

REPORT ON EXAMINATION

OF THE

MANULIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2004

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SALUTATION

December 19, 2005

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

Honorable Alfred W. Gross
Chairman, Financial Condition (E) Committee
NAIC
2301 McGee, Suite 800
Kansas City, Missouri 64108-2604

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 05-001, dated September 8, 2004, an examination has been made of the affairs, financial condition and management of the

MANULIFE INSURANCE COMPANY

hereinafter referred to as the "Company", "Manulife" or "MLIC", incorporated under the laws of the State of Delaware as a stock company on May 27, 1981. Its Statutory Home Office is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The examination was conducted at the Main Administrative Office of the Company, located at 197 Clarendon Street, Boston, Massachusetts 02117.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination of the Company was conducted as of December 31, 2000 by the Delaware Insurance Department. This examination was also conducted by the Delaware Insurance Department and covered the period from January 1, 2001 through December 31, 2004, 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.

Pursuant to Delaware Regulation 50, Section 12, the Company's independent accounting firm made available for review, all workpapers concerning procedures followed, tests performed, information obtained and conclusions reached pertinent to the firm's statutory audit of the Company's financial statements for the year ended December 31, 2004. The workpapers of the independent accounting firm were reviewed in order to ascertain the procedures employed to determine compliance with statutory guidelines. To the extent possible, the workpapers and analyses were utilized to supplement the examination process.

In accordance with the NAIC Committee on Financial Condition Examiners Handbook (Handbook), an evaluation of controls over the Company's Information Technology was performed.

This report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. 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 Company officials during the course of the examination.

The general procedures of the examination followed the rules established by the Handbook, and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the State of Delaware.

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

Corporate Records
Fidelity Bond and Other Insurance
Officers, Employees and Agents' Welfare
Regulatory Agency Correspondence
All Asset & Liability Items not Mentioned

HISTORY OF COMPANY

The Company was incorporated on May 27, 1981 under the laws of the State of Delaware as the MONY Pension Insurance Company. It commenced business on October 26, 1981. On December 4, 1987, a Certificate of Amendment was filed in the Office of the Secretary of the State of Delaware, amending the Certificate of Incorporation, changing the name of the Company to Colonial Penn Annuity and Life Insurance Company.

On December 30, 1987, the Company was acquired by Colonial Penn Life Insurance Company (CPL), a Pennsylvania corporation, which was a wholly owned subsidiary of Colonial Penn Group Inc. Colonial Penn Group Inc. was an insurance holding company incorporated under the laws of the State of Delaware, and was a wholly owned subsidiary of FPL Group Inc., a Florida corporation.

On August 16, 1991, FPL Group Inc. disposed of the entire Colonial Penn Group Inc., selling it to Charter National life Insurance Company (Charter), a subsidiary of the Leucadia National Corporation (Leucadia), the ultimate parent at that point.

During the beginning of 1993, the Company's entire book of business was ceded in two

Manulife Insurance Company

primary blocks. At the same time, a \$637 million block of Single Premium Whole Life policies was assumed from Charter, the company, which originally wrote the business.

On June 23, 1993, John Hancock Variable Life Insurance Company (JHVLICO), a Massachusetts corporation, which is a wholly owned subsidiary of the John Hancock Life Insurance Company (JHLICO), also a Massachusetts corporation, acquired the Company from CPL. Shortly thereafter, on July 7, 1993, the Certificate of Incorporation was amended again to change the name of the Company to John Hancock Life Insurance Company of America.

On January 20, 1998, a Certificate of Amendment of the Certificate of Incorporation was filed with the State of Delaware Secretary of State to again change the name of the Company to Investors Partner Life Company. On March 5, 1998, a Certificate of Correction to the Certificate of Amendment of the Corporation was filed to correctly reflect the name of the Company to be Investors Partner Life Insurance Company.

On April 28, 2004, John Hancock Financial Services Inc., the parent of JHLICO, merged with Manulife Financial Corporation, and Manulife Financial Corporation became the ultimate parent of the Company. Effective August 10, 2004, Investors Partner Life Insurance Company changed its name to Manulife Insurance Company. The name change was reflected on Certificate of Authority No. 05-001, issued by the Delaware Department of Insurance on September 8, 2004.

CAPITALIZATION

The Certificate of Incorporation, as amended, provides that the authorized capital stock of the Company shall be 20,000 shares of \$200 par value per share. At December 31, 2004, all 20,000 shares were issued and outstanding. Further, John Hancock Variable Life Insurance Company owned all of the outstanding shares.

MANAGEMENT AND CONTROL

Stockholders

In accordance with Article III, Section 2 of the By-Laws, the annual meeting of the stockholders shall be held on the 2nd Wednesday following the 2nd Monday in April in each year at the hour of 2:00 P.M., or on such other date as may be fixed by the President, the Chairman of the Board, or a majority of the Directors, at such time and place as the notice calling the meeting shall indicate. At such annual meetings, the stockholders shall elect a Board of Directors and transact such other business as may properly be brought before the meetings.

Special meetings of the stockholders may be called at any time by the President, the Chairman of the Board, or a majority of the Board of Directors upon request to the Secretary of the Company.

The minutes of the stockholder's meetings reflect that meetings were held in accordance with the provisions of the By-Laws, and that all shares of stock entitled to vote at the meetings were represented in person or by proxy.

Minutes from the Annual Meeting of Stockholders occurring on April 14, 2004 did not contain evidence that a quorum was present by stating that the shareholder(s) were represented. Article III, Section 6 of the Corporate Bylaws defines a quorum as the holder(s) of a majority of issues and outstanding shares of stock. The minutes from 2003, 2002 and 2001 Annual Meetings of Stockholders included evidence that a proxy of John Hancock Variable Life Insurance Company, representing 100% of the outstanding shares, was present.

The minutes provided for the 2004 stockholders meeting did not indicate a signature.

Attendees at the Stockholders Meetings were not listed separately in the minutes for any of the years under review, as they were with Committee of Finance and Board of Directors minutes.

It is recommended that the 2004 minutes should be amended to include the necessary evidence of a quorum, the minutes should be signed by the Corporate Secretary, and the attendees of the meetings should be listed separately.

During the Exam, the Company responded as follows:

The Company's practice has been to list attendees at the Board of Directors meeting rather than the Stockholders meeting. The Company agrees to list attendees at future meetings.

Board of Directors

Article IV, Section 1 of the By-Laws state that a Board of Directors consisting of not less than three Directors, one of whom shall be elected as Chairman of the Board, shall manage the business and affairs of the Company. Each Director shall hold the office for a term of one year or until a successor has been duly elected and qualified.

The By-Laws stipulate that the stockholders, utilizing the cumulative voting method, shall elect the Directors. That is, every stockholder entitled to vote shall have the right in person or by proxy to multiply the number of votes to which he may be entitled by the number of Directors to be elected, and he may cast the whole number of such votes for one candidate or he may distribute them among any two or more candidates. The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

Vacancies in the Board of Directors may be filled by the vote of a majority of the remaining members of the Board, though less than a quorum, and each person so elected shall be a Director for the unexpired term, or until the stockholders at the next Annual Meeting of Stockholders elect his successor.

The annual meeting of the Board of Directors shall be held without notice immediately after the annual meeting of the stockholders, at the place where the annual meeting of the

stockholders is held, for the purposes of organization, for the election of officers, and the transaction of other business. Article IV, Section 5 of the By-Laws states:

“The Board of Directors shall hold at least two regular meetings each year, beginning with the annual meeting immediately following the annual meeting of the stockholders, and at such other time(s) during the remainder of the year as may be deemed necessary and proper; notice of which, except for the annual meeting of the Board, shall be given in written notice to each director at least five (5) days prior to the date specified for the meeting.”

A review of the minutes of the Board of Directors’ meetings held, during the period under examination, revealed that the Board of Directors did meet at least twice in each of the years under examination in accordance with the Company’s By-Laws.

