STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF ASSOCIATION EXAMINATION

OF

ALABAMA REASSURANCE COMPANY, INC.

TUSCALOOSA, ALABAMA

AS OF

DECEMBER 31, 2006

PARTICIPATION:

SOUTHEASTERN ZONE
ALABAMA
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STATE OF ALABAMA

COUNTY OF TUSCALOOSA

Anne L. Ward, being first duly sworn, upon her oath deposes and says:

THAT she 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 ALABAMA REASSURANCE COMPANY, INC., Tuscaloosa, Alabama, for the period of January 1, 2002 through December 31, 2006;

THAT the following 69 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 her knowledge and belief.

Anne L. Ward, CFE
(Examiner-in-Charge)

Subscribed and sworn to before the undersigned authority this 4th day of October, 2007.

Debra S. Dunlap
(Signature of Notary Public)

Debra S. Dunlap Notary Public
(Print Name)

in and for the State of Alabama

My Commission expires 1-29-11.
October 4, 2007

Ms. Mary Jo Hudson, Director
Chairman, Examination Oversight Committee
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Mr. Merle D. Scheiber, Director
Secretary, Midwestern Zone
South Dakota Division of Insurance
Department of Revenue & Regulation
445 East Capital Avenue, 1st Floor
Pierre, South Dakota 57501-3185

Ms. Julie McPeak, Executive Director
Secretary, Southeastern Zone
Kentucky Office of Insurance
215 West Main Street
Frankfort, Kentucky 40601

Honorable Walter A. Bell
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Dear Commissioners:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2006, has been made of the affairs and financial condition of

ALABAMA REASSURANCE COMPANY, INC.

at its home office located at 1550 McFarland Avenue, Tuscaloosa, Alabama 35406. The report of examination is submitted herewith.

Where the description “Company” or “Alabama Re” appears herein, without qualification, it will be understood to indicate Alabama Reassurance Company, Inc.
SCOPE OF EXAMINATION

The Company was last examined for the five-year period ended December 31, 2001, by examiners from Alabama representing the National Association of Insurance Commissioners (NAIC), Southeastern Zone. The current examination covers the intervening period from the date of the last examination through December 31, 2006, and was conducted by examiners from the Alabama Department of Insurance (ALDOI).

A financial 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 ALDOI’s regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, a general review of records and files pertaining to operations, administrative practices, and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2006, as shown in the financial statements contained herein. However, the discussion of specific assets or liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the Alabama Insurance Code and the ALDOI’s rules and regulations or other insurance laws or rules, or which were deemed by the examiners to require comments or recommendations.

A copy of the filed Annual Statement for the year 2006 was compared with or reconciled to account balances with respect to ledger items.

The market conduct review consisted of a limited review of the Company’s territory, plan of operation, complaint handling, marketing and sales, compliance with agents’ licensing requirements, policyholder services, underwriting and rating practices, claim handling practices, and privacy policy and practices.

The Company’s accounts were audited by PricewaterhouseCoopers LLC, Certified Public Accountants (CPAs), for each of the five years under examination. Audit reports and workpapers were made available to the examiners and were used where deemed appropriate in the completion of this examination.
A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2006.

**ORGANIZATION AND HISTORY**

The Company was incorporated on September 11, 1981, under the laws of the State of Alabama, as a wholly-owned subsidiary of Greene Group, Inc. The *Certificate of Incorporation* was filed for record in the office of the Probate Judge of Tuscaloosa County, Alabama on that date.

The purpose of incorporation, as stated in Article II of the *Articles of Incorporation*, was to engage in the business of a life insurance company, the business of a reinsurance company, and to carry on any related business as is generally carried on by life insurance and reinsurance companies.

Article IV of the *Articles of Incorporation* authorized the issuance of 10,000 shares of $100 par value common stock. The Company commenced business on September 29, 1981, with paid up capital of $1,000,000, and paid in and contributed surplus of $7,000,094. Two amendments to the *Articles of Incorporation* have been made changing the par value of the common stock from $100 per share to $110 per share on May 18, 1982, and from $110 to $120 per share on July 13, 1984, bringing the Company’s common capital stock to $1,200,000.

On November 26, 1985, a *Consent in Lieu of a Special Meeting of the Directors* was held in order to amend Article II, Section 1, of the *By-Laws*, whereby the time for holding the annual meeting of the shareholders was changed so that the meeting may be held at the discretion of the Board.

There were no changes to the *Articles of Incorporation* or *By-Laws* during the five-year examination period.

On December 12, 2006, the Company incorporated a new Alabama domestic company, Alabama Life Reinsurance Company, Inc. (Alabama Life Re), and the Articles of Incorporation were filed with the Tuscaloosa County Probate Judge on December 22, 2006. The Company and Alabama Life Re entered into a *Subscription Agreement*, dated as of December 27, 2006, pursuant to which the Company agreed to purchase 2,000,000 shares of the common stock, par value $1.00 per share, of Alabama Life Re, for a price of $2.00 per share, for an aggregate purchase price of $4,000,000, subject to the terms and conditions set forth in that *Subscription Agreement*. Alabama Life
Re has applied to the Alabama Department of Insurance for a certificate of authority to transact business in the State of Alabama as an insurance company.

Pending the issuance of a certificate of authority, the aggregate purchase price of $4,000,000 for the common stock of Alabama Life Re to be purchased by the Company was, pursuant to ALA. CODE §§ 27-27-12, and 27-27-13, Code of Alabama 1975, delivered to Regions Bank to be retained in an escrow fund pursuant to the terms and conditions of the Escrow Agreement, effective December 29, 2006, by and among the Company, Regions Bank, and Alabama Life Re. Additional information of these agreements may be found in the HOLDING COMPANY AND AFFILIATE MATTERS section of this report. The matter of a Bulk Reinsurance Agreement between the Company and Alabama Life Re is included under the SUBSEQUENT EVENTS heading on page 66.

