

IN THE COURT OF COMMON PLEAS
FRANKLIN COUNTY, OHIO
CIVIL DIVISION

MARY JO HUDSON
Superintendent,
Ohio Department of Insurance, in her Capacity
as Rehabilitator of Colonial Insurance Company

Plaintiff,

v.

COLONIAL INSURANCE COMPANY,
(In Rehabilitation)

Defendant.

CASE NO. 03 CVC 01 00597

JUDGE DAVID FAIS

CLERK OF COURTS - CIVIL

2008 MAY 13 AM 11:43

FILED
COMMON PLEAS COURT
FRANKLIN CO., OHIO

**MOTION FOR APPROVAL OF MODIFIED REHABILITATION PLAN FOR THE
COLONIAL INSURANCE COMPANY THROUGH APPROVAL OF ASSUMPTION
REINSURANCE AGREEMENT**

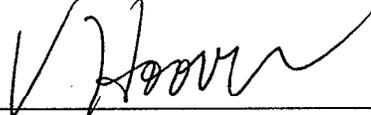
Pursuant to R.C. 3903.14(D), the Plaintiff, Mary Jo Hudson, Superintendent, Ohio Department of Insurance, in her capacity as Rehabilitator of Colonial Insurance Company ("Colonial"), requests this Court for approval of a Modified Rehabilitation Plan for Colonial through approving the Assumption Reinsurance Agreement for the sale of Colonial's entire block of policies, convalescent care and miscellaneous. This will permit Colonial's existence to continue solely for the purpose of winding up its business. The reasons and analysis that support this motion are set forth in the accompanying Memorandum of Support and the attached affidavits.

Respectfully Submitted,

**MARC DANN
ATTORNEY GENERAL STATE OF OHIO**

By Special Counsel:

KOHRMAN JACKSON & KRANTZ, P.L.L.



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*Special Counsel for Plaintiff, Mary Jo Hudson,
Superintendent, Ohio Department of Insurance, in her
Capacity as Rehabilitator of Colonial Insurance Company*

MEMORANDUM IN SUPPORT

I. STATEMENT OF FACTS

Colonial Insurance Company (“Colonial”) is an Ohio corporation engaged in the sale of long-term health care insurance to seniors. On January 16, 2003, the Court of Common Pleas of Franklin County, Ohio placed Colonial into rehabilitation upon a Complaint by the Ohio Superintendent of Insurance (“Superintendent”). The Court appointed the Superintendent the Rehabilitator for Colonial (“Rehabilitator”). As mandated by O.R.C. 3903.14, the Rehabilitator prepared and submitted to the Court a Rehabilitation Plan and Addendum to the Plan of Rehabilitation (the “Plan of Rehabilitation”), to ensure that Colonial continued to meet its obligations to existing policyholders. On April 5, 2004, this Court approved the Plan through a Final Order Approving Rehabilitation Plan for Colonial Insurance Company. For the reasons and analysis set forth below, the Rehabilitator now requests this Court approve a Modified Rehabilitation Plan by approving the Assumption Reinsurance Agreement which sells all of Colonial’s remaining policies. Because the Modified Rehabilitation Plan through the Assumption Reinsurance Agreement is fair and equitable, this Court should approve the Modified Rehabilitation Plan by approving the Assumption Reinsurance Agreement.

1. Colonial Insurance Company

Colonial is a unique insurance company as a result of its original terms of inception coupled with the changes made to Ohio insurance law since Colonial’s founding. Colonial was organized as a Mutual Protective Association (“MPA”) on November 4, 1899, under G.C. 9445 (predecessor to R.C. 3919.31). See Plan of Rehabilitation for Colonial Insurance Company. Originally, MPAs were companies organized to provide insurance against accidental personal injury, loss of life, and the health expenses resulting from sickness or injury to its members. G.C.

9445 (predecessor to R.C. 3919.31). Any company with five or more “citizens” could organize as a MPA. *Id.* Currently, the formation of an MPA is no longer permitted. Pursuant to G.C. 9445-1, now codified at R.C. 3919.32, no new accident and health companies could form as a MPA after May 26, 1939. However, the statute carved out an exception for companies formed prior to May 26, 1939, allowing those companies to continue transacting business as an MPA. Colonial, in essence, was grandfathered by the statute and permitted to stay in existence.

A MPA’s financial organization is very different from other insurance companies. A MPA is expressly authorized to assess its members as the primary method of financing its payment of liabilities. R.C. 3919.01.¹ Courts have long-noted that a MPA could assess its members for payment of losses, create a financial surplus to pay administrative expenses, and offset any losses with its surplus funds prior to any additional assessments. *State v. Bowen* (1937), 132 Ohio St. 583, 9 N.E.2d 494. While any MPA existing prior to August 9, 1913, is allowed to continue financing its operation through imposition of assessment plans, a MPA organized after that date is prohibited from assessing members. G.C. 9429-4 (predecessor section to R.C. 3919.15). Because Colonial was organized in 1899, however, it is permitted to finance its operations through an assessment plan.

Colonial has, at all relevant times, been licensed to conduct business as an insurer solely in Ohio. See Plan of Rehabilitation. Presently, Colonial’s business only consists of the issuance of two types of long-term health care policies: (1) Guaranteed Renewable Convalescent Care Insurance (“CC”); and (2) Other miscellaneous policies. *Id.*² Colonial policyholders are

¹ Under an assessment plan, each policyholder, as a member of the MPA, is required to pay a proportionate share of the insurer’s liabilities.

² On November 16, 2004, the Rehabilitator notified this Court of the sale of Colonial’s Medicare Supplement Insurance Line pursuant to the Court-Approved Rehabilitation Plan.

exclusively senior citizens. See Aff. Dana Rudmose ¶ 4 (Oct. 13, 2003) attached as Exhibit A to Motion for Approval of the Rehabilitation Plan, filed November 7, 2003.

2. Colonial's Current Operating Status

On November 29, 2000, Colonial began operating its business subject to a Supervision Order issued by the Ohio Department of Insurance ("Department"). See Plan of Rehabilitation. In accordance with the terms of the Supervision Order and the Rehabilitation Plan, Colonial has not issued any new insurance policies since May 2001 due to the business risk posed to policyholders, creditors, and the public. Aff. James M. Young ("Young") ¶ 3, attached as Exhibit 1 to this Memorandum in Support. Since May 2001, Colonial's income has been generated solely by policy renewal business and investment income. Aff. Young ¶ 4. This resulted in Colonial's premium income declining over the last seven years, due to: (1) policy lapses; (2) policyholders choosing not to renew their Colonial policies; and (3) existing policyholders' deaths. Id.

Throughout supervision and rehabilitation, Colonial has continued to satisfy the obligations owed to its policyholders. In the late 1990's, Colonial's board of directors made the business decision to cease issuing some CC policies. Colonial's CC revenues continue to show a steady decline because no new CC policies have been issued and no new policyholders have been added to the CC reserve pool. Aff. Young ¶ 5. Further, for the past three (3) years the total number of outstanding CC policies has dropped an average of 12.63 % annually as a result of policy lapses and policyholder deaths. Id.

As of March 31, 2008, Colonial had 518 outstanding CC and miscellaneous policies with an aggregate reserve of \$ 2,947,445, or an average outstanding reserve of approximately

\$5,690.05 per policy.³ Aff. Young ¶ 6. Approximately 280 of the outstanding CC policies (54%) contain an automatic inflation rider that increases the daily policy benefit by a defined percentage each year the policy is in effect to keep pace with the increased health care costs resulting from inflation. Id. In addition, as of March 31, 2008, Colonial had 54 CC policies in claims paying status. Aff. Young ¶ 7. The unpaid claim reserves for those policies were \$2,030,000, or approximately \$37,592.59 per reported claim. Id. Also, as of March 31, 2008, Colonial had 63 of miscellaneous policies. Id.

In accordance with the Plan of Rehabilitation and to minimize the public's exposure to any financial risk, Colonial has been operating in a run-off status, only renewing existing policies. Aff. Anne Thomson ("Thomson") ¶ 3 attached as Exhibit 2 to this Memorandum in Support. This leaves Colonial with no opportunity to generate business growth or increase profits in its CC line because the business has been and will continue to steadily decline over time. Id. Furthermore, due to its organization as a mutual assessment insurer, Colonial is unable to raise new capital through any mechanism other than an assessment of its policy holders (e.g. stock issuance; restructuring of capitalization). The consequences of any assessment, however, would result in a greater decrease in revenue and in the number of policyholders; many policyholders would choose to let their CC coverage lapse to avoid paying the assessment. See Plan of Rehabilitation.

The administrative expenses associated with maintaining and administering the CC and miscellaneous policies has continued to rise. Aff. Thomson ¶ 4. The expenses to premiums ratio is rising at an accelerated pace because Colonial is bringing in less premiums with decreasing active policies and the administration expenses remain fixed or are increasing. Id.

³ A contract reserve represents the present value of future benefits minus the present value of any appropriate future valuation net premiums.

For example, the cost to keep Colonial's employees is increasing as those employees increase in age. *Id.* With the Rehabilitation Plan for run-off of the existing policies, Colonial is not in a position to operate as a fully continuing business which, therefore, increases its expenses. *Id.*

Market volatility continues to impact Colonial's CC business. The Convalescent Care insurance market has experienced volatility. Additionally, Colonial's CC business has been adversely impacted by the failure to correctly calculate Colonial's needed CC reserves. Prior to 2001, Colonial's annual reserve estimation reports did not take into account the inflation rider in effect on CC policies. Beginning in 2001, the Department required Colonial to eliminate any shortfall in its CC reserves. Further, Colonial continues to experience volatility in the levels of its CC reserves as a result of the decrease in active policyholders coupled with the aging of the remaining policyholders. *Aff. Young* ¶ 8. For example, the average reserve on a reported CC claim is approximately \$37,592.59, while the average reserve for a policy not in claims paying status is \$5,690.05. *Id.* This disparity requires the lapse or death of 6.61 policyholders for every new claim to achieve a neutral reserve effect. *Id.*

3. Assumption Reinsurance Agreement ("Agreement")

Since January 2007, the Rehabilitator has evaluated alternatives to the increasing issue of diminishing premiums and increasing costs with the risk of a volatile CC market. *Aff. Thomson* ¶ 5. The Rehabilitator's key concern remained finding the best method for all existing CC and miscellaneous policyholders to maintain their coverage. *Id.* The major questions facing the Rehabilitator remained the same as they existed at the time of the Plan of Rehabilitation: (i) how would Colonial's CC and miscellaneous policyholders maintain their coverage?; (ii) how would any continuation of coverage be funded without the availability of an insurance guaranty fund to protect the policyholders?; and (iii) how would Colonial avoid the disadvantages inherent

in a run-off of its business because of diminishing premiums and increased expenses to maintain the business? After exploring the alternatives and consistent with the goals of the Plan of Rehabilitation, the Rehabilitator sought to sell the remaining CC and miscellaneous policies and to wind up Colonial's business. Aff. Young ¶ 9. Following over a year and a half of searching for an insurance company in good standing to purchase the Colonial block of business, Central United Life Insurance Company ("Central United") offered to buy Colonial's remaining block of business. See Id. and Aff. Thomson ¶ 7.

After receiving Central United's offer, the Rehabilitator requested an outside independent consultant review the offer to assume 100% of the liabilities associated with Colonial's remaining business in exchange for receiving assets with a market value of \$800,000 greater than the liabilities being assumed. Aff. Glenn A. Tobleman ("Tobleman") ¶ 2 attached as Exhibit 3 to this Memorandum in Support; see also Aff. Thomson ¶ 8. Glenn A. Tobleman ("Mr. Tobleman") is a consultant to the Rehabilitator for the Colonial. Aff. Tobleman ¶ 1. Mr. Tobleman is employed by Lewis & Ellis, Inc. ("Lewis & Ellis"). Id. Lewis & Ellis is an actuarial consulting firm with offices located at 2929 N. Central Expressway, Suite 200, Richardson, TX 75080. Id. Presently, Mr. Tobleman is an Executive Vice President of Lewis & Ellis and have worked for the firm for 26 years. Id. Mr. Tobleman is a member of the American Academy of Actuaries, a Fellow of the Society of Actuaries and a Fellow of the Casualty Actuarial Society. Id.

On November 13, 2007, Mr. Tobleman prepared a written report which contains his opinions and his methods and calculations he used to reach his opinion. Aff. Tobleman ¶ 3 and a true and accurate copy of the written opinion is attached as Exhibit A to Tobleman's affidavit. In reviewing the offer, because the law of large numbers does not apply to Colonial's business

since less than 600 policies are in force, more year-to-year volatility in the actual results of Colonial's business were anticipated. Aff. Tobleman ¶ 5. This greater volatility makes the Colonial block of policies even less attractive to a prospective buyer, since there is greater risk that actual assumptions will differ from projected assumptions. Aff. Tobleman ¶ 6. Based on his education, background, experience and his gross premium valuation of the in force block of business compared to the indicated reserve deficiency (or sufficiency), Mr. Tobleman opined that Central United's offer was reasonable and he recommended that the Rehabilitator accept Central United's offer. Aff. Tobleman ¶ 4.

Based upon Mr. Tobleman's opinion, the Rehabilitator negotiated a definitive agreement with Central United. Aff. Thomson ¶ 8. On May 6, 2008 after 5 months of negotiation, Colonial entered into an Assumption Reinsurance Agreement with Central United for the sale of Colonial's remaining block of CC insurance and miscellaneous policies ("The Agreement"). Aff. Thomson ¶ 8-9. A true and accurate copy of The Agreement is attached as Exhibit 1 to Thomson's affidavit.