At December 31, 2004, the members of the Board of Directors were as follows:

Name

James Michael Benson – Chairman
Michele Gershman Van Leer – Vice Chairman & President
Ronald Joseph Bocage – Vice President & Counsel
Robert Allen Cook – Vice President
Steven Finch – Vice President
Colm Declan Mullarkey – Vice President
Mark Newton – Vice President
Daniel Leo Ouellette – Vice President
Robert Richard Reitano – Vice President & Chief Investment Officer

Corporate Records

An analysis of the Board of Director and Stockholders' meeting minutes and Annual Statement Jurat pages for the period 2001 - 2004 revealed the following observations:

1. One person was elected as director per the BOD minutes and reported to the Delaware Insurance Department but was not reported as a director on the Jurat page. (Ouellette, 2001)

2. Two persons were elected as directors per both the BOD and stockholder meeting minutes and reported to the Delaware Insurance Department but were not reported as directors on the Jurat page. (Paster and Ford, 2001)
3. Two persons were reported as officers on the Jurat page and were reported via correspondence to the Delaware Insurance Department, but their appointment and election were not documented in the BOD minutes. (Shigley 2003, Copestake 2004)
4. One person appeared on the Jurat page as a director who was not elected per either the BOD or shareholder minutes and was not reported to Delaware Insurance Department. (Moloney, 2001)
5. One officer and one director who were reported the first time were not designated as such with the pound sign on the Jurat page. (Copestake 2004, Ouellette 2002)

It is recommended that all persons elected as directors should be reported as directors on the Jurat page. No persons should appear on the Jurat page as directors or officers who were not elected at Board of Director or stockholders' meetings. New directors and officers should be designated as such on the Jurat page.

During the Exam, the Company responded as follows:

It was an oversight that Dan Ouellette was not reported on the Jurat Sheet for 2001.

It was an oversight that Robert Paster and Maureen Ford were not reported as directors on the Jurat Sheet for 2001.

Klaus Shigley was appointed and elected in Written Consent in Lieu of meeting of Directors as of December 1, 2003.

Peter Copestake also was appointed and elected in Written Consent in Lieu of meeting of Directors as of May 31, 2004.

Thomas Moloney was elected as of June 19, 1998 in Written Consent in Lieu of meeting of Directors as of June 19, 1998. On September 30, 1998 it was reported to Delaware.

The minutes of the Board of Directors noted that there was a declared dividend of \$15 million (20,000 shares at \$750 per share) declared at the meeting of September 16, 2002. However, there was no evidence of a dividend payment either in the Capital and Surplus Account, or in the Exhibit Y, part 2 for 2002, payable to John Hancock Variable Life Insurance Company (which owns 100% of Manulife Insurance Company stock). Note 10 in the 2002 Notes to the Financial Statements indicate "The Company paid no dividends to its parent company, John Hancock Variable Life Insurance Company".

It is recommended that the Company take the necessary steps to correct the dividend declared and unpaid.

During the Exam, the Company responded as follows:

The dividend was modified to \$12.5 (by vote of the Board of Directors) subsequent to the Board Meeting and inadvertently not paid.

Upon reviewing this specific issue, management rescinded the dividend vote in 2005.

Officers

Article V, Section 1 of the By-Laws state that the officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, a Treasurer, one or more Actuaries, and other such officers as may be appointed by the Board of Directors. The same person may fill any two offices, except those of the President and Secretary.

At December 31, 2004, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
James Michael Benson	Chairman of the Board
Michele Gershman Van Leer	Vice Chairman and President
Peter Scavongelli	Secretary
Peter Copestake	Treasurer
Ronald Joseph Bocage	Vice President and Counsel
Robert Allen Cook	Vice President
Steven Finch	Vice President
Colm Declan Mullarkey	Vice President
Daniel Leo Ouellette	Vice President

Robert Richard Reitano
Klaus Otto Shigley

Vice President – Chief Investment Officer
Vice President - Actuary

It was noted that including the Chairman, four vice-presidents among these 10 officers were not reported as officers although all four were reported as directors. Two officers reported in 2003 were not reported in 2004 including the controller.

It is recommended that all officers holding key positions and participating in the day-to-day management of the Company should be reported as officers on the Jurat page of the Annual Statement.

Conflict of Interest

In February 2004, the 2003 Conflict of Interest Questionnaire was distributed to all officers, directors, and key employees of Manulife for completion. It was noted, however, that there were several instances of non-completion of the 2003 Conflict of Interest Questionnaire. The prior examination report made recommendation that the Company's Conflict of Interest Questionnaire needs to be properly completed and answers on all five sections of the Questionnaire must be provided. The Company responded that the recommendation was adopted during 2003 when the Corporate Secretary's Office dissemination the 2002 Conflict of Interest Questionnaire and requested that all officers, directors, and key employees of IPL (now MLIC) complete all five sections of the questionnaire. However, with the lack of proper completion of the 2003 Conflict of Interest Questionnaire, the Company did not comply with the prior examination comment and recommendations.

Subsequently, the Manulife Financial Code of Business Conduct and Ethics ("the Code") was amended by the Board of Directors, effective February 2005, following the merger with John Hancock and its Canadian subsidiary Maritime Life, as well as to reflect changes in law. Pursuant to the memo sent to all employees, in accordance with Corporate Governance

regulations, all employees of Manulife, John Hancock and subsidiaries globally, up to and including the CEO, as well as the Board of Directors, are required to complete and return Code of Business Conduct and Ethics Certification and Conflict of Interest Disclosure Statements ("certification & disclosure statements"). The examination team passed upon review of the conflict of interest disclosure statements that would have been completed during 2005 for the period ending 2004 that is under examination as a large number of officers and employees had been replaced, or are no longer with the Company, as of February of 2005.

By-Laws

As noted in the December 31, 2000 Examination, the Company's By-Laws were amended on February 12, 1998 to reflect the name change of the Company from John Hancock Life Insurance Company of America to Investors Partner Life Insurance Company.

A review of the minutes of the 9/16/02 Board of Directors meeting reveals that the Company's By-Laws were amended. There is no evidence that the amended By-Laws were ever filed with the Delaware Insurance Department.

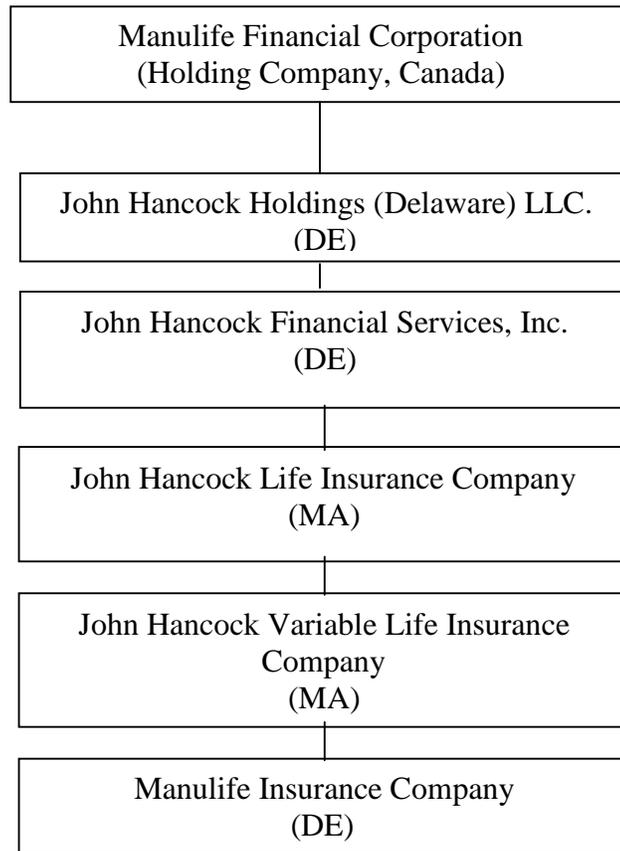
It is recommended that amendments to corporate documents, including By-laws, should be filed on a timely basis with the Delaware Insurance Department.