At the December 31, 2006 examination date, the Company’s Annual Statement reflected Common capital stock of $1,200,000, Gross paid in and contributed surplus of $72,752,837, and $104,232,105 in Unassigned funds (surplus).

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation with ultimate control vested in its stockholders. Throughout the examination period, and at December 31, 2006, the Company was owned 100% by Greene Group, Inc.

During 2005, three of the Greene Group’s shareholders became shareholders of Bryant Bank, where the Company has banking relationships. At December 31, 2006, the Company had $11,437,344 in cash and invested assets on deposit at this banking corporation. See “Note 3 – Cash, cash equivalents and short-term investments” on page 41 of this report for a more detailed discussion on this matter.

Board of Directors

The Company’s By-Laws, as amended, stipulate that its business and affairs shall be managed by its Board of Directors (Board), who shall be elected by the shareholders. Article III, Section 2, of the By-Laws set the number of directors at six. At least one-third of the directors must be residents of the State of Alabama, but the Directors need not be shareholders of the corporation.
Members elected to the Board by the sole shareholder and serving at December 31, 2006, were as follows:

<table>
<thead>
<tr>
<th>Director/Residence</th>
<th>Principal Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paul William Bryant, Jr.</td>
<td>President</td>
</tr>
<tr>
<td>Tuscaloosa, Alabama</td>
<td>Greene Group, Inc.</td>
</tr>
<tr>
<td>Allen Wayne May</td>
<td>Veterinarian</td>
</tr>
<tr>
<td>Tuscaloosa, Alabama</td>
<td>May Veterinary Clinic</td>
</tr>
<tr>
<td>Sam Moore Phelps</td>
<td>Attorney</td>
</tr>
<tr>
<td>Tuscaloosa, Alabama</td>
<td>Phelps, Jenkins, Gibson and Fowler</td>
</tr>
<tr>
<td>Scott Moore Phelps</td>
<td>President</td>
</tr>
<tr>
<td>Tuscaloosa, Alabama</td>
<td>Alabama Reassurance Company, Inc.</td>
</tr>
<tr>
<td>William Rodney Windham</td>
<td>Vice President and Actuary</td>
</tr>
<tr>
<td>Tuscaloosa, Alabama</td>
<td>Alabama Reassurance Company, Inc.</td>
</tr>
</tbody>
</table>

It was noted that a handwritten annotation in the copy of the *By-Laws* provided to the examiners indicated that the *By-Laws* were amended on March 26, 1985, thereby reducing the number of directors from six to five. However, no documentation was provided by the Company to corroborate that change.

**Officers**

Officers elected at the annual meeting of the Board of Directors on September 14, 2006, and serving at the examination date were as follows:

<table>
<thead>
<tr>
<th>Officer</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scott Moore Phelps</td>
<td>President</td>
</tr>
<tr>
<td>Sam Moore Phelps</td>
<td>Secretary and Treasurer</td>
</tr>
<tr>
<td>William Rodney Windham</td>
<td>Vice President and Actuary</td>
</tr>
</tbody>
</table>
Committees

The Board of Directors did not establish any committees during the five-year examination period.

Conflict of Interest

Item #15, of the 2006 Annual Statement’s General Interrogatories reported that the Company has an established procedure for disclosure to the Board of Directors of any material interest or affiliation on the part of its officers, directors, trustees or responsible employees. On March 30, 1982, the Board of Directors unanimously adopted a conflict of interest policy, which states:

"It is the policy of Alabama Reassurance Company, Inc. that any possible conflicts of interest between the company and the directors, officers or key employees, shall be promptly disclosed to the board of directors of Alabama Reassurance Company, Inc. Such conflicts of interest shall include, but not be limited to, any transactions between such officers, directors or key employees and the company, such as purchase and sales of real or personal property, loans, or any other commercial transaction wherein the interest of such director, officer or key employee is averse to that of the company. A conflict of interest as used herein shall not include salaried or professional fees paid by the company to such directors, officers or key employees in the normal and customary course of business."

During the examination period, the Company utilized an Affirmation Regarding Corporate Policy Regarding Possible Conflicts of Interest by Officers, Directors and Key Employees form, which was signed annually by the Company’s officers, directors and key employees. A review of these statements did not disclose any conflicts of interest for the period.

CORPORATE RECORDS

The Company’s Articles of Incorporation, By-Laws and amendments thereto were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. There were no amendments to these documents during the five-year examination period.

Minutes of the meetings of the stockholder and Board of Directors were reviewed for the period under examination. The minutes did not reflect the approval of investments or the authorization of salaries during the examination period. Ala. Code § 27-41-5 (1975) states that:
"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 shall be recorded and regular reports thereof shall be submitted to the board of directors."

Generally, the Company’s corporate records appear to be complete with regard to actions taken on matters before the respective bodies for deliberation and action, except as noted otherwise in this report.

**HOLDING COMPANY AND AFFILIATE MATTERS**

**Holding Company Registration**

The Company is subject to the *Alabama Insurance Holding Company Regulatory Act* as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company. A review of the Company’s filings during the period under review indicated that all required disclosures were included in the Company’s filings.