Upon the approval of this Court and certain other requirements, Colonial has agreed to sell all of its remaining policies and Central United has agreed to succeed Colonial as the insurer under the terms and provisions of each of the Policies. See Section 2.1 of The Agreement.

The key terms of the agreement are as follows:

1. Colonial will sell, cede transfer to, assign and reinsure with Central United and Central United will purchase, undertake, reinsure and assume all the contractual rights, obligations, liabilities and risks of Colonial under or with respect to the CC and miscellaneous Policies (as defined in the Agreement). Central United will have the direct obligation for each Policy and Colonial will have no further rights or liability for the Policy. Section 2.1 of The Agreement.
2. This sale is conditioned upon the receipt of all required regulatory approvals and approval by This Court. Section 2.3. This Court's approval must

provided the following: (i) The Assumption Reinsurance of the Policies by Central United is free and clear of any and all successor liability to any and all of Colonial's members; and (ii) As Colonial is a Mutual Protective Association, upon the date that Central United takes the Policies, Colonial will have no members. Id.

3. In consideration of Central United's assumption of the Policies and any unknown liabilities with respect to the Policies and given that the Policies have been the subject of volatility and are subject to the Rehabilitation Plan and Order, Colonial shall pay to the Central United the Settlement Amount which is \$675,000 at time of closing and \$125,000 or such lesser amount of Colonial's cash and cash equivalents as remains upon the final dissolution of Colonial. Section 4.1 of The Agreement.
4. As a result of The Agreement, Colonial's existence will continue solely for the purpose of winding up its business which includes paying any and all administrative expenses, in accordance with the Plan of Rehabilitation, paying commissions currently accrued for premiums received in connection with the CC Policies and terminating Colonial's employees with an industry standard severance package. Section 2.2 Exhibit of The Agreement.

II. ANALYSIS

1. Legal Authority for Colonial's Proposed Modified Rehabilitation Plan and Approval of Reinsurance Assumption Agreement for the Sale of Colonial's Remaining Insurance Policies

There is a dearth of published insurer rehabilitation cases in Ohio. Thus, in addition to Ohio cases, to fully understand the requirements of any rehabilitation plan, one must examine the Ohio rehabilitation statute, the rehabilitation cases from other states, and general bankruptcy concepts. As States, like Ohio, that adopted the "Insurers Rehabilitation and Liquidation Model Act," as drafted by the National Association of Insurance Commissioners, provide guidance for this Court, this brief will analyze similar rehabilitation cases from those States.⁴

A. General Authority for Rehabilitation of An Insurance Company

⁴ The cases cited to as authority were selected from states that have adopted the NAIC Model Act: Georgia, Kentucky, New Jersey, North Carolina, Pennsylvania, and South Carolina.

In Ohio, an insurer's rehabilitation is governed by R.C. 3903.01 to 3903.59: "The Insurers Supervision, Rehabilitation, and Liquidation Act." The purpose of an insurer's rehabilitation is to protect "the interests of insureds, claimants, creditors, and the public generally, with minimum interference with the normal prerogatives of the owners and managers of insurers." R.C. § 3903.02(D); *Markowitz v. Ohio Dept. of Ins.* (2001), 144 Ohio App.3d 155, 162, 759 N.E.2d 838; *Boedeker v. Rogers* (2000), 140 Ohio App.3d 11, 22, 746 N.E.2d 625.

Once the court has granted a rehabilitation order, the ensuing rehabilitation process is governed by R.C. 3903.13 to 3903.16. The Superintendent, as Rehabilitator, is given "broad discretionary and equitable powers relating to the supervision, rehabilitation and liquidation of insurance companies." *Fabe v. Prompt Fin. Inc.* (1994), 69 Ohio St.3d 268, 273, 631 N.E.2d 614. Accordingly, pursuant to R.C. 3903.02(C), the statutory rehabilitation provisions are liberally construed to grant the Rehabilitator wide latitude in managing an insurer's rehabilitation. The Rehabilitator has the power to prepare a plan for any reorganization, consolidation, conversion, *reinsurance*, merger, or other transformation of the insurer, subject to court approval. R.C. 3903.14(D). In this case, since 2004 the Rehabilitator has operated Colonial's business through the Plan of Rehabilitation; however, by statute the Rehabilitator's office is not an insurance company and Colonial's current policyholders will benefit from Central United's efficiencies of scale and insurance business expertise in operating an on-going insurance company. Aff. Thomson ¶¶ 6 & 10.

B. Standard of Review for a Modified Rehabilitation Plan

Like a rehabilitation plan, a modified rehabilitation plan must be fair and equitable to all concerned parties before it will be upheld by a court. *Koken v. Fid. Mut. Life Ins.* (Pa. 2002), 803 A.2d. 807. When evaluating a modified rehabilitation plan, courts employ the following

standard: has the rehabilitator abused his or her discretion in the formulation of the rehabilitation plan. Id.; See *Ratchford v. Proprietors' Ins. Co.* (1989), 47 Ohio St.3d. 1, 3, 546 N.E.2d 1299 (a liquidator has broad general authority and responsibility subject only to judicial review to assure there is no fraud or abuse of discretion). The abuse of discretion standard also applies to individual provisions of the rehabilitation plan. See e.g. *Stephens*, 898 S.W.2d at 86 (applying the abuse of discretion standard to evaluate the rehabilitator's sale of insurer's real estate assets); *Muir v. Transp. Mut. Ins. Co.* (Pa.Cmmw. 1987), 523 A.2d 1190, 1192 (rehabilitator's establishment of cutoff date for valuing claims was not arbitrary or an abuse of discretion). Despite the need for court approval of the rehabilitation plan, courts carefully avoid substituting judicial discretion for administrative discretion. See e.g. *State ex rel. DeMuth v. State Bd. of Edn.* (1996), 113 Ohio App.3d 430, 680 N.E.2d 1314.

Courts acknowledge that the “[Rehabilitator] must be afforded that freedom of action in the over-all management of the company which will permit [her] to knowledgeably evaluate, plan, devise, and implement a program which in [her] best judgment and in keeping with [her] expertise in the field of insurance will accomplish the objective of the [rehabilitation] proceeding.” *Foster*, 614 A.2d at 1093 (quoting with approval *Kueckelhan v. Fed. Old Line Ins. Co.* (Wash.1968), 444 P.2d 667). Thus, courts give deference to the manner in which the Rehabilitator proceeds unless the methods of implementation are not fair and equitable. *LaVecchia v. HIP of N.J., Inc.* (N.J.Super. 1999), 734 A.2d 361, 364.

2. Colonial's Modified Rehabilitation Plan and Assumption Reinsurance Agreement with Central United for the Sale of Its Remaining Insurance Policies Is Fair and Equitable, Not an Abuse of Discretion, and Must Be Ratified by This Court.

Colonial's Modified Rehabilitation Plan (“Modified Plan”) is fair and equitable. Specifically, the Modified Plan through the sale of the remaining insurance policies and wind-up

of Colonial's business: (1) adequately represents all interested parties; (2) maintains the CC and miscellaneous policyholders' existing coverage; and (3) provides for payments to all of Colonial's other creditors and agents. Each of these points is discussed in more detail below.

A. The Modified Plan Provides Fair Representation and Notice to All Interested Parties

Under the Modified Plan, all parties continue to be fairly represented. Pursuant to R.C. 3903.14(D), the court may institute "such notice and hearings as [it] may prescribe" to interested parties. While no specific provision exists in the statute for notice to and representation of potential claimants, the statute leaves such determinations to the court's discretion. *O'Neal v. Oxendine* (Ga.App. 1999), 514 S.E.2d 908, 911.

In the present case, all of Colonial's insurance agents, vendors, creditors, and current policyholders will be given notice of the Modified Plan and Sale of Remaining Insurance Policies. See Motion for Approval of Notice, Scheduling, Hearing of Motion for approval of Modified Rehabilitation Plan through approval of Assumption Reinsurance Agreement filed simultaneously with This Motion and Memorandum in Support. In the notice, interested parties are informed of: (1) the procedure for filing objections; and (2) the hearing date for consideration of the Modified Plan and all objections to the Modified Plan. This notice and opportunity to be heard by all interested parties more than adequately addresses the interests of notice and fair representation.

B. The Modified Plan Protects the Interests of All Existing CC and Miscellaneous Policyholders

The Modified Plan will sell the CC and miscellaneous policies intact and envisions that all policy benefits will be paid out to all future claimants. Unlike some situations where the Ohio Life and Health Insurance Guaranty Association ("OLHIGA") provides a safety net for policyholders when their health insurer becomes insolvent, Colonial policyholders do not have

that protection. R.C. 3956 et al. and R.C. 3956.01; *Maytag v. Tenn. Ins. Guar. Assn.* (1992), 79 Ohio App.3d 817, 821, 608 N.E.2d 772. In the present case, Colonial's sale of the CC and miscellaneous policies is designed to perform the same function normally fulfilled by OLHIGA. The sale is designed to maintain coverage of Colonial's policyholders. Aff. Thomson ¶ 10.

Furthermore, the Sale fulfills the most important priority of any rehabilitation: the protection of Colonial's existing policyholders. Id. The Rehabilitator has broad authority to do what is in the best interest of all policyholders. R.C. 3903.14; See also *Ins. Commr. of S.C. v. New South Life Ins. Co.* (S.C. 1978), 248 S.E.2d 591, 593.

The benefits to the existing CC and miscellaneous policyholders include the maintenance of existing coverage and the expertise and efficiencies of an on-going in good standing insurance company. Aff. Thomson ¶ 10. Each existing policyholder is projected to continue to receive CC coverage through Central United. Id. Ultimately, all current CC policyholders are expected to receive their bargained for insurance benefits, to the extent possible from the available assets and consideration that Colonial pays to Central United. Id.

C. The Plan's Provision of Commissions Payments to the CC Agent will be Fulfilled

In 2004, the Plan provided that the insurance agents responsible for CC coverage would not immediately receive their accrued commissions. However, upon the approval of the Assumption Reinsurance Agreement and winding up of Colonial's business and in accordance with the Plan of Rehabilitation, Colonial's convalescent care agents will receive their accrued commissions set at the Rehabilitation date through Colonial's winding up process. Aff. Thomson ¶ 11. This is fair and equitable because the agents would fare no better in liquidation. When the interested parties will fare at least as well in rehabilitation as compared with

liquidation, rehabilitation is an appropriate remedy. *Neblett v. Carpenter* (1935), 305 U.S. 297, 59 S.Ct. 170, 83 L.Ed. 182.

D. Colonial's Administrative Expenses and Rehabilitation Costs Will Be Funded Through the Winding-up of Colonial's Business

All of Colonial's current and future administrative expenses will be paid. Aff. Thomson ¶ 12. Under either a rehabilitation or liquidation, the first class of claims that must be paid are the insurer's administrative expenses. See R.C. 3903.14; R.C. 3903.42. Administrative expenses include the insurer's normal operating expenses, any and all expenses incurred by the Rehabilitator to take possession of the business and conduct the rehabilitation proceedings, and reasonable attorney's fees. Id. Pursuant to the applicable Ohio statutes, the Modified Plan provides for the satisfaction of both Colonial's operating expenses and all costs associated with Colonial's winding up of business. Aff. Thomson ¶ 12.

3. The Assumption Reinsurance Agreement which sells Colonial's remaining policies is Fairer to Policyholders than Continued Run-off

Numerous reasons exist that make a continued run-off of Colonial's policies problematic. First, as noted by Mr. Tobleman, more year-to-year volatility in Colonial's block of policies exists. This volatility will become greater as Colonial's block of business becomes smaller and smaller. Second, the expenses to administer the current block of business will increase with less and less premiums to support the increased expenses. Third, the Rehabilitator and her office are not in the insurance business. An insurance company that has more volume and can integrate the administration of Colonial's block of business can more effectively and efficiently support the policy holders. Therefore, it is fairer to the policy holders that the block of business be sold so as to conserve the resources available for the payment of policy benefits to any future claimant. Aff. Thomson ¶ 13.

CONCLUSION

For the foregoing reasons pursuant to R.C. 3903.14(D), Plaintiff requests that this Court grant its motion by issuing an Order as follows:

1. The Modified Rehabilitation Plan and the Assumption Reinsurance Agreement between Colonial and Central United are fair and equitable to all parties concerned and comply with the applicable provisions of R.C. 3903.14 and are therefore approved.
2. The Assumption Reinsurance of the Policies (as defined in the Assumption Reinsurances Agreement) by Central United is free and clear of any and all successor liability to any and all of Colonial's members.
3. Central United will comply with the Rehabilitation Plan, the Rehabilitation Plan Approval Order and all other orders of the Rehabilitation Court.
4. As of the Assumption Date (as defined in the Assumption Reinsurances Agreement), all of Colonial's contractual rights, obligations, liabilities and risks with respect to the Policies will transfer to Central United, with the result that Central United, as transferee, in all respects and conditions, shall succeed Colonial as the insurer under terms and provisions of each of the Policies and the Rehabilitation Plan approved on April 5, 2004 by this Court, as though Central United had originally issued such Policies and Central United shall assume, as administrator, full and complete responsibility for servicing and administering the Policies in accordance with the terms and conditions of the Agreement and the Policies.
5. As Colonial is a Mutual Protective Association, upon the Assumption Date, Colonial will have no members.
6. Colonial's existence will continue solely for the purpose of winding up its business.

