

REPORT ON EXAMINATION
OF THE
CHASE LIFE AND ANNUITY COMPANY
AS OF
DECEMBER 31, 2003

State of Delaware



Department of Insurance

Dover, Delaware



I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2003 of the

CHASE LIFE & ANNUITY COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Jennifer L. Miller*

DATE: 23RD JUNE 2005



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 23RD DAY OF JUNE 2005.

Matthew Denn

Insurance Commissioner

Deputy Insurance Commissioner

REPORT ON EXAMINATION
OF THE
CHASE LIFE & ANNUITY COMPANY
AS OF
December 31, 2003

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written in a cursive style.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 23RD day of JUNE, 2005.

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Chase Life and Annuity Company

March 17, 2005

Honorable Alfred W. Gross
Chairman – NAIC Financial Condition
Committee
2301 McGee, Suite 800
Kansas City, MO 64108-2604

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Honorable Mervin Stewart, Commissioner
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Utah Department of Insurance
State Office Building, Room 3110
Salt Lake City, UT 84114-1201

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, DE 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 04-030, an examination has been made of the affairs, financial condition and management of

Chase Life and Annuity Company

hereinafter referred to as the “Company” or “CLAC”, incorporated under the laws of the State of Delaware. The examination was conducted at the principal offices of the Company, located at 500 Stanton-Christiana Road in Newark, Delaware.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 1998 by the Ohio Insurance Department. This examination covers the period of January 1, 1999 through December 31, 2003, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedure of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Financial Examiners Handbook Committee and generally accepted examination standards.

In addition to items hereinafter incorporated as a part of the written report, the following were checked and made a part of the workpapers of this examination:

Welfare and Pension Plans
Corporate Insurance
Conflict of Interest Statements
All Asset and Liability Items not Mentioned

HISTORY

CLAC was originally incorporated, under the laws of the State of Ohio on June 30, 1925 as the Inland Casualty Company and commenced business as a casualty insurer on January 1, 1926.

By subsequent amendments to its Article of Incorporation, the name was changed to Inland Fire Insurance Company, The Ohio Life Insurance Company and then to its current name. The Articles were also amended for the purpose of transferring the Company to a legal reserve life insurance company. The Company was re-licensed to write life and accident and health coverage and was authorized to issue annuities. Effective August 1, 2001, the Company re-domesticated from Ohio to Delaware.

On September 13, 1994, the Company amended the Articles of Incorporation to increase the authorized common shares to 100,000 with a par value of \$80 each. The Company transferred \$100,000 from unassigned funds to common capital stock for the original 20,000 shares that were outstanding.

The Company underwrites a proprietary fixed annuity product, currently marketed to customers in New Jersey, Connecticut and Texas. The Company began sales of its proprietary annuity product in April 2002, with considerations received of \$158 million in 2003, and \$88 million in 2002.

On December 15, 2003, the Insurance Commissioner of the State of Delaware ordered and approved a statutory merger for the Company. As ordered and approved, affiliated entities, Sun States Life Insurance Company and Western Hemisphere Life Insurance Company merged into the Company on January 1, 2004. CBD Holdings Ltd. was (and remains) the sole shareholder of all parties to this transaction. As the surviving corporation, the Company will continue its existence under the laws of the State of Delaware.

The Company assumed responsibility for all obligations and liabilities of Sun States and Western Hemisphere, effective with the merger. Sun States' and Western Hemisphere's income from operations is generated by assumption of reinsurance business originating from

products of affiliated non-insurance entities. As of January 1, 2004, relative to the merge of entities, the Company's assets increased by \$75 million, liabilities increased \$17 million and capital and surplus increased by \$58 million.

CAPITALIZATION

The following changes occurred in the capital accounts since the previous examination as reported in the Company's Annual Statements:

	Common Capital Stock	Gross Paid In & Contributed Surplus	Unassigned Funds	TOTAL
12/31/1998	\$1,600,000	\$ 600,000	\$ 12,743,398	\$ 14,943,398
Net income (loss)			(15,426,195)	(15,426,195)
Change in unrealized capital gains			202,507	202,507
Change in non-admitted			(1,821,817)	(1,821,817)
Change in net deferred income tax			3,070,518	3,070,518
Change in accounting principles			58,181	58,181
Change in AVR			(48,069)	(48,069)
Dividends			(3,736,293)	(3,736,293)
Capital contributions	600,000	35,000,000		35,600,000
Other changes to capital & surplus	<u>300,000</u>	<u>1,946,588</u>	<u>(300,000)</u>	<u>1,946,588</u>
12/31/2003	<u>\$2,500,000</u>	<u>\$37,546,588</u>	<u>\$ (5,257,770)</u>	<u>\$ 34,788,818</u>

The Company's Certificate of Incorporation authorizes the issuance of 100,000 shares of Common Stock at a par value of \$80 per share. Of these shares 31,250 were issued and held by CBD Holdings, LTD.