**Organizational Chart**

The following chart presents the identities of and interrelationships among all persons within the Holding Company system at December 31, 2006:
ORGANIZATIONAL CHART

Greene Group, Inc. *  
FEI #63-0803591

100%  100%  100%  100%  86.2%  100%

48%  100%  90%
Gulf Greyhound Partners, Ltd.  Alabama Idaho, Inc  Coeur d'Alene Racing, Ltd.

49.99%  50.1%
CEMEX Southwest, LLC  Ready Mix USA, LLC

50%  50%  50.1%
River City Industries, LLC  RCI Marine, LLC  Reynolds Ready Mix, LLC

* 42.7% Alabama Reassurance Company, Inc.  
41.6% Paul William Bryant, Jr.  
14.9% Sam Moore Phelps
The Company was the incorporator of Alabama Life Reinsurance Company, Inc. (Alabama Life Re) and owned 100% of its stock at year-end 2006. Alabama Life Re was not included on Schedule Y – Part 1, because, according to management, “the approval had not been issued from the ALDOI by 12-31-06.” As noted previously in the ORGANIZATION AND HISTORY section of this report, Alabama Life Re was incorporated on December 12, 2006, and the Articles of Incorporation filed with the Judge of Probate in Tuscaloosa County, Alabama, on December 22, 2006. Documentation provided by the Company evidenced Alabama Life Re as a wholly-owned subsidiary of the Company as of December 31, 2006. The NAIC’s Annual Statement Instructions require that:

“All insurer members of a holding company group shall prepare a common schedule for inclusion in each of the individual annual statements. If you are required to file a registration statement under the provisions of your domiciliary state’s Insurance Holding Company System Regulatory Act, then Schedule Y, Part 1, Organizational Chart must be included in the annual statement.”

“Attach a chart of listing presenting the identities of and interrelationships between the parent, all affiliated insurers and other affiliates, identifying all insurers as such and listing the Federal Employer’s Identification Number for each.”

It was noted that the Company referenced the existence of Alabama Life Re in Note 10K, of its 2006 Annual Statement’s Notes to Financial Statements but did not disclose in Note 10.G that Alabama Life Re was a wholly-owned subsidiary. The NAIC’s Annual Statement Instructions requires the Company to report:

“The nature of the control relationship whereby the reporting entity and one or more other enterprises are under common ownership or control and the existence of that control could result in operating results or financial position of the reporting entity being significantly different from those that would have been obtained if the enterprises were autonomous. Disclose the relationship even though there were no transactions between the enterprises...”

Transactions and Agreements with Affiliates

Joint Office Expense Allocation
The agreement between Greene Group, Inc., and the Company provides for the parent to allocate the following expenses to the Company:

- Salaries and Payroll Taxes;
- Insurance;
- Repairs and Maintenance;
- Rent;
- Telephone; and
- Computer Usage.

Salaries and payroll tax expenses are both charged on an actual expense basis and handled on a weekly basis, with each company billed for gross salaries and related payroll taxes. Insurance costs are billed monthly. The Company is charged 15% of the cost of repair and maintenance, $500 for rent, $150 for computer usage, and $50 for the phone system (plus its own long distance charges).

The agreement stated that the installation of a new computer system cost $60,000, with the cost split between four companies and amortized on a straight-line basis over eight years. The annual cost to the Company was documented as $1,875, or approximately $150 per month.

The previous examination reported that this agreement was dated January 1, 1990, but the agreement provided by the Company during this examination was not dated. As a result, the examiners were unable to determine when the referenced computer system was installed, and the period of time for which the monthly charges were made.

Under the Joint Office Expense Allocation agreement, the Company is responsible for expenses related to salaries and payroll, insurance, repair and maintenance, rent, telephone, and computer usage. During the five-year examination period, the Company was also charged for travel, auto expense, meals and postage, which are not allowable expenses under the agreement. A similar situation was noted in the preceding report of examination, whereby the examiners recommended that the Company either revise the agreement and file it with the Alabama Department of Insurance pursuant to Regulation No. 55, or not be charged for any expense not specifically mentioned in the agreement. Section 18 of that regulation states:

"An insurer required to give notice of a proposed transaction pursuant to Section 27-29-5 shall furnish the required information on Form D, hereby made a part of this regulation."

The Company did not comply with those recommendations. The Company should establish a non-admitted receivable for all amounts that they paid that were not covered by this agreement and seek collection of those amounts.

Consolidated Tax Allocation Agreement
On December 22, 1981, the Company entered into a Consolidated Tax Allocation Agreement, with Greene Group, Inc. (its parent), Greene County Greyhound Park,
Inc., and Greene Resources, Inc., for the purposes of filing a consolidated tax return. Each company pays a percentage of the total tax liability of the group. The method of allocation between the companies is based upon separate return calculations with current credit for net losses pursuant to Internal Revenue Regulation 1.1552-1(a)(2). The percentage is paid to the parent on the due date or dates. Intercompany tax balances are to be settled annually in the first quarter of the year.

Any company that has a loss for the year resulting in reduced taxes for other members shall be reimbursed by each member of the group experiencing such tax savings so incurred. The method of compensating payments is made pursuant to Internal Revenue Regulation 1.1501-33(d)(2)(ii) by allocating to each member an additional tax liability.

Termination of this agreement must be made by mutual agreement of the parties and subject to obtaining approval of termination from the Internal Revenue Service. In the event any party or parties cease to be affiliated with the Group, the agreement automatically terminates as to that corporation. Any new member that joins the group subsequent to the signing of this agreement will become a party to it by virtue of the member’s inclusion in the consolidated federal income tax return.