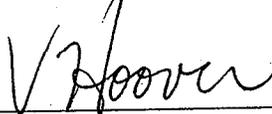
7. Colonial's CC agents will receive their accrued commissions through Colonial's winding up process.
8. Colonial's employees will be terminated and given an industry standard severance package.
9. All of Colonial's administrative expenses will continue to be paid as they are incurred until this Court orders the discharge and release of the Rehabilitator, a final accounting, a closing of the estate and a dissolution of Colonial's mutual protective association.

Respectfully Submitted,

**MARC DANN
ATTORNEY GENERAL STATE OF OHIO**

By Special Counsel:

KOHRMAN JACKSON & KRANTZ, P.L.L.



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*Special Counsel for Plaintiff, Mary Jo Hudson,
Superintendent, Ohio Department of Insurance, in her
Capacity as Rehabilitator of Colonial Insurance Company*

CERTIFICATE OF SERVICE

A copy of the foregoing Motion for Approval of the Modified Rehabilitation Plan for the Colonial Insurance Company through Approval of the Assumption Reinsurance Agreement has been served by Regular U.S. Mail, postage prepaid, on this 13th day of May, 2008 to the following:

Cathleen DeLaney
Manager of Colonial Insurance (In Rehabilitation)
140 Public Square
Cleveland, OH 44114



VALORIA C. HOOVER (#0059596)

EXHIBIT 1

3. In accordance with the terms of the Supervision Order and the Rehabilitation Plan, Colonial has not issued any new insurance policies since May 2001 due to the business risk posed to policyholders, creditors, and the public.

4. Since May 2001, Colonial's income has been generated solely by policy renewal business and investment income. This resulted in Colonial's premium income declining over the last seven years, due to: (1) policy lapses; (2) policyholders choosing not to renew their Colonial policies; and (3) existing policyholders' deaths.

5. Colonial's convalescent care ("CC") revenues continue to show a steady decline because no new CC policies have been issued and no new policyholders have been added to the CC reserve pool. Further, for the past three (3) years the total number of outstanding CC policies has dropped an average of 12.63% annually as a result of policy lapses and policyholder deaths.

6. As of March 31, 2008, Colonial had 518 outstanding CC and miscellaneous policies with an aggregate reserve of \$2,947,445, or an average outstanding reserve of approximately \$5,690.05 per policy. A contract reserve represents the present value of future benefits minus the present value of any appropriate future valuation net premiums. Approximately 280 of the outstanding CC policies (54%) contain an automatic inflation rider that increases the daily policy benefit by a defined percentage each year the policy is in effect to keep pace with the increased health care costs resulting from inflation.

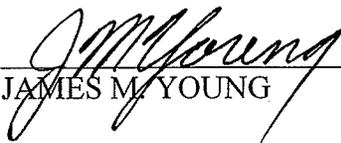
7. In addition, as of March 31, 2008, Colonial had 54 CC policies in claims paying status. The unpaid claim reserves for those policies were \$2,030,000, or

approximately \$37,592.59 per reported claim. Also, as of March 31, 2008, Colonial had 63 of the miscellaneous policies.

8. Colonial continues to experience volatility in the levels of its CC reserves as a result of the decrease in active policyholders coupled with the aging of the remaining policyholders. For example, the average reserve on a reported CC claim is approximately \$37,592.59, while the average reserve for a policy not in claims paying status is \$5,690.05. This disparity requires the lapse or death of 6.61 policyholders for every new claim to achieve a neutral reserve effect.

9. Once the Rehabilitator determined that the sale of Colonial's remaining policies was in the best interest of all policyholders, creditors, vendors and the citizen's of the State of Ohio, I assisted in searching for an insurance company in good standing that would purchase Colonial's remaining block of business. It took over a year and a half in order to find an interested and qualified buyer.

FURTHER AFFIANT SAYETH NAUGHT.



JAMES M. YOUNG

SWORN TO BEFORE ME AND SUBSCRIBED in my presence this 12th day of May, 2008.



NOTARY PUBLIC

LYNDA G. LOOMIS
ATTORNEY AT LAW
NOTARY PUBLIC - STATE OF OHIO
MY COMMISSION HAS NO EXPIRATION DATE
SECTION 147.03 R. C.

EXHIBIT 2

3. In accordance with the Plan of Rehabilitation and to minimize the public's exposure to any financial risk, Colonial has been operating in a run-off status, only renewing existing policies. This leaves Colonial with no opportunity to generate business growth or increase profits in its convalescent care ("CC") line because the business has been and will continue to steadily decline over time.

4. Since I have become the Chief Deputy Rehabilitator, the administrative expenses associated with maintaining and administering the CC and miscellaneous policies have continued to rise. In fact, the expenses to premiums ratio is rising at an accelerated pace because Colonial is bringing in less premiums because of decreasing active policies and the administration expenses remain fixed or are increasing. For example, the cost to keep Colonial's employees is increasing as those employees increase in age. Moreover, as Colonial is in a run-off of the existing policies, Colonial is not in a position to operate as a fully continuing business which, therefore, increases its expenses.

5. Since January 2007, the Rehabilitator has evaluated alternatives to the increasing issue of diminishing premiums and increasing costs with the risk of a volatile CC market. The Rehabilitator's key concern remained finding the best method for all existing CC and miscellaneous policyholders to maintain their coverage.

6. Since 2004, the Rehabilitator has operated Colonial's business through the Plan of Rehabilitation; however, by statute the Rehabilitator's office is not an insurance company.

7. Central United Life Insurance Company ("Central United") offered to buy Colonial's remaining block of business.

8. After receiving Central United's offer, the Rehabilitator requested that an outside independent consultant review Central United's offer to assume 100% of the liabilities associated with Colonial's remaining business in exchange for receiving assets with a market value of \$800,000 greater than the liabilities being assumed. Based upon the independent consultant's opinion, I negotiated a definitive agreement with Central United. Those negotiations took over five (5) months.

9. On May 6, 2008, Colonial entered into an Assumption Reinsurance Agreement with Central United for the sale of Colonial's remaining block of CC insurance and miscellaneous policies. A full and accurate copy of "The Agreement" is attached as Exhibit 1 to my affidavit.

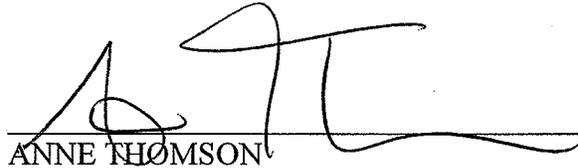
10. In my opinion, Colonial's current policyholders will benefit from Central United's efficiencies of scale and insurance business expertise in operating an on-going insurance company. The benefits to the existing CC and miscellaneous policyholders include the maintenance of existing coverage and the expertise and efficiencies of an on-going, good standing insurance company. Each existing policyholder is projected to continue to receive CC coverage through Central United. Ultimately, all current CC policyholders are expected to receive their bargained for insurance benefits, to the extent possible from the available assets and consideration that Colonial pays to Central United.

11. In accordance with the Rehabilitation Plan, upon the approval of the Assumption Reinsurance Agreement and winding up of Colonial's business, Colonial's CC agents will receive their accrued commissions set at the Rehabilitation date through Colonial's winding up process.

12. Pursuant to the applicable Ohio statutes, the Modified Rehabilitation Plan provides for the satisfaction of both Colonial's operating expenses and all costs associated with Colonial's winding up of business. All of Colonial's current and future administrative expenses will be paid.

13. Given the circumstances, the Assumption Reinsurance Agreement is fairer to the policy holders as it conserves the resources available for the payment of policy benefits to any future claimant.

FURTHER AFFIANT SAYETH NAUGHT.


ANNE THOMSON

SWORN TO BEFORE ME AND SUBSCRIBED in my presence this 12th day of May, 2008.


NOTARY PUBLIC

LYNDA G. LOOMIS
ATTORNEY AT LAW
NOTARY PUBLIC - STATE OF OHIO
MY COMMISSION HAS NO EXPIRATION DATE
SECTION 147.03 R. C.

EXHIBIT 1
TO THOMSON AFFIDAVIT

ASSUMPTION REINSURANCE AGREEMENT

Between

**COLONIAL INSURANCE COMPANY,
AN OHIO MUTUAL PROTECTIVE ASSOCIATION,
IN REHABILITATION**

and

CENTRAL UNITED LIFE INSURANCE COMPANY,

Dated May 6, 2008

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ASSUMPTION REINSURANCE AGREEMENT

ASSUMPTION REINSURANCE AGREEMENT

THIS ASSUMPTION REINSURANCE AGREEMENT ("Agreement"), dated as of the 6th day of May, 2008, is entered into by and between **Colonial Insurance Company**, an Ohio mutual protective association, in rehabilitation ("Colonial"), and **Central United Life Insurance Company**, an Arkansas insurance company (the "Reinsurer"). Colonial and the Reinsurer may be referred to each as a "Party" and collectively as the "Parties".

WHEREAS, Mary Jo Hudson, Superintendent of Insurance of the State of Ohio has been appointed as rehabilitator for Colonial pursuant to applicable laws and regulations of the State of Ohio (the "Rehabilitator"),

WHEREAS, on April 5, 2004, the Court of Common Pleas for Franklin County, Ohio entered an Order Approving Rehabilitation Plan for Colonial Insurance in Case No. 03 CVC 000597 (hereinafter, the "Rehabilitation Plan Approval Order"),

WHEREAS, Colonial is the issuer of certain insurance Policies (as hereinafter defined), and

WHEREAS, Colonial, through the Rehabilitator, desires to sell, transfer and cede all of its contractual obligations and risks under the Policies to the Reinsurer, and the Reinsurer desires to purchase, acquire, assume and reinsure such contractual obligations and risks, conditioned upon the receipt of all required regulatory approvals and approval by the Rehabilitation Court,

NOW, THEREFORE, in consideration of the mutual promises set forth herein and in reliance upon the representations, warranties, conditions and covenants herein, and intending to be legally bound hereby, Colonial and the Reinsurer agree as follows:

ARTICLE I

DEFINITIONS

Capitalized terms used in this Agreement, but not defined in this Article I, shall have the meaning given them in the other articles of this Agreement. The following capitalized words and terms shall have the following meanings when used in this Agreement:

1.1. Arkansas Approval. The approval of insurance regulatory authorities of the State of Arkansas that may be required in connection with this Agreement.

1.2. Assumption Certificates. The certificates to be issued by the Reinsurer to the Policyholders of the Policies in the form set forth on Schedule 1.2 attached hereto and made a part hereof, as approved by the Ohio Department of Insurance.

1.3 Assumption Certificate Approval. The approval of the form of the Assumption Certificate by the Ohio Department of Insurance.

1.4 Assumption Effective Date. The first day of the month following the month in which the Assumption Certificate Approval, the Rehabilitation Court Approval or the Arkansas Approval is obtained, whichever is later, upon which the Reinsurer shall assume, on an assumption reinsurance basis, the Policies, as more fully set forth in Article II.

1.5 Books and Records. All original files and records, in whatever form, in the possession or under the control of Colonial directly related to the Policies, including, but not limited to policy files, claims files, underwriting files, policy form files (including all files relating to the filing and approval of policy forms, applications and riders with insurance regulatory authorities), rate filings and actuarial data developed or utilized by Colonial or on its behalf in support of premium rates charged under the Policies (including any inception to date data developed or utilized by Colonial or its behalf in support of premium rates charged under the Policies), inception to date premium and claim history, premium tax records and reports for the Policies covering any period prior to the Assumption Effective Date.

1.6 Closing. The Closing of the transaction contemplated in this Agreement through the payment by Colonial of the Closing Amount.

1.7 Closing Date. The date that is the Assumption Effective Date.

1.8 Closing Amount. The Closing Amount is the Statutory Reserves and Liabilities plus \$675,000 in cash or cash equivalents.

1.9 Novation. The substitution of the Reinsurer for Colonial under a Policy with the result that the Reinsurer becomes directly liable to the Policyholder as of the Assumption Effective Date and Colonial's liability to the Policyholder under such Policy is extinguished.

1.10 Settlement Amount. The sum of (i) the Closing Amount and (ii) the Post-Closing Payment.

1.11 Policies. All insurance policy contracts issued by Colonial in force and effect as of the Assumption Effective Date or reinstated on or after the Assumption Effective Date, including but not limited to all guaranteed renewable convalescent care policies ("CC" Policies") and all policies that cannot reasonably be categorized as guaranteed renewable convalescent care policies (the "Miscellaneous Policies").

1.12 Policyholder. Any individual or entity that is the owner of a Policy or that has the right to terminate or lapse the Policy, effect changes of beneficiary, effect changes in coverage limits, add or terminate persons covered under such Policy or direct any other policy changes in such Policy.

1.13 Post-Closing Payment. The Post-Closing Payment will be \$125,000 or such lesser amount of Colonial's cash and cash equivalents as remains upon the final dissolution of Colonial. Colonial shall request that the Rehabilitation Court include in the Dissolution Order the amount of Colonial's cash and cash equivalents that remain as of the date the Dissolution Order is signed by the Rehabilitation Court.

1.14 Rehabilitation Court. The Court of Common Pleas for Franklin County, Ohio in Case No. 03 CVC 000597.

1.15 Rehabilitation Court Approval. Any approvals or authorizations of the Rehabilitation Court that may be required in connection with this Agreement.