HOLDING COMPANY SYSTEM

As of December 31, 2004, the Company was a wholly-owned subsidiary of JHVLICO, which, in-turn, was a wholly-owned subsidiary of JHLICO, with the ultimate parent being Manulife Financial Corporation, Canada.

The following presentation of the holding company system, as of December 31, 2004, reflects only the identities and interrelationships between the Company, its direct and indirect parent entities:

Organizational Chart as of December 31, 2004



Delaware Regulation 13, “Registration of Insurance Holding Companies,” promulgated pursuant to the authority granted by Chapter 50 of the Code, requires that all insurers doing business in the State who are members of an insurance holding system, file a registration statement as detailed in the Regulation.

A review of the Annual *Form B* and *Form C* filings made by JHLICO on behalf of the Company, for all years under examination, revealed that the Company complied with the requirements of the Code.

TERRITORY AND PLAN OF OPERATION

Territory

At December 31, 2004, the Company was licensed in forty-seven (47) jurisdictions. These jurisdictions include the District of Columbia, and all states except Louisiana, Maine, New Hampshire and New York. On March 1, 2001, the Company obtained its license in the state of New Hampshire.

In 2004, approximately 63.9% of the Company's direct premium was derived from five states: Florida (13.6%), New Jersey (11.4%), California (10.9%), Texas (10.5%) and Massachusetts (9.5%).

Plan of Operation

While the Company did make plans during 2004 to begin operations in the LTC market; for the period 2001 through December 31, 2004, there was no activity in the operational area other than servicing the closed block of single premium whole life (SPWL) policies acquired from Charter National Life Insurance Company and a block of term life policies issued prior to the current examination period. As of December 31, 2004, there were 7,860 policies remaining on the books of the Company with 1,203 representing the term life business.

Agency Relations

According to the Company, they did not have an agency force, service providers (TPA's), wholly owned agencies, or an agency system plan (MGA's), at December 31, 2004 or any other time during the Examination period. The Company indicated that they did not have exclusive agency agreements as of December 31, 2004.

Best's Rating

Based on Best's current opinion of the consolidated financial condition and operating performance of the life/health members of the John Hancock Financial Services Group, which operate under a group structure, this group member was assigned a Best's Rating of A++ (Superior) for the year ending 2004. The Company is assigned the Financial Size Category of Class XV, which is the Financial Size Category of the parent.

GROWTH OF COMPANY

The following table reflects the growth of the Company by year and sets forth the trend covering the four-year period ending December 31, 2004. The amounts shown were compiled from copies of the Company's filed Annual Statements, with the exception of 2004 and 2000, which represents amounts resulting from examinations.

Year	Net Admitted Assets	Total Liabilities	Total Capital and Surplus	Net Premiums and Annuity Considerations	Net Income
2004	\$561,586,898	\$445,620,085	\$115,966,813	\$187,285	\$10,562,760
2003	536,941,596	433,283,342	103,658,254	393,510	11,311,979
2002	544,678,160	451,924,593	92,753,567	516,493	8,688,811
2001	550,649,828	464,657,075	85,992,753	1,235,512	9,004,909
2000	554,710,717	476,224,258	78,486,459	1,964,153	3,320,289

Assets included Separate Accounts of \$529,635 in 2000.

Liabilities included Separate Accounts of \$530,157 in 2000.

The total policies in force continue to decline as a result of the Company's current practice of not writing any new direct business.

During the examination period, net admitted assets increased by 1.34% to \$561,586,898, and total liabilities decreased by 6.38% to \$445,620,085. During the same period, capital and surplus increased by 47.75% to \$115,966,813.

As a result of the Company's decision to cease writing variable products and following the surrender of all variable policies by January 2001, the Company's Separate Accounts were closed as of March 31, 2001.

After reporting net income of \$3,320,289 in 2000, the Company's net income increased to \$10,562,760, in 2004. During the examination period, net income has consisted primarily of income from investments partially offset by death benefits, surrender benefits and other fund withdrawals. The continuing increase in Net Income has been the result of the Company's subsequent withdrawal from the market in October 2000 (variable products) and December 2000 (term life products), and a continuing decline in the number of active policies in the closed block of SPWL business assumed from Charter which has reduced acquisition and servicing cost. All things considered, favorable operating results have resulted in total capitalization advancing nearly 47.75% since year-end 2000.

Manulife Insurance Company

The following is a reconciliation of capital and surplus for the period under examination:

Capital and Surplus, December 31, 2000		<u>\$78,486,459</u>
Net income	\$ 9,004,908	
Change in net unrealized capital gains or (losses)	(1,913,915)	
Change in net deferred income tax	(914,187)	
Change in non-admitted assets	(218,209)	
Change in Asset Valuation Reserve	2,102,074	
Cumulative effect of changes in accounting principles	(554,379)	
Net change in Capital and Surplus for the year		<u>7,506,292</u>
(Unassigned Surplus at 12/31/01 totaled \$6,742,824)		
Capital and Surplus, December 31, 2001		<u>\$85,992,751</u>
Net income	\$ 8,688,811	
Net unrealized capital gains or (losses)	6,991,739	
Change in net deferred income tax	(2,797,949)	
Change in non-admitted assets	(1,028,935)	
Change in Asset Valuation Reserve	(5,409,183)	
Surplus (contributed to) withdrawn from Separate Accts	316,333	
Net change in Capital and Surplus for the year		<u>6,760,816</u>
(Unassigned Surplus at 12/31/02 totaled \$13,503,638)		
Capital and Surplus, December 31, 2002		<u>\$92,753,567</u>
Net income	\$11,311,979	
Net unrealized capital gains or (losses)	1,726,577	
Change in net deferred income tax	(4,278,251)	
Change in non-admitted assets	(662,103)	
Change in Asset Valuation Reserve	2,380,298	
Cumulative effect of changes in accounting principles	426,187	
Net change in Capital and Surplus for the year		<u>10,904,687</u>
(Unassigned Surplus at 12/31/03 totaled \$24,408,325)		
Capital and Surplus, December 31, 2003		<u>\$103,658,254</u>
Net income	\$10,562,760	
Net unrealized capital gains or (losses)	254,688	
Change in net deferred income tax	(1,484,817)	
Change in non-admitted assets	1,351,880	
Change in Asset Valuation Reserve	1,624,048	
Net change in Capital and Surplus for the year		<u>12,308,559</u>
(Unassigned Surplus at 12/31/04 totaled \$36,716,884)		
Capital and Surplus, December 31, 2004		<u>\$115,966,813</u>

REINSURANCE

Assumed

Charter National Life Insurance Company

All assumed business in place as of December 31, 2004, was acquired from Charter. This business, which consisted of a series of fourteen (14) single premium whole life (SPWL) form numbers, assumed by 100 percent coinsurance with an effective date of June 23, 1993. This agreement was executed together with, and as a component of, the SPWL Assumption Reinsurance Agreement described below. The premium for this transaction was equal to 100 percent of the reserves less \$15,400,000. A special feature of this contract requires that the Company maintain a minimum rating of “AA-“ under the Standard & Poors or the Duff & Phelps rating systems, or establish and maintain a trust fund with a national bank.

The aforementioned SPWL Assumption Reinsurance Agreement was executed with an effective date of August 1, 1993, pending approval by each jurisdiction. The actual approvals (effective dates) varied by state. During 1993, approvals in 24 states, comprising 68 percent of the policies, became effective. Approvals from the remaining 16 states, comprising 32 percent of the policies, became effective during 1994 and 1995. This type of agreement effectively makes the assuming company stand in place of the original direct writing company in all respects, whereby 100 percent of all liabilities and interests in the subject business is transferred to the assuming company. Therefore, there is no need for an insolvency clause, nor is there any limit of coverage. Under terms of the agreement, the Company cannot retrocede this business to any reinsurer without prior approval of Charter.

Ceded

The business held in the Company prior to its acquisition by JHVLICO on June 23, 1993, was ceded to two companies, Provident Mutual Life Insurance Company of America (Provident Mutual) and Consec Direct Life Insurance Company (Consec), formally known as Colonial Penn Life Insurance Company.

