

SAMPLE PLAN OF OPERATION

The following document represents a good example of the various elements and level of detail the department will look for in the plan of operation portion of your Profile.

PLAN

The company will market individual annuity and life products, fixed and variable, on a nationwide basis principally through stockbrokers, banks and insurance brokers.

1. Competition

Our competitive strategy is to provide superior value to the customer through a combination of product and service attributes that will be difficult to replicate. We will define our position in the marketplace with differentiation of total product by: (1) developing quality products; (2) value added wholesaling; (3) responsive customer service; and (4) technology based support. Current market leaders have been in the business for many years and would have difficulty in quickly changing their current strategy to compete.

Most of the market leaders employ a sub-set of our initiatives with a few focused solely on cost. We believe that we will reshape the market not by being the market leader in any one of the disciplines but by selling a total package which is valued more by both our distribution channels and the ultimate customer.

We have built a national network of wholesalers, not only knowledgeable about our product portfolio, but skilled in training and supporting the distribution system. Our source of distribution will be mainly stock brokerage firms, banks, NASD brokers and some MGA's with the focus being on the stock brokerage firms. We will employ a team of internal Regional Marketing Specialists, Broker Service Representatives and Customer Service Representatives who are dedicated to providing continued support to the distribution system as well as to the ultimate consumer.

Integral to our competitive strategy is an enhanced level of service. There is currently a blurring of the lines that once separated the various financial service industries, bringing insurance companies in competition with banks and mutual fund companies. Steps taken to raise our level of service serve the dual purpose of moving us beyond our current competitors in the insurance industry and better positioning the company to face competition from nonindustrial sources.

2. Products

The company will primarily market fixed and variable annuities, and universal and variable universal life insurance policies. As described in the next section, these products will be primarily distributed through stock brokerage firms and banks. The target market will initially be relatively affluent, and the company's products will be designed to be part of the insured's integrated financial planning and preparation.

Whole life products will also become available and will be primarily marketed by insurance brokers and career agencies.

The company's current or currently anticipated variable products feature separate account investment options in the form of shares of registered investment companies ("mutual funds") offered by nationally recognized fund

CALIFORNIA CERTIFICATE OF AUTHORITY APPLICATION

companies (e.g. Fidelity, Alger). The wide choice of fund types to be offered within a product, coupled with the ease of reallocating investments within a separate account, encourage use of the variable product in conjunction with the insured's other investments implementing long-term financial planning such as retirement (pension and 401(k) plans), higher education (mutual funds) and life insurance needs.

The company is seeking to provide high quality, strong performance products that are easy to understand and sell, yet provide flexibility to fit securely in a wide variety of financial situations to provide a "best fit" solution to an insured's needs.

On a nationwide basis, the company will become the primary issuer of annuities and life insurance in the financial institutions marketing channel. Once the company has been fully licensed in each state, new products for the financial institutions distribution channel will be developed in and sold by the company.

3. Sales

The principal distribution channel for the company's life products will be financial institutions: stock brokerage firms and banks. The company has eleven regional wholesalers, employees of the company, who are responsible for developing the company's relationship with financial institutions in their region. A wholesaler seeks to recruit a regional stock brokerage firm, the local offices of a national stock brokerage firm and major regional banks to sell one or more of the company's products. In most cases, the financial institution also sells products of the same general type issued by other insurers.

The brokerage firms are accustomed to selling fixed and variable annuities; accordingly, the individuals are properly licensed and the firm has a securities, and insurance licensing and compliance unit. The company provides continuing educational and compliance materials and programs to its wholesalers for their own use and to use with their distributors to assure understanding of the company's products and of the proper (and improper) manner of sale of those products.

Pursuant to our contract with the financial institution (Broker-Dealer Selling Agreement, attached as Exhibit A), the company expects the financial institution, as the immediate supervisor of the agents, to exercise control over the conduct of its employees.

Compensation is paid to the insurance agency associated with the stock brokerage firm, and the agency is responsible for paying the agents. Currently, a producer may, with the approval of the agency, chose compensation to be paid as heaped, modified heap or level commissions. The company's wholesalers continue to work with the distributors to provide continuing product education, sales development ideas, and problem solving techniques (how one or more of our products can be used to solve a financial problem of a client). The wholesaler also serves as a liaison between the distributor and the company's compliance and legal staff to address questions on any sale. The wholesalers are compensated with a base salary plus bonus based on volume of sales in their region. Additionally, a process is being developed to evaluate each wholesaler's understanding of the company's products, policies and procedures, and for evaluating the wholesaler's effort to educate the distributors on the company's products and sales practices.

