

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA**

REPORT OF EXAMINATION OF

AMERICAN RESOURCES INSURANCE COMPANY

MOBILE, ALABAMA

AS OF DECEMBER 31, 2007

**PARTICIPATION:
SOUTHEASTERN ZONE, NAIC
ALABAMA**

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**STATE OF ALABAMA
COUNTY OF MOBILE**

I, Palmer W. Nelson, being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of American Resources Insurance Company for the period January 1, 2004 through December 31, 2007;

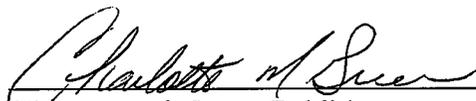
That the following 34 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And that the statements, exhibits and data therein contained are true and correct to the best of his knowledge and belief.

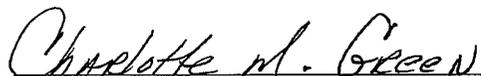


Palmer W. Nelson, CFE

Subscribed and sworn before the undersigned authority this 14th day of November, 2008.



(Signature of Notary Public)


_____, Notary Public
(Print Name)

in and for the State of Alabama.

My commission expires Oct. 3, 2010.



BOB RILEY
GOVERNOR

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Mobile, Alabama
November 14, 2008

Honorable Mary Jo Hudson, Director
Chairman, Examination Oversight Committee
Ohio Department of Insurance
2100 Stella Court
Columbus, OH 43214

Honorable Scott Richardson, Director
Secretary, Southeastern Zone
South Carolina Department of Insurance
201 Main Street, Suite 100
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Honorable Jim L. Ridling, Commissioner
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Honorable Merle D. Scheiber, Director
Secretary, Midwestern Zone
South Dakota Division of Insurance
Department of Revenue & Regulation
445 East Capitol Avenue, 1st Floor
Pierre, SD 57501-3185

Dear Directors and Commissioner,

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and condition of

American Resources Insurance Company
Mobile, Alabama

as of December 31, 2007, at its home office located at 1111 Hillcrest Road, Mobile, Alabama 36695. The report of examination appears herewith.

Where the term "Company" appears herein without qualification, it will be understood to indicate American Resources Insurance Company.

SCOPE OF EXAMINATION

A full scope examination was authorized pursuant to the instructions of the Alabama Insurance Commissioner and in accordance with the statutory requirements of the Alabama Insurance Code and the regulations and bulletins of the Alabama Department of Insurance; in accordance with the applicable guidelines and procedures promulgated by the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

The Company's last full scope examination was for the five year period ended December 31, 2003. Limited scope examinations were conducted as of June 30, 2006 and September 30, 2007 by the Alabama Department of Insurance. The current examination covers the intervening period from January 1, 2004 through December 31, 2007, and was conducted by examiners from the Alabama Department of Insurance representing the NAIC's Southeastern Zone. Where deemed appropriate, transactions subsequent to December 31, 2007, were reviewed.

The examination included a general review of the Company's operations, administrative practices, and compliance with statutes and regulations. Corporate records were inspected. Income and disbursement items for selected periods were tested. Assets were verified and valued, and all known liabilities were established or estimated as of December 31, 2007, as shown in the financial statements contained herein. However, the discussion of assets and liabilities contained in this report have been confined to those items which resulted in a change to the financial statements, or which indicated a violation of the Alabama Insurance Code, the Insurance Department's rules and regulations, or statutory accounting principles which were deemed to require comments and/or recommendations.

A signed certificate of representation was obtained during the course of the examination. In the certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2007. A signed letter of representation was also obtained at the conclusion of the examination whereby management represented that, through November 14, 2008, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities. An office copy of the Company's filed Annual Statement as of December 31, 2007, was compared with or reconciled to account balances with respect to ledger items. The Company's accounts were examined by Russell Thompson Butler & Houston, LLP, Mobile, Alabama, certified public accountants (CPAs) for each year under examination. The examiners utilized some of the CPAs work papers in conjunction with the examiners' test work to complete some of the audit procedures in instances in which the examiners determined that it was appropriate to use the CPA work papers.

The market conduct review consisted of a review of the Company's plan of operation, territory, policy forms and underwriting practices, advertising and marketing, claims, policyholder complaints, agents' licensing practices, and compliance with privacy standards.

ORGANIZATION AND HISTORY

The Company was incorporated in Mobile County, under the laws of the State of Alabama on January 27, 1981, as a wholly owned subsidiary of ARIC Investments, Inc., an Alabama corporation.

Article II of the Articles of Incorporation of the Company stated that the purposes for which the Company was organized was to issue policies and enter into contracts of property insurance, casualty insurance, surety insurance, marine, wet marine and transportation insurance, as well as various other property and casualty and insurance coverages which may be considered insurance under the laws of the State of Alabama.

Article IV of the original charter provided for authorized capital of \$1,000,000 comprised of 1,000,000 shares of \$1 par value per share common stock. On December 8, 1992, the Company's charter was amended to increase the total authorized capital to \$5,000,000 comprised of 5,000,000 shares of \$1 par value per share common stock.

The Company's capital structure as of December 31, 2003, the date of the most recent full scope examination conducted by the Alabama Department of Insurance examiners, consisted of 5,000,000 authorized shares of common stock with a par value of \$1 per share, with 1,500,000 shares issued and outstanding for total capital of \$1,500,000, and \$1,500,000 in gross paid in and contributed surplus. On December 31, 2003, the Company had unassigned funds of \$5,911,223 and a total capital and surplus of \$8,911,223 per the examination report.

The Company issued a surplus note in the amount of \$3,000,000 on May 24, 2004. The \$3,000,000 surplus note was issued by the Company to Dekania CDO II, Ltd. and was approved by the Alabama Department of Insurance Commissioner on May 17, 2004. Interest accrues on the principal balance of the note at the LIBOR rate plus 4.10%. Interest payments are due quarterly. The terms of the note require that the interest and principal payments on the note to be paid out of the Company's surplus exceeding \$11,290,140.

During 2005, the Company received a surplus contribution from ARIC Investments, Inc. of \$3,600,000.

At December 31, 2007, the Company's capital structure reported, per its 2007 Annual Statement, consisted of 5,000,000 authorized shares of common stock with a par value of \$1 per share, with 1,500,000 shares issued and outstanding for total capital of \$1,500,000; \$5,100,000 in gross paid in and contributed surplus; a surplus note for \$3,000,000; and, unassigned funds of \$3,446,474. The Company's total reported capital and surplus as of December 31, 2007, was \$13,046,474.

As of the date of the preceding full scope examination, the Company's sole shareholder, ARIC Investments, Inc., was owned by seven individuals and one corporation. The Company's sole shareholder was acquired by new owners on September 2, 2005. A new holding company, AR Holding, Inc., was formed in association with the acquisition. Following the acquisition, ARIC Investments, Inc. remained as the sole owner of the Company. ARIC Investments, Inc. was wholly owned by AR Holding, Inc., an Alabama corporation. AR Holding Inc. was wholly owned by HAIG, LP, a Cayman Islands corporation.

ARIC Investments Inc. issued convertible preferred shares. The holders of the preferred shares converted the shares to ARIC Investments, Inc. common stock. At December 31, 2007, the current owners of ARIC Investments, Inc. and percentages of ownership were:

<u>Owner</u>	<u>Percentage of Ownership</u>
AlaComp	25.01%
AR Holding, Inc.	23.08%
Ultimate Reserve Trust	18.07%
James P. Bryan IRA	8.42%
Marathon Financial Insurance Company	8.42%
Thomas Louis Ferreri	5.04%
Chesley W. Riddle, Sr.	3.78%
Charolais Corporation	1.85%
Harvey Lamar lee	1.55%
Chesley W. Riddle, Jr.	1.55%
James L. Riddle	1.55%
James G. Fogle	1.53%
Stephen G. Pate	0.15%

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation with ultimate control vested in its stockholders. As of December 31, 2007, 100% of the Company's issued and outstanding stock was owned by ARIC Investments, Inc.

Board of Directors

The business and affairs of the Company are managed by its Board of Directors as established by Article II, Section 1 of the By-Laws of the Company. Article II, Section 2 of the By-Laws of the Company state, "There shall be five Directors, who shall be elected annually by the shareholders at their annual meeting and shall hold office at the pleasure of the shareholders and until respective successors are elected by a majority of shares issued and outstanding. ...At least one-third of all Directors shall be bona fide residents of the State of Alabama." Three of the four members of the Board of Directors resigned, and three members were then elected to the Board of Directors as of June 30, 2006 by the sole shareholder of the Company. The Directors as of December 31, 2007 were as follows.