Provident Mutual Life Insurance Company of America

The business ceded to Provident Mutual included single premium deferred annuities (SPDA) known as “Life Planner I” and “Life Planner II,” which were in the accumulation phase. The cession was accomplished with two agreements, which were executed on December 18, 1992. The first was a 100 percent coinsurance agreement, and the second was an assumption agreement, both of which are discussed below.

Under terms of the SPDA Coinsurance Reinsurance Agreement, the Company remains directly liable to the claimant for the payment of losses, later recovering 100 percent from Provident Mutual. The Company bears only a credit risk from Provident Mutual. This agreement covered two different blocks of policies, with two different effective dates. The “No-Bailout Block” had an effective date of December 31, 1992, and the “Bailout Block” had an effective date of January 31, 1993. Upon the assumption of any policies under the SPDA Assumption Reinsurance Agreement, the SPDA Coinsurance Reinsurance Agreement will automatically terminate with respect to those policies assumed.

Under terms of the SPDA Assumption Reinsurance Agreement, Provident Mutual bears all obligations to the policyholders and/or claimants and the Company is relieved of all liability. The actual effective dates of this contract varied by state due to required regulatory approvals. Approximately 30 percent of the business was effective March 1, 1993, and the remaining 70

percent became effective July 1, 1993.

Conseco Direct Life Insurance Company

The business ceded to Conseco Direct Life Insurance Company (Conseco), formerly Colonial Penn Life Insurance Company (CPL), included: (1) single premium deferred annuities known as “Life Planner I” and “Life Planner II,” which were in the payout phase; (2) single premium immediate annuities, and; (3) universal life policies. This cession was accomplished with two contracts, each of which included both coinsurance and assumption sections.

The first of these contracts covered one block of group single premium deferred annuities. The effective date of the coinsurance section of this contract was June 23, 1993, and the effective dates of the assumption section were August 1, 1993 for four certificates and September 1, 1993 for eleven certificates. Upon the assumption of any certificates under the “Assumption Reinsurance” section of the contract, coinsurance under this contract terminated with respect to those certificates assumed.

The second of the contracts covered the individual business, which included the remaining single premium deferred annuities (payout stage), single premium immediate annuities, and the universal life policies. The effective date of the coinsurance section of this contract was April 30, 1993, while the effective dates of the assumption section varied by state. On July 1, 1993, one week after the acquisition of the Company by JHVLICO, twenty-one states, comprising 85 percent of the policies, were effective. An additional twelve states, comprising 14 percent of the policies, became effective during the remainder of 1993. The two remaining states, comprising one percent of the policies, became effective during 1994 and 1995. It was noted that upon the assumption of any policy under the “Assumption Reinsurance” section of the contract, coinsurance under this contract terminates with respect to those policies assumed.

Manulife Insurance Company

Under both of the above contracts, the Company bears the credit risk on the coinsured sections. After the assumptions, the reinsurer bears all obligations to the claimants and the Company is relieved of its liability.

Lincoln National Life Insurance Company

Effective November 1, 1998, the Company entered into an Automatic Coinsurance (YRT) Agreement with Lincoln National Life Insurance Company (Lincoln National). Under the terms of this agreement, the Company automatically cedes 90% of its contractual obligations for its 10, 15, 20, 25, and 30 year (level premium) term life insurance policies issued under one policy form. Additionally, the agreement covers obligations for disability waiver of premium, not to exceed a \$3,000,000 maximum per life, and any accelerated death benefits (living care benefits) riders. The agreement allows for the recapture of reinsured business; however, no recapture will be made unless reinsurance has been in place for at least ten years.

Under the above contract, the Company bears the credit risk on the coinsured portion.

INTERCOMPANY AGREEMENTS

The Company had the following intercompany agreements and arrangements in effect as of December 31, 2004:

Federal Income Tax Agreement

Effective September 14, 1982, the Company's parent, JHVLICO (and its includable subsidiaries), entered into a Federal Income Tax Agreement ("Tax Agreement") with its parent, JHLICO. The Tax Agreement is the basis for allocating the consolidated tax liability for the John Hancock group among its members, for reimbursing JHLICO for payment of such liability, and for compensating any party for use of its losses or credits.

Under terms of the Tax Agreement, payment of such liabilities to JHLICO is to be made at such times and in such amounts as JHVLICO would have made to the Internal Revenue Service. JHLICO will pay any and all finally determined income tax liability of JHVLICO (and its includable subsidiaries) for any year, or portion thereof, for which the separate (consolidated) return of income of JHVLICO (and its includable subsidiaries) are included in the consolidated return filed by JHLICO, regardless of whether such liability is greater or smaller than the amount paid over by JHVLICO to JHLICO. Appropriate adjustments will be made in any situation in which it is learned that the tax liability allocation was incorrect. The amount of adjustment for any item shall be limited to the tax benefit from such item in the consolidated return of JHLICO.

Administrative Services Agreement

Effective January 1, 1997, an Administrative Services Agreement was entered into by and between JHLICO, JHVLICO, IPLIC (now MLIC)(collectively known as the “insurance companies”) and John Hancock Signature Services, Inc, (JHSS). Under terms of the agreement, JHSS provides administrative services relating to individual life policies and annuity contracts. Specifically, JHSS performs the following post-sale customer services on behalf of the insurance companies:

- Collecting premiums;
- Handling contractual changes;
- Answering customer calls and letters;
- Processing and paying claims;
- Interfacing with regulatory authorities, and;
- Maintaining appropriate records.

Under terms of the Administrative Services Agreement, JHSS provides the personnel and systems to perform these functions and is responsible for obtaining all necessary licenses and approvals from appropriate regulatory authorities. The insurance companies agree to abide and

Manulife Insurance Company

be bound by all actions of JHSS related to the insurance policies and annuity contracts, as if those actions had been performed directly by the insurance companies.

Expense Reimbursement Agreement

Effective March 7, 1996, the Company entered into an Expense Reimbursement Agreement (“Expense Agreement”) with its indirect parent, John Hancock Life Insurance Company.

Under terms of the Expense Agreement, JHLICO agrees to provide administrative, technical, managerial, marketing support and other agreed upon services required by the Company. For these services, the Company will reimburse JHLICO based on cost center expense distribution ratios and expense factors determined for those cost centers providing services to IPLIC (now MLIC). The expense factors will be based on mutually agreed upon criteria, and will be used to allocate salaries, direct expenses and service charges incurred by the cost centers. In addition to direct cost center charges, service and overhead will be charged in accordance with current cost allocation policies.

Under terms of the agreement, reimbursement will be made monthly based on the current years budget, updated upon completion of any appropriate estimates and revised cost center allocation ratios. Any variance between the actual and estimated expenses will be adjusted when the final year and expense allocations are prepared for inclusion in the annual statement workpapers.

Financial Support Agreement

Effective March 4, 1999, the Company entered into a Financial Support Agreement (“Support Agreement”) with its indirect parent, John Hancock Life Insurance Company, for the benefit of its policyholders.

Under terms of the Support Agreement, JHLICO will cause IPLIC (now MLIC) to be prudently capitalized such that its Risk Based Capital Ratio, according to the NAIC formula, is at or above 200% annually; JHLICO or one of its affiliates will cause IPLIC (now MLIC) to have sufficient cash for timely payment of its contractual obligations; and, JHLICO agrees that the Support Agreement will remain in effect indefinitely and will terminate only upon the earlier to occur of (1) such time as IPLIC (now MLIC) attaining a financial strength rating (without giving weight to the support of this Support Agreement) that is the same as, or better than JHLICO's rating at such time from at least two nationally recognized rating agencies, one of whom shall be Moody's Investors Service; (2) JHLICO reinsuring 100% of the obligations of IPLIC (now MLIC) ; (3) IPLIC (now MLIC) receiving a financial support agreement substantially the same as this Support Agreement from another entity incorporated or otherwise formed under the laws of the United States or any state thereof, which enables IPLIC (now MLIC) to have a financial strength rating that is the same as, or better than, JHLICO's rating at such time from at least two nationally recognized rating agencies, one of whom shall be Moody's Investors Service; or (4) providing sixty (60) days written notice of termination by either party, provided that the Support Agreement will remain in full force and effect, but only for IPLIC (now MLIC) policies issued prior to the termination date, so long as any policies issued prior to the termination date remain in force.