On January 1, 1989, January 1, 1991, and January 1, 2002, the agreement was amended and restated in order to add other corporations which had entered the consolidated group and were eligible to file a consolidated tax return. The following members of the group were affiliated corporations permitted to file such a tax return under the terms of Section 1501, et seq., of the Internal Revenue Code of 1986, as amended, at the 2002 execute date:

- Greene Group, Inc.
- Alabama Reassurance Company, Inc.
- Allease, Inc.
- Texas Pari-Mutuel, Inc.
- AIM Management, Inc.
- Venture Advertising, Inc.
- Alabama Idaho, Inc.
- Ready Mix USA, Inc.
- DCA Ready Mix, Inc.**
- Alabama Catfish, Inc.

** DCA Ready Mix, Inc., has not been included in this agreement nor on the Annual Statement’s Organizational Chart since 2002.
On October 23, 2002, both of the above agreements were submitted to the Alabama Department of Insurance in accordance with ALA Code § 27-29-5(b) (1975). Since both items predated the 1993 Holding Company Amendment, the agreements were reviewed for reasonableness per ALA Code § 27-29-5(a)(1) (1975), and did not require a Form D filing and filing fee in order to obtain Departmental approval.

The Company did not provide the records of the minutes of the Board of Directors meetings that showed where the Joint Expense Office Allocation agreement and the Consolidated Tax Allocation Agreement were approved by the Board of Directors. ALA Code § 27-27-29(a) (1975) states that:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

In reviewing the payment history of the federal and foreign income taxes for Alabama Reassurance Company, Inc., it was determined that the Company was not being reimbursed for overpayments of its tax liability to the Greene Group in a timely fashion. The Company overpaid its 2005 federal and foreign income tax liability in the amount of $1,070,834, and was not repaid for the overpayment until December 31, 2006. This was not in compliance with the Consolidated Tax Allocation Agreement between the members of the holding company that states: "If a member shall have made payments to another member for any taxable year in excess of its liability computed under Articles Two and Three (whether determined on audit or otherwise), the amount of any overpayment shall be repaid to that member. The repayment shall be made to the member no later than the date the payment would have been made to this member by the internal revenue service had the member filed a separate return, or as soon thereafter as possible."

**Subscription Agreement**

As noted previously in the ORGANIZATION AND HISTORY section of this report, the Company and Alabama Life Reinsurance Company, Inc., entered into a Subscription Agreement, dated as of December 27, 2006, pursuant to which the Company agreed to purchase 2,000,000 shares of the common stock, par value $1.00 per share, of Alabama Life, for a price of $2.00 per share, for an aggregate purchase price of $4,000,000, subject to the terms and conditions set for in that Subscription Agreement.

**Escrow Agreement**

Pending the issuance of a certificate of authority, the aggregate purchase price of $4,000,000 for the common stock of Alabama Life, as discussed previously in this
section under Subscription Agreement, was delivered to Regions Bank, Birmingham, Alabama, to be retained in an escrow fund pursuant to the terms and conditions of the Escrow Agreement, effective December 29, 2006, by and among the Company, Regions Bank and Alabama Life.

The Company filed the Subscription and Escrow agreements with the Alabama Department of Insurance on December 3, 2006, with the application for a Solicitation Permit. That permit was granted by the ALDOI on December 20, 2006.

**Loan Agreement**

A Loan Agreement was entered into on November 7, 2003, between Greene Group, Inc. ("Borrower"); Alabama Reassurance Company, Inc., Ready Mix USA, Inc., Allease, Inc., Texas Pari-Mutuel Management, Inc., AIM Management, Inc., and Venture Advertising, Inc. (collectively referred to as "Subsidiary Borrowers"); Paul W. Bryant, Jr., and Sam M. Phelps (collectively referred to as "Guarantors"); and Regions Bank ("Bank"), whereby a line of credit was established so that the Borrower and Subsidiary Borrowers may borrow a total principal amount not exceeding One Hundred Million ($100,000,000.00) Dollars (the "Line of Credit"). Under the Line of Credit, Alabama Reassurance shall not be responsible for advances obtained by, or other obligations or agreements of, the Borrowers or Subsidiary Borrowers other than Alabama Reassurance. Alabama Reassurance shall instead execute and deliver in favor of the Bank a separate promissory note to evidence any borrowings by Alabama Reassurance under the revolving line of credit. The Line of Credit is personally guaranteed by Mr. Bryant, Chairman of the Board of Directors, and Mr. Phelps, Secretary and Treasurer, in lieu of a lien on Company assets.

According to management, the Line of Credit was obtained and maintained so that the Company can take advantage of investment opportunities as they arise. Management maintained that the Company has never drawn on this Line of Credit and has no long-term plans for the Loan Agreement.

It was the Alabama Department of Insurance's position that this Loan Agreement was not an agreement between affiliated parties, and therefore, was not subject to approval by the Commissioner of the Alabama Department of Insurance as set forth in ALA. CODE § 27-29-5(b) (1975).

The Company also provided the examiners with a newer version of the agreement, dated July 1, 2006, which according to management, may not have been executed. A revised Promissory Note, dated June 17, 2005, in the amount of $100,000,000, was furnished, along with several transactions histories. These histories evidenced that the Line of Credit had been drawn on by Greene Group in 2005, in the amount of $25,000,000, and paid off in
that year. An additional advance was made on March 8, 2006, for $7,000,000.
Management stated that these funds were used by Greene Group to purchase the
Alabama Arkansas Wildlife property. The outstanding loan balance at the December 31,
2006 examination date was $6,650,000.

Although the funds were not borrowed directly by the Company, according to the
terms of the agreement, it was possible for Regions Bank to secure the repayment of
the funds by accessing those of the Company's accounts deposited at Regions. Because
the Company was a named party to the agreement, at the December 31, 2006
examination date, the Company was contingently liable for the $6,650,000 outstanding
loan balance. This information is also included in CONTINGENT LIABILITIES
AND PENDING LITIGATION section of the examination report (see page 49).

