
Comparative Analysis of Changes in Capital and 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 and surplus, December 31, 2005 - per annual statement				\$5,859,299
	<u>Per</u>	<u>Per</u>	<u>Increase</u>	
	<u>Company</u>	<u>Exam</u>	<u>(Decrease)</u>	
			<u>In Surplus</u>	
Assets	\$5,947,459	\$5,947,459	\$0	
Liabilities	\$88,160	\$88,160	\$0	
Net change in capital & surplus				<u>0</u>
Capital and surplus, December 31, 2005 - per examination				<u><u>\$5,859,299</u></u>

SUBSEQUENT EVENTS

On December 15, 2006, the Office approved the acquisition of the Company by Universal Managed Care, Inc. and a request by Universal Managed Care, Inc. to re-domesticate the Company to the state of Pennsylvania. The acquisition took place on January 19, 2007. Universal Managed Care, Inc., a Pennsylvania corporation, is wholly-owned by Hospital Service Association of Northeastern Pennsylvania, doing business as, "Blue Cross of Northeastern Pennsylvania," a Pennsylvania domiciled insurer.

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the 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 **Peninsular Life Insurance 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 \$5,859,299, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2005 was \$1.5 million.

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

Respectfully submitted,

M. Alison Miele, Financial Examiner/Analyst II
Florida Office of Insurance Regulation