The company's products will also be available through career agencies, financial advisors, a registered broker-dealer and a member of the National Association of Securities Dealers, Inc. These agents are currently selling products and, on a state-by-state basis, will be appointed as agents of the company.

Although the financial advisors will already have an established field force, the advisors have established programs to recruit and train new producers, and to retain and educate existing producers. Recruitment occurs both of

inexperienced high potential college graduates and MBA's, and of individuals with a history of success in business or sales. The inexperienced hires are put into an apprentice-internship program. These individuals provide marketing and prospecting support, perform lower level staff and agency functions and, when training and experience have become sufficient, provide back-room case support. During this period, the new hire received basic training in agency operations, sales and sales support, and the fundamentals of providing the financial advisory and sales services conducted by the financial advisor. After this internship, the new hire, along with the experienced hire, enter a Partnership Program, a formal, highly structured development program of regular joint work with or mentoring by experienced producers and sales managers. The Partnership Program is designed to bring new producers to the point of substantial independence, with the skills and values necessary to be a long-term producer.

4. Underwriting

The applicant will need to submit an application, and for life insurance will be required to undergo a qualification process. He/she will be evaluated by a home office underwriter trained in the analysis of medical and non-medical tools and risk selection. The primary source of information to complete the process is the insurance application, which is divided into two parts. The first part provides basic non-medical data such as age, gender, occupation, tobacco use, driving record, aviation experience, hobbies or vocations, and foreign travel plans. The second part covers medical information which includes past history and present health. The medical underwriting may include additional information such as doctor's report, blood studies and EKG's. Other examples of documentation that can be obtained to complete the underwriting assessment are tax returns, business financials and telephone history interviews. After review of all available pertinent information, the appropriate risk classification -- standard, special class or uninsurable -- is determined for that applicant.

The home office underwriter is expected to complete a two to three month training program designed to provide the trainee with a solid background in life and disability income insurance principles. The trainee is guided by an experienced underwriter and must meet study time standards and obtain above average results in examinations for each of the nine (9) sections of the Department Training Syllabus. Once this training program is completed and the underwriter is engaging in full-time case underwriting, he/she begins course work towards the attainment of professional designations such as HIAA, FLMI, ALU and FALU. The home office underwriting career path mandates the completion of a minimum amount of course work before promotion to the next level.

The company's Individual Underwriting Department consists of 22 underwriters at one of six levels of skill and knowledge, depending on experience. Advancement from one level to the next is based on standards set by underwriting management to include criteria such as number of months in a position, exams completed, project work and overall job performance. The latter criteria is evaluated by a manager on an annual basis. The underwriter positions are permanent/full-time and compensation is via salary or salary bonus commensurate with education and level of experience (i.e. position).

The home office underwriting department is split into three distinct groups. Two of these underwrite career agency business through the \$5 million level. The third group underwrites brokerage business in addition to jumbo cases, over \$5 million, submitted through the career agency. Each of the underwriting units is headed by an underwriting manager whose responsibilities include management/supervision of underwriter personnel as well as actual underwriting cases. All three underwriting managers report directly to the Vice President of Underwriting.

Each underwriter is assigned a caseload determined by financial authority limits dictated by the level of attained experience in the department.

CALIFORNIA CERTIFICATE OF AUTHORITY APPLICATION

The underwriting department employs one full-time Medical Director and one part-time Associate Medical Director. The underwriters work together with the medical staff in order to make an informed decision on the effect medical and non-medical factors have on mortality and morbidity.

5. Claims Adjusting & Payment

For death claims under life insurance policies, once proof of loss is submitted the claim examiner can pay the death claim. The required proofs include the claim form completed by the appropriate beneficiary and the certified copy of the death certificate. If the primary beneficiary pre-deceased the insured, that person's death certificate is also required, payment is then made to the contingent beneficiary.