The Support Agreement does not constitute evidence of indebtedness or an obligation or liability of JHLICO as guarantor, endorser, surety, or otherwise in respect of any obligation, indebtedness, or liability of IPLIC (now MLIC). Further, the Support Agreement is not intended to be construed or deemed to provide any creditor of IPLIC (now MLIC) with recourse to or against any of the assets of JHLICO. Any modifications to the agreement must be approved by

both parties, and not be adverse to the interest of IPLIC (now MLIC) policyholders.

Investment Management Agreement

Effective October 1, 1993, the Company entered into an Investment Management Agreement with Independence Investment Associates, Inc. (IIA), a wholly-owned subsidiary of John Hancock Subsidiaries, Inc., which in turn is a wholly-owned subsidiary of JHLICO.

Under terms of the Investment Management Agreement, IIA will provide management of the Company's public bond portfolio. IIA has full discretionary authority to manage the public bond portfolio, and when deemed appropriate and without consultation of the Company, buy, sell, exchange, convert, extend, renew, modify and otherwise trade in obligations relating to the Company's invested assets, subject to the Company's defined investment guidelines. Effective July 1, 2000, this agreement was terminated; the Bond and Corporate Finance Department of JHLICO now handles management of the Company's public bond portfolio.

EXTERNAL AGREEMENTS

The Company had the following external agreements in effect at December 31, 2000:

Custodial Agreement

Effective June 23, 1993, the Company entered into a custodial agreement with Chemical Bank, which later changed its name to Chase Manhattan Bank, for the purpose of safekeeping its invested assets. The agreement provides the necessary safeguards against the negligence or willful misconduct of the bank's officers or employees, or burglary, robbery, or theft (while the securities are in their possession). Further, the agreement provides that in the event of loss, from which the bank is obligated to indemnify the Company, the securities shall be replaced to the extent of the market value of the securities at the date of the discovery of such loss.

Custodial Agreement Addendum

In conjunction with, and made part of, the original custodial agreement with Chemical Bank, the Company entered into the following.

- *Security Lending Amendment to Custodian Agreement:* On July 27, 1993, the Company and Chemical Bank entered into a security lending addendum to the Custodial Agreement to define the terms and conditions under which assets of the Company would be made available for security lending. The addendum includes the necessary safeguards for losses resulting from negligence or willful misconduct of Chemical Bank, its employees or agents.

Financial Administrative Services, Inc. Agreement

Effective August 4, 1998, the Company entered into an agreement with Financial Administrative Services, Inc. (FAS) for the administration and servicing of policies and claims to be managed by FAS.

Under terms of the agreement, FAS will: (1) collect premiums and deposit them into the Company's owned and controlled lockbox; (2) pay commissions on all premium payments/deposits received; (3) deliver written communication to policyholders; (4) perform routine policyholder servicing, including (a) requests for policy changes not involving changes in premium or requiring additional underwriting (all underwriting is performed by Manulife), and (b) requests for policy disbursement, i.e., policy loans, partial withdrawals, surrenders and exchanges, and 1099R filings; (5) perform claims payment; including sending an approved condolence letter, notification to Manulife's Claims Department of a potential claim, processing of a claim after the Company adjudicates the claim, and preparation of 1099 tax reports; (6) issue new business, after underwriting and suitability checks have been completed by Manulife; (7)

perform record keeping of all completed policy files and all production cycles; (8) perform basic accounting for Manulife, including setting up a chart of accounts, balancing the daily cycles, and for variable business handling up to ten investment options including all associated requirements; (9) provide production reports; and (10) perform other optional functions/reports as may be requested by the Company.

Subsequently, effective July 13, 2001, this agreement was terminated in accordance with stipulations of the agreement. Refer to the “Subsequent Events” section of this Report, under the caption “Termination of FAS Agreement” for additional comments regarding the agreement’s termination.

PMSI Agreement

Effective September 1, 1998, the Company entered into an agreement with PMSI Services, Inc. (PMSI) for the purpose of defining application/pre-underwriting services to be handled by PMSI.

Under terms of the agreement, PMSI will: (1) gather all application information for each prospective insured; (2) contact each prospective insured and elicit all necessary information to prepare an insurance application form; (3) order any third party information gathering services, which Manulife will pay for separately; (4) gather all paramedic data to be utilized by Manulife underwriters in deciding whether to issue insurance to a prospective insured; (5) review all gathered data prior to submission to the Company; and, (6) provide a copy to the Company, who will perform underwriting and issuance of policies.

Additional terms of the agreement dictate that PMSI assumes no risk or responsibility for Manulife’s claims administration, claim payment or claim recovery. PMSI also assumes no insurance risk for any of Manulife’s policyholder/insured or any of the parties named in the

agreement. It is the Company's responsibility to provide PMSI all the necessary data in a timely manner and format acceptable to PMSI, for PMSI to perform the application services contracted.

Single Premium Deferred Annuity Administration Agreement

Effective December 18, 1992, a Single Premium Deferred Annuity Administration Agreement was executed between the Company and Provident Mutual Life and Annuity Company of America (Provident Mutual). Through this agreement, the Company transferred the administration of the individual single premium deferred annuity contracts coinsured by Provident Mutual under the SPDA Coinsurance Reinsurance Agreement, executed contemporaneously between the parties, to Provident Mutual.

Charter CPAL Treaty Guarantee

Effective June 23, 1993, the Charter CPAL Treaty Guarantee Agreement was executed between Charter National Life Insurance Company (the "Guarantor"), in favor of JHVLICO and the Company, f.k.a. Colonial Penn Annuity and Life Insurance Company (CPAL). Through this agreement, Charter guarantees the obligations ceded by CPAL on a 100 percent coinsured basis to Conesco Direct Life Insurance Company, f.k.a. Colonial Penn Life Insurance Company (CPL), pursuant to the Indemnity Reinsurance and Assumption Agreement, executed contemporaneously between CPAL and CPL. This agreement remains in full force and effect until the indefensible payment in full of all obligations and all other amounts payable under the guarantee.

All of the above-captioned agreements were reviewed and no exceptions were noted. The reinsurance aspect of the Single Premium Deferred Annuity Administration Agreement between the Company and Provident Mutual, and the Indemnity Reinsurance and Assumption

Agreement between the Company and Conseco Direct are discussed in more detail in the “Reinsurance” section of this Report, under the captions “Provident Mutual Life Insurance Company of America” and “Conseco Direct Life Insurance Company,” respectively.

LEGAL ACTIONS

The Company is a party to various litigation and claims common to its business. Management believes that the outcome of such matters will not have a material adverse impact on the financial position or results of operations of the Company.

ACCOUNTS AND RECORDS

Accounting System

All accounting records of the Company are maintained on electronic data processing equipment, which is also shared by JHLICO and its subsidiaries. The general ledger is maintained on a statutory basis with additional accounts used to convert to Generally Accepted Accounting Principles. The Company’s database was tested as part of Delaware examination procedures.

During the review of the Company’s records, the following were noted:

Expense Agreements – Amendment

It was recommended that the Company amend the Expense Reimbursement Agreement, the Basis of Expense Allocation, the Administrative Services Agreement, Financial Support Agreement and the Federal Income Tax Agreement to reflect the name changes of the corporate entities resulting for the merger with Manulife.

Independent Accountants

The Company’s financial statements are audited each year by a public accounting firm. The examiners reviewed the audited statutory financial statements and noted that an unqualified

opinion was issued for all years under review.