<u>Name and Residence</u>	<u>Principal Occupation</u>
Harvey Lamar Lee Mobile, Alabama	President American Resources Insurance Company, Inc.
James Perry Bryan Houston, Texas	CEO Torch Energy Advisors, Inc.
Anthony Phillip Marino Birmingham, Alabama	Retired Executive

The examination indicated that the Company only had four Directors on the Board of Directors from September 2005 through June of 2006, and that the Company only had three Directors on the Board of Directors from June 2006 through December 31, 2007. This was not in compliance with Article II, Section 2. of the Company's By-Laws, which state, "There shall be five (5) Directors, who

shall be elected annually by the shareholders at their annual meeting and shall hold office at the pleasure of the shareholders and until respective successors are elected by a majority of shares issued and outstanding.”

The review of the minutes of the meetings of the Board of Directors for the period under examination indicated that the officers of the Company were not elected on an annual basis by the Board of Directors, specifically in the years 2004 and 2007, which was not in compliance with the Article III, Section 2 of the By-Laws of the Company, which states “The officers of the Corporation shall be elected annually by the Board of Directors at the regular meeting of the Board held pursuant to Article II, Section 3, of these By-Laws.”

The review of the minutes of the meetings of the Board of Directors for the period under examination did not evidence an approval of the investment decisions for 2006 by the Board of Directors. Mr. Stephen Pate, Secretary/Treasurer of the Company during the examination period, stated that the Company’s Board of Directors did not approve the investment decisions of the Company that were made during 2006. This was not in compliance with ALA. CODE §27-41-5(1975), which states, “An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors...”

Committees

Article II, Section 10 of the By-Laws of the Company state “The Board of Directors shall have power, by resolutions passed by a majority of the Board, to designate one or more committees, each committee to consist of two or more Directors of the Corporation...” The Company’s management stated that there were not any committees of the Board of Directors as of December 31, 2007. There were two committees of the Board of Directors formed during the period under examination, but the committees did not exist as of December 31, 2007, and they are as follows.

<u>Pricing Committee</u>	<u>Investment Committee</u>
Harvey Lamar Lee	Harvey Lamar Lee
Stephen Gregory Pate	Stephen Gregory Pate
	James Edwin Tait

The review of the minutes of the Board of Directors meetings for the period under examination indicated that the Board elected Mr. Stephen G. Pate, Treasurer of the Company, to the Investment Committee of the Board of Directors, when he had just recently stepped down from his position as a member on the Board of Directors of the Company. This was not in compliance with ALA. CODE §10-2B-8.25(1975), which states, “...a board of directors may create one or more committees and appoint members of the board of directors to serve on them.”, nor in compliance with Article II, Section 10 of the By-Laws of the Company, which states, “The Board of Directors shall have power, by resolution or resolutions passed by a majority of the Board, to designate one or more committees, each committee to consist of two or more Directors of the Corporation...”

Officers

Article III, Section 1 of the By-Laws of the Company state that "The Officers of the corporation shall be a President, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors ... Any number of offices may be held by the same person." The Officers of the Company as of December 31, 2007 were as follows.

<u>Officer</u>	<u>Position</u>
Harvey Lamar Lee	President
Stephen Gregory Pate	Secretary/Treasurer
Nina Simons O'Hara	Vice President of Finance
Michael Reeves Brady	Vice President of Underwriting

Discussion of the changes in officers subsequent to the examination date is included under the caption "SUBSEQUENT EVENTS" on page 33 of this report.

Management and Service Agreements

The Company entered into a Managing General Agency (MGA) agreement with Benefit Choice with an effective date of January 1, 2006 through June 1, 2006, in which Benefit Choice provided production and claims administrative services for the Company. The MGA agreement did not provide the amount of commissions that would be paid to the MGA, and the term of the contract was not included. The President indicated that the omitted provisions were agreed upon orally and the contract term was for six months and the commission rate was 16% of the premium. The Company's management indicated that the MGA contract was not submitted for approval to the Alabama Department of Insurance. ALA. CODE §27-6A-5(5)(1975) requires,

Within 30 days of entering into or terminating a contract with a managing general agent, the insurer shall provide written notification of the appointment or termination to the commissioner. Notice of appointment of the managing general agent shall include a statement of duties which the applicant is expected to perform on behalf of the insurer, the lines of insurance for which the applicant is to be authorized to act, and any other information the commissioner may request.

The Company's management indicated that it was the Company's intent to have the MGA agreement approved in accordance with ALA. CODE §27-6A-1(1975), but, after a few months it was terminated.

In the preceding report of examination, it was recommended that that the Company not allow other entities to underwrite, issue, and service (premium collection and claims processing) business in the Company's name, if the Company is not actively involved in the management/production of said business in accordance with ALA. CODE §27-6A-1(1975), the "Alabama Managing General Agents Act." The examiners reviewed evidence of the Company's management monitoring the activities of the MGA. The Company's former President indicated that he performed claims reviews but he did not retain documentation of the reviews.

Conflicts of Interest

The Company requires that its directors, officers, and key employees file conflict of interest statements annually to disclose any personal interests that may conflict with the Company's interests. The examination indicated that all officers and directors filed conflict of interest statements annually. There were various disclosures made by the Company's employees and directors during the examination period, but none of the disclosures indicated a violation of ALA. CODE §27-27-26(1975), which states, "Any officer, or director ... shall not take or receive to his own use any fee, brokerage, commission, gift or other consideration for, or on account of, any such transaction made by, or on behalf of, such insurer."

The limited scope examination, as of June 30, 2006, indicated that a director of the Company, James Perry Bryan, was in a position that resulted in a pecuniary interest violation. Mr. Bryan had the following interest as well as serving as a director of the Company. Mr. Bryan owned a 36.5% interest in Marathon Financial Insurance Company and a 36.5% interest in Marathon Administrative Company. The Company had entered a material business venture with both of the Marathon entities. Marathon Administrative Company was the Company's insured under a contractual liability insurance policy (CLIP). All of the business under the CLIP was reinsured on a 100% quota share basis to Marathon Financial Insurance Company. The Company was not in compliance with ALA. CODE §27-27-26(a)(1975), which states, in part, "Any officer, or director, or any member of any committee or any employee of a domestic insurer who is charged with the duty of investing or handling the insurer's funds... shall not be pecuniarily interested in any loan, pledge or deposit, security, investment, sale, purchase, exchange, reinsurance, or other similar transaction or property of such insurer except as a stockholder or member..."

The limited scope examination recommended that the Company remedy the violation by removing the director, requiring the director to divest his investments causing the pecuniary interest, or cease doing business with the entities that its directors have any ownership interests in. The examination indicated that the Company has complied with the recommendation of the limited scope examination by cancelling the CLIP and reinsurance agreement.

CORPORATE RECORDS

The Company's Articles of Incorporation and By-Laws were inspected during the course of the examination and the documents appeared to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations. Minutes of the Stockholder and Board of Directors meetings that took place during the examination were reviewed. The minutes appeared to be complete and to adequately document the actions of the respecting governing bodies, with the following exception.

The review of the minutes of the Board of Directors Meetings for the period under examination indicated that the Company did not have the minutes for the March 2006 Board of Directors Meeting at its home office. This was not in compliance with ALA. CODE §10-2B-16.01(a)(1975), which states, "A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation."

The Company did not perform criminal background checks of prospective employees to determine whether prospective or newly hired employees had been convicted of a felony involving dishonesty or a breach of trust. Section 1033 of Title 18 of the United States Code prohibits a person who has been convicted of a felony involving dishonesty or a breach of trust from willfully engaging in the business of insurance that affects interstate commerce unless the prohibited person has obtained permission from the Commissioner. ALA. ADMIN. CODE 482-1-121(2003) elaborates on the definition of a prohibited person under Section 1033 of Title 18 of the United States Code. Prohibited persons may be employers, producers, insurance agencies, consultants, third party administrators, or managing general agents of the Company or subcontractors of the Company or of an agency of the Company who have been convicted of a felony involving dishonesty or a breach of trust, unless the prohibited person has obtained permission to serve in their capacity by the Commissioner. The Company's actions were not satisfactory to ensure that prohibited persons were not serving as employees, agents, contractors, consultants, or subcontractors of the Company.