Additional requirements may be necessary depending on the designated beneficiary:

- Letters Testamentary if the estate is the beneficiary.
- Settlement of Interest indicating what interest a creditor may have, if any, when collaterally assigned or a Release of Assignment if there is no interest.
- Statement Relating to Children form if children are named as a class.
- Verification of Trust Form or copy of the trust naming a successor trustee when the deceased insured is the trustee.
 1. If the trustee has resigned, a Declination to Act is required.
 2. If the trust has been revoked, a Revocation of Trust form is required.
- Trustee Under Last Will and Testament requires either a document issued by the court qualifying the trustee or the Letters Testamentary depending on the state of residency of the insured.
 1. When a trustee resigns, a Declination to Act form is necessary.
 2. If the trust under the last will is not in force, Evidence Satisfactory is needed.
- Direction of payment will be essential if the named beneficiary disclaims the proceeds of the policy.

Claims that fall into the contestable period need to be investigated for the accuracy of the medical information provided by the insured at the time of underwriting. If the information obtained during the investigation proves to be consistent with what had been underwritten, claim payment would be approved.

Should misrepresentation of the facts be revealed or if the insured committed suicide during the period of contestability, the claim could be denied and all premiums paid refunded.

On traditional products, the life policy is filed in the system and the death proceeds paid is the face amount of the policy less loans, loan interest plus any dividends, paid up additions or one year term amounts and any refund of premiums. Adjustment due to misstatement of age will be made to the death benefit at the time of payment. Interest is payable in accordance with state statutes.

For waiver of premium claims, when proof of disability is received, the Claim Examiner reviews the Disability Claim

CALIFORNIA CERTIFICATE OF AUTHORITY APPLICATION

Form, the Claimant's Job Description along with the Social Security Awards Letter, if it has been awarded. The Waiver of Premium rider is examined to see if the insured falls within the guidelines as stated in the rider. If detailed medical information is required, the examiner will request medical information from the attending physician and/or hospitals that attend to the insured during the period of disability.

If the disability falls within the contestable period, an investigation is conducted to verify if medical information is consistent with the information provided to the underwriters at the time the policy was underwritten.

Once proof of disability has been satisfied, the claim is placed on a waiver status and premiums are waived as long as the insured remains continuously disabled.

Death claims under fixed annuities are paid by the Claim Examiner upon receiving the claim form completed by the appropriate beneficiary (see designation of beneficiaries), the death certificate and a Withholding and Election form. If a Withholding and Election form is not received, 10 percent will be withheld from the gain.

Unless the owner is a corporation, death benefits are payable at the time of the owner's death, not the annuitant's.

The Claim Examiner needs to verify that no periodic or lump sum withdrawals were taken prior to making the payment of the death benefits. If no withdrawals were made, the value of the annuity, as of the date of death, is paid. Interest is paid in accordance with state statutes.

The proceeds are paid through an automatic check writing system.

Claim personnel study and take insurance professional exams to acquire the ALHC designation of Associate of Life and Health Claims and LOMA professional exams to acquire FLMI designation of Fellowship of Life Management Institute.

Ongoing training is provided to claim personnel with textbooks, periodicals, references, informational materials and OJT on a continuing basis with audits and weekly claims workshops.

Compensation is paid on a salaried basis and contingent on overall job performance. The company's salary range structure provides the foundation for administering pay. Ranges establish the relative worth of a position with midpoint representing competitive market value. On an annual basis, each claim personnel's performance is evaluated and their compensation is adjusted to reflect performance with the competitive range of pay. Personnel are paid a bi-weekly salary according to the level of job grade, commensurate with the level of claim processing abilities.

Death claims under variable annuities are paid by the Variable Annuity Analyst upon receipt of the claim form, completed by the appropriate beneficiary (see designation of beneficiaries), the death certificate and a Withholding and Election form. If a Withholding and Election form is not received, 10 percent will be withheld from the gain.

Unless the owner is a corporation, death benefits are payable at the time of the owner's death, not the annuitants.

The Variable Annuity Analyst verifies that no periodic or lump sum withdrawals were taken prior to payment of the death benefit. If no withdrawals were made, the value of the annuity as of the date of death notification is paid. Interest is paid in accordance with state statutes.

The proceeds are paid via check.

CALIFORNIA CERTIFICATE OF AUTHORITY APPLICATION

Training for variable annuity processing is done by the Service Coordinator and Business Analysts. Trainees undergo an eight week training program covering all aspects of variable annuity processing and handling. Progress of the trainee is monitored and reported to management on a weekly basis.