On August 24, 2007, subsequent to the examination period, an Amended and Restated
Loan Agreement was executed by Greene Group and several of its affiliates. At the date
of this report, the Company is no longer a party to this agreement.

Dividends to Stockholders

The following dividends were paid to the sole stockholder, Greene Group, Inc.,
during the current examination period

<table>
<thead>
<tr>
<th>Year</th>
<th>Date Declared</th>
<th>Notification To ALDOI</th>
<th>Date Paid</th>
<th>Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>March 29, 2006</td>
<td>March 29, 2006</td>
<td>April 13, 2006</td>
<td>$9,000,000</td>
</tr>
<tr>
<td>2005</td>
<td>March 7, 2005</td>
<td>March 7, 2005</td>
<td>March 28, 2005</td>
<td>17,000,000</td>
</tr>
<tr>
<td>2004</td>
<td>January 15, 2004</td>
<td>January 15, 2004</td>
<td>January 29, 2004</td>
<td>5,000,000</td>
</tr>
<tr>
<td>2004</td>
<td>December 1, 2004</td>
<td>December 2, 2004</td>
<td>December 15, 2004</td>
<td>5,000,000</td>
</tr>
<tr>
<td>2002</td>
<td>January 17, 2002</td>
<td>January 17, 2002</td>
<td>February 1, 2002</td>
<td>5,000,000</td>
</tr>
</tbody>
</table>

These dividends were reported to the Alabama Department of Insurance in accordance
with ALA. CODE § 27-29-4(d) (1975), which states, in part, that “each registered insurer
shall so report all dividends and other distributions to shareholders within five business
days following the declaration thereof.

In its 2006 Annual Statement, the Company reported the following information under
item #13 of the Notes to Financial Statements:

“(3) Dividends to shareholders are limited by the laws of the Company's state of
incorporation, in that the maximum that can be paid as an “ordinary dividend” is the
greater of 10% of surplus as regards policyholders or prior year net gain from
operations. Any amounts over this maximum must be approved by the
Commissioner of Insurance, as an extraordinary dividend.

(4) Within the limits of (3) above, there are no restrictions placed on the portion of
Company profit that may be paid as ordinary dividends to stockholders.”

Under the “Dividend Restrictions” caption, the CPA’s audit report stated:

“The Company is restricted under the Alabama Insurance Code as to the amount of
dividends it may pay without prior regulatory consent. Dividends may be paid
without approval of the Alabama Insurance Commissioner up to an amount equal to
the greater of 10% of capital and surplus as of the preceding December 31 or the
Company’s net gain from operations for the preceding year.”

While the Company appears to have included all of the particulars concerning the
regulatory authorities, Ala. Code § 27-27-37 (1975) is not specifically referenced. It is
the position of the Alabama Department of Insurance that this section of the Alabama
Insurance Code be included in the Annual Statement’s Notes to Financial Statements and in
the CPA’s audit reports under the “Dividend Restrictions” caption.

FIDELITY BONDS AND OTHER INSURANCE

At December 31, 2006, Alabama Reassurance Company, Inc. had Fidelity Bond
coverage issued by Fidelity and Deposit Company of Maryland. The single loss limit
liability of the bond maintained, met and exceeded the minimum requirements for
fidelity coverage required by the NAIC’s Financial Condition Examiners Handbook.

The Company had other coverages under the commercial insurance policies which
covered the various hazards the Company might incur in the normal course of
business, as of December 31, 2006, which were:

- Business Personal Property
- Inland Marine
- Commercial General Liability
- Commercial Automobile.

The types, coverages, and maximum limits indicated for each occurrence appear to
have been adequate in order to cover the Company from the liabilities arising from
employees’ injuries and other hazards to which it might be exposed. The coverages
and limits carried by the Company were assessed during the course of the examination
and appeared to realistically protect the Company’s interests at the examination date.
EMPLOYEE AND AGENTS WELFARE

At the December 31, 2006 examination date, the Company employed two people – its Investment Manager, and its Vice President and Actuary. Since the Company does not write direct business, there were no agents, producers or brokers.

The Company participates in a joint office expense allocation agreement with its parent, Greene Group, Inc. Under this agreement, the Company is allocated expenses, such as salaries, insurance and rent. The agreement was discussed previously in the HOLDING COMPANY AND AFFILIATE MATTERS section under “Transactions and Agreements with Affiliates.”

The Company provided the following benefits for its employees during the five year examination period:

- Health Insurance
- Disability Insurance
- 401(k) benefits.

On January 1, 2002, the Company entered into a non-qualified retirement plan, dated for the aforementioned Vice President and Actuary. The plan is intended to be an unfunded plan of deferred compensation as defined under ERISA, and the purpose was to reward this officer for his years of service and provide, in writing, an agreement with the Company as to his retirement. During 2002, the Company elected to take out a life insurance policy on the Vice President’s life that builds a cash surrender value to eventually fund the retirement plan. Additional discussion on the insurance policy and the plan liability may be found elsewhere in this report under “Note 6 – Cash Value of Life Insurance Policy (see page 45), and “Note 11 – Deferred Compensation Liability (see page 48), in the NOTES TO FINANCIAL STATEMENTS section.


The Company is required to comply with the Violent Crime Control and Law Enforcement Act of 1994, US Code, Title 18, Section 1033 (e)(1)(A), which, in part, prohibits individuals who have been convicted of specified criminal activity from engaging in the business of insurance without the written consent from the Commissioner of Insurance.

In response to the examiners’ request to provide a brief narrative describing how the Company is complying with this act during the screening and hiring of prospective employees, management indicated that the Company has “only two full time
employees...and they have tenure prior to 1994 when this Law was enacted.” In addition, the Company does not have a formal policy for monitoring current employees. ALA. ADMIN. CODE 482-1-121 (2003), Guideline 1, states that “failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred.

SPECIAL DEPOSITS

In order to comply with the statutory requirements for doing business in the state in which it is licensed, the Company had the following securities on deposit at the December 31, 2006 examination date:

<table>
<thead>
<tr>
<th>Description</th>
<th>Par Value</th>
<th>Statement Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alabama: Statutory Deposit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money market fund; 4.56%; Regions Bank, Birmingham, Alabama</td>
<td>$179,753</td>
<td>$179,753</td>
<td>$179,753</td>
</tr>
<tr>
<td><strong>Arkansas: Statutory Deposit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificate of Deposit; 4.1729%; Regions Bank, Little Rock, Arkansas; DTD 5-17-06; due 5-17-07; auto renewable</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Aggregate Alien and Other:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regions Bank, Birmingham, Alabama – Escrow account</td>
<td>4,000,000</td>
<td>4,000,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$4,279,753</td>
<td>$4,279,753</td>
<td>$4,279,753</td>
</tr>
</tbody>
</table>

Confirmations of these deposits were obtained directly from the respective custodians.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

<table>
<thead>
<tr>
<th>Year</th>
<th>Admitted Assets</th>
<th>Liabilities</th>
<th>Capital and Surplus</th>
<th>Ordinary Life</th>
<th>Credit Life</th>
<th>A&amp;H Credit Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006*</td>
<td>$238,028,220</td>
<td>$79,477,659</td>
<td>$158,550,561</td>
<td>$1,198,949</td>
<td>$(501,255)</td>
<td>$0</td>
</tr>
<tr>
<td>2005</td>
<td>230,177,043</td>
<td>72,923,424</td>
<td>157,253,619</td>
<td>834,781</td>
<td>(7,501,255)</td>
<td>(6,982,143)</td>
</tr>
<tr>
<td>2004</td>
<td>267,029,102</td>
<td>99,797,279</td>
<td>167,231,823</td>
<td>(23,430,911)</td>
<td>7,433,973</td>
<td>(5,168,796)</td>
</tr>
<tr>
<td>2002</td>
<td>471,371,985</td>
<td>343,305,497</td>
<td>128,066,488</td>
<td>44,600,673</td>
<td>4,558,217</td>
<td>2,047,213</td>
</tr>
<tr>
<td>2001*</td>
<td>463,901,240</td>
<td>341,870,600</td>
<td>122,030,640</td>
<td>36,843,790</td>
<td>1,694,679</td>
<td>5,220,243</td>
</tr>
</tbody>
</table>

* Per Examination
MARKET CONDUCT ACTIVITIES

 Territory

The Company was licensed to transact business in the following jurisdictions:

Alabama    Arkansas    Kansas    Louisiana    Mississippi

The Certificates of Authority and relevant documentation were inspected for the five-year examination period and found to be in order. Authorized lines were compared with the lines of business shown in the Analysis of Operations by Lines of Business exhibit of the Company’s 2006 Annual Statement, and no discrepancies were noted.

No license applications were pending at the December 31, 2006 examination date, or at the date of this report.

Business in Force – By States

The Company wrote no direct business during the examination period. All premiums were generated through the Company’s reinsurance program.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance in Force: (omit $000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary</td>
<td>$644,241</td>
<td>$658,189</td>
<td>$666,669</td>
<td>$2,791,152</td>
<td>$2,827,919</td>
</tr>
<tr>
<td>Credit Life</td>
<td>$0</td>
<td>$222,250</td>
<td>$222,250</td>
<td>$545,706</td>
<td>$598,000</td>
</tr>
<tr>
<td>Total</td>
<td>$644,241</td>
<td>$881,439</td>
<td>$888,919</td>
<td>$3,336,858</td>
<td>$3,425,919</td>
</tr>
</tbody>
</table>

| Premiums: | | | | | |
| Reinsurance assumed | $691,744 | $(10,558,339) | $(29,689,564) | $120,693,380 | $60,819,722 |
| Reinsurance ceded | $(5,950) | $3,090,278 | $6,344,116 | $8,223,792 | $9,613,619 |
| Net Total | $697,694 | $(3,468,061) | $(36,033,680) | $112,469,588 | $51,206,103 |

Plan of Operation

The Company, domiciled in Alabama under the jurisdiction of the Alabama Department of Insurance, is a wholly-owned subsidiary of Greene Group, Inc. Since commencing operations in 1981, the business of the Company has been to provide financial reinsurance to ceding companies. The ceding companies’ business purpose in this reinsurance was to help the ceding companies finance the large initial acquisition cost of acquiring the original business. The Company’s primary line of business was reinsuring traditional life policies; however, the Company also reinsured credit life, credit accident
and health, and preneed policies. The Company had no agents or brokers and wrote no direct business. The Company had three sources of business: (1) reinsurance obtained from ceding companies; (2) reinsurance obtained through brokers or intermediaries; and (3) retrocessions from other reinsurance companies.

At year-end 2001, there were 25 assumed reinsurance contracts in force, using primarily the standard coinsurance treaty, the modified coinsurance, or the co-modco forms on a “funds withheld” basis. At that time, the Company also ceded life and accident and health reinsurance business to three unauthorized companies. The Company has not entered into any new reinsurance contracts since 2001.

