

REPORT OF EXAMINATION
OF THE
GENERAL FIDELITY LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2004

Participating State
and Zone:

California

Filed February 10, 2006

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Los Angeles, California
September 30, 2005

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable John Morrison
Secretary, Zone IV-Western
Commissioner of Insurance and Securities
Montana Department of Insurance
Helena, Montana

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

GENERAL FIDELITY LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its main administrative office located at 201 North Tryon Street, Charlotte, North Carolina 28255. The Company's statutory home office is located at 555 California Street, San Francisco, California 94101.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2001. This examination covers the period from January 1, 2002 through December 31, 2004. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances. This examination was conducted concurrently with the examination of General Fidelity Insurance Company, an affiliated company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; mortality experience; and sales and advertising.

COMPANY HISTORY

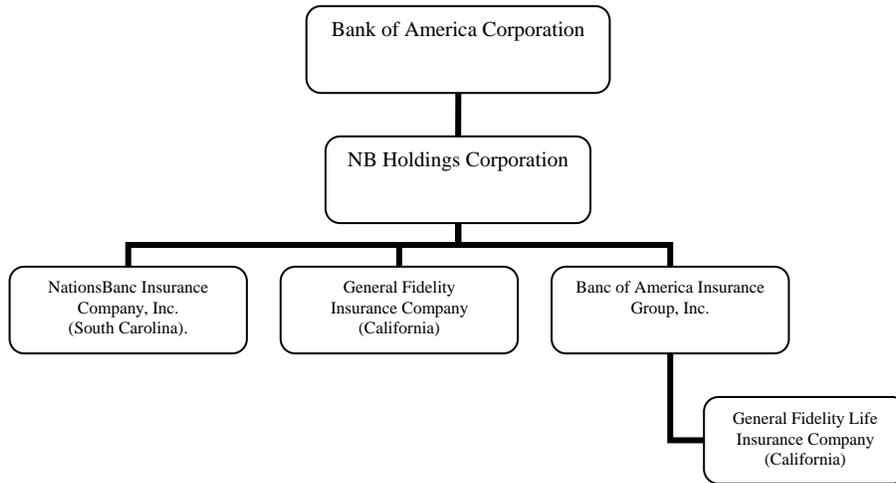
The Company was incorporated in the State of California on August 11, 1980 and commenced business on July 10, 1981. The Company is organized to write life and disability lines of insurance.

BankAmerica Corporation (BAC), the ultimate parent of the Company and its affiliate, General Fidelity Insurance Company, entered into a definitive agreement to merge into NationsBank Corporation, subject to regulatory and shareholder approval. On August 17, 1998, the Federal Reserve Board approved the merger. Shareholder approval was received on September 23, 1998. On September 30, 1998, BAC was merged into NationsBank Corporation, which then changed its name to BankAmerica Corporation.

On April 28, 1999, BankAmerica Corporation changed its name to Bank of America Corporation. On April 10, 2000, Bank of America Corporation became a financial holding company under the Gramm-Leach-Bliley Act of 1999.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Banc of America Insurance Group, Inc. The ultimate parent is Bank of America Corporation. An abridged organizational chart follows showing the inter-relationship of the Company, its parent and affiliates as of December 31, 2004: (all ownership is 100%)



Management of the Company is vested in a seven-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2004 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Thomas G. Myrick Charlotte, North Carolina	Chairman of the Board General Fidelity Life Insurance Company
Martin R. Rasmussen (*) Charlotte, North Carolina	President General Fidelity Life Insurance Company
Glen R. Graham (**) Charlotte, North Carolina	Treasurer General Fidelity Life Insurance Company
Timothy A. Burdick Duluth, Georgia	Senior Vice President General Fidelity Life Insurance Company
Jon K. Pellerin Mt. Holly, North Carolina	Senior Vice President General Fidelity Life Insurance Company
Ellen S. Rosen Wynnewood, Pennsylvania	Senior Vice President General Fidelity Life Insurance Company

Directors (cont.)