HOLDING COMPANY AND AFFILIATE MATTERS

The Company is subject to the Alabama Insurance Company Regulatory Act of 1973 as defined in ALA. CODE §27-29-1(1975). The review of the holding company filings made during the examination period indicated that appropriate disclosures were made regarding the Company.

Dividends to Stockholders

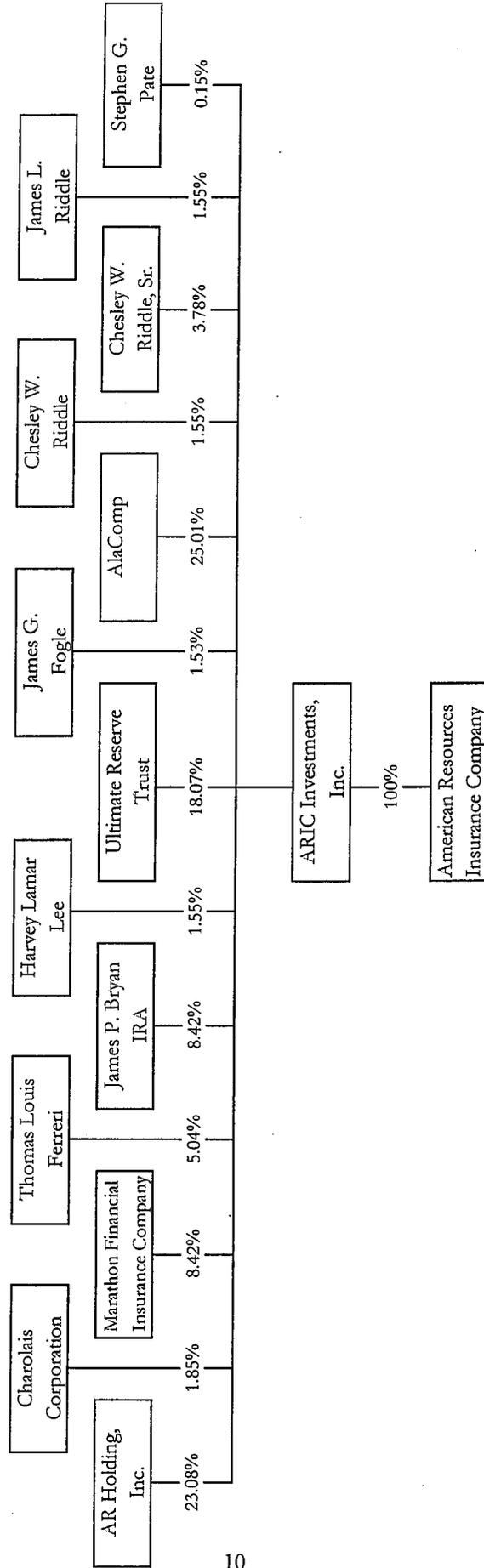
The following dividends were paid by the Company to its stockholders during the examination period.

<u>Year</u>	<u>Dividends Paid</u>
2004	\$ 0
2005	100,000
2006	85,800
2007	171,600

Organizational Chart

The organizational chart on the following page depicts the insurance holding company system with which the Company was affiliated as of December 31, 2007.

American Resources Insurance Company
 Organizational Chart
 December 31, 2007



FIDELITY BONDS AND OTHER INSURANCE

At December 31, 2007, the Company was a named insured under a crime coverage policy, issued by Cincinnati Insurance Company, Cincinnati, Ohio. The Company's fidelity coverage exceeded the minimum suggested amount by the NAIC Examiners Handbook.

In addition to the fidelity bond coverage, the Company was a named insured under policies providing the following protection at December 31, 2007.

- Errors and Omissions Coverage
- Comprehensive Automobile
- Comprehensive Business Umbrella Policy
- Commercial Property
- Inland Marine

The coverage and limits of the Company's insurance were reviewed and were determined to adequately protect the Company's interest.

EMPLOYEE AND AGENT WELFARE

At December 31, 2007, benefits provided by the Company to its employees included the following.

- Life Insurance
- Short and Long Term Disability Insurance
- Paid Vacation
- Paid Holidays and Personal Days
- Paid Sick Days
- Deferred Compensation

The Company's marketing strategy involves the use of independent agents.

Subsequent to the examination period the Company entered into a management agreement with American Resources Insurance Consultants for the management and operation of its business, and the Company has very few employees currently. Further discussion of the subsequent events is included in this report under the caption "SUBSEQUENT EVENTS."

STATUTORY DEPOSITS

At December 31, 2007, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows.

<u>State</u>	<u>Statement Value</u>	<u>Market Value</u>
Alabama	\$1,004,811	\$1,003,574
Georgia	100,000	100,219
South Carolina	250,000	250,078
Virginia	250,000	250,000

FINANCIAL CONDITION/GROWTH OF COMPANY

	<u>2007*</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Admitted Assets	\$55,804,154	\$59,200,936	\$57,482,372	\$49,442,007
Liabilities	42,902,625	44,774,683	39,631,846	35,793,908
Common Capital Stock	1,500,000	1,500,000	1,500,000	1,500,000
Paid in and Contributed Surplus	5,100,000	5,100,000	5,100,000	1,500,000
Unassigned Funds	3,301,529	4,826,253	8,250,526	7,648,099
Gross Written Premium	22,576,624	27,851,174	29,037,681	27,091,030

*Per Examination

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company wrote commercial property and casualty insurance and workers compensation insurance during the examination period. The Company's plan was to maintain and grow its book of business in the territories in which the Company was licensed. On April 1, 2008, the Company began the process of discontinuing issuing policies in each of the states as Kodiak Insurance Company obtained a license in those states. After Kodiak obtains the required licenses in all of the states, the Company will not issue any more new policies. Company management indicated that the Company does not have any plans for the future as this time and future plans will be up to the shareholders.

Territory

At the examination date, the Company was licensed to transact business in the following eight states: Alabama, Georgia, Indiana, Kentucky, Mississippi, South Carolina, Tennessee, and Virginia.

The Certificates of Authority for the respective jurisdictions were inspected for the period under review and found to be in order. Authorized Lines were compared with the lines of business shown in the Underwriting and Investment Exhibits of the 2007 Annual Statement, and no discrepancies were noted.

Policy Forms and Underwriting

The Company did not file any forms or endorsements with the Alabama Department of Insurance during the examination period. The Company utilized the Insurance Services Office (ISO) and National Council on Compensation Insurance (NCCI) for its forms and endorsements during the examination period.

The examiners reviewed samples of Alabama policy applications, premium amounts, premium audits, policy renewals, cancellations and return of unearned premiums to make the determination of whether the Company was following its underwriting guidelines. All of the samples were selected in accordance with the NAIC's Market Regulation Handbook.

The examination indicated that the Company's application register does not identify the manner of disposition of each application handled by the Company.

The Company has two rating organization affiliations, the ISO, and NCCI for its rating programs. The Company accepts all new rates that are compiled by ISO and NCCI and filed on behalf of the Company. Any other changes that the Company elects are filed with the various states and rating organizations that the company utilizes.

Advertising and Marketing

The Company did not have a formal advertising program at December 31, 2007. The Company mailed out two brochures to its independent agents during the examination period. The Company utilized independent agents to write business. The independent agents must get approval from the Company's management for any advertisement in which the Company's name is utilized. The independent agents utilized the Company's logo as the only form of advertisement that was approved by the Company. The Company's agency agreements indicated that the agents shall not broadcast, publish or distribute any advertisement without first securing the Company's approval in writing. The Company had an Internet website, www.aric.cc, which indicated the physical location of the Company and its lines of business being sold.

Claims Review

A sample of 50 paid closed claims, from a population of 1,274, and a sample of 50 denied claims, from a population of 1318, during the period under examination were reviewed. The review of the closed claim files indicated that claims were paid in accordance with policy provisions and that settlements were made promptly upon the receipt of evidence of the Company's liability. The review of the denied claims indicated that claims were denied in accordance with the provisions of the respective policies.

Policyholder Complaints

The examiners made an inspection of the Company's complaint register during the examination period. The Company recorded eight complaints in its complaint register. Three of the eight complaints were from the Alabama Department of Insurance. The Company represented that there were no consumer direct complaints.

The Company was able to provide proper documentation to indicate that all complaints had been fully addressed. It was also determined that the Company responded to the Alabama Department of Insurance complaints in a timely manner in accordance with ALA. ADMIN CODE 482-1-118.06(2002), which requires,

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension

in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

Compliance with Agents' Licensing Requirements

The examiners made an inspection of the Company's records to determine if agents representing the Company were properly licensed and appointed. The examiners compared the Company's 2007 listing of licensed and appointed agents to the Alabama Department of Insurance 2007 listing of agents appointed by the Company. The examiners also examined a sample of new business issued in Alabama to determine whether the agents that produced the business were properly licensed and appointed. The Alabama producers were properly licensed as required by ALA. CODE §27-7-30(a)(1975).