Actuarial Opinion

The Company's loss reserves and related actuarial items were reviewed by Klaus O. Shigley, MAAA, Vice President and Actuary of Manulife Insurance Company, who issued a statement of actuarial opinion, based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet are fairly stated and met the requirements of the insurance laws of the state of Delaware.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2004, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2004

Statement of Liabilities, Surplus and Other Funds, December 31, 2004

Summary of Operations, December 31, 2004

Schedule of Examination Adjustments

**Analysis of Assets
As of December 31, 2004**

	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	\$ 325,735,412			\$ 325,735,412	(1)
Stocks:					
Preferred	2,312,308			2,312,308	
Common	922,050			922,050	
Mortgage loans;					
First Liens	88,195,687			88,195,687	
Other than first liens	250,000			250,000	
Cash, cash equivalents and short-term investments	14,550,406			14,550,406	
Contract loans	100,770,993			100,770,993	
Other invested assets	8,253,449			8,253,449	
Receivable for securities	3,500			3,500	
Aggregate write-ins for invested assets:					
Derivative Instruments	10,534,376			10,534,376	
Investment income due and accrued	7,709,487		139	7,709,348	
Premiums and considerations:					
Deferred premiums, agents' balances and Installments booked but deferred and not yet due	844,941			844,941	(2)
Guaranty funds receivable or on deposit	2,343			2,343	
Aggregate write-ins for other than invested assets:					
Negative IMR	1,172,318		1,172,318		
Miscellaneous accounts receivable	1,502,105			1,502,105	
Unamortized expenses	<u>1,424</u>	<u> </u>	<u>1,424</u>	<u> </u>	
Total Assets, per Examination	<u>\$ 562,760,779</u>	<u>\$ </u>	<u>\$ 1,173,881</u>	<u>\$ 561,586,898</u>	

**Statement of Liabilities, Surplus and Other Funds
As of December 31, 2004**

		Notes
Aggregate reserve for life contracts	\$ 417,385,307	(3)
Contract claims:		
Life	1,499,633	(4)
Premiums and annuity considerations for life and accident and health contracts received in advance less discount; including accident and health premiums	4,745	
General expenses due or accrued	406,255	
Taxes, licenses and fees due or accrued, excluding federal income taxes	676,733	
Current federal and foreign income taxes	1,228,447	
Net deferred tax liability	9,995,940	
Remittances and items not allocated	7,606,984	
Miscellaneous liabilities:		
Asset valuation reserve	5,832,430	
Payable to parent, subsidiaries and affiliates	957,350	
Aggregate write-ins for liabilities:		
Provision for cost restructuring	<u>26,261</u>	(5)
 Total Liabilities	 <u>445,620,085</u>	
 Common capital stock	 4,000,000	
Gross paid-in and contributed surplus	75,249,929	
Unassigned funds (surplus)	<u>36,716,884</u>	
Surplus as regards policyholders	<u>115,966,813</u>	
 Total Liabilities and Surplus, per Examination	 <u>\$561,586,898</u>	

Summary of Operations
(Excluding Unrealized Capital Gains and Losses)
As of December 31, 2004

Premiums and annuity considerations	\$ 187,285
Net investment income	34,491,027
Amortization of interest maintenance reserve	(887,291)
Commissions and expense allowances on reinsurance ceded	576,911
Miscellaneous income:	
Aggregate write-ins for miscellaneous income	<u>341</u>
Total	34,368,273
Death benefits	19,279,194
Surrender benefits and withdrawals for life contracts	10,292,461
Interest and adjustments on contract or deposit-type funds	136,178
Increase in aggregate reserves for life and accident and health policies and contracts	<u>(10,643,860)</u>
Total	19,063,973
Commissions on premiums, annuity considerations, and deposit-type funds	112,596
Commissions and expense allowances on reinsurance assumed	4,969
General insurance expenses	345,555
Insurance taxes, licenses and fees, excluding federal income taxes	378,047
Increase in loading on deferred and uncollected premiums	<u>(15,591)</u>
Total	19,889,549
Net gain from operations before dividends to policyholders and federal income taxes	<u>14,478,724</u>
Net gain from operations after dividends to policyholders and before federal income taxes	14,478,724
Federal income taxes incurred	<u>2,524,287</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	11,954,437
Net realized capital gains or (losses) less capital gains tax and transferred to the IMR	<u>(1,391,677)</u>
Net income	<u>\$ 10,562,760</u>

Summary of Operations (cont)
(Excluding Unrealized Capital Gains and Losses)
As of December 31, 2004

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2003	\$ <u>103,658,254</u>
Net income	10,562,760
Change in net unrealized capital gains	254,688
Change in net deferred tax	(1,484,817)
Change in non-admitted assets and related items	1,351,880
Change in asset valuation reserve	<u>1,624,048</u>
Net change in capital and surplus for the year	<u>12,308,559</u>
Capital and surplus, December 31, 2004, per Examination	<u>\$ 115,966,813</u>

Schedule of Examination Changes

There were no adjustments for the current Examination Report.

Notes to Financial Statements

Assets

(1) Bonds \$325,735,412

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

Examiner noted that the US Treasury bond pledged as collateral was not identified as such with the proper code in the asterisk column of Schedule D, Part 1. This same observation was made in the prior examination, indicating the Company has not complied with a prior recommendation.

It is recommended, as it was in the previous examination, that the Company take appropriate action to bring itself into compliance with the filing requirements of the NAIC SVO *Purposes and Procedures Manual*, and the NAIC *Annual Statement Instructions*, as mandated by Title 18 Del.C. §526(a).

During the Exam, it was noted that the Company exceeded its own "Investment Guidelines," in foreign securities. The Company has established a limitation that 5% of admitted assets may be invested in foreign securities. In the instant case, 5% of the Company's admitted assets are calculated to be \$28,079,345. The Company's aggregate foreign investment is \$28,554, 943, which exceeds its investment limitation by \$475,598.

It is recommended that the Company establish a control to monitor compliance with its Investment Guidelines and not exceed those guidelines.

During the Exam, the Company responded as follows:

The Company is correcting this by a moratorium on any new foreign investments for IPL (now MLIC) and will also be selling part of the IPL (now MLIC) foreign exposure late this year as part of portfolio rebalancing. The violation was caused by a deal that was initially coded a domestic and then corrected. The violation and the correction action have been approved by the Chairman of the Committee of Finance for IPL (now MLIC).

(2) Deferred Premiums, Agents' Balances and
Installments Booked but Deferred and Not Yet Due \$ 844,941

The asset is reported on Page 2, Line 12 of the 2004 Annual Statement. MLIC values its term insurance business using mean reserves, a method which assumes that full annual premiums are paid at the beginning of each policy year. Mean reserves overstate the liability, since not all policyholders pay premiums annually. The deferred net premium asset consists of premiums to be paid between the valuation date and the next policy anniversary and is used as a reserve offset. Uncollected net premiums represent amounts due but not paid as of the valuation date.

MLIC provided valuation summary workpapers in support of the above asset. The workpapers were reviewed and found to be in order. A judgmental sample of four policies was tested for verification of the due and deferred premium asset calculation. An error was discovered in the deferred premium calculation for one of the four policies. A deferred premium

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asset of \$35,255 was incorrectly held when the value should have been zero. MLIC corrected the error in the calculation logic and ran a revised due and deferred premium valuation run. The revised valuation file showed the sample policy chosen by the Exam was the only policy in error.

Based on the above discussion and analysis, the Exam concluded that the deferred and uncollected premium asset, as reported by MLIC on Page 2, Line 12 of its December 31, 2004 Annual Statement is overstated by \$35,255. Since this amount is below the tolerable error, no financial adjustment is recommended.

It is recommended that MLIC revise calculation logic for deferred premiums by December 31, 2005.

Liabilities and Surplus

General

Manulife Insurance Company (MLIC) is a subsidiary of the John Hancock Life Insurance Company. As of December 31, 2004, MLIC held reserves primarily for single premium whole life and term insurance.

Certificate of Reserve Valuation

As part of the annual certificate of reserve valuation procedure, the Exam reviewed the December 31, 2004 Exhibit 5 reserve. During that process, MLIC workpapers supporting these liabilities were reviewed and found to be in order. The Exam's reconciliation work from that procedure has been relied upon for the current examination.