1.16 Rehabilitation Plan. The Plan of Rehabilitation and any addendums or amendments thereto, submitted and approved by the Rehabilitation Court per the Rehabilitation Plan Approval Order.

1.17 Rehabilitation Plan Approval Order. The Order entered by the Rehabilitation Court on April 5, 2004 entitled "Approving Rehabilitation Plan for Colonial Insurance" in Case No. 03 CVC 000597, as may be amended from time to time.

1.18 Statutory Reserves and Liabilities. The sum of all of Colonial's statutory reserves, deposit fund liabilities and other liabilities relating to the Policies, calculated (i) as of the most recent month end that was completed prior to the Assumption Effective Date, (ii) in accordance with commonly accepted actuarial standards, consistently applied and fairly stated, and (iii) on the basis of assumptions consistent with those used in computing the balances reported in Colonial's statutory financial statements filed with the Ohio Department of Insurance. The Statutory Reserves and Liabilities include, but are not limited to, Open Claim Reserves, Incurred But Not Reported Reserves, Unearned Premium Reserves, Additional Active Life Reserves in the amount of \$200,000 and Loss Adjustment Expenses. Notwithstanding any of the foregoing provisions of Section 1.18, the Statutory Reserves and Liabilities do not include assets and liabilities directly related to accrued commissions for premiums received in connection with the CC Policies.

ARTICLE II

ASSUMPTION REINSURANCE

2.1 Assumption Reinsurance. Effective as of the Assumption Effective Date, Colonial hereby sells, cedes, transfers to, assigns and reinsures with the Reinsurer and the Reinsurer hereby purchases, undertakes, reinsures and assumes, by means of assumption reinsurance, all of the contractual rights, obligations, liabilities and risks of Colonial under or with respect to the Policies. As of the Assumption Effective Date, all of Colonial's contractual rights, obligations, liabilities and risks with respect to the Policies will transfer to the Reinsurer, with the result that the Reinsurer, as transferee, in all respects and conditions, shall succeed Colonial as the insurer under the terms and

provisions of each of the Policies and the Plan as though the Reinsurer had originally issued such Policies and Reinsurer shall assume, as administrator, full and complete responsibility for servicing and administering the Policies in accordance with the terms and conditions of this Agreement and the Policies.

2.2 Winding Up of Colonial. Reinsurer expressly acknowledges that as a result of this Agreement, as of the Assumption Effective Date: (i) Colonial's existence will continue solely for the purpose of winding up its business; (ii) Colonial will withhold and maintain only enough assets as are necessary to wind up its business; (iii) assets withheld and maintained by Colonial will not include amounts sufficient to pay any legal claims or liabilities arising from or connected in any way to the Policies; and (iv) all such legal claims and liabilities, even those unknown as of the Assumption Effective Date, will have been assumed by Reinsurer pursuant to Section 2.1.

2.3 Conditions of Reinsurance; Regulatory Approvals. Consummation of the assumption reinsurance contemplated by this Agreement is subject to and contingent upon receipt by the Parties of the Assumption Certificate Approval, Rehabilitation Court Approval and Arkansas Approval. Each Party shall use its best efforts to assist the other Party in obtaining the Assumption Certificate Approval and Rehabilitation Court Approval. Reinsurer shall obtain the Arkansas Approval prior to the Assumption Effective Date. The Rehabilitation Court Approval will expressly provide the following: (i) The Assumption Reinsurance of the Policies by Reinsurer is free and clear of any and all successor liability to any and all of Colonial's members; and (ii) As Colonial is a Mutual Protective Association, upon the Assumption Date, Colonial will have no members. As such, this Court expects the Rehabilitator to file an application for discharge along with closing of the estate, final accounting and dissolution of Colonial on or before December 31, 2008.

2.4 Effect of Reinsurance. The reinsurance effected by this Agreement shall have the effect of creating a Novation under all of the Policies in accordance with each of the terms and conditions thereof and the Plan and subject to all rights, privileges, defenses, offsets, cross-actions and counterclaims to which Colonial would have been entitled had it continued to act as the insurer thereunder. No such rights, privileges, defenses, offsets, cross-actions or counterclaims are waived by the execution of this Agreement or the consummation of the transactions contemplated herein, and the Reinsurer will, on the Assumption Effective Date, be fully subrogated to all such rights, privileges, defenses, offsets, cross-actions and counterclaims. On the Assumption Effective Date, the Reinsurer shall be the successor of Colonial with respect to the Policy, and such Policy will be the direct obligation of the Reinsurer and Colonial will have no further rights or liability thereunder. The Policyholder and any persons insured under the Policy shall thereafter disregard Colonial as a Party to the Policy and treat the Reinsurer as if it had been originally obligated under the Policy. On and after the Assumption Effective Date, the Policyholder and the insured or beneficiary under any Policy will have the right to file claims for benefits under the Policy directly with the Reinsurer and will have a direct right of action against the Reinsurer therefore.

2.5 Delivery of List of Policies. All Policies shall be identified by policy form number and/or plan code at Schedule 2.5 attached to this Agreement and made a part hereof.

2.6 Premium Taxes. Colonial shall be liable for all premium taxes on premiums received in connection with the Policies prior to the Assumption Effective Date. The Reinsurer shall be liable to the State of Ohio for all premium taxes on premiums received under the Policies on and after the Assumption Effective Date, whether or not such premiums are received by Reinsurer or forwarded to Reinsurer by Colonial.

2.7 Commissions. Colonial shall be liable for all commissions owed on premiums received in connection with the Policies prior to the Assumption Effective Date. The Reinsurer shall only be liable for all commissions owed in connection with the Miscellaneous Policies on and after the Assumption Effective Date. Pursuant to the Plan, commissions are no longer accruing for premiums received in connection with the CC Policies. The Reinsurer shall not be liable for any commissions owed for premiums received in connection with the CC Policies.

2.8 Transition Services. After Closing and for a period of time not to exceed four (4) weeks (the "Transition Period"), Colonial agrees to cause its employees to provide transition services to Reinsurer with respect to the administration of the Policies (the "Transition Services") if the Reinsurer provides written notice to Colonial within sixty (60) days of the signing of this Agreement that Transition Services will be necessary. During the Transition Period, Reinsurer shall be responsible for directing the activities of such employees. For each week of the Transition Period, Reinsurer shall pay Colonial \$4,000 per week by electronic funds transfer to an account designated by Colonial in immediately available funds within three business days of each end of the week.

ARTICLE III

ADDITIONAL UNDERTAKINGS OF REINSURER

3.1 Policy Administration. On and after the Assumption Effective Date, the Reinsurer shall assume all responsibility for and agrees to undertake and perform all servicing and administration of the Policies, including without limitation the payment of all allowable claims for benefits under the Policies; billing and collection of premiums under the Policies; preparation of policy changes and endorsements and such other administrative services as the Reinsurer, in its sole discretion, deems necessary, appropriate, or lawful in connection with the Policies, as though such Policies were originally issued as direct insurance obligations of the Reinsurer.

3.2 Premium Payments; Negotiation of Checks. All premium payments for insurance coverage under the Policies on or after the Assumption Effective Date shall be the sole property of Reinsurer. Therefore: (i) Colonial hereby authorizes Reinsurer to endorse for payment all checks, drafts, and money orders payable to

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Colonial with respect to such premiums, and (ii) Colonial assigns all of its rights and privileges, to the extent permitted by law, to draft or debit the accounts of any Policyholders for such premiums pursuant to existing pre-authorized bank draft or electronic fund transfer arrangements between Colonial and such Policyholders.

3.3 Assumption Certificates. As promptly as possible after the receipt of the Assumption Certificate Approval, Rehabilitation Court Approval and Arkansas Approval (if such approval is required under the laws and regulations of the State of Arkansas), the Reinsurer shall issue to each of the Policyholders an Assumption Certificate accompanied by a copy of the Plan and provide satisfactory evidence thereof to Colonial. The Assumption Certificates shall be effective on the Assumption Effective Date and shall be mailed to each Policyholder's last known address of record furnished to the Reinsurer by Colonial.

3.4 Reserves. On and after the Assumption Effective Date, Reinsurer will establish and maintain all statutory reserves and liabilities as may be required under the terms of the Policies and the applicable statutes and regulations of the States of Arkansas.

3.5 Forwarding Checks and Correspondence. On and after the Assumption Effective Date, Colonial shall forward to Reinsurer all notices, claims and correspondence received by Colonial pertaining to the Policies, including applications for reinstatements of lapsed policies. All checks, drafts or money orders held or received by Colonial for premiums owed to Reinsurer under Section 3.2 shall be properly endorsed to Reinsurer and forwarded promptly to Reinsurer by Colonial, or shall be deposited by Colonial which shall, on a weekly basis, issue and forward its checks to Reinsurer for the amount of premiums received and deposited with respect to the Policies, together with a listing of the items received in a format and with such detail that Reinsurer can utilize to apply the premiums to the correct accounts.

3.6 Obligations With Respect to Agents. Subject to the Rehabilitation Plan and any order of the Rehabilitation Court, all Colonial agents' agreements that are set forth on Schedule 3.6 shall be assigned to and assumed by Reinsurer, which reserves the right to terminate said agreements in accordance with their terms and as permitted by law. Reinsurer shall make all necessary regulatory filings and pay all required regulatory fees relating to the assumption of such agents' agreements and the appointment of such agents by Reinsurer.

3.7 No Obligations With Respect to Employees. Reinsurer may but shall have no obligation to offer continued employment to any Colonial employees nor shall Reinsurer be responsible for any employee benefits owed by Colonial including, but not limited to, workers' compensation benefits, retirement plan funding or payments, separation or unemployment compensation.

ARTICLE IV

CLOSING AND CONSIDERATION

4.1 Consideration. In consideration of Reinsurer's assumption of the Policies and any unknown liabilities with respect to the Policies and given that the Policies have been the subject of volatility and are subject to the Rehabilitation Plan and Order, Colonial shall pay to the Reinsurer the Settlement Amount.

4.2 Closing Procedures. The Closing will be conducted by facsimile (or electronic mail) transmission and overnight mail. All documents necessary for Closing will be executed and delivered via facsimile or electronic mail on the Closing Date and sent via overnight mail on the Closing Date.

4.3 Closing Amount. On the Closing Date, Colonial shall transfer the Closing Amount to the Reinsurer by cashier's check, which shall be sent via overnight mail on the Closing Date. The calculation of the Statutory Reserves and Liabilities shall be set forth on Schedule 4.3, provided that if Schedule 4.3 is completed prior to the date this Agreement is executed, Schedule 4.3 will be revised prior to Closing to reflect changes in the Statutory Reserves and Liabilities that will occur following execution of this Agreement.

4.4 Post-Closing Payment by Colonial. Within thirty (30) days following the final dissolution of Colonial pursuant to an order by the Rehabilitation Court (the "Dissolution Order"), Colonial shall pay to the Reinsurer an amount equal to the Post-Closing Payment.

4.5 Transfer of Books and Records. Subject to Section 7.2, at the Closing, Colonial shall transfer the Books and Records to the Reinsurer, including Books and Records in electronic form, if any.

4.6 Reinsurer Records. The Reinsurer shall maintain true and accurate books and records of all reinsurance hereunder, including all such records as may be required by law.

ARTICLE V

COLONIAL REPRESENTATIONS AND WARRANTIES

Colonial hereby represents and warrants to the Reinsurer as follows:

5.1 Colonial's Existence and Authority. Colonial is a mutual protective association organized and existing under the laws of Ohio. Colonial is in rehabilitation. Pursuant to paragraph 7 of the January 16, 2003 Agreed Order by the Rehabilitation Court, the Rehabilitator is serving with full power and authority in place of Colonial's officers and directors. This Agreement has been duly and validly executed and delivered to the Reinsurer and constitutes the valid and legally binding obligation of

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Colonial, enforceable in accordance with its terms except (i) as the same may be limited by applicable rehabilitation law or similar laws of general application relating to or affecting creditors' rights, including, without limitation, the effect of statutory or other laws regarding fraudulent conveyances and preferential transfers, and (ii) for the limitations imposed by general principles of equity.

5.2 Statutory Reserves and Liabilities. The Statutory Reserves and Liabilities have been calculated by Colonial in accordance with: (a) the terms and conditions of the Policies; (b) the reserve requirements and generally accepted statutory accounting rules and actuarial principles and practices applicable to Colonial under the laws and applicable regulations of the State of Ohio; and (c) methodologies used by Colonial in calculating Statutory Reserves and Liabilities for the Policies for the purposes of the most recent annual and quarterly statements of Colonial filed with the insurance regulatory authorities in the State of Ohio, consistently applied with prior periods.

5.3 Policy Forms. Each policy, amendment, rider and form used in connection with the Policies has been properly approved or deemed approved by appropriate insurance regulatory authorities, and any of these items issued to Policyholders have been validly issued on approved forms in compliance, in all material respects, with applicable state insurance laws and regulations, and Colonial has provided or made available to the Reinsurer true, correct and complete specimen copies of all forms representing the Policies.

5.4 Accuracy of Books and Records. To Colonial's knowledge, all of the Books and Records are current, complete and accurate in all material respects.

5.5 Premium Taxes. Subject to Section 2.6, Colonial has paid, or will cause to be paid, all premium taxes due with respect to the Policies for the period prior to the Assumption Effective Date.

5.6 Commissions. Colonial is in compliance with the Rehabilitation Plan with respect to payments of commissions to agents, brokers, representatives, or subagents for the solicitation, sale, marketing or servicing of any of the Policies.

