

Colonial Insurance Company, in Rehabilitation
140 Public Square, Cleveland, Ohio 44114

January 9, 2004

To: **All Policyholders, Agents and Other Interested Parties of Colonial Insurance Company, in Rehabilitation**

On January 16, 2003, the Court of Common Pleas of Franklin County, Ohio, in Case No. 03CVC01- 00597, determined that the financial condition of Colonial Insurance Company ("Colonial") was such that sufficient cause existed for the rehabilitation of Colonial under Ohio Revised Code §3903.12. Consequently, the Court ordered Colonial into Rehabilitation and appointed Ann H. Womer Benjamin, Superintendent for the Ohio Department of Insurance, as Rehabilitator.

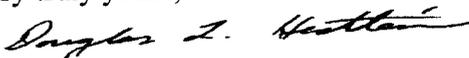
Pursuant to state law, the Rehabilitator has prepared a Rehabilitation Plan ("Plan") to facilitate the rehabilitation of Colonial, which has been submitted to Judge David Fais of the Court of Common Pleas of Franklin County, Ohio, for approval. Colonial is a mutual protective association established under §3919.31 of the Ohio Revised Code. As such the only source of capital for Colonial would be an assessment of the policyholders, whereby every policyholder would have to pay additional amounts in excess of their premiums. The Rehabilitator would prefer to avoid such an assessment and thus has proposed a Plan that attempts to meet all of Colonial's obligations without an assessment of policyholders.

In summary, under the terms of the Plan, the convalescent care policies of Colonial will be managed over a period of years by utilizing Colonial's existing assets (consisting of current invested assets and future premiums) to maximize contractual benefits to convalescent care policyholders, and premium increases for these policies will be capped at 7% per year. The Rehabilitator will attempt to find a replacement Medicare supplement carrier who will offer continued coverage to existing Medicare supplement policyholders. If no such replacement carrier can be found, Colonial will continue to run off the Medicare supplement business using sound actuarial assumptions regarding pricing and reserving. The Plan avoids a liquidation of Colonial, which the Rehabilitator believes would not be in the interests of Colonial's policyholders because once a court orders a liquidation, payment of claims will immediately cease for an undetermined period of time and all in force policies must be cancelled, under state law.

A copy of the Plan may be obtained at no cost: by either downloading it from the Ohio Insurance Liquidator website, at www.ohinsliq.com; by mail, addressed to the Office of the Chief Deputy Rehabilitator for Colonial Insurance Company, 1366 Dublin Road, Columbus, Ohio, 43215-1093; or by telephone at (614) 487-9200. Inquiries regarding the Plan can also be made by any of these means.

The Court has not yet set a hearing to consider the Plan, but it has scheduled a pre-trial conference for January 20, 2004 at 8:15 in Judge Fais's courtroom. We recommend that any objections to the proposed Plan be filed prior to that pre-trial date with the Court of Common Pleas of Franklin County, Ohio, in Case No. 03CVC01-00597, *Ann Womer Benjamin, Superintendent of Insurance v. Colonial Insurance Company*. The Court's address is: 369 South High Street, Columbus, Ohio 43215. A copy on any such objections should also be mailed to the Rehabilitator's attorney, Valoria Hoover at Kohrman Jackson & Krantz P.L.L., One Cleveland Center, 20th Floor, 1375 East Ninth Street, Cleveland, Ohio 44114-1793.

Very truly yours,



Douglas L. Hertlein
Chief Deputy Rehabilitator