DIVIDENDS TO STOCKHOLDERS

1999 was the only year during the examination period that a dividend was issued. The amount of the dividend was \$3,736,293.

HOLDING COMPANY SYSTEM

CLAC is a member of an Insurance Holding Company as defined in Section 5001 of the Delaware Insurance Code. Registration statements have been filed with the State of Delaware as required. JPMorgan Chase & Co. is named as the ultimate controlling person of the Holding Company System. JPMorgan Chase & Co.'s financial highlights as of December 31, 2003 were as follows (in millions):

Total Assets	\$770,912
Revenue	\$ 33,256
Net Income	\$ 6,719
Stock holders Equity	\$ 46,145

At December 31, 2003, an abbreviated organization chart was as follows:

JPMorgan Chase & Co.
100%

J.P. Morgan Equity Holdings, Inc.
100%

CBD Holdings Ltd.
100%

Sun States Life Insurance Co.	Great Lakes Insurance Co.
Chase Life and Annuity Co.	Western Hemisphere Life Insurance Co.
Chase Life and Annuity Co. of New York	

As noted above, Sun States and Western Hemisphere were merged into the Company on January 1, 2004.

MANAGEMENT AND CONTROL

The affairs of the Company shall be managed by a Board of Directors composed of a minimum number of directors and no less than three (3) members. The Directors are elected by the Shareholders at the annual meeting but need not be Shareholders to be Directors.

The Company's Board of Directors consisted of the following members as of December 31, 2003:

Arthur T. Guja
Kwan W. Lee
Paul G. Petrylak
Joseph D. Picarello

Also at December 31, 2003, CLAC has appointed the following officers:

<u>Name</u>	<u>Office</u>
Paul G. Petrylak	President
Joseph D. Picarello	Vice President
Kwan W. Lee	Treasurer
Arthur Guja	Secretary

In addition to the officers listed above, CLAC has appointed fourteen (14) Vice Presidents at year end 2003.

CORPORATE RECORDS

The Company was originally incorporated in the State of Ohio on June 30, 1925. The Company then re-domesticated to the State of Delaware in 2001. A restated "Certificate of Incorporation" along with "Certification of Re-domestication" was obtained from the Company, under the laws of the State of Delaware and the Company was licensed to transact business.

GROWTH OF COMPANY

Some of the key financial information reported during the examination period was as follows:

<u>Year</u>	<u>Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Premium and Annuity Considerations</u>	<u>Net Gain From Operations</u>	<u>Net Income</u>
1999	\$8,939,003	\$8,820,000	-	\$497,610	(\$3,280,847)
2000	9,067,838	8,976,555	-	(2,217,275)	(2,217,275)
2001	9,620,681	8,704,023	-	(372,716)	(372,716)
2002	128,118,823	37,915,455	88,186,939	(7,352,179)	(6,874,182)
2003	275,416,675	34,788,817	158,250,247	(3,463,275)	(2,681,176)

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 39 states and in the District of Colombia. The Company's business profile focuses on underwriting fixed annuities outside of the State of New York. In addition, the Company reinsures non-New York credit insurance business from the two merged life insurance companies.

CLAC began marketing its own proprietary annuity product to the captive customers of JP Morgan Chase Bank in the non-New York market during the first quarter of 2002. JP Morgan Chase & Co. has been a distributor of third party annuities through Chase Insurance Group for number of years and has had notable success in the marketing of fixed and variable annuities. In order to leverage this success, the Company made a strategic decision to transition from a distributor to both a distributor and underwriter by adding a proprietary product to the third party fixed annuity products currently sold. As a result, the Company generated significant premium

volume from the non-New York market. On a statutory basis, the Company's initial operating performance has been negative as a result of the increased expenses and surplus strain. However, a large capital infusion from CBD Holdings Ltd. was received. CLAC and its parent company remain committed to maintaining a more than adequate level of risk adjusted capitalization. The Company has a prudent investment portfolio and near-term surrender charge protection.