The examiner also made an inspection of the Company's terminated producer's records to determine if individual termination notices were sent from the Company to the producer and to the Alabama Department of Insurance. The Company was in compliance with ALA. CODE §27-7-30.1(a)(1975).

Privacy Standards

The Company wrote only commercial and workers' compensation insurance during the period under review. ALA. ADMIN CODE 482-1-122.02(b)(2002) stipulates,

... This regulation does not apply to information about companies or about individuals who obtain or seek to obtain products or services for business, commercial or agricultural purposes, nor does it apply to workers compensation claims, workers compensation insurance, workers compensation programs, or employee welfare benefits plans as defined in 29 U.S. CODE §1002(1) or any third party administrator to the extent it provides services to a workers compensation program or employee welfare benefit plan."

The Company is not required to comply with ALA. ADMIN CODE 482-1-122(2002) because the Company only writes commercial and workers' compensation insurance policies.

REINSURANCE

Reinsurance Assumed

The Company had no assumed premiums during the period covered by the examination. At December 31, 2007, the Company reported \$345,000 of Known Case Loss and LAE Reserves in Schedule F - Part 1 of the 2007 Annual Statement. However, the examination indicated that this amount was not accurate and the correct amount should have been \$980,695. This error only affected Schedule F - Part 1. This error did not require an adjustment to the Company's 2007 Annual Statement as the examination indicated that the Company did utilize the correct amount in its Loss Reserves as reported in its 2007 Annual Statement balance sheet. The assumed business related to a former affiliate, Kentucky National Insurance Company, and is in run-off. The reinsurance treaties have not been renewed since 1986.

Reinsurance Ceded

The Company's reinsurance program is structured to maintain a maximum Company retention/exposure of \$250,000 for any one risk or one occurrence. As such, there is a multi-line treaty for both property and casualty risks written with several layers. Each treaty is structured so that multiple claims resulting from the same loss occurrence will aggregate to produce a single loss amount and a single retention of \$250,000 for the occurrence. In addition to the multi-line program, the company purchases property catastrophe coverage providing coverage for loss to multiple risks from a single loss occurrence. This coverage also has a retention of \$250,000.

Coverage under the program is limited to \$1,000,000 any one risk, with the exception of workers' compensation and clash/ECO/XPO (see below). Casualty risks with limits of over \$1,000,000 are limited to umbrella policies, reinsured through a separate program listed below. The maximum Company retention of \$50,000 on the umbrella program is included in the multi-line program and does not increase the company retention. Property risks in excess of \$1,000,000 are covered through the placement of facultative coverage. Specialty coverages provided by the company are reinsured via 100% quota share treaties.

This structure limits the Company's exposure to a maximum of \$250,000 for any one risk as well as a maximum of \$250,000 for any one loss occurrence.

The existing reinsurance structure is a Multiple Line Excess of Loss in two layers totaling \$750,000 excess of \$250,000. The following is a discussion of the treaties.

The current First Layer is \$250,000 excess \$250,000 and has three sections, one for property, one for liability, and one for occurrences involving both property and liability (a basket retention). The basket retention also includes the Company's \$50,000 maximum net retention under their umbrella quota share.

The existing Second Layer is \$500,000 excess \$500,000 and has two sections, one for property and one for liability, as the current treaty treats Allocated Loss Adjustment Expense as a part of loss. The property coverage section of the Second Multiple Line Excess includes an additional \$100,000 limit in the event an incurred loss is driven over \$1,000,000 (ground up) by either Business Interruption loss or Allocated Loss Adjustment Expense. The Company's BOP form includes a time element limit of twelve months for a Business Interruption loss and not a set dollar amount. Since this coverage is in addition to the property limit a loss involving Business Interruption could theoretically exceed \$1,000,000. Additionally, since Loss Adjustment Expense is included as part of Loss for the purpose of calculating recoveries under the treaty, it is possible for a combination of Loss and Loss Adjustment Expense to exceed \$1,000,000. Thus, the Second Multiple Line layer has been expanded to provide this extra \$100,000 of coverage to address these two possibilities.

In addition to the current First and Second Excess Multiple Line, the Company also purchases \$4,000,000 excess \$1,000,000 Contingent and Clash reinsurance. This is split into two layers of \$2,000,000 each. Those layers cover Casualty Clash and Workers' Compensation on a per person basis, as well as ECO/XPL arising from property losses.

An additional treaty provides coverage for Workers' Compensation policies with a limit of \$5 million excess of the \$5 million in the treaties listed above. Coverage applies on a "per occurrence" basis with no MAOL (maximum any one life).

In addition, the Company carries the following specialty treaties.

Umbrella (Munich RE) - Limits of \$5,000,000 per occurrence. Terms are a 95% quota share for the first \$1,000,000 and 100% for limits above \$1,000,000. The Company's 5% share of the first million is included in the multi-line treaty mentioned above.

Property facultative (Munich RE) - \$3,000,000 excess of \$1,000,000 per risk. Risks are input into the reinsurer's on-line submission system and, if within the terms of the treaty, accepted and a binder produced. Limits above the treaty max or accounts outside of the treaty scope are referred to a Munich underwriter for individual handling.

Employment Practices (Lloyds, through Rockwood Programs) - 100% quota share on the Company's EPLI endorsement.

System's Breakdown (Mutual Boiler Re) - 100% quota share on the company's system's breakdown endorsement.

Interim Reinsurance Agreement - A reinsurance agreement was executed between American Resources and Hermitage Insurance Company. This agreement provides 100% quota share, first dollar coverage for all policies issued by American Resources with an effective date of October 1, 2007 and after. All reinsurance treaties mentioned above would respond first to any loss covered under this treaty and would inure to its benefit. This treaty, in effect, provides full coverage for the company's retentions under the above.

The Company entered into a 100% quota share interim reinsurance agreement with Hermitage Insurance Company effective October 1, 2007. The Company cancelled the agreement and subsequently entered into a 100% quota share interim reinsurance agreement with Kodiak Insurance Company effective January 1, 2008. The Department was not served the required notifications of the execution of the two agreements. ALA. CODE §27-2A-2(a) states,

Every insurer domiciled in this state shall file a report with the commissioner disclosing material acquisitions and dispositions of assets or material nonrenewals, cancellations, or revisions of ceded reinsurance agreements unless the acquisitions and dispositions of assets or material nonrenewals, cancellations or revisions of ceded reinsurance agreements have been submitted to the commissioner for review, approval, or information purposes pursuant to other provisions of the insurance code, laws, regulations, or other requirements. (b) The report required in subsection (a) is due within 15 days after the end of the calendar month in which any of the transactions in subsection (a) occur.

Company management represented that multiple meetings were held with the Alabama Department of Insurance personnel and the Department had knowledge of the execution of the agreement.

The review of the Company's reinsurance agreements indicated that the Company was using an intermediary that was not properly licensed as an intermediary in Alabama. NAS (also known as Rockwood), is the company acting as an intermediary in relation to the Company's Employment Practices Liability Insurance coverage. ALA. CODE §27-5A-3(a)(2)(1975) states,

No person, firm, association, or corporation shall act as a reinsurance intermediary-broker in this state if the reinsurance intermediary-broker maintains an office either directly, or as a member or employee of a firm or association, or an officer, director, or employee of a corporation: In another state, unless the reinsurance intermediary-broker is a licensed producer in this state or another state having a law substantially similar to this law or the reinsurance intermediary-broker is licensed in this state as a nonresident reinsurance intermediary.

Even though NAS is licensed in another state, they have not taken the necessary steps to become exempt as an intermediary in Alabama. NAS must deliver the laws of their resident state, as respects intermediaries, to the Alabama Department of Insurance so that it can be determined whether the laws of the licensing state are similar to those of Alabama in order to obtain exempt status.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums, and losses data electronically. When necessary, the Company prepared additional electronic work papers and hard copy reconciliations and work papers. The hard copy files were documented and retained.

The Company was audited annually by the certified public accounting (CPA) firm of Russell Thompson Butler & Thompson, LLP, for the years under examination. The Company has been audited by the same CPA firm since 1993. The examination indicated that the engagement partner was properly rotated. The CPA work papers were utilized for the examination to the extent determined to be appropriate.