Variable Annuity Analysts are salaried employees and compensated based on their overall job performance in accordance with standard company pay and performance evaluation policies and procedures. Compensation does not depend on the number of claims paid or the amount of the death benefit paid.

The following describes the methods currently used to determine claim reserves for life and annuity products sold by the company. Claim reserves for the company will be set and modified in the Financial Reporting Department in a similar manner by a qualified actuary.

Policy and Contract Claim Reserves - Life

Claim reserves for life policies are grouped in the following categories:

- Due and unpaid;
- In the course of settlement; and
- Incurred, but unreported.

Claims due and unpaid or in the course of settlement are specifically identified and a corresponding liability is established. The reserve for incurred but unreported claims is a combination of actual claims filed in the first fifteen days of the following period, but effective in the reporting period, and an estimate for the remainder of the year based on studies of historical claim payment patterns.

Policy and Contract Claim Reserves - Annuity

Reserves for annuity policies in the payout stage are computed at the case level using a valuation system. The claim liability represents the present value of expected future benefit payments, discounted for mortality and interest.

Valuation of mortality and interest assumptions comply with statutory requirements.

6. Advertising

Media advertising in support of the company will be in the form of magazine ads, directed principally toward potential distributors, and newspaper ads mentioning the product in general terms. There are no current plans to advertise using TV, radio or outdoor media. Company products will be supported primarily with printed brochures. Each product marketed will have a brochure describing the product and its benefits.

There will be two types of product brochures: One will be targeted to brokers and the other to consumers. The broker copy will be solely for their use, may not be used with a consumer, and will be so marked. The consumer product brochures will be distributed by brokers who have a selling agreement with the company.

The company's product brochures will be developed by XYZ Marketing Company. They will adhere to state and federal advertising guidelines, as applicable. All of the company's life advertising materials will be approved by the company's Compliance Department prior to use. Variable product advertising will also receive approval from the National Association of Security Dealers (NASD). Advertising materials for distribution through banks will also comply with Office of the Comptroller of the Currency (OCC) guidelines.

The broker-dealer selling agreements specifically provide that the company has the absolute right to approve and

CALIFORNIA CERTIFICATE OF AUTHORITY APPLICATION

control advertising relating to the company and/or any of its products. While most advertising material is provided by the company, some broker-dealers occasionally produce their own material (such as ads for various maturities of the company's fixed annuity), but no such advertising can be used until approved by the company, including approvals of or filing with such third parties as the company deems appropriate.

7. Investment

Subject to the company's ultimate control, company investments will be managed by ABC Company, a wholly owned affiliate of the company which is registered with the United States Securities and Exchange Commission under the Investment Advisers Act of 1940. All clients of ABC Company are affiliates of the company. Pursuant to the investment advisory agreement, the fee provisions of which are identical for all clients, the company pays the adviser compensation calculated as its proportionate percentage of the costs of the adviser to provide advisory services to all of its clients. Compensation arrangements are more fully described in the Investment Advisory Agreement, a copy of which is attached as Exhibit C.

The company's Board of Directors also approved investment authorizations which establish authority limits for each level of management. In addition, the authorizations describe the types of investment permitted to be made for the company and prescribes the per issuer exposure limits. A copy of the relevant portions of the investment authorizations for the company and its affiliates is attached as Exhibit D.

8. Compensation

The directors of the company are all employees of the company, and as such do not receive additional or allocated compensation for their service on the Board. Rather, such service is considered part of their overall job duties. Through 1994, the company has not paid, directly or by allocation, any compensation to its officers or managers (see the company's 1995 Annual Statement). Until this year, no activities of significance have taken place for the benefit of the company. To date, activities by such persons have been in preparing the company, and developing its products, to commence actively conducting business. At such time as these expenses become material (perhaps for the 1996 Annual Statement, and definitely in 1997), the compensation of the officers and managers of the company will be allocated to the company in accordance with statutory and Generally Accepted Accounting Procedures. The company's officers will receive compensation in the form of a base salary plus incentive compensation keyed to the financial performance of various lines of business and/or specific operational units. No compensation is of the kind prohibited by California Insurance Code ' 10434.

Attached hereto as Exhibit E is a copy of the company's required annual certification with respect to the company's Business Ethics Policy, which includes but is not limited to, conflicts of interest.