5.7 Compliance with Law. Colonial has, to its knowledge, conducted its business, including, without limitation, the underwriting, sale, issuance and administration of the Policies, in material compliance with all applicable laws (including, without limitation, insurance laws and federal and state laws), statutes, ordinances, rules, governmental regulations, writs, injunctions, judgments, decrees or orders of any governmental instrumentality or court. In addition, Colonial has not, to its knowledge, engaged in any race-based underwriting.

5.8 Litigation Against Colonial. Except as disclosed on Schedule 5.8 hereto, there are no actions, suits, investigations or proceedings pending or (to the knowledge of Colonial) threatened against Colonial at law or in equity, in, before, or by any person (a) that involve any of the Policies and (b) that individually or in the

aggregate may reasonably be expected to have a material adverse effect on the validity or enforceability of this Agreement or the transactions contemplated hereby.

ARTICLE VI

REINSURER REPRESENTATIONS AND WARRANTIES

The Reinsurer represents and warrants to Colonial as follows:

6.1 Reinsurer's Corporate Existence and Authority. Reinsurer is a stock life insurance company duly organized, validly existing and in good standing under the laws of the State of Arkansas, and is duly qualified and possesses all licenses, permits, approvals, authorizations and consents necessary to transact and reinsure life, accident, and health insurance on an authorized basis in Ohio, including the insurance to be provided under the Policies. The execution, delivery and performance of this Agreement by the Reinsurer have been duly authorized by all necessary corporate action on the part of the Reinsurer. This Agreement has been duly and validly executed and delivered and constitutes the valid and legally binding obligation of the Reinsurer, enforceable in accordance with its terms except (i) as the same may be limited by applicable bankruptcy, insolvency, rehabilitation, moratorium or similar laws of general application relating to or affecting creditors' rights, including, without limitation, the effect of statutory or other laws regarding fraudulent conveyances and preferential transfers, and (ii) for the limitations imposed by general principles of equity. The execution, delivery and performance by the Reinsurer of this Agreement do not and will not:

6.1.1 Conflict with or result in any breach or violation of or any default under (or give rise to any right of termination, cancellation or acceleration) the bylaws or certificate of incorporation of the Reinsurer or any note, bond, mortgage, indenture, lease, license, permit, agreement or other instrument or obligation to which the Reinsurer is a Party or by which the Reinsurer is or may be bound.

6.1.2 Subject to obtaining the Arkansas Approval, Assumption Certificate Approval and Rehabilitation Court Approval, violate any law, order, rule, or regulation applicable to the Reinsurer.

6.2 Governmental Permits. Reinsurer possesses all licenses, permits, and other authorizations necessary to own or lease and operate its properties and to conduct its business as now conducted. All of such licenses, permits and authorizations of Reinsurer are hereinafter collectively called the "Permits." All Permits are in full force and effect and will continue in effect after the date hereof and the Assumption Effective Date without the consent, approval, or act of, or the making of any filing with, any governmental or regulatory agency, commission or authority, except for the approval of the Ohio Insurance Department. Reinsurer is not in violation of the terms or any

Permit, and Reinsurer has not received notice of any violation or claimed violation there under.

6.3 No Undisclosed Liabilities. Reinsurer is not subject to any material liability (including unasserted claims), absolute or contingent, which is not shown or which is in excess of amounts shown or reserved in the most recent and available annual or quarterly statement other than liabilities of the same nature as those set forth in such annual or quarterly statements and reasonably incurred in the ordinary course of business after the effective date of such statement.

6.4 No Litigation. Except as set forth and described in Schedule 6.4 hereto, there are no lawsuits, actions, proceedings, charges, claims or governmental investigations or proceedings pending or threatened against or involving Reinsurer, or any of its directors, employees, properties or assets, other than normal claims litigation.

6.5 Actions and Proceedings. There are no outstanding orders, decrees or judgments by or with any court, governmental agency, regulatory body or arbitration tribunal which, individually or in the aggregate, have or could have a material adverse effect on the ability of Reinsurer to assume and administer the Policies. There exists no state of facts, which may (with the passage of time, the giving of notice or otherwise) have a material adverse effect on the ability of Reinsurer to administer the Policies.

6.6 Administration and Servicing of the Policies. Reinsurer has sufficient personnel, capital, surplus, and other resources in order to afford Reinsurer the full and complete capacity to process, service and administer the Policies in compliance with all applicable laws, rules and regulations. Except insofar as Transition Services are provided under Section 2.8 during the Transition Period, Reinsurer does not require Colonial to service the Policies after the Assumption Effective Date and Colonial shall forever and fully be released and discharged from servicing and administering the Policies.

6.7 Compliance With Rehabilitation Court Orders. On and after the date of this Agreement, Reinsurer will comply with the Rehabilitation Plan, the Rehabilitation Plan Approval Order and all other orders of the Rehabilitation Court whether issued and in effect on the date of this Agreement or hereafter.

ARTICLE VII

COVENANTS OF THE PARTIES

Colonial and the Reinsurer hereby covenant and agree as follows:

7.1 Notice of Actions. On and after the Assumption Effective Date, the Parties shall provide each other with notice of the receipt, within fourteen (14) days of such receipt, of (a) any inquiry, complaint, notice or other communication, whether oral or written, from any insurance regulatory authority that is related to the Policies or to this

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Agreement, including, without limitation, an alleged violation of any law, rule, regulation, bulletin or order, or a threat of any other action or proceeding against Colonial or the Reinsurer; and (b) any notice, including service of process, summons or other litigation document, indicating the commencement or threatened commencement of any litigation or arbitration proceeding against Colonial or the Reinsurer related to any loss arising under the Policies or any matter contemplated under this Agreement.

7.2 Continued Access to Books and Records Transferred to the Reinsurer. On and after the Closing Date, the Reinsurer shall provide Colonial access to all information in the possession or control of the Reinsurer which Colonial reasonably requests in connection with the Policies, including but not limited to the Books and Records. The Reinsurer shall make all such information available for inspection and copying by Colonial and its representatives at any reasonable time during the Reinsurer's normal business hours upon reasonable prior written notice by Colonial.

7.3 Conduct Pending Assumption Effective Date. From the date of this Agreement to the Assumption Effective Date, (a) Colonial shall use commercially reasonable efforts to conduct its affairs in such a manner so that, except as otherwise contemplated or permitted by this Agreement, the representations and warranties of Colonial contained in Article V hereof shall continue to be true and correct in all material respects on and as of the Assumption Effective Date as if made on and as of the Assumption Effective Date; (b) the Reinsurer shall commercially reasonable efforts to conduct its affairs in such a manner so that, except as otherwise contemplated or permitted by this Agreement, the representations and warranties of the Reinsurer contained in Article VI hereof shall continue to be true and correct in all material respects on and as of the Closing Date as if made on and as of the Assumption Effective Date; (c) Colonial shall notify the Reinsurer promptly of any event, condition or circumstance occurring from the date hereof through the Assumption Effective Date that would constitute a material violation or breach of this Agreement by Colonial; and (d) the Reinsurer shall notify Colonial promptly of any event, condition or circumstance occurring from the date hereof through the Assumption Effective Date that would constitute a material violation or breach of this Agreement by the Reinsurer.

7.4 Further Assurances. Subject to the terms and conditions of this Agreement, Colonial and the Reinsurer will use commercially reasonable efforts to take, or cause to be taken, all actions or to do, or cause to be done, all things or execute any documents reasonably necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement.

ARTICLE VIII

CONDITIONS TO CLOSING

8.1 Conditions to the Reinsurer's Obligations at Closing. The obligation of the Reinsurer to complete the Closing shall be subject to the fulfillment of

the following conditions, any one or more of which may be waived by the Reinsurer to the extent permitted by law:

8.1.1 Receipt of All Required Closing Approvals. All required Closing approvals shall have been obtained, including but not limited to the Arkansas Approval (if such approval is required under the laws of the State of Arkansas), the Assumption Certificate Approval and the Rehabilitation Court Approval.

8.1.2 Truth of Representations and Warranties of Colonial. The representations and warranties of Colonial contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date.

8.1.3 Performance of Covenants and Obligations of Colonial. Colonial, in all material respects, must perform and comply with all material agreements, covenants, obligations and conditions required by this Agreement to be so performed or complied with by Colonial at or before the Closing.

8.2 Conditions to Colonial's Obligations at Closing. The obligation of Colonial to complete the Closing shall be subject to the fulfillment of the following conditions, any one or more of which may be waived by Colonial to the extent permitted by law:

8.2.1 Receipt of All Required Closing Approvals. All required Closing approvals shall have been obtained, including but not limited to the Arkansas Approval (if such approval is required under the laws of the State of Arkansas), the Assumption Certificate Approval and the Rehabilitation Court Approval.

8.2.2 Delivery of Assumption Certificates. Reinsurer must have a plan for complying with Section 3.3, and such plan must be to the reasonable satisfaction of Colonial.

8.2.3 Truth of Representations and Warranties of Reinsurer. The representations and warranties of the Reinsurer contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date.

8.2.4 Performance of Covenants and Obligations of Reinsurer. The Reinsurer shall have performed and complied in all material respects with all material agreements, covenants, obligations and conditions required by this Agreement to be so performed or complied with by the Reinsurer at or before the Closing.

ARTICLE IX

SURVIVAL OF REPRESENTATIONS AND WARRANTIES

Except as otherwise expressly provided herein or therein, the representations and warranties made by the Reinsurer in this Agreement, or in any certificate delivered by the Reinsurer pursuant hereto or thereto, shall survive indefinitely.

Except as otherwise expressly provided herein or therein, the representations and warranties made by Colonial in this Agreement shall not survive the Closing Date; provided, however, that the representations and warranties made by Colonial in Section 5.1 shall survive indefinitely.

ARTICLE X

INDEMNIFICATION

10.1 The Policies. Subject to the conditions and provisions of this Agreement, as of the Closing Date, Reinsurer agrees to indemnify and hold Colonial, the Rehabilitator, their deputies, agents, employees, attorneys, affiliates, predecessors, subsidiaries, successors and assigns harmless from and against any and all demands, claims, actions or causes of action, assessments, losses, damages, liabilities, deficiencies, costs and expenses of all kinds whatsoever, including, without limitations, interest penalties and reasonable attorney's fees, damages, awards, and fines assessed against or imposed upon or incurred by Colonial (collectively, "Losses"), arising from or connected in any way to: (i) the Policies; or (ii) the Transition Services.

10.2 The Agreement. Reinsurer agrees to indemnify and hold harmless Colonial, the Rehabilitator, their deputies, agents, affiliates, predecessors, subsidiaries, successors and assigns from and against any and all liabilities, losses, costs, deficiencies, or damages ("Loss"), and reasonable attorney's and accountants' fees and expenses, court costs, and all other reasonable out of pocket expenses ("Expense") incurred by Colonial or the Rehabilitator in connection with or arising from: (i) any breach by Reinsurer of any of their covenants in, or failure of Reinsurer to perform any of their obligations under, this Agreement, or (ii) any breach of any warranty or the inaccuracy of any representation of Reinsurer contained or referred to in this Agreement.

10.3 Notice. If process is served upon Colonial with respect to any of the Policies after the Assumption Effective Date, Colonial shall give prompt notice thereof to Reinsurer, and Reinsurer then (subject to the limitations set forth below), in its own name and at its sole cost and expense, shall interpose any defense in, or shall settle, compromise or otherwise dispose of, such action at Reinsurer's discretion. Any correspondence or inquiries or requests related to any of the Policies shall promptly be forwarded by Colonial to Reinsurer.

ARTICLE XI

TERMINATION

11.1 Termination. This Agreement may be terminated only as follows:

11.1.1 This Agreement may be terminated at any time before the Closing, by mutual written agreement of the Parties.

11.1.2 The Reinsurer may terminate this Agreement at any time prior to Closing for material breach by Colonial of this Agreement or for failure of any condition to Closing, the satisfaction of which is solely within Colonial's control; provided, however, that Colonial shall have ten (10) days to cure such breach or satisfy such condition after receipt of written notice by Colonial from the Reinsurer. For the purposes of this Section 11.1.2, a breach by Colonial of Section 2.5(i) shall not constitute a material breach of this Agreement.

11.1.3 Colonial may terminate this Agreement at any time prior to Closing for material breach by the Reinsurer of any of the terms or conditions of this Agreement or for failure of any condition to Closing, the satisfaction of which is solely within the Reinsurer's control; provided, however, that the Reinsurer shall have ten (10) days to cure such breach or satisfy such condition after receipt of written notice by the Reinsurer from Colonial.

11.1.4 Subject to Section 11.1.5, either Colonial or the Reinsurer may terminate this Agreement at any time prior to Closing for failure of the other in fulfilling its obligations with respect to any condition to Closing if the satisfaction of such condition to Closing is not (i) within either Party's control or (ii) otherwise chargeable to any act or omission to act on the part of either Party.

11.1.5 Either Party may terminate this Agreement if Closing hereunder has not occurred by 11:59 PM on July 31, 2008 (the "Terminal Date"); provided, however, that if Closing has not occurred due to the lack of receiving the Arkansas Approval, the Assumption Certificate Approval or the Rehabilitation Court Approval, the Parties shall extend the Terminal Date to August 15, 2008; provided, further, that if the Rehabilitation Court Approval has not been obtained due to one or more objections by Policyholders or insurance agents involved in the sale of any Policies, then the Terminal Date shall be extended to: (i) August 30, 2008 or (ii) fourteen (14) days after the expiration of the right to appeal a final appealable order with respect to the last such objection, whichever is later.