During the years under examination, the Company's opining actuary was Mr. N. Terry Godbold, ACAS, MAAA, FCA, of Godbold, Malpere & Co. of Roswell, Georgia.

The review of the Board minutes indicated that the Company appointed Godbold, Malpere & Co., Roswell, Georgia as their opining actuary for the years 2004, 2005, and 2006. However, the Company did not appoint an opining actuary for the year 2007 as required by the NAIC Annual Statement Instructions which state, "The qualified actuary must be appointed by the Board of Directors, or its equivalent, or by a committee of the Board, by December 31 of the calendar year for which the opinion is rendered."

The CPA relied upon the Company's opining actuary's work and the independent audit did not include a review or test work performed by a qualified actuary. The independent auditor relied upon the work performed by the Company's opining actuary without performing any test work of the opining actuary's assumptions, methods, or findings. The examiners noted that the Company's consulting and opining actuary has been preparing an original work product that has not been subjected to review and/or testing by an independent, qualified third party with the exception of the periodic Alabama Department of Insurance statutory examinations.

The review of the CPA work papers indicated that the independent auditor did not obtain an understanding of the methods, assumptions, and findings of the Company's consulting actuary's work. AU Section 336.12 of the AICPA Manual states "The auditor should (a) obtain an understanding of the methods and assumptions used by the specialist, (b) make appropriate tests of data provided to the specialist, taking into account the auditor's assessment of control risk, and (c) evaluate whether the specialist's findings support the related assertions in the financial statements."

The review of the 2007 Schedule P work papers and discussions held with the CPAs indicated that the independent auditor did not perform testing of Schedule P - Part 1 as a part of the 2007 audit. The 2007 NAIC Annual Statement Instructions state, "The insurer shall require the independent certified public accountant to subject the current Schedule P - Part 1 (excluding those amounts related to bulk and IBNR reserves and claim counts) to the auditing procedures applied in the audit of the current statutory financial statements to determine whether Schedule P - Part 1 is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole."

The examination indicated that the Company did not monitor its insureds, that issued vehicle services contracts covered by a contractual liability insurance policy issued by the Company, to ensure that the issuer of the contracts only wrote business in states in which the Company was licensed.

FINANCIAL STATEMENTS

The financial statements included in this report were reported on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2007. Amounts shown in the comparative statements for the years 2004, 2005, and 2006 were compiled from the Company's copies of the filed Annual Statements. The statements were presented in the following order.

Statement of Assets, Liabilities, Surplus and Other Funds	Page 20
Summary of Operations	Page 21
Capital and Surplus Account	Page 22

American Resources Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2007

Assets

	Assets	Non- admitted Assets	Net Admitted Assets
Bonds	\$42,238,165		\$42,238,165
Real estate: Properties occupied by the company	1,392,684		1,392,684
Cash, cash equivalents and short-term investments	3,668,531		3,668,531
Investment income due and accrued	403,921		403,921
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection (Note 1)	1,730,533	151,149	1,579,404
Premiums and considerations: Deferred premiums, agents' balances and installments booked but deferred and not yet due (Note 1)	4,225,382		4,225,382
Reinsurance: Amounts recoverable from reinsurers (Note 2)	523,622		523,622
Current federal and foreign income tax recoverable and interest thereon	358,759		358,759
Net deferred tax asset (Note 3)	2,264,849	996,685	1,268,164
Electronic data processing equipment and software	18,833		18,833
Furniture and equipment, including health care delivery assets	53,228	53,228	
Receivables from parent, subsidiaries and affiliates (Note 4)	74,520	74,520	
Aggregate write-ins for other than invested assets	<u>159,925</u>	<u>33,235</u>	<u>126,690</u>
Total Assets	\$57,112,971	\$1,308,817	\$55,804,154

Liabilities, Surplus, and Other Funds

Liabilities:		
Losses (Note 5)		\$27,077,733
Loss adjustment expenses (Note 5)		2,347,554
Commissions payable		454,385
Other expenses		161,191
Taxes, licenses and fees		356,272
Unearned premiums		5,545,996
Advance premiums		49,985
Ceded reinsurance premiums payable		1,632,227
Funds held by company under reinsurance treaties		54,324
Amounts withheld or retained by company for account of others		49,598
Provision for reinsurance (Note 2)		1,918,026
Aggregate write-ins for liabilities		<u>3,225,334</u>
Total Liabilities		\$42,902,625
Surplus and Other Funds:		
Common capital stock		\$1,500,000
Surplus note		3,000,000
Gross paid in and contributed surplus		5,100,000
Unassigned funds (Note 6)		<u>3,301,529</u>
Surplus as regards policyholders		<u>\$12,901,529</u>
Total Liabilities and Stockholders' Equity		\$55,804,154

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

American Resources Insurance Company
 Summary of Operations
 For the Years Ended December 31, 2004, 2005, 2006, and 2007

	2007	2006	2005	2004
Underwriting Income				
Premiums earned	\$17,587,909	\$21,018,583	\$19,738,595	\$20,447,409
Deductions				
Losses incurred	9,851,166	12,444,322	9,084,000	11,994,604
Loss expenses incurred	2,365,707	2,524,436	2,560,298	2,699,728
Other underwriting expenses incurred	6,459,680	8,728,160	8,324,418	8,060,710
Total underwriting deductions	\$18,676,553	\$23,696,917	\$19,968,715	\$22,755,042
Net underwriting gain	\$(1,088,644)	\$(2,768,335)	\$(230,120)	\$(2,307,633)
Investment Income				
Net investment income earned	\$2,014,838	\$1,775,753	\$1,360,950	\$1,207,581
Net realized capital gains (losses)		(15,168)	258,985	83,397
Net investment gain (loss)	\$2,014,838	\$1,760,585	\$1,619,934	\$1,290,978
Other Income				
Net gain (loss) from agents' or premium balances charged off	\$(269,802)	\$(188,837)	\$(31,845)	\$(40,204)
Finance and service charges not included in premiums	73,794	75,680	69,209	62,484
Aggregate write-ins for miscellaneous income	(2,542,407)	(640,145)	37,920	44,929
Total other income	\$(2,738,415)	\$(753,302)	\$75,283	\$67,209
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$(1,812,221)	\$(1,671,051)	\$1,465,097	\$(949,446)
Federal and foreign income taxes incurred	(148,247)	(527,535)	678,114	(268,771)
Net Income	\$(1,663,974)	\$(1,143,516)	\$786,983	\$(680,675)

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

American Resources Insurance Company
 Capital and Surplus
 For the Years Ended December 31, 2004, 2005, 2006, and 2007

	2007	2006	2005	2004
Surplus as regards policyholders, December 31 prior year	<u>\$14,426,253</u>	<u>\$17,850,525</u>	<u>\$13,648,100</u>	<u>\$10,990,140</u>
Net income	(1,663,974)	(1,143,516)	786,983	(680,675)
Change in net unrealized capital gains (losses)	7,694	78,800	(239,956)	58,999
Change in net deferred income tax	561,901	145,456	205,278	32,114
Change in nonadmitted assets	(733,977)	(57,222)	(18,613)	247,083
Change in provision for reinsurance	475,232	(2,361,990)	(31,268)	439
Change in surplus notes				3,000,000
Surplus adjustments: Paid in			3,600,000	
Dividends to stockholders	(171,600)	(85,800)	(100,000)	
Change in surplus as regards policyholders for the year	<u>\$(1,524,724)</u>	<u>\$(3,424,272)</u>	<u>\$4,202,425</u>	<u>\$2,657,960</u>
Surplus as regards policyholders, December 31 current year	<u>\$12,901,529</u>	<u>\$14,426,253</u>	<u>\$17,850,525</u>	<u>\$13,648,100</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

<u>Note 1 – Deferred premiums, agents’ balances and installments</u>	<u>\$4,225,382</u>
<u>booked but deferred and not yet due</u>	
<u>Uncollected premiums and agents’ balances in the</u>	<u>\$1,579,404</u>
<u>course of collection</u>	

The above captioned amounts are the same as reported by the Company in its 2007 Annual Statement.

The examination of the Deferred premiums, agents’ balances and installments booked but deferred and not yet due account indicated that there was an installment premium of \$20,208 in premiums due the Company included in the account at December 31, 2007. The balance arose from an audit performed on July 20, 2007 on a workers’ compensation policy that had expired. The balance was converted to an installment loan due the Company secured by a promissory note issued by the insured. The amount was included as an admitted asset in the 2007 Annual Statement, but should have been included as a not admitted asset in the account, “Uncollected premiums and agents’ balances in the course of collection.” The balances are to be aged based on the effective dates of the underlying policies and all balances over 90 days past due are to be not admitted in accordance with SSAP No. 6, which states, “Nonadmitted amounts are determined as follows: a. Uncollected premium- To the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days due shall be nonadmitted.”