REINSURANCE

In 1995, the Company (then known as The Ohio Life Insurance Company or OLIC) entered into a coinsurance agreement with Great Southern Life Insurance Company (GSL) to reinsure all of the OLIC's life insurance business, including traditional life, deferred annuities, accidental death and disability benefits and supplementary contracts with and without life contingencies. In 1997, OLIC also entered into a coinsurance agreement with United Teachers Associates (UTA) to reinsure all of its existing accident and health (A&H) insurance business. As of December 31, 2003, CLAC had combination portfolio assumption/indemnity reinsurance agreements in place with GSL and UTA to cover all of the in-force business written by OLIC.

INTERCOMPANY AGREEMENTS

As of December 31, 2003, the Company had three (3) Inter-company agreements in place as of year-end:

Chase Insurance Agency (CIA) – Service Agreement

The service agreement between CLAC and CIA. was entered into as of January 1, 2000. Other than investment management, CIA will provide basically all the services to operate the Company.

J. P. Morgan Investment Management, Inc. - Investment Management Agreement

The Company entered into an agreement with Chase Asset Management, Inc. on February 14, 2000. Chase Asset Management, Inc. subsequently changed its name to J. P. Morgan Investment Management, Inc. The agreement appeared to be reasonably stated.

JP Morgan Chase Bank - Custody Agreement

CLAC and JP Morgan Chase Bank entered into a custody agreement on November 17, 2001.

ACCOUNTS AND RECORDS

The Company's accounts and records were audited during the examination period by PriceWaterhouseCoopers. Selected workpapers from the 2003 audit files were obtained and utilized to the fullest extent possible.

FINANCIAL STATEMENTS

The following statements show the Company's operations for 2003 and its financial condition, as of December 31, 2003, as determined by this examination:

	<u>ASSETS</u>			
	Ledger	Assets not	Net Admitted	
	<u>Assets</u>	<u>Admitted</u>	<u>Assets</u>	<u>NOTES</u>
Bonds	\$243,925,592		\$243,925,592	1
Cash, Cash Equivalent and Short term	27,457,890		27,457,890	
Investment Income Due and Accrued	2,718,649		2,718,649	
Net Deferred Tax Asset	4,017,036	\$2,702,492	1,314,544	
Guaranty Funds	<u>84,088</u>	<u>84,088</u>	<u> </u>	
TOTALS	<u>\$278,203,255</u>	<u>\$2,786,580</u>	<u>\$275,416,675</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

		<u>Notes</u>
Aggregate Reserves for Life Policies	\$238,423,449	2
Interest maintenance Reserve	227,721	
Commission to Agents Due & Accrued	8,447	
General Expenses Due & Accrued	131,297	
Taxes, Licenses and Fees	48,848	
Federal Income Tax	878	
Remittance and items not all.	527,615	
Asset Valuation Reserve	774,067	
Payable to par, subsidiaries & affiliates	476,138	
Aggregate Write-ins	<u>9,398</u>	
Total Liabilities	<u>\$240,627,858</u>	
Common capital stock	\$ 2,500,000	
Gross paid in and cont. capital	37,546,588	
Unassigned funds (surplus)	(5,257,771)	
Total Capital & Surplus	<u>34,788,817</u>	
TOTAL	<u>\$275,416,675</u>	

STATEMENT OF INCOME

Premiums earned	\$158,250,247
Net Investment Income	8,850,962
Amortization of Interest Maintenance Reserve	29,611
Aggregate Write-ins for misc. income	<u>167,351</u>
Total	<u>\$167,298,171</u>

Annuity benefits	\$1,999,734
Surrender Benefits and withdraws for life contracts	7,563,960
Increase in aggregate reserves	<u>150,328,169</u>
Total	<u>\$159,891,863</u>

Commission and expense allowance	\$ 8,112,773
General insurance expense	2,483,202
Insurance, taxes, licenses and fees	<u>240,752</u>
Total	10,836,727

Total Expenses \$170,728,589

Net gains from operations after dividends to policyholders \$ (3,430,419)

Federal and foreign income taxes incurred	32,856
Net realized capital gains	<u>782,099</u>

Net income (loss) \$ (2,681,176)

CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2002 \$37,915,455

Net income (loss)	(\$2,681,176)
Change in unrealized capital gains	(376,084)
Change in net deferred income tax	872,499
Change in nonadmitted assets	(489,590)
Change in asset valuation reserve	<u>(452,286)</u>

Net change in Capital and Surplus (3,126,638)

Capital and Surplus, December 31, 2003 \$ 34,788,817

SCHEDULE OF EXAMINATION CHANGES

This examination will propose no financial adjustments.

NOTES TO FINANCIAL STATEMENTS

Note 1. – Bonds

\$243,925,592

The reported values for Bonds as shown on the December 31, 2003 Annual Statement will be accepted as reported for the purpose of this examination. All bonds are maintained at JPMorgan Chase Bank except for special deposits.

The account balance in Bonds of \$243,925,592 represents 89% of the Company's total assets. As per the NAIC's Rating System, the Company's bond portfolio reported the following distribution:

#1	73.4%
#2	18.3%
#3	3.5%
#4	4.8%

Note 2. Aggregate Reserves for Life Policies

\$238,423,449

At December 31, 2003, the Company reported Aggregate Policy reserves of \$238,423,449.

The examination retained the actuarial firm of INS Consultants to review the Company's reserves. Policy data testing was performed by the examiners with no exceptions noted.

As a result of the actuarial analysis by INS Consultants, the Company's Aggregate Policy Reserves as of December 31, 2003 are accepted for purposes of this report.

STATUS OF PRIOR EXAMINATION RECOMMENDATIONS

The prior examination was conducted by the Ohio Department of Insurance. The examination covered the period from January 1, 1994 through December 31, 1998. No significant concerns were noted.

RECOMMENDATIONS

No significant concerns were noted.

SUMMARY COMMENTS

The following significant events were noted by the examination:

CLAC began marketing its own proprietary annuity product to the captive customers of JP Morgan Chase Bank in the non-New York market during the first quarter of 2002. JP Morgan Chase & Co. has been a distributor of third party annuities through Chase Insurance Group for number of years and has had notable success in the marketing of fixed and variable annuities. In order to leverage this success, the Company made a strategic decision to transition from a distributor to both a distributor and underwriter by adding a proprietary product to the third party fixed annuity products currently sold. As a result, the Company generated significant premium volume from the non-New York market. On a statutory basis, the Company's initial operating performance has been negative as a result of the increased expenses and surplus strain. However, a large capital infusion from CBD Holdings Ltd. was received.

On January 1, 2004, two Delaware domesticated insurers, Sun States Life Insurance Company and Western Hemisphere Life Insurance Company, were merged into the Company with CLAC being the surviving entity.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>Current Examination</u>	<u>12/31/98 Examination</u>	<u>Increase (Decrease)</u>
Assets	\$275,416,675	\$16,219,281	\$259,197,394
Liabilities	240,627,858	1,275,882	239,351,976
Capital and Surplus	34,788,817	14,943,398	19,845,419

In addition to the undersigned, Tom Bickerstaff, ACAS, MAAA, of INS Consultants, Inc., participated in the examination.

James Blair, Jr. CFE, CPA served as the examination Supervisor.

Respectfully submitted,



Albert M. Piccoli, CFE
Examiner-in-Charge
Department of Insurance
State of Delaware

SUBSEQUENT EVENTS

Effective January 1, 2004, the Insurance Commissioner of the State of Delaware ordered and approved the statutory merger for the Company and affiliated entities of the Company, Sun States Life Insurance Company (SSLIC) and Western Hemisphere Life Insurance Company (WHLIC). The issued and outstanding shares of common stock of SSLIC and WHLIC were converted into additional paid in capital of the Company. Subsequently, the former shares of common stock of the affiliated entities were surrendered and cancelled. CBD Holdings Ltd. is the sole shareholder of all parties to this transaction. The Company is the surviving corporation and shall continue its corporate existence under the laws of the State of Delaware. The Company assumed responsibility for all obligations and liabilities of SSLIC and WHLIC, effective with the merger.

Additionally, JPMorgan Chase & Co. (“JPMC”) and Bank One Corporation merged on July 1, 2004, with JPMC the survivor. Incidental to the merger of the holding companies and the subsequent consolidation of the Chase and Bank One insurance businesses, there have been management and organizational changes made with respect to the fixed annuity business which CLAC is engaged. The Company’s Board of Directors was reconfigured as follows: Jamie Riesterer replacing Kwan Lee (effective November 22, 2004); and James Harlin, Jeffrey Schlinsog and Jeannie Ianello replacing Paul Petrylak, Joseph Picarello, and Arthur Guja (effective February 4, 2005).