11.2 Effect of Termination. If this Agreement is terminated pursuant to **Sections 11.1.1, 11.1.4 or 11.1.5**, this Agreement will forthwith become null and void, and there will be no liability on the part of Colonial or the Reinsurer to the other

hereunder. In the event of termination under Sections 11.1.2 or 11.1.3, the Parties shall be deemed to have reserved all of their respective rights and remedies hereunder and at law or in equity.

ARTICLE XII

MISCELLANEOUS PROVISIONS

12.1 Notice. Any and all notices and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given when (a) received by the receiving Party if mailed via United States registered or certified mail, return receipt requested, (b) received by the receiving Party if mailed by United States overnight express mail, (c) sent by facsimile or telecopy machine, followed by confirmation mailed by United States first-class mail or overnight express mail, or (d) delivered in person or by commercial courier to the Parties at the following addresses:

If to Colonial, to:

Anne Thomson, Esq.
Chief Deputy Rehabilitator
Colonial Insurance Company, in
Rehabilitation
1366 Dublin Road
Columbus, Ohio 43215
Fax No.: (614) 487-9418

With copies to:

Lynda G. Loomis, Esq.
General Counsel
Office of the Ohio Insurance Liquidator
1366 Dublin Road
Columbus, OH 43215
Fax No.: (614) 485-6311

Valoria C. Hoover, Esq.
Kohrman Jackson & Krantz P.L.L.
5455 Rings Road
Suite 100
Dublin, OH 43017-7519
Fax No.: (614) 621-6536

If to the Reinsurer, to:

Central United Life Insurance Company
2727 Allen Parkway, Suite 500
Houston, Texas 77019
Attention: President
Fax No.: (713) 529-9425

Either Party may change the names or addresses where notice is to be given by providing notice to the other Party of such change in accordance with this **Section 12.1**.

12.2 **Entire Agreement.** This Agreement, including the Schedules thereto, constitutes the sole and entire agreement between the Parties hereto with respect to the subject matter hereof, and supersedes all prior discussions and agreements between the Parties with respect to the subject matter hereof, which are merged with and into this Agreement.

12.3 **Assignment.** This Agreement shall not be assigned by either of the Parties hereto without the prior written approval of the other Party.

12.4 **Waivers and Amendments.** Any term or condition of this Agreement may be waived at any time by the Party that is entitled to the benefit thereof. Such waiver must be in writing. In the case of a waiver by Reinsurer, such waiver must be executed by an executive officer of Reinsurer. In the case of a waiver by Colonial, such waiver must be executed by the Rehabilitator or the Rehabilitator's designee. A waiver on one occasion will not be deemed to be a waiver of the same or any other term or condition on a future occasion. This Agreement may be modified or amended only by a writing duly executed by an executive officer of the Reinsurer and by the Rehabilitator or the Rehabilitator's designee.

12.5 **No Third Party Beneficiaries.** The terms and provisions of this Agreement are intended solely for the benefit of Colonial and the Reinsurer and their permitted successors and assigns, and it is not the intention of the Parties to confer upon any other person or entity rights as a third-party beneficiary to this Agreement.

12.6 **Public Announcements.** At all times at or before the Closing, Colonial and the Reinsurer will each consult with the other before issuing or making any reports, statements or releases to the public with respect to this Agreement or the transactions contemplated hereby and will use good faith efforts to obtain the other Party's approval of the form, content and timing of any public report, statement or release to be made solely on behalf of a Party. If Colonial and the Reinsurer are unable to agree upon or approve the form, content and timing of any such public report, statement or release and such report, statement or release is, in the opinion of legal counsel to the Party, required by law or by legal disclosure obligations, then such Party may make or issue the legally required report, statement or release. Notwithstanding any of the foregoing provisions of Section 12.6, the form, content and timing of any and all reports, statements, court filings and applications (whether written or verbal) to the Rehabilitation Court will be determined by Colonial, the Rehabilitator and their legal counsel in their sole discretion.

12.7 **Confidentiality.** Each of Colonial and the Reinsurer will hold, and will cause its respective officers, directors, employees, agents, consultants, attorneys and other representatives to hold, in strict confidence, unless compelled to disclose by judicial

or administrative process (including, without limitation, in connection with obtaining any Required Closing Approval or Required Assumption Approval) or by other requirements of law, all confidential documents and confidential information concerning the other Party furnished to it by the other Party or such other Party's officers, directors, employees, agents, consultants, attorneys or representatives in connection with this Agreement or the transactions contemplated hereby ("Confidential Information"), except to the extent that such documents or information can be shown to have been (a) previously lawfully known by the Party receiving such documents or information, (b) in the public domain through no fault of the receiving Party, or (c) later acquired by the receiving Party from other sources not themselves bound by, and in breach of, a confidentiality agreement. Neither Colonial nor the Reinsurer will disclose or otherwise provide any such Confidential Information to any other person, except to that Party's respective auditors, actuaries, attorneys, financial advisors and other consultants who need access to such Confidential Information in connection with this Agreement and the transactions contemplated herein. If this Agreement is terminated pursuant to Article XI, each of the Parties will return to the other Party all Confidential Information furnished to that Party by the other Party, and retrieve and destroy all copies of such Confidential Information distributed to any other person.

12.8 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Ohio, without regard to its conflicts of law doctrine.

12.9 Consent to Jurisdiction. The Parties consent to the jurisdiction and venue of the Rehabilitation Court with respect to any dispute arising from performance (or lack thereof) of this Agreement. In the event the Rehabilitation Court closes Case No. 03 CVC 000597 or otherwise refuses to exercise its jurisdiction over such dispute, the Parties consent to the jurisdiction and venue of the Court of Common Pleas for Franklin County, Ohio with respect to such dispute.

12.10 Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which shall constitute one and the same instrument.

12.11 Headings. The headings in this Agreement have been inserted for convenience and do not constitute matter to be construed or interpreted in connection with this Agreement.

12.12 Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law or if determined by a court of competent jurisdiction to be unenforceable, and if the rights or obligations of Colonial or the Reinsurer under this Agreement will not be materially and adversely affected thereby, such provision shall be fully severable, and this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Agreement, and the remaining provisions of this Agreement shall

remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance here from.

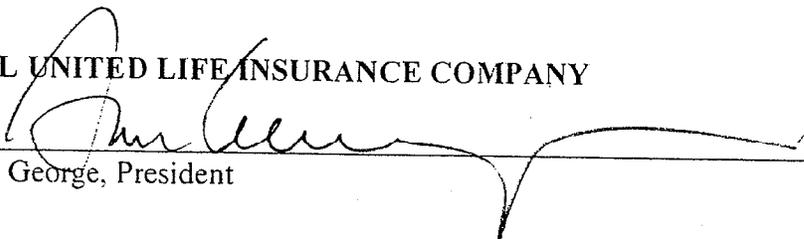
[signatures to follow]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement this
___ day of May, 2008.

COLONIAL INSURANCE COMPANY, IN REHABILITATION

By: 
Title: Anne Thomson, in her capacity as Chief Deputy Rehabilitator

CENTRAL UNITED LIFE INSURANCE COMPANY

By: 
Title: Dan George, President

Schedule 1.2

ASSUMPTION CERTIFICATE

(attached)

{K0168170.2}

ASSUMPTION REINSURANCE AGREEMENT

Central United Life Insurance Company
10700 Northwest Freeway
Houston, TX 77019

«NAME»
«ADDRESS»
«CITY_STATE_ZIP»

«POLICY NUMBER»

CERTIFICATE OF ASSUMPTION

This is to certify that Central United Life Insurance Company ("Central United"), an Arkansas life insurance company, pursuant to an Assumption Reinsurance Agreement ("Agreement") by and among Colonial Insurance Company, an Ohio mutual protective association, in Rehabilitation, hereby assumes as of 12:01A.M. CST on _____ 1, 2008, ("Effective Date") all of the contractual obligations under the above-numbered policy originally issued by Colonial Insurance Company.

The Agreement and assumption occur in accordance with the Rehabilitation Plan approved by the Court of Common Pleas for Franklin County, Ohio on April 5, 2004 in the Order Approving Rehabilitation Plan for Colonial Insurance in Case No. 03 CVC 01 00597 ("Rehabilitation Plan"), a copy which is attached and order from the Court of Common Pleas for Franklin County, Ohio on _____, 2008 approving the Assumption Reinsurance Agreement.

Central United assumes the contractual obligations under the subject Policy, subject to: (i) all the terms and conditions contained in the Policy, (ii) any defenses and offsets available to Central United, (iii) the terms and conditions set forth in the Agreement and this Assumption Certificate, which will become part of the Policy, and (iv) the rights and liabilities in the Rehabilitation Plan, a copy which is attached.

From and after the date hereof, you should submit all claims under this Policy, whenever incurred, and all premiums due under this Policy, to Central United Life Insurance Company at the following address:

CENTRAL UNITED LIFE INSURANCE COMPANY
10700 Northwest Freeway
Houston, TX 77019
Phone: 713-529-0045
Toll Free: 1-800-669-9030

IN WITNESS WHEREOF, CENTRAL UNITED has caused this Certificate to be executed at its Home Office in Houston, Texas, by its President as of the first day of << _____ 2008 >>, its effective date.

Mary Lou Rainey

Mary Lou Rainey, Secretary

Dan George

Dan George, President

PLEASE ATTACH THIS CERTIFICATE TO YOUR POLICY

Schedule 2.5

POLICIES

(attached)

{K0168170.2}

ASSUMPTION REINSURANCE AGREEMENT

Colonial Insurance Company
Policies In-Force @ December 31, 2007

Co.	Policy #	Insured Name	Gen.	PTD	Plan Code	Birth Date	Issue Date	Issue Age	Curr. Age	Description of Benefits	Current Ann Prem	GA Agent	Writing Agent
1	84676										1,561	2100	2113
1	84677										1,561	2100	2113
1	85496										1,951	900	915
1	85497										1,135	900	915
1	85532										2,354	0	0
1	85563										1,363	900	915
1	85564										1,051	900	915
1	84905										1,585	900	915
1	88490										1,810	800	0
1	84681										2,022	700	758
1	86348										4,526	700	725
1	84331										2,177	800	816
1	84927										2,702	2100	0
1	85273										3,856	2100	2104
1	85784										1,621	700	720
1	87229										2,804	400	402
1	87310										2,648	2100	2119
1	85657										4,286	900	906
1	85332										5,140	900	904
1	85481										1,800	1175	1105
1	84897										2,097	900	915
1	85694										1,852	900	908
1	86367										1,466	700	723
1	85356										5,554	15000	15006
1	88727										3,359	1300	1301
1	86178										6,066	1200	1219
1	88529										616	800	859
1	86329										2,809	1300	1301
1	86185										1,774	2100	2104
1	87014										2,049	0	0
1	87913										3,059	2400	2404
1	90034										4,238	800	847
1	89732										2,336	2400	2436

REDACTED

1,647	900	904
2,640	800	816
1,978	700	725
1,978	700	725
6,597	800	0
6,650	800	824
2,917	2100	2102
1,683	800	817
2,333	2100	2148
2,917	2100	2102
3,501	2100	2102
2,233	2100	2155
2,233	2100	2155
2,233	2100	2157
3,892	2100	2155
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1,839	900	906
2,132	0	0
1,894	800	839
1,900	0	0
3,213	300	303
2,692	2100	2149
2,692	2100	2149
3,744	0	0
3,229	2400	2448
1,535	900	915
2,920	0	0
1,425	0	0
4,272	400	402
2,968	0	0
6,005	800	830
1,977	0	0
1,704	0	0
2,473	0	0
1,838	2100	2107
3,171	700	725
5,066	2400	2436

REDACTED

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1	84787
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1	86544
1	86942
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1	84712
1	86559
1	86970

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3,171	2100	2102
1,838	2400	2442
5,277	900	904
1,838	900	915
4,434	2100	2107
2,936	900	915
5,066	900	915
7,397	11000	11001
2,200	2100	2138
3,807	2100	2149
2,574	900	904
2,574	900	904
2,200	2100	2138
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6,863	900	915
3,618	900	904
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3,591	2100	2130
4,790	2000	2001
3,547	15000	15001
3,255	1200	1259
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4,434	900	924
2,440	900	908
4,251	900	908
11,376	900	915
4,963	400	402
2,034	900	915
2,440	2100	2130
2,849	400	402
2,183	400	402
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5,673	800	0

REDACTED

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REDACTED

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REDACTED

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971	15000	15001
629	0	0
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617	2400	2459
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REDACTED

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REDACTED

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 3,451 2200 2203
 1,400 400 408
 2,019 0 0
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 1,708 37000 34000
 3,591 0 0
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 184 700 783
 510 17000 17002
 806 0 0
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REDACTED

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 2,311 2200 2203
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 2,317 400 402
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 1,300 10900 34000
 1,300 2400 2402
 2,085 2400 2402

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460 13800 34000
 460 13800 34000
 487 700 725
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 868 2400 2497
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753	22000	22001
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753	15000	15001
837	1300	1301
753	2200	2203
837	13800	34000
753	15000	15001
753	15000	15001
837	13800	34000
807	11000	11001
807	11000	11001
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389	2200	2203