The overstatement of the asset was not material and no changes were made to the financial statements in this report.

<u>Note 2 – Amounts recoverable from reinsurance</u>	<u>\$ 523,622</u>
<u>Provision for reinsurance</u>	<u>\$1,918,026</u>

The above captioned amounts are the same as reported by the Company in its 2007 Annual Statement.

The Company erroneously reported four of its reinsurers that it had ceded business to as authorized reinsurers. The four reinsurers were Amlin Bermuda, LTD, Lloyd’s Syndicate Number 4444, Lloyd’s Syndicate Number 2007, and Reinsurance Company of America, Inc. The reinsurers did not post collateral to secure the Company’s respective reinsurance receivables with each of the reinsurers. The net recoverable must be collateralized for the balance to be admissible, or a corresponding offsetting liability must be held in the “Provision for reinsurance.” ALA. ADMIN. CODE 482-1-105-.09(2003) states, in part,

(1) The Commissioner shall allow a reduction from liability for reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements of the Act in an amount not exceeding the liabilities carried by the ceding insurer. The reduction shall be in the amount of funds held by or on behalf of the ceding insurer, including funds held in trust for the exclusive benefit of the ceding insurer, under a reinsurance contract with such assuming insurer as security for the payment of obligations under the reinsurance contract. The security shall be held in the United States subject to withdrawal solely by, and under the

exclusive control of, the ceding insurer, or, in the case of a trust, held in a qualified United States financial institution as defined in the Act. This security may be in the form of any of the following:

- (a) Cash.
- (b) Securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners and qualifying as admitted assets.
- (c) Clean, irrevocable, unconditional and “evergreen” letters of credit issued or confirmed by a qualified United States institution, as defined in the Act, effective no later than December 31 of the year for which filing is being made, and in the possession of or in trust for the ceding company on or before the filing date of its annual statement. Letters of credit meeting applicable standards of issuer acceptability as of the dates of their issuance (or confirmation) shall, notwithstanding the issuing (or confirming) institution’s subsequent failure to meet applicable standards of issuer acceptability, continue to be acceptable as security until their expiration, extension, renewal, modification or amendment, whichever first occurs.
- (d) Any other form of security acceptable to the Commissioner.

The Company improperly reported the receivables from the unauthorized reinsurers identified above as admissible, without an offsetting liability in the “Provision for reinsurance.” The examination indicated that the “Amounts recoverable from reinsurers” was overstated by approximately \$3,000. The amount is not material and no adjustment was made to the Company’s financial statements.

Note 3 - Net deferred tax asset

\$1,268,164

The above captioned amount is \$144,945 less than the \$1,413,109 reported by the Company in its 2007 Annual Statement.

The examination indicated that the Company recorded and reported an asset for a federal income tax recoverable anticipated to be received in 2008 due to loss carry-backs of 2007 losses. The anticipated recoverable was included in both of the Annual Statement line items, “Current federal and foreign income tax recoverable and interest thereon” and “Net deferred tax asset.” The adjustment is necessary to correct the error.

Note 4 – Receivables from parent, subsidiaries and affiliates

\$ 0

The above captioned amount is the same as reported by the Company in its 2007 Annual Statement.

The Company made an advance to its sole shareholder during 2006. A balance of \$74,520 was due the Company at December 31, 2007, in connection with the advancement. The receivable was reported as nonadmitted. The balance due the Company was settled in January, 2008. The examination indicated that the advance was for the purpose of paying obligations of ARIC Investments. The examiners determined that amounts paid to or on behalf of ARIC Investments, Inc. should be reported as Dividends to stockholders.

ALA. CODE §27-41-6 states "After January 1, 1978, an insurer shall not invest in nor lend its funds upon the security of any note or other evidence of indebtedness of any director, officer, or controlling stockholder of the insurer, except as to policy loans authorized under Section 27-41-25 and except as provided in Sections 27-1-2, 27-27-26, and 27-37-2 of the Alabama Insurance Code."

The misclassification had no effect on the Company's surplus. No changes were made to the Company's financial statements for this item.

Note 5 – Losses	<u>\$27,077,733</u>
<u>Loss adjustment expenses</u>	<u>\$ 2,347,554</u>

The above captioned amounts are the same as reported by the Company in its 2007 Annual Statement.

The examination indicated that the Actuarial Reserve Reports underlying Statements of Actuarial Opinion were not presented to the Board of Directors or Audit Committee as required by the NAIC Annual Statement Instructions.

The examination indicated that the comparison of indicated and recorded loss and loss expense reserves included in the Actuarial Report is not an apples-to-apples comparison. The Appointed Actuary compared his indicated reserves to the carried loss and loss expense reserves plus the contingent liabilities recorded on line 2303 of the Company's 2007 Annual Statement. The Appointed Actuary does not disclose that when forming his opinion on carried loss and loss expense reserves he is including the recorded contingent liabilities in his opinion.

The review of the reconciliation to Schedule P included in the Actuarial Report indicated that the Appointed Actuary did not address earned premium data although it is used throughout the Report in the Bornhuetter-Ferguson methods. According to the NAIC Annual Statement Instructions premiums should be reconciled to Schedule P if considered in any of the projection methodologies utilized. Specifically, "The Report must also include ... [d]ocumentation of the required reconciliation from the data used for the analysis to the Annual Statement Schedule P."

Note 6 – Unassigned funds	<u>\$3,301,529</u>
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The above captioned amount is \$144,945 less than the \$3,446,474 reported by the Company in its 2007 Annual Statement. The following is a reconciliation of Unassigned funds per the examination.

Unassigned funds per Company	\$3,446,474
Examination increase (decrease) to assets:	
Net deferred tax asset	<u>(144,945)</u>
Total Unassigned funds per examination	<u>\$3,301,529</u>

COMMENTS AND RECOMMENDATIONS

Board of Directors – Page 4

It is recommended that the Company have five Directors serving on the Board of Directors, to be in compliance with Article II, Section 2 of the Company's By-Laws, which state, "There shall be five (5) Directors, who shall be elected annually by the shareholders at their annual meeting and shall hold office at the pleasure of the shareholders and until respective successors are elected by a majority of shares issued and outstanding."

It is recommended that the Company elect officers annually at the Board meeting to be in compliance with Article III, Section 2 of its By-Laws, which states, "The officers of the Corporation shall be elected annually by the Board of Directors at the regular meeting of the Board held pursuant to Article II, Section 3, of these By-Laws."

It is recommended that the Board of Directors of the Company approve all investments made by the Company to be in compliance with ALA. CODE §27-41-5(1975), which states, "An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors..."

Committees - 12

It is recommended that the Company's Board of Directors only appoint Board members to serve on committees of the Board of Directors to be in compliance with ALA. CODE §10-2B-8.25(1975), which states, "...a board of directors may create one or more committees and appoint members of the board of directors to serve on them.", as well as Article II, Section 10 of the By-Laws of the Company, which states, "The Board of Directors shall have power, by resolution or resolutions passed by a majority of the Board, to designate one or more committees, each committee to consist of two or more Directors of the Corporation..."

Management and Service Agreements – Page 6

It is recommended that the Company include all of its provisions of its agreements in writing.

It is recommended that the Company submit written notification to the commissioner within 30 days before entering into or terminating a contract with a managing general agent in accordance with ALA. CODE §27-6A-5(5)(1975), which requires,

Within 30 days of entering into or terminating a contract with a managing general agent, the insurer shall provide written notification of the appointment or termination to the commissioner. Notice of appointment of the managing general agent shall include a statement of duties which the applicant is expected to perform on behalf of the insurer, the lines of insurance for which the applicant is to be authorized to act, and any other information the commissioner may request.

It is recommended that the Company not allow other entities to underwrite, issue, and service (premium collection and claims processing) business in the Company's name, if the Company is not actively involved in the management/production of said business. If the Company chooses to enter into a management general agency agreement, it is necessary that the Company comply with all sections of ALA. CODE §27-6A-1 (1975), the "Alabama Managing General Agents Act."

It is recommended that the Company retain documentation of audits that it conducts.