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Carol D. Myers Dresher, Pennsylvania	Executive Vice President General Fidelity Life Insurance Company

(*) resigned February 28, 2005

(**) resigned February 1, 2005 and was replaced by Lewis Williams

Principal Officers

<u>Name</u>	<u>Title</u>
Martin R. Rasmussen (*)	President
Glen R. Graham (**)	Treasurer
Christine M. Costamagna	Secretary
Timothy A. Burdick	Senior Vice President
Linda S. Need	Senior Vice President
David R. Smith	Senior Vice President
Thomas M. Brantley	Senior Vice President
Jon K. Pellerin	Senior Vice President
Susan D. Mays	Senior Vice President
Rosalind K. Stanford	Senior Vice President
Brent C. Andersen	Senior Vice President
Florence S. Prather	Senior Vice President
Duane L. Smith	Senior Vice President
Ellen S. Rosen	Senior Vice President
William W. Calvin	Vice President
Carol D. Myers	Executive Vice President
Jennielea Haynes	Vice President

(*) resigned February 28, 2005 and was replaced by Jon K. Pellerin

(**) resigned February 1, 2005, and was replaced by Lewis Williams

Management Agreements

Management Agreement: Effective January 1, 2001, the Company entered into a management agreement with its ultimate parent, Bank of America Corporation (BAC). Pursuant to the terms of the agreement, BAC provides all administrative services to the Company. The Company reimburses

BAC for the actual cost of these services. In 2002, 2003 and 2004, the Company paid \$227,640, \$260,393 and \$0 respectively, under the terms of this agreement. The California Department of Insurance (CDI) approved this agreement on January 16, 2001.

Investment Management Agreement: Effective May 16, 2001, the Company entered into an Investment Management Agreement with Columbia Management Advisors, Inc. (CMAI), an affiliated company. In accordance with the Company's investment guidelines, CMAI provides investment management services. CMAI's compensation is based on the average quarterly market value of the assets managed and the applicable basis points. Annual fees are billed quarterly in arrears based on the market value of assets under management at the end of the quarter. The CDI approved this agreement. In 2002, 2003 and 2004, the Company paid \$279,215, \$255,112 and \$254,209 respectively, to CMAI under the terms of the agreement.

Claims Management Agreement: Effective January 1, 2001, the Company entered into a claims management agreement with NationsBanc Insurance Company, Inc. (NICI), an affiliated company. Under the terms of this agreement, NICI administers all aspects of the Company's claims operations, which include adjusting and settling claims. Compensation is based on actual expenses. In 2002, 2003 and 2004, the Company paid \$114,750, \$213,014 and \$67,965 respectively, in fees to NICI under the terms of the agreement.

Consolidated Federal Income Tax Allocation Agreement: Effective in 2003, the Company and its affiliates are parties to a Consolidated Federal Income Tax Allocation Agreement with BAC. Allocation of taxes is based upon separate return calculations. Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes in prior years in the event of future net losses that it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was licensed in the District of Columbia and the following 48 states:

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

The Company is licensed to write both individual and group credit life and credit accident and health insurance coverages, sold through and issued in conjunction with consumer credit transactions developed through its affiliated lending institutions. The majority of business is solicited through point of sale (bank branches), direct mail, statement marketing and telemarketing of its Bank of America customer base in the United States.

Effective in 2002, the Company's operations were significantly changed by its ultimate parent, Bank of America Corporation. A debt cancellation product offered by Bank of America, NA, replaced the Company's credit insurance business. In October 2001, the Company ceased writing new business. However, the Company continues to offer monthly outstanding balance credit life insurance on consumer real estate and non-real estate secured lines of credit in the States of Arizona, Nevada, Oregon and Washington.

A summary of the business plan is as follows: The Company has focused on credit insurance products covering several loan types including car loans, home equity line of credit, and mortgages. In October 2002, the decision was made to halt the writing of all new business. Existing business was not affected by this decision and will continue in the Company until coverage expires or terminates. Bank of America will also continue the handling and servicing of the policies and claims.

In 2005, the Company and its affiliate, General Fidelity Insurance Company, are both seeking redomestication to South Carolina, the South Carolina Department of Insurance expected approval date is on or about November 1, 2005. The California Insurance Code Section 709.5 gives the California Department of Insurance 90 days to review the transaction.

REINSURANCE

Assumed

In July 2004, the Company was party to several reinsurance agreements. The principal treaty was an Inter-company Retrocession Agreement with its affiliate, Tryon Assurance Company, Ltd. (TACL) whereby the Company assumed 100% of TACL's gross liabilities now existing and hereafter arising from the assumed business related to credit life and credit disability insurance purchased by certain holders of Bank of America VISA and Master Card credit cards under master group policies. This assumed business originally was written by Central States Health and Life Company of Omaha through a fronting agreement. Under the terms of the agreement, the Company only assumes a portion of such business related to credit life and credit disability lines of business.

During this examination period, it was noted that Bankers American Life Assurance Company, the participant in an assumed treaty with the Company, changed its name to First Fortis Life Insurance Company. It is recommended that the reinsurance agreement be amended to reflect the name change.

Ceded

Effective August 1, 1997, the Company entered into a reinsurance agreement with American General Life Assurance Company (AGLAC) whereby the Company cedes up to 100% of the liability for credit life and credit disability insurance. In 2004, the Company ceded \$6.9 million in premiums to AGLAC.