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13	101236
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13	101911
13	101972
13	102079
13	102086
13	102087
13	102150
13	101281
13	101282
13	101953
13	101970
13	102047
13	101717
13	99570
13	100724
13	102092
13	101357
16	101569
17	102461
17	102207
17	102276
17	102376
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17	102479

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 397 15000 15010
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 286 16900 0
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 39 2200 2203

REDACTED

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 17 102210
 17 102345
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 18 102724
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 1 39538
 1 40422
 1 40517
 1 40638
 1 42689

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REDACTED

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1 94832
1 95415
1 96245
1 96770
1 96966
1 97290
1 98713
1 80164
1 85684
1 91725
1 87878
1 93313

Schedule 3.6

AGENT AGREEMENTS

Colonial Insurance Company

Agent List

December 31, 2007

AGENT#	Agent Name	Nbr of Policies	Comm%	Address	Address2	City	State	Zip
	0 Home Office (No Commission)	10.0	0.0%					
300	Davisson & Associates Ins Agcy Inc **	0.5	15.0%	775 Lone Rise Rd		Marysville	OH	43040
700	Westcott Insurance	1.0	20.0%	11 Church		Milan	OH	44846
900	Financial Security Services	1.0	20.0%	P O Box 274		Pickerington	OH	43147
1200	Harding , Harding and Assoc	3.0	20.0%	9701 Cleveland Ave	Suite100	North Canton	OH	44720
1300	Olin Harding	4.0	20.0%	4304 Dressler Ave		Canton	OH	44718
1500	M.I.G.O.	1.0	35.0%	10242 Cherry Hill Ave	Attn J Weber	Concord Twp	OH	44077
1700	Gerber Insurance Agency	19.0	35.0%	P O Box 65		Doylestown	OH	44230
1700	Gerber Insurance Agency	5.0	20.0%	P O Box 65		Doylestown	OH	44230
1700	Gerber Insurance Agency **	0.5	15.0%	P O Box 65		Doylestown	OH	44230
1800	Musarra & Assoc	1.0	20.0%	11391 South Forest Dr		Concord Twp	OH	44077
1900	National Insurance Services	3.0	20.0%	77 West Elmwood Dr	Suite 213	Dayton	OH	45459
2000	Brown Phillips	1.0	20.0%	9068 Sequoia Ct		West Chester	OH	45069
2100	S L Pierce Agency	2.0	20.0%	P O Box 10		Dublin	OH	43017
2200	Al Reinhard & Daughter	8.0	20.0%	1089 Welsh View Dr		Newark	OH	43055
2400	J L Smith & Assoc	2.0	20.0%	12 April Hill Dr		Grafton	OH	44044
2500	John Tary	1.0	20.0%	26530 N Dixie Hwy #8		Perrysburg	OH	43551
15000	Seniors Financial	3.0	20.0%	269 W Main St	Suite 119	Norwalk	OH	44857
17000	J. Lee Smith & Assoc	1.0	20.0%	6178 Isley Rd NW		Canton	OH	44718
Total Nbr of Policies		57.0						

** Policy 01 77946

Two agents split 30% commission

Annual Premium \$144.00

{K0168170.2}

ASSUMPTION REINSURANCE AGREEMENT

Schedule 4.3

CALCULATION OF STATUTORY RESERVES AND LIABILITIES*

(AND CALCULATION OF CLOSING AMOUNT)

Reserves

Unpaid Claims, Convalescent Care	\$ 2,030,000
Unpaid Claims, Other Than Convalescent Care	5,000
Loss Adjustment Expense	5,000
Active Life Reserve	2,947,445
Unearned Premium	<u>101,791</u>
Total Reserves	5,089,236
Additional Cash or Cash Equivalents	<u>675,000</u>
Reserves and Additional Cash or Cash Equivalents	5,764,236
Closing Amount	\$ 5,764,236

*Figures represent March 31, 2008 reserves. Actual reserves will be based upon the most recent month end completed prior to the Assumption Effective Date.

Schedule 5.8

SCHEDULE OF LITIGATION AGAINST COLONIAL

1. *Mary Jo Hudson, Superintendent, Ohio State Department of Insurance, in her Capacity as Rehabilitator of Colonial Insurance Company v. Colonial Insurance Company (in Rehabilitation)*, Case No. 03 CVC 000597, Court of Common Pleas, Franklin County, Ohio.
2. *Mary E. Nunneker, et al. v. Colonial Insurance Company, et al.*, CV-00-412736 & CV-01-454848 (consolidated), Court of Common Pleas, Cuyahoga County, Ohio.

EXHIBIT 3

IN THE COURT OF COMMON PLEAS
FRANKLIN COUNTY, OHIO
CIVIL DIVISION

MARY JO HUDSON,
Superintendent,
Ohio Department of Insurance, in her Capacity
as Rehabilitator of Colonial Insurance Company

Plaintiff,

v.

COLONIAL INSURANCE COMPANY,
(In Rehabilitation)

Defendant.

) CASE NO. 03 CVC 01 00597

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JUDGE DAVID FAIS

**AFFIDAVIT OF GLENN
TOBLEMAN**

STATE OF TEXAS)

)

SS:

COUNTY OF COLLIN)

)

Affiant, Glenn A. Tobleman, being duly sworn in accordance with law, deposes and states as follows:

1. My name is Glenn A. Tobleman and I am a consultant to the Rehabilitator for the Colonial Insurance Company ("Colonial"). I am employed by Lewis & Ellis, Inc. ("Lewis & Ellis"). Lewis & Ellis is an actuarial consulting firm with offices located at 2929 N. Central Expressway, Suite 200, Richardson, TX 75080. Presently, I am Executive Vice President of Lewis & Ellis and have worked for the firm for 26 years. I am a member of the American Academy of Actuaries, a Fellow of the Society of Actuaries and a Fellow of the Casualty Actuarial Society.

2. On or about November 2007, the Rehabilitator for Colonial requested that I review to determine whether Central United Life Insurance Company's ("Central

United”) offer to acquire the accident and health (“A&H”) business still in force with Colonial was reasonable.

3. On November 13, 2007, I prepared a written report which contains my opinion and the methods and calculations I used to reach my opinion. A true and accurate copy of my written opinion is attached as Exhibit A to this Affidavit.

4. In my opinion, based on my education, background, experience, and my gross premium valuation of the in force block of business compared to the indicated reserve deficiency (or sufficiency) and to a reasonable degree of actuarial certainty, Central United’s offer was reasonable and I recommended that the Rehabilitator accept Central United’s offer.

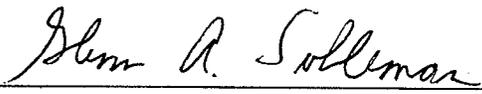
5. Given the relatively small amount of policies in force, I anticipated more year-to-year volatility in the actual results of Colonial’s business. The law of large numbers does not really apply to Colonial’s business since there were only 562 policies in force in September 2007.

6. In my opinion, however, the greater volatility makes the Colonial block of business even less attractive to a prospective buyer, since there is greater risk that actual assumptions will differ from projected assumptions.

7. It is common practice to run several different scenarios for GPV with multiple sets of assumptions. We prepared GPVs using actuarial assumptions regarding termination rates, shock lapse, rate increases, aging, and loss ratios that are consistent with the Rehabilitation Plan. The underlying historical loss, premium, commission and expense data supporting the projection were based upon data provided by Colonial and D.Joeff Williams, FSA, actuarial Consultant to Colonial and an employee of Actuarial

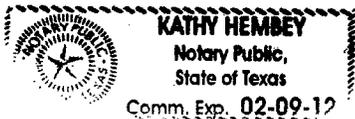
Management Resources. The methods and calculations used to prepare the GPV are actuarially sound and consistent with standard actuarial practice and professional standards.

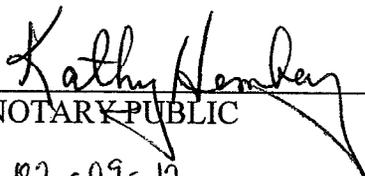
FURTHER AFFIANT SAYETH NAUGHT.



GLENN A. TOBLEMAN

SWORN TO BEFORE ME AND SUBSCRIBED in my presence this 9th day
of May, 2008.





NOTARY PUBLIC
02-09-12

EXHIBIT A
TO TOBLEMAN AFFIDAVIT

Dallas

Glenn A. Tobleman, F.S.A., F.C.A.S.
S. Scott Gibson, F.S.A.
Cabe W. Chadick, F.S.A.
Steven D. Bryson, F.S.A.
Michael A. Mayberry, F.S.A.
Gregory S. Wilson, F.C.A.S.
David M. Dillon, F.S.A.
Bonnie S. Albritton, F.S.A.
Brian D. Rankin, F.S.A.
Robert E. Gove, A.S.A.
Robert B. Thomas, Jr., F.S.A., C.F.A. (Of Counsel)



Kansas City

Gary L. Rose, F.S.A.
Terry M. Long, F.S.A.
David L. Batchelder, A.S.A.
Leon L. Langlitz, F.S.A.
Gary R. McElwain, FLMI
Christopher H. Davis, F.S.A.
Thomas L. Handley, F.S.A.
Anthony G. Proulx, F.S.A.
Karen E. Elsom, F.S.A.

London

Roger K. Annin, F.S.A.
Timothy A. DeMars, F.S.A.
Scott E. Morrow, F.S.A.

November 13, 2007

Ms. Lynda G. Loomis
General Counsel
Office of the Ohio Insurance Liquidator
1366 Dublin Road
Columbus, OH 43215

Re: Colonial Insurance Company in Rehabilitation ("Colonial")
Review offer to acquire remaining Colonial business

Dear Lynda:

Lewis & Ellis, Inc. (L&E) was authorized by the Office of the Ohio Insurance Liquidator to provide a recommendation concerning an offer to acquire the accident and health (A&H) business still in force with Colonial Insurance Company.

It is my understanding that Central United Life Insurance Company (Central United) has offered to assume 100% of the liabilities associated with Colonial's remaining business in exchange for receiving assets with a market value \$800,000 greater than the liabilities being assumed. This is tantamount to a negative purchase price.

As I had previously communicated during a phone call conference, there is nothing inherently wrong or inappropriate with a negative purchase price on a block of business. If a block of business has been generating losses and is expected to continue to lose money in the future, then a reasonable Buyer would require assets greater than the liabilities to cover future projected losses.

To assist us in our review, we received the following information:

- 1) Colonial financial statements as of 09/30/2007 and 12/31/2006;
- 2) Detail listing of in force policies as of 09/30/2007
- 3) Plan code descriptions
- 4) LTC Claim reserve estimate at 09/30/2007
- 5) AMR Actuarial memorandum as of 12/31/2006
- 6) Colonial Data Excel spreadsheet with historical totals

Mailing Address: Post Office Box 851857 • Richardson, Texas 75085-1857
2929 N Central Expressway, Suite 200 • Richardson, TX 75080 • 972-850-0850 • FAX: 972-850-0851



Ms. Lynda G. Loomis
November 13, 2007
Page Two

The financial statements were provided by the Liquidator's office. The remaining information was provided by D. Joeff Williams, FSA, actuarial consultant to Colonial Insurance Company and an employee of the firm Actuarial Management Resources, Inc. (AMR). Most of Colonial's business in force is some form of convalescent care coverage, either nursing home care or home health care. Although some of Colonial's policies provide relatively brief terms of coverage, we will refer to these plans collectively as long-term care (LTC). Using the data provided to us, we determined the following information:

Line of Business	Count	Annualized Premium	Average Issue Age	Average Duration	Average Att'd Age
LTC	492	1,171,402	67.6	15.1	82.7
Other A&H	70	53,686	50.0	25.3	75.3
Total	562	1,225,088	65.4	16.4	81.8

The Other A&H is a mix of several different coverages, including some cancer indemnity business and miscellaneous health coverages. Colonial's LTC business represents over 95% of the annualized premium in force. For the purpose of our evaluation, we assumed that the total block of business would perform similarly to an LTC block and focused our review on the LTC experience.

To determine whether the Central United offer was reasonable, we constructed a gross premium valuation (GPV) of the in force block of business. We would then compare the indicated reserve deficiency (or sufficiency) with the \$800,000 offered by Central United. If the GPV indicated a reserve *deficiency* of \$800,000, then we would conclude that the Central United offer was (ignoring any other factors) fair. If the GPV indicated a reserve *sufficiency* of (say) \$500,000, then this would might indicate that the offer was not particularly aggressive.

In a GPV, future premiums, benefits, expenses, reserve changes, etc. are projected into the future. The cash flows are then discounted back at an assumed earned rate to determine if the reserves carried at the valuation date are adequate.

The results of the GPV are quite sensitive to the assumptions, so it is common practice to run several different scenarios. At year-end 2006, AMR projected the gross premium valuation using multiple sets of assumptions. The results ranged from an existing reserve sufficiency of over \$1 million to a net reserve deficiency of over \$1.3 million. AMR ultimately decided that Colonial needed to set up an additional \$200,000 at year-end 2006.

For the year ending September 30, 2007, Colonial's incurred loss ratio (ILR) was roughly 135%. We also received data regarding the reserves and annualized premium in force as of 09/30/2007. The loss ratio experienced by Colonial for the 12 months ending on September 30, 2007 is not dramatically different from the result projected by AMR for calendar year 2007. What is far less certain, however, is the future loss experience of Colonial's block.

There are several assumptions that impact the projected results. Some of the more critical assumptions are listed below.