Corporate Records – Page 7

It is recommended that the Company keep complete records of the minutes of the Board of Directors Meetings at its principal place of business and home office in this State, to be in compliance with ALA. CODE §10-2B-16.01(a)(1975), which states, "A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation."

It is recommended that the Company perform criminal background checks of prospective employees to ensure that the Company complies with Section 1033 of Title 18 of the United States Code, which prohibits the Company from having employees, producers, insurance agencies, consultants, third party administrators, MGA's, subcontractors, or subcontractors representing an agency who have been convicted of a felony involving dishonesty or a breach of trust unless the prohibited person has obtained permission to serve in their capacity by the Commissioner.

Policy Forms and Underwriting - 12

It is recommended that the Company keep a listing of all applications received indicating the disposition of each application.

REINSURANCE – Page 14

It is recommended that the Company accurately complete Schedule F - Part 1.

It is recommended that the Company properly notify the Commissioner of nonrenewals, cancellations, or revisions of ceded reinsurance agreements as required by ALA. CODE §27-2A-2(a)(1975), which states,

Every insurer domiciled in this state shall file a report with the commissioner disclosing material acquisitions and dispositions of assets or material nonrenewals, cancellations, or revisions of ceded reinsurance agreements unless the acquisitions and dispositions of assets or material nonrenewals, cancellations or revisions of ceded reinsurance agreements have been submitted to the commissioner for review, approval, or information purposes pursuant to other provisions of the insurance code, laws, regulations, or other requirements. (b) The report required in subsection (a) is due within 15 days after the end of the calendar month in which any of the transactions in subsection (a) occur.

It is recommended that the Company cease doing business with unauthorized reinsurance intermediaries. ALA. CODE §27-5A-3(a)(2)(1975) states,

No person, firm, association, or corporation shall act as a reinsurance intermediary-broker in this state if the reinsurance intermediary-broker maintains an office either directly, or as a member or employee of a firm or association, or an officer, director, or employee of a corporation: In another state, unless the reinsurance intermediary-broker is a licensed producer in this state or another state having a law substantially similar to this law or the reinsurance intermediary-broker is licensed in this state as a nonresident reinsurance intermediary.

ACCOUNTS AND RECORDS – Page 17

It is recommended that the Company's actuary be appointed by the Board of Directors, or its equivalent, or by a committee of the Board, by December 31 of the calendar year for which the opinion is rendered, in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company require its independent auditor to perform test work of the Company's consulting and opining actuary's assumptions, methods, and findings consistent with the requirements of the AICPA auditing standard, AU Section 336.12, which states, "The auditor should (a) obtain an understanding of the methods and assumptions used by the specialist, (b) make appropriate tests of data provided to the specialist, taking into account the auditor's assessment of control risk, and (c) evaluate whether the specialist's findings support the related assertions in the financial statements."

It is recommended that the Company require its independent CPA to perform testing of Schedule P - Part 1 in accordance with the 2007 NAIC Annual Statement Instructions, which state, "The insurer shall require the independent certified public accountant to subject the current Schedule P - Part 1 (excluding those amounts related to bulk and IBNR reserves and claim counts) to the auditing procedures applied in the audit of the current statutory financial statements to determine whether Schedule P - Part 1 is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole."

It recommended that the Company monitor its insureds, that write vehicle services contracts covered by contractual liability insurance policies issued by the Company, to ensure that contracts are not issued in states in which the Company is not licensed. The Company no longer writes any automobile warranty business.

Premiums and considerations: Deferred premiums, agents' balances and installments booked but deferred and not yet due; Uncollected premiums and agents' balances in the course of collection – Page 23

It is recommended that the Company properly report its premium receivables past due within the account "Uncollected premiums and agents balances in the course of collection" and not admit all balances over ninety days past due in accordance with SSAP No. 6, which states, "Nonadmitted amounts are determined as follows: a. Uncollected premium- To the extent that there is no related

unearned premium, any uncollected premium balances which are over ninety days due shall be nonadmitted.”

Amounts recoverable from reinsurers; Provision for reinsurance – Page 23

It is recommended that the Company record a provision for reinsurance for the net amounts due from unauthorized reinsurers that have not posted the required collateral to collateralize the balance due the Company. ALA. ADMIN. CODE 482-1-105-.09 (2003) states, in part,

(1) The Commissioner shall allow a reduction from liability for reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements of the Act in an amount not exceeding the liabilities carried by the ceding insurer. The reduction shall be in the amount of funds held by or on behalf of the ceding insurer, including funds held in trust for the exclusive benefit of the ceding insurer, under a reinsurance contract with such assuming insurer as security for the payment of obligations under the reinsurance contract. The security shall be held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer, or, in the case of a trust, held in a qualified United States financial institution as defined in the Act. This security may be in the form of any of the following:

(a) Cash.

(b) Securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners and qualifying as admitted assets.

(c) Clean, irrevocable, unconditional and “evergreen” letters of credit issued or confirmed by a qualified United States institution, as defined in the Act, effective no later than December 31 of the year for which filing is being made, and in the possession of or in trust for the ceding company on or before the filing date of its annual statement. Letters of credit meeting applicable standards of issuer acceptability as of the dates of their issuance (or confirmation) shall, notwithstanding the issuing (or confirming) institution’s subsequent failure to meet applicable standards of issuer acceptability, continue to be acceptable as security until their expiration, extension, renewal, modification or amendment, whichever first occurs.

(d) Any other form of security acceptable to the Commissioner.

Net deferred tax asset – Page 24

It is recommended that the Company accurately report its Net deferred tax asset.

Receivables from parent, subsidiaries and affiliates – Page 24

It is recommended that payments made to, or on behalf of, ARIC Investments, Inc. be treated as Dividends to stockholders and notification be made in accordance with ALA. CODE §27-29-5(g)(2)(1975), which states, “A domestic insurer subject to registration under Section 27-29-4 shall report to the commissioner all dividends to shareholders within five business days following the declaration of the dividends and not less than 10 days prior to the payment of the dividends.”

It is recommended that the Company not make loans to its shareholder. Loans to shareholders are prevented by ALA. CODE §27-41-6, which states, "After January 1, 1978, an insurer shall not invest in nor lend its funds upon the security of any note or other evidence of indebtedness of any director, officer, or controlling stockholder of the insurer, except as to policy loans authorized under Section 27-41-25 and except as provided in Sections 27-1-2, 27-27-26, and 27-37-2 of the Alabama Insurance Code."

Losses; Loss adjustment expenses – Page 25

It is recommended that the Company ensure that that Actuarial Reports are presented to the Board of Directors or Audit Committee and that this presentation be documented in the meeting minutes in compliance with NAIC Annual Statement Instruction requirements.

It is recommended that the Company ensure that its Appointed Actuary specify such in the Actuarial Reserve Report and the Actuarial Statement of Opinion, if he is considering the sum of recorded contingent liability reserves and the carried loss and loss adjustment expense reserves in his actuarial opinion.

It is recommended that the Company ensure that its Appointed Actuary reconcile the earned premiums to Schedule P in accordance with the NAIC Annual Statement Instructions, which state, "The Report must also include ... [d]ocumentation of the required reconciliation from the data used for the analysis to the Annual Statement Schedule P."

Compliance with Previous Recommendations – Page 31

It is recommended that the Company comply with the Report of Examination recommendations.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of the contingent liabilities and pending litigation included an inspection of representations made by management, consideration of the CPAs work performed with respect to testing unreported contingent liabilities, and a review of the Company's transactions subsequent to the examination date. The review did not indicate any unreported or undisclosed contingent liabilities as of December 31, 2007. The examination was performed concurrently with a limited scope examination as of September 30, 2007. In connection with the beginning and the completion of the limited scope examination, the examiners obtained letters of representations on November 27, 2007 and July 9, 2008. Company management represented that no material non-policy related litigation was open against the Company as of either of these dates, except for the liabilities recorded for contingencies and those disclosed in the notes to financial statements in the financial statements filed. These liabilities recorded and disclosures relate to contractual liability insurance policies (CLIPs) covering automobile warranties. The contingent items are discussed below. Company management did not subsequently disclose any additional material pending litigation in the letter of representation provided to the examiners bearing the same date as this report.