In the prior examination report, it was noted that the Company's principal reinsurer, US Life Credit Insurance Company, changed its name to American General Life Assurance Company. It was recommended to the Company at that time that the agreement be amended to reflect the name change. During the current examination, it was noted that the Company has not amended the agreement. It is recommended that the reinsurance agreement be amended to reflect the name change.

ACCOUNTS AND RECORDS

The examination experienced difficulties in reconciling the Company's general ledger and trial balance to the Company's loss data. It is recommended that the Company properly reconcile its general ledger and trial balance to loss data in the Annual Statement.

In April 2005, the Company amended some pages of its December 31, 2004 Annual Statement including Schedule T.

Subsequent Events

At the conclusion of the examination, in accordance with standard examination closing procedures, the Company was asked to provide a corporate business plan, a letter of representation and a subsequent events letter. In all the three documents the Company failed to disclose its plan to redomesticate the Company and its California affiliate to the State of South Carolina. It is recommended that in the future, the Company disclose all material events to the examiners.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2004

Reconciliation of Capital and Surplus from December 31, 2001
through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$258,032,155	\$	\$258,032,155	
Preferred stocks	38,823,915		38,823,915	
Mortgage loans on real estate: First liens	2,915	2,915	0	
Cash and short-term investments	5,803,440		5,803,440	
Funds held by or deposited with reinsured companies	1,543,893		1,543,893	
Investment income due and accrued	3,288,972		3,288,972	
Aggregate write-ins for other than invested assets	<u>47,520</u>		<u>47,520</u>	
 Total assets	 <u>\$307,542,810</u>	 <u>\$ 2,915</u>	 <u>\$307,539,895</u>	
 <u>Liabilities, Capital and Surplus</u>				
Aggregate reserve for life contracts			\$ 36,616,923	(1)
Aggregate reserve for accident and health contracts			3,477,303	(1)
Contract claims:				
Life			1,768,349	(1)
Accident and health			228,762	(1)
Interest maintenance reserve			8,385,898	
Current federal and foreign income taxes			7,517,314	
Net deferred tax liability			1,219,847	
Asset valuation reserve			<u>6,469,103</u>	
 Total liabilities			 65,683,499	
 Common capital stock		 \$ 5,000,000		
Gross paid-in and contributed surplus		69,605,764		
Unassigned surplus		<u>167,250,632</u>		
 Capital and surplus			 <u>241,856,396</u>	
 Total liabilities, capital and surplus			 <u>\$307,539,895</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2004

Summary of Income

Premiums and annuity considerations	\$ (4,978,785)	
Net investment income	10,411,705	
Amortization of interest maintenance reserve	1,420,554	
Aggregate write-ins for miscellaneous income	<u>3,298,300</u>	
Total		\$ 10,151,774
Death benefits	4,500,449	
Annuity benefits	1,378,173	
Disability benefits and benefits under accident and health contracts	551,476	
Increase in aggregate reserves for life and accident and health contracts	<u>(20,177,887)</u>	
Commissions on premiums, annuity considerations and deposit-type contract funds	827,557	
Commissions and expense allowances on reinsurance assumed	(185)	
General insurance expenses	125,438	
Insurance taxes, licenses and fees excluding federal income taxes	<u>102,599</u>	
Total		<u>(12,692,380)</u>
Net gain from operations before federal income taxes		22,844,154
Federal income taxes incurred		<u>7,517,314</u>
Net gain from operations after federal income taxes		15,326,840
Net realized capital loss		<u>(23,854)</u>
Net income		<u>\$ 15,302,986</u>

Capital and Surplus Account

Capital and surplus, December 31, 2003		<u>\$ 209,653,041</u>
Net income	\$ 15,302,986	
Change in net unrealized capital gains	3,273,185	
Change in net deferred income tax	(455,131)	
Change in nonadmitted assets and related items	5,779	
Change in asset valuation reserve	1,056,486	
Aggregate write-ins for gains in surplus	<u>13,020,050</u>	
Net change in capital and surplus for the year		<u>32,203,355</u>
Capital and surplus, December 31, 2004		<u>\$ 241,856,396</u>

Reconciliation of Capital and Surplus
from December 31, 2001 through December 31, 2004

Capital and surplus, December 31, 2001, per Examination				\$175,018,869
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 53,264,836	\$		
Change in net unrealized capital gains	7,267,727			
Change in net deferred income tax		1,392,308		
Change in nonadmitted assets and related items	121,483			
Change in asset valuation reserve		1,608,251		
Aggregate write-ins for gains in surplus	<u>9,184,040</u>			
Totals	<u>\$ 69,838,086</u>	<u>\$ 3,000,559</u>		
Net increase in capital and surplus				<u>66,837,527</u>
Capital and surplus, December 31, 2004, per Examination				<u>\$241,856,396</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

- (1) Aggregate Reserve for Life Policies and Contracts
- (1) Aggregate Reserve for Accident and Health Policies
- (1) Policy and Contract Claims: Life
- (1) Policy and Contract Claims: Accident and Health

The California Department of Insurance (CDI), pursuant to CIC Section 733(g), retained an independent actuary for the purpose of providing a full actuarial evaluation of the Company's reserves as of December 31, 2004. Based on the evaluation and the review of the work by a Life Actuary from the CDI, the Company's December 31, 2004 reserves established by the Company have been determined to be computed in accordance with the reserving standards of the NAIC and accepted for purposes of this report of examination. Although the independent actuary found the Company's reserves and liabilities to be properly stated, however, the following recommendations were made:

- The Company should take steps to correctly report the various reinsurance assumed and reinsurance ceded claim liability amounts in its future Annual Statements;
- The Company should properly complete all Annual Statement Schedules (particularly Schedules H and S and Exhibit 8) in accordance with the Annual Statement Instructions;
- The Company should continue to use its current unearned premium reserve methodology in the future and ascertain whether such reserves will continue to be adequate pursuant to the NAIC Statement of Statutory Accounting Principles (SSAP) requirements.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Reinsurance-Assumed (Page 7): It is recommended that the Company amend its reinsurance agreement to reflect a name change.

Reinsurance-Ceded (Page 8): It is recommended that the Company amend its reinsurance agreement to reflect a name change.

Accounts and Records (Page 8): It is recommended that the Company properly reconcile its general ledger and trial balance to loss data in the Annual Statement. In addition, it is recommended that in the future, the Company disclose all material events to the examiners.

Aggregate Reserve for Life Policies and Contracts, Aggregate Reserve for Accident and Health Policies, Policy and Contract Claims: Life, and Policy and Contract Claims: Accident and Health (Page 13): It is recommended that the Company implement the comments by the independent actuary in future Annual Statements.

Previous Report of Examination

Company History (Page 2): It was recommended that the Company file amended Articles of Incorporation. The Company complied with this recommendation.

Corporate Records (Page 6): It was recommended that the Company comply with the provisions of California Insurance Code (CIC) Section 735. The Company complied with this recommendation.

Territory and Plan of Operation (Page 6): It was recommended that the Company submit a business plan to the California Department of Insurance (CDI) pursuant to CIC Section 810. The Company complied with this recommendation.

Reinsurance-Ceded (Page 8): It was recommended that the Company amend its reinsurance agreement to reflect a name change. The Company has not complied with this recommendation.

Accounts and Records (Page 8): It was recommended that the Company maintain sufficient detail to document and support all financial statement accounts. In addition, for future examinations, it was recommended that the Company complete the Insurance Information Systems Questionnaire to

facilitate the examination review process. The Company completed the Insurance Information Systems Questionnaire but has not complied with first part of this recommendation.

Bonds, Preferred Stocks, and Cash on Deposit and Short-Term Investments (Page 13): The following recommendations were made:

- It was recommended that the Company comply with the custodial provisions of CIC Section 1104.9. The Company has complied with this recommendation;
- It was recommended that the Company submit its securities to the SVO for valuation. The Company has complied with this recommendation;
- It was recommended that the Company comply with the provisions of CIC Section 1104.1. The Company has complied with this recommendation.

It was also recommended that the Company maintain all of its securities only in the name of the Company per CIC Section 1100. The Company has complied with this recommendation.

Aggregate Reserve for Life Policies and Contracts, Aggregate Reserve for Accident and Health Policies, Policy and Contract Claims: Life, and Policy and Contract Claims: Accident and Health (Page 14): The following recommendations were made:

- The Company should reconcile the assumed reserves shown in Exhibits 8, 9 and 11 with those shown in Schedule S; Exhibits 8, 9 and 11 became Exhibits 5, 6 and 8 in the 2004 Annual Statement. The Company completed Exhibits 5 and 6 correctly but has not complied with the recommendation regarding Exhibit 8.
- The Company should complete Schedules H and O accurately and completely; The Company has not complied with this recommendation regarding Schedule H, the comment relating to Schedule O is not relevant because Schedule O has been eliminated from the Annual Statements.
- The Company's asset adequacy analysis should include the Company's annuity reserves. The Company complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees of Bank of America Corporation during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/_____
Hilary C. Solomon, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California