At the December 31, 2006 examination date, only two assumed reinsurance contracts remained in force. These contracts, and the Company’s reinsurance program, are detailed in the REINSURANCE section of the examination report. Management plans to have these contracts assumed by the affiliated Alabama Life Reinsurance Company, Inc., in accordance with the terms of a Bulk Reinsurance Agreement. This agreement is discussed in detail in the SUBSequent Events section of this examination report. Then, Alabama Reassurance Company’s license will be surrendered to the Alabama Department of Insurance, and the Company will be merged into Greene Group, Inc., its parent, and then liquidated.

Complaint Handling

The Company does not write direct business; consequently, there are no direct policyholders. According to Company management, no complaints were received during the five-year examination period.

The NAIC’s Confirmed Complaints Index database and files at the Consumer’s Division of the Alabama Department of Insurance indicated that no complaints were recorded for the period under review.

Marketing and Sales

The Company did not have a formal advertising/marketing strategy as no direct policies were issued. Since the Company does not have producers or marketing agents, there are no producer training materials.

Management stated that the Company does not operate a website and does not intend to conduct e-business. A search of the Internet conducted during the course of the examination did not reveal any information to the contrary.
Compliance with Agents’ Licensing Requirements

Because the Company wrote no direct business, no agents were licensed or appointed during the five-year examination period. A review of the Alabama Insurance Information Management System (AIIMS) indicated no active agents, and confirmed that none were licensed, appointed, terminated or cancelled by the Alabama Department of Insurance during the period under review.

Policy Forms and Underwriting Practices

At the December 31, 2006 examination date, the Company assumed insurance under two reinsurance agreements. The Company does not write direct business; therefore, no policy forms were utilized or approved during the examination period. Underwriting guidelines were those of the ceding companies.

Claims Payment Practices

The Company does not pay claims directly. All claims are adjudicated in accordance with the provisions of the reinsurance agreements discussed under the REINSURANCE section of this examination report.

Privacy Policies and Practices

[Compliance with Ala. Admin. Code 482-1-122 (2001), formerly known as Alabama Department of Insurance Regulation No. 122]

ALA. ADMIN. CODE 482-1-122 (2001), the Privacy of Nonpublic Personal Financial Information regulation, governs the treatment of nonpublic personal and financial information about individuals by all licensees of the Alabama Department of Insurance. This regulation requires a licensee to provide “a clear and conspicuous notice” to individuals about its privacy policies and practices; describes the conditions under which a licensee may disclose nonpublic personal financial information about individuals to affiliates and nonaffiliated parties; and provides methods for individuals to prevent a licensee from disclosing that information.

The Company does not write direct business to the public and, therefore, is not required to follow the privacy procedures and standards as defined in the referenced regulation.
REINSURANCE

Effective October 1, 2004, the Company entered into novation (sales) transactions related to thirteen of its reinsurance assumed agreements. In 2005, the Company novated two additional agreements, with an effective date of October 1, 2005. The novations resulted in the transfer and assignment of the Company's rights, duties, obligations and liabilities under these reinsurance agreements. All premiums, allowance and other amounts were settled between the purchasers and ceding companies in accordance with the terms of the treaties. The premiums assumed related to these contracts for the year-end 2005, were $(8,300,015). The following balances were removed from the Company's balance sheet as of October 1, 2005, as a result of the novations and a gain of approximately $7,501,000 was recognized for the year ended December 31, 2005, in the statutory financial statements:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested assets</td>
<td>$6,521,906</td>
</tr>
<tr>
<td>Due from insurers on reinsurance assumed</td>
<td>1,280,263</td>
</tr>
<tr>
<td>Deferred and uncollected premiums</td>
<td></td>
</tr>
<tr>
<td>Life and annuity reserves</td>
<td>7,599,095</td>
</tr>
<tr>
<td>Unearned premium reserves</td>
<td>7,473,297</td>
</tr>
<tr>
<td>Accident and health reserves</td>
<td>230,922</td>
</tr>
<tr>
<td>Deposit fund liabilities</td>
<td></td>
</tr>
</tbody>
</table>

In 2005, it was noted that the Company sold, redeemed, or otherwise disposed of $26,724,125 in bonds, which had neither a gain nor loss on the disposal of the securities. Two of the bonds were either called or matured, and the remainder was transferred. The examiners asked management to provide documentation that evidenced that the transfer of securities back to the ceding company without a gain or loss was in accordance with the novation of the treaty. No further information was provided, without which the examiners could not determine the appropriateness of the accounting transaction. Alabama Department of Insurance Regulation No. 118, 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 reasonable justification for the delay."

During 2004, the Company received an option on ten of the thirteen agreements novated during 2004, to repurchase the novated treaties at dates four or five years from the
effective date of the novation agreements, provided that the Company remained in similar financial condition as at October 1, 2004, as determined by the ceding companies. In addition, the Company entered into an administrative agreement for these ten treaties under which it is responsible for maintaining proper records and for reporting the collection of premiums, payment of benefits, service to the ceding insurers, and the computation of reserves and other data necessary for the purchaser to file appropriate statutory and tax statements. The Company received certain fees for providing these services in 2005. The third party had the right to cancel this administrative agreement at October 1, 2009, if the Company had not exercised its right to repurchase these treaties. However, this administrative agreement was cancelled during 2005.

Reinsurance Assumed

The business ceded to the Company was a small amount of health insurance, flexible premium deferred annuities, limited pay life insurance, increasing benefit life policies, including Michigan CPI indexed policies, universal life policies, and paid life policies.