Asset Adequacy / Cash Flow Testing Analysis

MLIC's appointed actuary concluded that no additional actuarial reserves were required as of December 31, 2004. Based on the Exam review of the asset adequacy / CFT analysis, The Exam has accepted the conclusion that no additional actuarial reserves were required as of December 31, 2004.

Data Validity

Samples of randomly selected policies from MLIC's business were used to test the validity of valuation data. Inclusion testing was also performed in order to gain confidence that the valuation extract files were essentially complete. The data validity testing indicates that the underlying valuation data is free of errors. The inclusion testing indicates that the valuation extract files are complete.

Reserve/Liability Analysis

Reserves were reviewed for compliance with Delaware's standard valuation and non-forfeiture laws, applicable National Association of Insurance Commissioner's Actuarial Guidelines and Model Regulations.

The Exam tested the adequacy of MLIC's life IBNR and found it was inadequate by \$75,912. The Exam also found a calculation error (asset was overstated by \$35,255) in the deferred premium valuation run. Recommendations concerning these problems are presented later. Since these amounts are below the tolerable error (\$2,900,000) no financial adjustment is recommended.

It is recommended, based on the prior analysis, that MLIC:

- **Review the methodology used to calculate IBNR and establish new calculation procedures by December 31, 2005.**
- **Revise calculation logic for deferred premiums by December 31, 2005.**

Summary

The balance sheet items enumerated in the examination scope appear fairly stated and were calculated using valuation files which appear to be complete and free of errors. Therefore, the balance sheet items covered by this examination have been accepted as stated for the purpose of this Report.

(3) Aggregate Reserve for Life Contracts \$417,385,307

This liability is reported on Page 3, Line 1 and in Exhibit 5 of the Annual Statement. The reserve breakdown in Exhibit 5, by type of benefit, is as follows:

Life Insurance	\$ 416,633,724
Annuities	0
Miscellaneous	<u>751,583</u>
Grand Totals (Net)	<u>\$ 417,385,307</u>

General

As part of the valuation certification process completed prior to the examination, MLIC's Exhibit 5 supporting workpapers were reviewed and found to be in order. Reserves from the single premium whole life (SPWL), term and annuity business revealed a reasonable trend from December 31, 2000 through December 31, 2004.

The primary risks associated with the Exhibit 5 business are asset default, adverse mortality and mismatching of asset and liability cash flows. The ability of reserves to cover such risks can be evaluated by asset adequacy/cash flow testing (CFT) analysis. Therefore, an important examination focus was the review of the 2004 AOM. Based on that review, the Exam has accepted MLIC's conclusion that additional actuarial reserves are not required.

Since reserves for SPWL are equal to the greater of the CRVM reserve and an auxiliary account value, the account values for the SPWL were also tested using roll-forward analysis. No

exceptions were noted. In addition, annual statements to policyholders were reviewed and found to be consistent and reasonable. Judgmental samples for both SPWL (32) and term (5) were selected for reserve testing. The examiner verified the underlying data and found no errors. Also, the examiners performed inclusion testing and concluded that the valuation files were complete. The Exam calculated reserves without exception.

Each of the Exhibit 5 items is discussed below in further detail.

Life Insurance\$ 416,633,724

Exhibit 5 can be further broken down as follows:

Single Premium Whole Life	\$ 415,747,929
Term Life	<u>8,857,954</u>
Total (Gross)	\$ 424,605,883
Reinsurance Ceded	<u>7,972,159</u>
Total (Net)	<u>\$ 416,633,724</u>

Reserves for SPWL policies are equal to the greater of the CRVM reserve and an auxiliary account value. The Exam verified that all of the reserves in the sample were greater than the CRVM reserves. The Exam verified the reserves and noted no exceptions. The Exam also reviewed the underlying data for the 32 policies and found no exceptions. Inclusion testing was also performed and no exceptions were noted. The Exam concluded that the SPWL reserves were correct.

Term insurance policies have guaranteed periods of 10, 15, 20, 25 and 30 years. The judgmental sample included the term policy with the largest reserve in each guarantee period. A judgmental sample of 5 term insurance policies was selected from the term insurance valuation file. The Exam verified the term insurance reserves and noted no exceptions. The Exam also reviewed the underlying data for the 5 policies and found no exceptions. Inclusion testing was

also performed and no exceptions were noted. Based on the results of that testing, the Exam concluded that the term insurance valuation files were complete and free of errors.

Based on the above analysis, the Exam concluded that the Exhibit 5 life insurance reserves were fairly stated.

Annuities\$ 0

Exhibit 5 - Section B can be further broken down as follows:

Single Premium Annuities		\$ 2,134,420
Reinsurance Ceded to Consec	1,187,776	
Reinsurance Ceded to Provident	<u>946,644</u>	
Total Reinsurance Ceded		<u>2,134,420</u>
Total (Net)		\$ <u><u>0</u></u>

The reserve consists of single premium immediate annuities (SPIA) and single premium deferred annuities (SPDA) ceded to Consec Direct Life Insurance Company and Provident Mutual Life Insurance Company. The policies are administered and valued by the assuming company. Work papers for these items were reviewed and found to be in order. In addition, a trend analysis over the examination period appears reasonable. Based on materiality no additional work was deemed necessary.

Based on the above an analysis and discussion, the Exam concluded that the Exhibit 5 annuity reserves were fairly stated.

Miscellaneous Reserves\$ 751,583

Exhibit 5 - Miscellaneous reserves can be further broken down as follows:

Deficiency Reserves		\$ 8,983
Additional Actuarial Reserve – Asset Liability		199,911
For Excess Mortality Due to Conversion		<u>550,774</u>
Total (Gross)		\$ 759,668

Reinsurance Ceded	<u>8,085</u>
Total (Net)	\$ <u>751,583</u>

All the miscellaneous reserves were for the term insurance business. The AAR-AL was mislabeled and really represents excess term reserves for term policies valued under the Unitary Method.

The reserves for deficiency, excess term reserve over unitary and the excess mortality due to conversion revealed a reasonable trend from December 31, 2000 through December 31, 2004. Based on materiality, no further examination work was deemed necessary.

Based on the above analysis and discussion, the Exam concluded that the Exhibit 5 miscellaneous reserves were fairly stated.

Exhibit 5 - Grand Total (Net)..... \$ 417,385,307

Based on the previous discussions, the Exam concluded that the aggregate reserve for life contracts, as reported by MLIC on Page 3, Line 1 and in Exhibit 5 of the December 31, 2004 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

(4) Contract Claims: Life \$1,499,633

This liability is reported on Page 3, Line 4.1 and in Exhibit 8, Part 1 of MLIC's December 31, 2004 Annual Statement and consists of the following:

In course of settlement (ICOS) (Gross and Net)	\$ 1,433,980
Incurring but unreported (IBNR)	
Direct	159,401
Reinsurance Assumed	<u>2,687</u>
IBNR (Gross)	\$ 162,088
Reinsurance Ceded	<u>96,435</u>
IBNR (Net)	\$ 65,653

Total ICOS and IBNR (Net)

\$ 1,499,633

The ICOS consisted of 14 death claims. The Exam checked the policy numbers against the December 31, 2004 valuation file. As expected, none of these policies were on the valuation file and the liability held in Exhibit 8 matched the face amount listed in the valuation file. The ICOS was also reviewed by the examiner. No exceptions were noted.

For the IBNR, MLIC applies lag factors to the average of claims paid within the most recent eight quarters to estimate total claims by quarter. IBNR factors are applied to the quarterly claims to arrive at the net amount at risk (face amount less reserve). Finally, a reinsurance factor is applied to arrive at the net liability. The lag, IBNR and reinsurance factors were last updated during 2004.

In order to test the methodology, MLIC provided a list of paid claims from January 1, 2005 through April 30, 2005. The Exam totaled the 2005 paid claims that were incurred before January 1, 2005 and reported in 2005. Since these policies were on the December 31, 2004 valuation file, the Exam subtracted the total reserves from the claims paid to get the net amount at risk. This amount was approximately \$238,000 and exceeded MLIC's gross IBNR by \$75,912.