Assets were misappropriated from the Ultimate Reserve Trust during the examination period. The Company was affected by the misappropriated funds because the trust account was formed to pay vehicle service contract (VSC) claims of the Company's insured, Ultimate Warranty Corporation

(UWC). The Company's liability was derived by the amount of VSC claims that exceeded the assets of the trust account. The Company subsequently entered into a settlement agreement with the insured, UWC and the Company's reinsurer for this business, Capital Assurance Risk Retention Group (CARRG), to settle its liabilities in connection with the (CLIP) issued by the Company to UWC. A settlement has not been consummated as a result of the settlement agreement. The Company subsequently entered into an agreement with the Receiver of CARRG reserving its rights under the settlement agreement and Company management represents that a settlement is being negotiated.

The Company reported a "Contingent Liability" of \$3,146,052 in its 2007 Annual Statement balance sheet. The contingent liability was comprised of: (1) a contingency reserve for a CLIP issued to UWC for VSCs issued in states other than the eight states that the Company was licensed in of \$2,053,408; (2) an additional legal contingency reserve associated with the UWC CLIP of \$1,000,000; and (3) A contingency reserve for previously unreported 366 VSCs that were issued in connection with the Butler CLIP of \$92,644. In addition to the recorded liabilities, the Company made the following disclosures in its 2007 Notes to Financial Statements. "...There is a remote possibility American Resources may be liable for all VSCs issued and reported to it during its original contract period by UWC. An estimate of that exposure to cover all contracts regardless of state specific licensing requirements is \$698,595 after consideration is given to the above mentioned reported liabilities and is net of the non-cash assets still held by American Resources with a total value of \$1,160,000. All of these estimates are based on what has been reported to American Resources by UWC and the receiver of CARRG for contracts written during our policy period." The examination indicated that the non-cash assets referred to are held by the Ultimate Reserve Trust, a trust established for the purpose of paying claims to the Ultimate Warranty VSC holders. In addition, the Company made the following disclosure in connection with the Butler CLIP. "There are an additional 500 contracts that were issued outside of the CLIP effective dates for which an estimate of the exposure thereon is \$196,214. The program under which these contracts were issued was never submitted to American Resources for prior approval as required under the terms of the program and administration agreement with the obligor and is the basis for which American Resources has notified all contract holders that no coverage is afforded by our CLIP. However since some of the contracts were within our policy period, the Company believes that it is probable that it could be held liable for any claims associated with those contracts. It is reasonably possible that the Company could be deemed liable for contracts outside our policy period but our attorney believes the rule of law will be in our favor since these contracts were knowingly and willfully issued by the Eveleno Group with full knowledge that the associated CLIP had been cancelled and was not in effect at time of issuance."

The Company was the subject of a limited scope examination as of September 30, 2007, in which one of the objectives was to identify the Company's outstanding liabilities in connection with the CLIP issued to UWC as of September 30, 2007. The examiners determined that, if the settlement agreement is determined to not be legally binding for vehicle service contract holders, the Company's maximum liability for the UWC would be \$5,635,000, which is the midpoint of the range developed by the actuarial examiner.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The previous Report of Examination recommended that the Officers of the Company be elected annually by the Board of Directors to be in compliance with the Company's By-Laws. In a review

of the minutes of the Board of Directors for the present period under examination, it was determined that the Company did not comply with the recommendation. It was determined that all of the officers of the Company were only elected on June 30, 2006 during the period under examination. During the remaining years under examination, the officers of the Company were either partially elected during certain years, or none of the officers were elected during certain years. Further discussion of the election of officers is included in this report under the caption "Board of Directors."

The previous Report of Examination recommended that the Company's Board of Directors only appoint Board members to serve on committees of the Board of Directors. The examination indicated that someone, other than a director, served as a member of the Investment Committee of the Board of Directors in September 2005. Further discussion of the issue is included in this report under the caption "Committees."

The previous Report of Examination recommended that the Company submit its Managing General Agency (MGA) contracts for approval to the Alabama Department of Insurance in accordance with ALA. CODE §27-6A-5(5)(1975). The examination indicated that that the Company did not comply with the recommendation. Further discussion of the Company's MGA agreement is contained in this report under caption "Management and Service Agreements."

The previous Report of Examination recommended that the Company not allow other entities to underwrite, issue, and service (premium collection and claims processing) business in the Company's name, if the Company is not actively involved in the management/production of said business. If the Company chooses to enter into a Management General Agency agreement, it is necessary that the Company comply with all sections of ALA. CODE §27-6A-1(1975), the "Alabama Managing General Agents Act." The examination indicated that the Company did allow Benefit Choice to underwrite, issue, and service the Company's business. Furthermore, the Company did not comply with all of the requirements of ALA. CODE §27-6A-1(1975). Further discussion of the issue is included in this report under the caption "Management and Service Agreements."

The previous Report of Examination recommended that the Company keep a permanent record of the minutes of the meetings of the Board of Directors and its committees for the period under examination. The examination indicated that there was a period in 2006 during which the Company did not have a permanent record of the minutes of the meetings of its Board of Directors. Further discussion of the issue is included in this report under the caption "CORPORATE RECORDS."

The previous report of examination recommended that the Company maintain documentation that evidences that its employees are not in conflict with Section 1033 of Title 18 of the US Code and ALA. ADMIN. CODE 482-1-121(2003). It was determined during this examination that the Company did not have a screening process to identify prospective employees who are not allowed to conduct the business of insurance under Section 1033 of Title 18 of the US Code and ALA. ADMIN. CODE 482-1-121(2003). The Company did not comply with the recommendation. Further discussion of the issue is included in this report under the caption "CORPORATE RECORDS."

It was recommended in the previous Report of Examination "that the Company appoint its opening actuary at the Board meeting by the end of each calendar year in accordance with the NAIC Annual Statement Instructions." The Company did not appoint an opening actuary for the year 2007 as it

was required to. Further discussion of the issue is included in this report under the caption "ACCOUNTS AND RECORDS."

The previous report included a recommendation that payments made to, or on behalf of, ARIC Investments, Inc. be reported as Dividends to stockholders and that the required notification be made in accordance with ALA. CODE §27-29-5(g)(2)(1975). The examination indicated that during this examination period the Company made an advance to ARIC Investments, Inc. and reported the balance as Receivable from parent, subsidiaries and affiliates (nonadmitted), rather than Dividends to stockholders. For further discussion of this issue is included in this report under the caption "NOTES TO FINANCIAL STATEMENTS."

SUBSEQUENT EVENTS

The examiners reviewed the general ledger and transactions subsequent to December 31, 2007. The examiners inquired of management of significant events subsequent to the examination date. The following significant events warrant disclosure.

On May 14, 2008, the Board of Directors appointed the following officers.

President & Treasurer	Stephen G. Pate
Secretary	James C. Wilson, Jr.

The examiners performed a review of the market values of the Company's investments, in consideration of the 2008 credit crisis and market volatility. The review indicated that the Company has not been affected adversely by 2008 market conditions.

At December 31, 2007, the Company was ceding all of its new and renewal business to Hermitage Insurance Company (Hermitage). As of January 1, 2008, the Company cancelled its interim quota share agreement with Hermitage and entered into an interim quota share reinsurance agreement with Kodiak Insurance Company (Kodiak) with substantially the same terms as the Hermitage treaty, effective January 1, 2008. The interim quota share agreement with Kodiak involved the cession of 100% of the Company's net retained business covering all policies issued or renewed after the January 1, 2008 effective date and before the termination date, excluding any automobile warranty business. The Company entered into a bulk reinsurance agreement with Kodiak on July 31, 2008. The terms of the bulk reinsurance agreement covered every policy, binder, or contract of insurance, or assumed business, issued or renewed after September 30, 2006, and in force as of the effective date of September 30, 2007, excluding all automobile warranty business, on a net retained basis, 100% quota share. The agreement required the approval of the Alabama Department of Insurance which was obtained by the Company.

The Company entered into an administrative services agreement with American Resources Insurance Consultants, LLC (Consultants), a wholly owned subsidiary of Kodiak on April 1, 2008. Under the terms of the agreement, Consultants will provide management, oversight, and services for the Company's claims handling and accounting functions on an at cost basis.

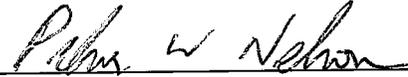
CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing American Resources Insurance Company during this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Theo Goodin, Thomas Salo, Brandon Thomas, CISA, and Robert Thompson, Examiners; and Matthew Merlino, FCAS, MAAA, and Suejeudi Buehler, FCAS, MAAA, of Merlino & Associates, Consulting Actuary; all representing the Alabama Department of Insurance, participated in this examination of American Resources Insurance Company.

Respectfully submitted,



Palmer W. Nelson, CFE
Examiner-in-charge
Alabama Department of Insurance
Southeastern Zone, NAIC