Incurred Loss ratios/claim costs – In a GPV, it is necessary to project future loss ratios, where the ILR is defined as incurred claims divided by earned premium. We have previously stated that Colonial's loss ratio for the 12 months ending September 30, 2007 was 135%. To project future loss ratios, we look at claim costs for representative LTC products. Claim costs signify the expected cost to provide benefits. For LTC insurance, claim costs are driven by the frequency and severity, where severity is a function of the daily benefit and the length of time that the benefit must be provided. Severity and frequency are in turn driven by multiple factors, including the insured's gender, issue age, benefit triggers, and the length of time the policy has been in force.

We refer to the change in the claim costs by age and duration as the slope of the claim costs. The steeper the claim cost slope, the steeper the expected increase in loss ratios. Most industry data shows that LTC claim costs increase rapidly at least until the insureds are in their 90's. At the very highest ages, LTC claim costs tend to flatten as mortality operates to shorten the length of stay for a covered insured.

There is no uniformly accepted standard set of LTC claim costs, although industrywide data exists. AMR assumed that Colonial's claim costs would increase 8% per year, or 1% more than the 7% rate increase assumption. In our GPV's, we used representative claim costs for a 3-year nursing home policy to estimate how we would anticipate loss ratios changing in the future.

Lapses/mortality – In general, the higher the LTC lapses and mortality, the better the insurance company results. Lapses and mortality reduce the number of insureds who draw benefits when the claim costs far exceed the premium.

Rate increases – Rate increases operate to reduce the loss ratio. However, the 7% cap on Colonial's LTC business prevents any dramatic improvements in the loss ratio. Furthermore, even the 7% rate increase must be actuarially justified, and there are often delays in getting rate increases approved and implemented.

Interest rate – The interest rate is used to discount future claims, expenses, etc. The rate should be based on the insurance company’s net investment rate of return.

Maintenance Expenses – Expenses represent the costs necessary to administer the business in force. For LTC business, expenses are generally expressed as a percent of incurred claims and/or a percent of earned premium.

Gross Premium Valuation results

We ran several different scenarios. Our base case assumptions are summarized below:

Lapse rate – 3.5% per year.

Mortality rate – Gender-blended version (2/3 Female, 1/3 Male) of 2001 Valuation Basic Table, Ultimate, age last birthday.

Interest rate – 4.5% all years

Rate increases – 7.0% per year

Claim Costs – Blended (2/3 Female, 1/3 Male) LTC rates, 3-year nursing home benefit

Maintenance expense – 12.0% of earned premium

The results of the Base Case GPV are attached for your review. Sensitivity tests were run to recognize changes in the lapse rates, claim costs, maintenance expenses (% of earned premium), and future rate increases. The results are summarized below.

Scenario	Lapse Rate	Maintenance Expense	Rate Increase	Claim Costs	2008 ILR	Additional Reserve
1	3.5%	12%	7.0%	Base	151%	\$5.0 MM
2	4.5%	12%	7.0%	Base	151%	4.5 MM
3	2.5%	12%	7.0%	Base	151%	5.7 MM
4	3.5%	12%	7.0%	Adj'd	145%	2.5 MM
5	3.5%	12%	7.0%	90% Base	136%	3.5 MM
6	3.5%	12%	7.0%	Adj, 90%	130%	1.2 MM
7	3.5%	12%	5.0%	Base	153%	6.0 MM
8	3.5%	10%	7.0%	Base	151%	4.9 MM
9	3.5%	10%	7.0%	Adj, 90%	130%	1.1 MM

Note that a 1% change in the projected lapse rate can swing the results by nearly \$700,000. A change in the maintenance expense assumption from 12% to 10% only changes the GPV by \$200,000. Finally, if Colonial is only able to obtain 5% rate increases instead of 7%, and all other assumptions remain the same, the required additional reserve increases by \$1 million (scenario 7 vs. scenario 1).

Ms. Lynda G. Loomis
November 13, 2007
Page Five

Not surprisingly, the projected loss ratios have the biggest impact on results. Base claim costs for the first year increase by over 15%. In the adjusted case, we assume that claim costs only increase 75% of the otherwise indicated increase. For example, if the loss ratio were projected to increase by 16%, then the adjusted claim costs would only produce a 12% increase. This sensitivity is intended to show what would happen if claim costs increase more slowly than our base case assumptions.

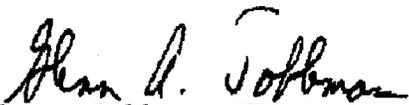
The 90% adjustment is straightforward. The loss ratio for all years of the GPV are multiplied by a factor of 90% to reflect what would happen if future loss ratios are 90% of those indicated by the base case. If the base case incurred loss ratio for the first year is 151%, then the first year ILR under the 90% assumption is 136% (90% x 151%). If the adjusted claim costs produce a first year ILR of 145%, then 90% of the adjusted claims produces a 130% (90% x 145%) ILR.

It should be noted that there is a lot of actuarial judgment involved in LTC projections. Furthermore, given the relatively small amount of policies in force, we would anticipate more year-to-year volatility in the actual results of Colonial's business. The law of large numbers doesn't really apply to Colonial's business since there were only 562 policies in force at the end of September. In my opinion, however, the greater volatility makes the Colonial block even less attractive to a prospective Buyer, since there is a greater risk that actual assumptions will differ from projected assumptions.

The additional reserve indicated on the prior page represents monies in excess of those carried by Colonial at 09/30/2007 that would be need to be added to the existing reserves. These amounts would be in addition to the \$200,000 that was set up by AMR at 12/31/2006 and still carried at September 30, 2007. In all of the scenarios that we considered, the additional reserve exceeds the \$800,000 requested by Central United. Hence, I recommend that the Department accept the bid from Central United.

We appreciate the opportunity to provide these services to the Department. Please call me if you have any questions or if I can be of any further service.

Sincerely,



Glenn A. Tobleman, FSA
Executive Vice President

Attachment

**Colonial Insurance Company
GPV at 09/30/2007**

Exhibit A - Scenario 1

Colonial Insurance Company
LTC Gross Premium Valuation at 09/30/2007
Scenario 1, Base Assumptions, 7% rate increases

17,334,190	PV of Future Paid Claims
991,593	PV of Future Expenses
0	PV of Future Commissions
43,819	PV of Claim Reserves at end of period
1,799	PV of Contract Reserves at end of period
<hr/>	
18,371,400	
2,068,353	Current Claim Reserve
3,000,000	Current Contract Reserve
8,263,274	PV of Future Earned Premiums
0	Current balance sheet accrual for future expenses (LAE)
<hr/>	
13,331,626	
5,039,774	Deficiency(Sufficiency)

Colonial Insurance Company
LTC Gross Premium Valuation at 09/30/2007
Scenario 1, Base Assumptions, 7% rate increases

- 4.50%** Discount Rate
- 1.0200** Coll. Prem./Beginning Year API Ratio
- 0.0800** Prem. Accrual/Beginning Year API Ratio
- 1.240** Claim Reserve/Incurred Claims Ratio
- 12.00%** Expenses
- 4.50%** Earned Rate

Year	Normal Term Rate	Shock Lapse	Total Term Rate	Rate Increase	Aging	Anti-Selection	Loss Ratio Adj Factor
2007	10%	1.00%	11%	7.0%	1.19	1.0050	1.116
2008	10%	1.00%	11%	7.0%	1.18	1.0050	1.106
2009	11%	1.00%	12%	7.0%	1.16	1.0050	1.090
2010	12%	1.00%	13%	7.0%	1.14	1.0050	1.069
2011	13%	1.00%	14%	7.0%	1.12	1.0050	1.052
2012	14%	1.00%	15%	7.0%	1.11	1.0050	1.044
2013	15%	1.00%	16%	7.0%	1.10	1.0050	1.034
2014	16%	1.00%	17%	7.0%	1.09	1.0050	1.028
2015	17%	1.00%	18%	7.0%	1.09	1.0050	1.021
2016	18%	1.00%	19%	7.0%	1.07	1.0050	1.009
2017	19%	1.00%	20%	7.0%	1.06	1.0050	1.000
2018	20%	1.00%	21%	7.0%	1.06	1.0050	0.994
2019	22%	1.00%	23%	7.0%	1.05	1.0050	0.988
2020	24%	1.00%	25%	7.0%	1.05	1.0050	0.983
2021	26%	1.00%	27%	7.0%	1.04	1.0050	0.977
2022	27%	1.00%	28%	7.0%	1.04	1.0050	0.973
2023	28%	0.61%	28%	6.2%	1.03	1.0030	0.974
2024	29%	0.57%	30%	6.1%	1.03	1.0028	0.974
2025	31%	0.39%	32%	5.8%	1.03	1.0020	0.975
2026	33%	0.07%	33%	5.1%	1.03	1.0003	0.976
2027	36%	0.23%	36%	5.5%	1.03	1.0011	0.975

There was a 26.25% rate increase effective 9/15/2001 and a 9.64% average rate increase effective 1/1/2003. The 2002 rate increase actually measures the impact on 2003

- 5.0%** Acceptable rate increase - Assumed not to cause anti-selection
- 25.0%** Anti-selection factor applied to [Next Level - Acceptable]
- 6.0%** Next Level rate increase, where anti-selection factor increases
- 50.0%** Anti-selection factor applied to [Actual rate increase minus Next Level]
- 7.0%** Maximum annual rate increase
- 200%** Standard assumed rate increase as % of aging increase. Subject to caps.
- \$18,000** Maximum annual premium possible

Colonial Insurance Company

LTC Gross Premium Valuation at 09/30/2007

Scenario 1, Base Assumptions, 7% rate increases

Year	Year-End InForce Premium	Year-End InForce PoCount	Avg Premium	Collected Premium	Premium Accrual	Paid Claims	Claim Liability	Earned Premiums	Incurred Claims	Loss Ratio w/o GR	G.R. Reserves	Loss Ratio w/ GR	Commission %	Commission \$	Expenses
2007	1,225,088	562	2,180	1,250,000	98,007	1,641,933	2,069,353	1,235,575	1,668,026	135.0%	3,000,000	N/A	0.00%	0	148,269
2008	1,171,100	502	2,332	1,194,522	93,688	1,634,950	2,239,247	1,198,841	1,805,844	150.6%	2,775,870	131.9%	0.00%	0	143,861
2009	1,111,198	445	2,496	1,133,422	88,896	1,784,038	2,351,910	1,139,214	1,896,701	166.6%	2,518,460	144.0%	0.00%	0	136,586
2010	1,045,726	392	2,670	1,066,641	83,658	1,884,492	2,414,992	1,071,879	1,947,574	181.7%	2,240,152	155.7%	0.00%	0	128,625
2011	975,580	341	2,857	995,091	78,046	1,948,676	2,409,298	1,000,703	1,942,982	194.2%	1,952,210	165.4%	0.00%	0	120,084
2012	901,017	295	3,057	919,038	72,081	1,956,047	2,341,798	925,003	1,888,547	204.2%	1,664,271	173.0%	0.00%	0	111,000
2013	822,285	251	3,271	838,731	65,783	1,909,682	2,232,600	845,029	1,800,484	213.1%	1,384,301	179.9%	0.00%	0	101,404
2014	740,921	212	3,500	755,739	59,274	1,829,421	2,083,091	762,248	1,679,912	220.4%	1,122,218	186.0%	0.00%	0	91,470
2015	659,003	176	3,745	672,184	52,720	1,714,150	1,906,196	678,737	1,537,255	226.5%	886,517	191.8%	0.00%	0	81,448
2016	579,910	145	4,008	591,508	46,393	1,574,542	1,713,541	597,836	1,381,888	231.1%	683,475	197.2%	0.00%	0	71,740
2017	505,057	118	4,288	515,158	40,405	1,421,871	1,506,965	521,146	1,215,294	233.2%	513,696	200.6%	0.00%	0	62,538
2018	433,538	94	4,588	442,208	34,683	1,256,374	1,294,719	447,930	1,044,128	233.1%	374,067	201.9%	0.00%	0	53,752
2019	365,363	74	4,909	372,671	29,229	1,084,512	1,086,070	378,124	875,863	231.6%	262,228	202.1%	0.00%	0	45,375
2020	301,070	57	5,253	307,091	24,086	914,606	885,897	312,235	714,433	228.8%	175,402	201.0%	0.00%	0	37,468
2021	242,114	43	5,621	246,957	19,369	750,063	701,810	251,673	565,976	224.9%	111,049	199.3%	0.00%	0	30,201
2022	190,022	32	6,014	193,822	15,202	597,424	539,328	197,990	434,942	219.7%	65,967	196.9%	0.00%	0	23,759
2023	146,469	23	6,435	149,398	11,718	460,862	405,408	152,883	326,942	213.9%	36,746	194.7%	0.00%	0	18,346
2024	111,281	16	6,835	113,507	8,903	347,276	300,345	116,322	242,214	208.2%	19,787	193.6%	0.00%	0	13,959
2025	82,828	11	7,254	84,484	6,626	258,120	218,162	86,761	175,937	202.8%	11,470	193.2%	0.00%	0	10,411
2026	59,937	8	7,674	61,136	4,795	188,296	154,304	62,967	124,439	197.6%	7,225	190.9%	0.00%	0	7,556
2027	41,908	5	8,068	42,746	3,353	133,850	105,678	44,189	85,224	192.9%	4,339	186.3%	0.00%	0	5,303
	NPV Cumulative			8,198,507		17,334,190		8,263,274	16,265,360					0	991,593
	NPV Ending Number			1,390		43,819					1,799				