It is recommended that MLIC review the methodology used to calculate the IBNR and establish new calculation procedures by December 31, 2005.

Based on the previous analysis and discussion, the Exam concluded that the Contract claims: life reported by MLIC on Page 3, Line 4.1 and in Exhibit 8, Part 1 of December 31, 2004 Annual Statement was understated. Since the IBNR deficiency (\$75,912) is below the tolerable error (\$2,900,000), no financial adjustment is recommended and the liability was accepted as stated.

(5) Provision for Cost Restructuring \$26,261

The Company was not able to provide the documentation to support this liability. The amount of this liability, \$26,261, is immaterial; however, due to the fact that the Company could not support this liability, an exception is noted.

It is recommended that the Company locate the documentation for this liability and liquidate the liability.

MARKET CONDUCT ACTIVITIES

Based upon direction received from the Delaware Insurance Department, the Exam did not conduct a review of Market Conduct Activities.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The Company's compliance with the prior examination recommendations was reviewed for each account in the current examination for which prior examination recommendations were applicable. All prior examination recommendations were either directly or indirectly addressed in the current examination. In those instances where the Company was not in full compliance with the prior examination recommendation, a repeat recommendation was made in this report.

SUMMARY OF RECOMMENDATIONS

It is recommended that the 2004 minutes should be amended to include the necessary evidence of a quorum, the minutes should be signed by the Corporate Secretary, and the attendees of the meetings should be listed separately.

During the Exam, the Company responded as follows:

The Company's practice has been to list attendees at the Board of Directors meeting rather than the Stockholders meeting. The Company agrees to list attendees at future meetings. (Management and Control – Stockholders, Pg, 6)

It is recommended that all persons elected as directors should be reported as directors on the Jurat page. No persons should appear on the Jurat page as directors or officers who were not

elected at Board of Director or stockholders' meetings. New directors and officers should be designated as such on the Jurat page.

During the Exam, the Company responded as follows:

It was an oversight that Dan Ouellette was not reported on the Jurat Sheet for 2001.

It was an oversight that Robert Paster and Maureen Ford were not reported as directors on the Jurat Sheet for 2001.

Klaus Shigley was appointed and elected in Written Consent in Lieu of meeting of Directors as of December 1, 2003.

Peter Copestake also was appointed and elected in Written Consent in Lieu of meeting of Directors as of May 31, 2004

Thomas Moloney was elected as of June 19, 1998 in Written Consent in Lieu of meeting of Directors as of June 19, 1998. On September 30, 1998 it was reported to Delaware. (Management and Control – Corporate Records, Pg 8)

It is recommended that the Company take the necessary steps to correct the dividend declared and unpaid.

During the Exam, the Company responded as follows:

The dividend was modified to \$12.5 (by vote of the Board of Directors) subsequent to the Board Meeting and inadvertently not paid.

Upon reviewing this specific issue, management rescinded the dividend vote in 2005. (Management and Control – Corporate Records, Pg 9)

It is recommended that all officers holding key positions and participating in the day-to-day management of the Company should be reported as officers on the Jurat page of the Annual Statement. (Management and Control – Officers, Pg 10)

In February 2004, the 2003 Conflict of Interest Questionnaire was distributed to all officers, directors, and key employees of Manulife for completion. It was noted, however, that there were several instances of non-completion of the 2003 Conflict of Interest Questionnaire. The prior examination report made recommendation that the Company's Conflict of Interest Questionnaire needs to be properly completed and answers on all five sections of the Questionnaire must be provided. The Company responded that the recommendation was adopted during 2003 when the Corporate Secretary's Office dissemination the 2002 Conflict of Interest Questionnaire and requested that all officers, directors, and key employees of IPL (now MLIC) complete all five sections of the questionnaire. However, with the lack of proper completion of the 2003 Conflict of Interest Questionnaire, the Company did not comply with the prior examination comment and recommendations. (Management and Control - Conflict of Interest, Pg 10)

It is recommended that amendments to corporate documents, including By-Laws, should be filed on a timely basis with the Delaware Insurance Department. (Management and Control – By-Laws, Pg 11)

It was recommended that the Company amend the Expense Reimbursement Agreement, the Basis of Expense Allocation, the Administrative Services Agreement, Financial Support Agreement and the Federal Income Tax Agreement to reflect the name changes of the corporate entities resulting for the merger with Manulife. (Accounts and Records – Expense Agreements – Amendment, Pg 28)

It is recommended, as it was in the previous examination, that the Company takes appropriate action to bring itself into compliance with the filing requirements of the NAIC *SVO Purposes and Procedures Manual*, and the NAIC *Annual Statement Instructions*, as mandated by Title 18 Del.C. §526(a). (Bonds, Pg 33)

It is recommended that the Company establish a control to monitor compliance with its Investment Guidelines and not exceed those guidelines.

During the Exam, the Company responded as follows:

The Company is correcting this by a moratorium on any new foreign investments for IPL (now MLIC) and will also be selling part of the IPL (now MLIC) foreign exposure late this year as part of portfolio rebalancing. The violation was caused by a deal that was initially coded a domestic and then corrected. The violation and the correction action have been approved by the Chairman of the Committee of Finance for IPL (now MLIC). (Bonds, Pg 34)

It is recommended that MLIC revise calculation logic for deferred premiums by December 31, 2005. (Deferred Premiums, Agents' Balances and Installments Booked But Deferred and Not Yet Due, Pg 35)

The Exam recommends that MLIC review the methodology used to calculate the IBNR and establish new calculation procedures by December 31, 2005. (Contract Claims: Life, Pg 41)

The Company was not able to provide the documentation to support this liability of \$26,261. It is recommended that the Company locate the documentation for this liability and liquidate the liability. (Provision for Cost Restructuring, Pg 42)

CONCLUSION

The following schedule reflects the financial condition of the Company as a result of this examination, and the results of the prior examination conducted as of December 31, 2000, with changes between the examination periods:

<u>Description</u>	<u>Per Examination December 31, 2004</u>	<u>December 31, 2000</u>	<u>Increase (Decrease)</u>
Net Admitted Assets	<u>\$561,586,898</u>	<u>\$553,629,943</u>	<u>\$7,956,955</u>
Total Liabilities	<u>445,620,085</u>	<u>476,767,664</u>	<u>(31,147,579)</u>
Common Capital Stock	4,000,000	4,000,000	0
Gross Paid-In And Contributed Surplus	75,249,929	75,249,929	0
Unassigned Funds (Surplus)	<u>36,716,884</u>	<u>(2,387,650)</u>	<u>39,104,534</u>
Total Capital and Surplus	<u>115,966,813</u>	<u>76,862,279</u>	<u>39,104,534</u>
Total Liabilities, Surplus And Other Funds	<u>\$561,586,898</u>	<u>\$553,629,943</u>	<u>\$ 7,956,955</u>

Since the last examination made as of December 31, 2000, admitted assets have increased by \$7,956,955, liabilities have decreased by \$31,147,579, and total capital and surplus has increased by \$39,104,534.

The examination of Manulife Insurance Company was made in accordance with the requirements set forth by the National Association of Insurance Commissioners and fairly presents the financial condition of the Company in accordance with those requirements.

Based upon the procedures performed, it was determined that the Company's investments have been made in accordance with statutory requirements and have been valued as required by applicable regulatory bodies, except as noted. The liabilities reported in the balance sheet of this report indicate adequate provision for the Company's obligations, except as noted.

Acknowledgment is hereby made of the courteous cooperation extended by Company personnel to the examination staff during the course of the examination.

Acknowledgment is also made of the assistance provided by the examiners representing

Manulife Insurance Company

the Delaware Insurance Department. The assistance provided by INS Consultants, Inc. and INS Services, Inc., both of Philadelphia, Pennsylvania, is also hereby acknowledged.

Respectfully submitted,

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Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC