

NORTH CAROLINA

WAKE COUNTY

FILED  
2009 NOV 30 PM 2:55  
WAKE COUNTY CLERK  
IN THE GENERAL COURT OF JUSTICE  
SUPERIOR COURT DIVISION  
02 CVS 10454

STATE OF NORTH CAROLINA, )  
COMMISSIONER OF INSURANCE )  
OF NORTH CAROLINA, )

Petitioner, )

v. )

LONDON PACIFIC LIFE & )  
ANNUITY COMPANY, )

Respondent. )

DOMICILIARY LIQUIDATOR'S  
QUARTERLY REPORT

[AOC Cover Sheet Code OTHER – Report]

NOW COMES the Commissioner of Insurance of North Carolina and Liquidator of London Pacific Life & Annuity Company (Liquidator), and hereby makes this report pursuant to North Carolina General Statute § 58-30-105 and the Order of this Court dated July 9, 2004, which requires the Liquidator to make a quarterly report to the Court including a statement of receipts and disbursements to date and a statement of financial position. Attached hereto and incorporated herein by reference as Exhibit A is the statement of financial position as of September 30, 2009, and the statement of receipts and disbursements of London Pacific Life & Annuity Company for the three months ending September 30, 2009, and for the period from August 6, 2002, the date of rehabilitation, through September 30, 2009, as prepared by the Special Deputy Insurance Commissioner on behalf of the Liquidator.

This the 30<sup>th</sup> day of November, 2009.

ROY COOPER  
Attorney General

David W. Boone  
Assistant Attorney General  
N. C. State Bar No. 8648  
N. C. Department of Justice  
P. O. Box 629  
Raleigh, NC 27602-0629  
(919) 716-6610

**LONDON PACIFIC LIFE & ANNUITY COMPANY**  
**NORTH CAROLINA COMMISSIONER OF INSURANCE AS RECEIVER**

**STATEMENT OF FINANCIAL POSITION**

**AS OF SEPTEMBER 30, 2009**

**STATEMENT OF RECEIPTS AND DISBURSEMENTS**

**FOR THE THREE MONTHS ENDING SEPTEMBER 30, 2009**

**AND FOR THE PERIOD FROM AUGUST 6, 2002,**

**THROUGH SEPTEMBER 30, 2009**

**INTRODUCTION TO LONDON PACIFIC LIFE & ANNUITY COMPANY  
FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2009**

Introduction and Basis of Presentation: London Pacific Life & Annuity Company (Company) is a North Carolina domiciled life insurance company that was placed into rehabilitation by the Wake County Superior Court on August 6, 2002, and subsequently placed into liquidation effective September 30, 2004. Accordingly, the Company is under the control of the Commissioner of Insurance of the State of North Carolina, who is the Liquidator of the Company. It is the Liquidator's responsibility to recover and liquidate assets and to investigate the events that led to the insolvency of the Company.

The accompanying statement of financial position reflects general ledger balances of the Company as of September 30, 2009, adjusted to reflect circumstances currently known to the Liquidator. Amounts will be further adjusted prospectively as deemed appropriate based on the Liquidator's continued investigation. The amounts reflected on the statement of financial position represent the Liquidator's best estimate, as explained in the accompanying notes, of the Company's assets and liabilities as of September 30, 2009. The accompanying statement of receipts and disbursements presents all actual cash receipts and disbursements for the three months ending September 30, 2009, and for the period from August 6, 2002, the date of rehabilitation, through September 30, 2009.

**LONDON PACIFIC LIFE AND ANNUITY COMPANY**  
**NORTH CAROLINA COMMISSIONER OF INSURANCE AS RECEIVER**  
**Statement of Financial Position**  
**As of September 30, 2009**

**Assets**

Cash on Hand and Deposit	(Note A)	\$ 38,886,609
Bonds	(Note B)	1,427,882
Preferred Stock	(Note C)	1,008,056
Common Stock	(Note D)	2,365
Other Invested Assets	(Note E)	0
Agent's Debit Balances	(Note F)	206,622
Other Assets	(Note G)	172,904
<b>Total Assets</b>		<b><u>41,704,438</u></b>

**Liabilities**

<b>Class 1 and 2 Liabilities</b>		
Claims Against the Estate-Policyholders	(Notes H, I)	39,469,021
Claims Against the Estate-Guaranty Associations	(Notes H, J)	88,916,326
Escheats Payable		114,981
		<u>128,500,328</u>
<b>Class 3 and Higher Liabilities</b>		
Class 5 General	(Note K)	1,706,645
Intercompany Payables	(Note L)	1,119,599
		<u>2,826,244</u>
<b>Total Liabilities</b>		<b><u>131,326,572</u></b>
<b>Excess of Liabilities Over Assets</b>		<b><u>\$ (89,622,134)</u></b>

The financial statements should be read together with the notes to the financial statements which are considered to be an integral part of this statement.

**LONDON PACIFIC LIFE AND ANNUITY COMPANY**  
**NORTH CAROLINA COMMISSIONER OF INSURANCE AS RECEIVER**  
**Statement of Receipts and Disbursements**

	<u>For The Three</u> <u>Months Ended</u> <u>September 30, 2009</u>	<u>Cumulative From</u> <u>August 6, 2002 through</u> <u>September 30, 2009</u>
<b>OPERATING ACTIVITIES</b>		
<b><u>Receipts</u></b>		
Premium Receipts	\$ 0	(4,054,136)
Net Transfers From Separate Account	0	34,616,588
Other Receipts	0	3,804,174
Income Tax Recovered	0	10,751,153
Guaranty Association Assessment Refund	0	364,313
Agents' Balances Collected	3,125	791,327
<b>Total Receipts</b>	3,125	46,273,419
<b><u>Disbursements</u></b>		
<b><u>Policy Related Disbursements</u></b>		
Death Claims	0	140,511,060
Surrender Benefits	0	203,789,489
Annuity Benefits	0	130,817,548
Dividends to Policyholders	0	53,855
	0	475,171,952
<b><u>General Expenses and Other</u></b>		
Salaries and benefits	17,010	7,249,906
Rent	10,766	1,630,803
Legal fees	80	704,523
Contract services	24,373	2,345,721
Postage, telephone and printing	389	1,007,864
EDP and software	495	931,621
Utilities and maintenance	37	161,832
Office Expenses	76	31,371
Travel related expenses	15	224,208
Bank Service Charges	17	139,188
Insurance (excluding health)	71	45,387
Miscellaneous and other	0	514,769
Taxes and Licenses (Note M)	450,000	461,505
Reduction in stale-check liability	0	81,830
Change in RAD Trust Deposit	0	58,000
	503,329	15,588,528
<b>Total Operating Disbursements</b>	503,329	490,760,480

The financial statements should be read together with the notes to the financial statements which are considered to be an integral part of this statement.

<b>Net Cash Used in Operating Activities</b>	(500,204)	(444,487,061)
<b>INVESTING ACTIVITIES</b>		
Proceeds from Investments Sold	246,580	2,586,696,802
Cost of Investments Acquired	0	(817,440,022)
Investment Income	43,045	206,368,519
Investment Expense	(13,227)	(4,563,905)
<b>Net Cash Provided by Investing Activities</b>	<u>276,398</u>	<u>1,971,061,394</u>
<b>ASSUMPTION/EXCHANGE ACTIVITIES</b>		
FSL Variable Annuity Assumption (Note N)	0	(3,917,495)
HLIC Assumption - Immediate Annuities (Note H)	0	(175,501,387)
HLIC Assumption - Universal Life Insurance (Note H)	0	(6,424,176)
HLIC Exchange - Deferred Annuities (Note H)	0	(514,145,354)
GA Distrib. for Stayback Contracts - Deferred Annuities (Note H)	0	(142,326,472)
Cash out - Deferred Annuities (Note H)	0	(764,871,506)
<b>Net Cash Used in Assumption/Exchange Activities</b>	<u>0</u>	<u>(1,607,186,390)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	(223,806)	(80,612,057)
<b>Cash and Cash Equivalents at Beginning of Period</b>	<u>39,110,415</u>	<u>119,498,666</u>
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$ 38,886,609</u>	<u>38,886,609</u>

The financial statements should be read together with the notes to the financial statements which are considered to be an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

- Note A:** All cash and cash equivalents have a maturity of less than one year and are carried at cost which equals market value. Included in cash is a \$1 million escrow account securing potential indemnification obligations relating to the assumption and exchange agreements between Hartford Life and the Company (see Note H). Unused escrow funds were released in November 2009.
- Note B:** Bonds are carried at market value and include \$1,423,454 representing the remaining balance of the securities received from Columbia Management after accepting like kind securities (See Note N). Due to immateriality, interest on bonds is not accrued but accounted for on a cash basis.
- Note C:** Preferred Stock is comprised of a private-placement issue and is valued at estimated net realizable value. Subsequent to the date of this statement, the Company received an offer from the issuer to buy-back the preferred stock for \$2,334,445. The offer was accepted and the transaction should be completed before December 31, 2009.
- Note D:** The balance in Common Stock represents 119 shares of Portland General Electric Company distributed to the Company from the Enron bankruptcy and 2 shares of Delta Airlines stock distributed to the Company from the Delta Airlines bankruptcy. The stock is carried at market value. The Company also has common stock in a privately held company. These common stock investments are valued at zero, which represents the Receiver's estimate of their net realizable value.
- Note E:** Other Invested Assets represents the Company's share of an investment trust which owns various private-placement issues. Due to significant concerns over recoverability, this asset has been given a zero value in the accompanying Statement of Financial Position. The trust expired May 28, 2008. Efforts continue to collect the illiquid assets.
- Note F:** Agents' Debit Balances are amounts owed to the Company by former agents for unearned commissions, advances, and promissory notes. The balance shown is the amount estimated to be recoverable net of the estimated expense of collection.
- Note G:** Other Assets are comprised of amounts owed to the Company for a deposit with RAD Trust and a distribution to the New Mexico Guaranty Association.
- Note H:** The Receiver entered into three agreements involving the remaining annuity and life insurance policies of the Company. An assumption reinsurance agreement for the immediate annuities and an assumption reinsurance agreement for the universal life policies were entered into with Hartford Life. The Receiver, in conjunction with the National Organization of Life and Health Insurance Guaranty Associations and the

**NOTES TO FINANCIAL STATEMENTS**

participating Guaranty Associations, entered into an exchange agreement with Hartford Life for the deferred annuity contracts of the Company. All three agreements were approved by the Wake County Superior Court on the dates provided below along with the closing dates of the transactions.

<b>Agreements for Inforce Annuity and Life Policies</b>	<b>Approved</b>	<b>Closed</b>
Immediate Annuities Assumption	June 21, 2004	July 30, 2004
Deferred Annuities Exchange	July 9, 2004	October 12, 2004
Universal Life Assumption	July 9, 2004	July 11, 2005

Summarized below are the amounts funded (in millions) by the Company and the participating Guaranty Associations for each of the Hartford Life agreements:

<b>Agreements for Inforce Annuity and Life Policies</b>	<b>Company Funding</b>	<b>GA Funding</b>
Immediate Annuities Assumption	\$ 175.5	\$ 0
Deferred Annuities Exchange	\$ 1,454.3	\$ 84.6
Universal Life Assumption	\$ (4.2)	\$ 0

**Note I:** Claims Against the Estate-Policyholders represents Class 2 claims for priority of distribution pursuant to N.C. Gen. Stat. §58-30-220. The balance represents amounts owed deferred annuity policyholders after the closing of the exchange agreement with Hartford Life (See Note H). The claims will be paid by the estate, subject to available assets, on a date yet to be determined. This amount was established based on actuarial data at the time of the exchange. During the second quarter 2009, the data was analyzed for subsequent events. The analysis revealed a potential overstatement of \$20.3 million which is being reviewed. An adjustment was made in the second quarter 2009 but it was reversed in the third quarter 2009 until a final determination has been made (See Note M).

**Note J:** Claims Against the Estate-Guaranty Associations represents Class 2 claims for priority of distribution pursuant to N.C. Gen. Stat. §58-30-220. As a result of the closing of the exchange agreement, the balance represents amounts owed to participating Guaranty Associations for funding provided by those Guaranty Associations for covered claims and expenses (See Note H). The claims will be paid by the estate, subject to available assets, on a date yet to be determined.

**Note K:** Class 5 General are amounts owed by the Company for agents' commissions and general expense unpaid at the time of the rehabilitation. These balances are

**NOTES TO FINANCIAL STATEMENTS**

prioritized for priority of distribution pursuant to N.C. Gen. Stat. §58-30-220. It is anticipated the assets of the estate will not be sufficient to pay these claims.

**Note L:** Intercompany Payables are amounts the Company owed to several affiliated companies. These balances are considered Class 5 claims for priority of distribution pursuant to N.C. Gen. Stat. §58-30-220. It is anticipated the assets of the estate will not be sufficient to pay this class of claims.

**Note M:** Taxes and Licenses is the estimated Federal income tax paid on the second quarter 2009 balance sheet adjustment (See Note I). Once a determination has been made regarding the potential adjustment, the estimated Federal income tax will be adjusted accordingly.

**Note N:** On December 30, 2003, the Receiver of the Company entered into an assumption reinsurance agreement with Fidelity Security Life Insurance Company (Fidelity) whereby Fidelity would assume the variable annuity policies of the Company. The agreement was approved by the Wake County Superior Court on December 31, 2003. The agreement required the approval of the SEC and provided for 100% coinsurance of the contracts by Fidelity until such approval was received. Approval of the agreement by the SEC was received by Fidelity on August 27, 2004. Assumption Certificates were mailed to all contract holders in September 2004.

**Note O:** Beginning in 2002 until December 18, 2007, the Company used Columbia Management's short-term investment fund called Strategic Cash Portfolio (Fund) for a portion of its short-term investment needs. (Columbia Management is an affiliate of Bank of America.) The Fund was rated AAA through December 7, 2007.

On December 7, 2007, Columbia Management informed the Company that they were closing the Fund. Investors had two options; accept like kind securities or receive cash as they liquidated the Fund.

As a result of the issues and uncertainty surrounding the Fund, the Receiver accepted cash and securities in kind and moved its custodial relationship from Bank of America to BB&T. The securities were received by BB&T on December 18, 2007. (See Note B)

NORTH CAROLINA

WAKE COUNTY

**VERIFICATION**

RAYMOND MARTINEZ, being first duly sworn, deposes and says that he is a Senior Deputy Commissioner for the North Carolina Department of Insurance and appointed as Special Deputy Insurance Commissioner of London Pacific Life & Annuity Company by the Commissioner of Insurance and Liquidator, that he has read the foregoing Statement of Financial Position as of September 30, 2009, and the Statement of Receipts and Disbursements for the three months ending September 30, 2009, and for the period from August 6, 2002, the date of rehabilitation, through September 30, 2009, and that the contents of same are true and correct to the best of his knowledge and belief.

This the 30<sup>th</sup> day of November, 2009.

\_\_\_\_\_  
Senior Deputy Commissioner and  
Special Deputy Insurance Commissioner for  
London Pacific Life & Annuity Company

NORTH CAROLINA

WAKE COUNTY

Sworn to and subscribed before me

this the 3<sup>rd</sup> day of November, 2009.

(Official Seal)



\_\_\_\_\_  
Notary Public

My Commission Expires: 1-28-2014

## CERTIFICATE OF SERVICE

This is to certify that the original Domiciliary Liquidator's Quarterly Report was this day filed with the Wake County Clerk of Superior Court and that a copy of the Report was sent by first class United States mail to the following persons:

Honorable Donald W. Stephens  
Senior Resident Judge  
Wake County Superior Court  
P.O. Box 351  
Raleigh, NC 27602-0351

William S. Patterson, Esq.  
Attorney for NCLHIGA  
Hunton & Williams  
P.O. Box 109  
Raleigh, NC 27602-0109

This the 30<sup>th</sup> day of November, 2009.

ROY COOPER  
Attorney General

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David W. Boone  
Assistant Attorney General  
N. C. State Bar No. 8648  
N. C. Department of Justice  
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