At the December 31, 2006 examination date, the Company assumed reinsurance from the following two companies:

**Security Life Insurance Company of America** – the treaty is for quota share coinsurance and is for 90% of the blocks of business listed in the treaty consisting of limited pay, whole life, and paid up life products. Many of these policies have increasing face amounts either by CPI or by fixed amounts. In addition, the block of business is over 50% paid up. The reinsurer shares in the expenses as outlined in the treaty and shares in a proportionate share of the claims, surrenders, reserves and premiums.

**North America Insurance Company of Texas** – the agreement for reinsurance is a combination of coinsurance and modified coinsurance. Many of the policies are either assumed or acquired from other companies with a small amount of Family Accident Policies in health business, some funds on deposit, and the majority of the business in life insurance and annuities. The life insurance policies included fixed premium UL, flexible premium UL, whole life, limit pay, term, increasing benefits, and paid up. The annuities are flexible premium products. Since much of the business has no back end load or has aged past requirements for surrender charges, the fund value and the reserve are the same. The health business is very small. By percent, this total block of business is allocated to the Company, and then the amount of coinsurance and Modco is separated out of the total reinsurance. The Company assumes all the coinsurance is life insurance policies and that the health and annuities are in the Modco portion. The coinsurance reserve amount held by the reinsurer was
initially set by treaty and adjusted by profits. The modified coinsurance reserves are left with the ceding company but like coinsurance, the liability for change in reserves, claims, expenses and surrenders are assumed by the reinsurer.

**Reinsurance Ceded**

During the examination period, the Company ceded life, and accident and health insurance business to unauthorized companies. Reserve credits taken were secured by funds held and trust accounts until 2005.

At the December 31, 2006 examination date, the Company ceded no reinsurance business. There were no letters of credit, trust agreements, and/or funds deposited or held for unauthorized reinsurance.

**ACCOUNTS AND RECORDS**

The Company’s internal controls and information systems were evaluated by observation, by interviewing Company personnel, and by reviewing the NAIC’s Examination Planning and Information Systems questionnaires completed by management.

As of December 31, 2005, the Company had two full time employees. This small number of personnel did not allow for the proper segregation of duties and did not facilitate proper internal or information systems controls. Controls were not relied upon for any phase of the examination. Certain services were performed for the Company in accordance with the “Joint Office Expense Allocation” agreement discussed previously in the HOLDING COMPANY AND AFFILIATE MATTERS section of this report under the Transactions and Agreements with Affiliates caption.

The Company’s principal accounting records were maintained primarily by electronic data processing equipment, with some files and records kept manually. During the previous examination period, a general ledger system generated by an independent certified public accountant (CPA) firm was utilized. In 2002, the Company changed its accounting system to QuickBooks Pro, a small business accounting software program.

**External Audit**

The independent CPA firm of PricewaterhouseCoopers, LLP, Birmingham, Alabama, conducted the Company’s annual audits for the five-year examination period. Audit
workpapers, reports and management letters for 2002 – 2005 were made available to the examiners and were utilized in the examination to the extent deemed appropriate.

**CPA’s 2006 Audit Report and Workpapers**

The CPA’s annual audit report, as of December 31, 2006, was due to be filed with the Alabama Department of Insurance by June 1, 2007, in accordance with the NAIC’s Annual Statement Instructions. The Company requested and was granted three filing extensions from the ALDOI. The CPAs stated that an extension was necessary in order to obtain the audited financial statements of CEMEX Southeast, LLC, for 2006. CEMEX is owned 49.99% by the Company’s wholly-owned subsidiary, Ready Mix USA, Inc. The statements were being audited by another accounting firm and are necessary for the CPAs to issue an opinion on the Company’s statutory financial statements.

The 2006 audit report was received on September 5, 2007, and contained essentially the same information as disclosed in the 2006 Annual Statement. It was noted, however, that note #13 of the report’s Notes to Financial Statements reported the following significant information:

“The 2006 and 2005 audit results included herein contain adjustments not recorded by the Company in its Annual Statement. The Company discovered that amounts due on treaty novations had been over accrued, causing net income to be understated in 2004. The Company recorded this adjustment in its Annual Statement during 2005. The Company determined that a common stock investment was other than temporarily impaired subsequent to the filing of the 2005 Annual Statement, causing net income to be overstated in 2005. The impairment was recorded in the 2006 Annual Statement and in the 2005 audited financial statements. Additionally, the common stock investment had an understated carrying value at December 31, 2005. An adjustment was recorded in the 2006 Annual Statement and in the 2005 audited financial statements to correct the carrying value. The carrying value of the Company’s common stock affiliate investments at December 31, 2006 and 2005 also required adjustment based on audits completed after the filing of the Annual Statement. Due to the adjustments recorded on common stock investments described above, the asset valuation reserve, deferred tax asset, and nonadmitted assets were also adjusted. The following is a reconciliation between the audited financial statements and the Annual Statements filed with the insurance regulatory authorities as of December 31, 2006 and 2005.”

24
<table>
<thead>
<tr>
<th>December 31, 2006</th>
<th>Per Annual Statement</th>
<th>Current Year Adjustment</th>
<th>As Reported Herein</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized capital losses</td>
<td>$(5,063,323)</td>
<td>$3,450,205</td>
<td>$(1,613,118)</td>
</tr>
<tr>
<td>Net income</td>
<td>$(3,856,992)</td>
<td>$3,450,205</td>
<td>$(406,788)</td>
</tr>
<tr>
<td>Change in unrealized gains</td>
<td>$35,376,054</td>
<td>$(5,175,617)</td>
<td>$30,200,437</td>
</tr>
<tr>
<td>Change in nonadmitted assets</td>
<td>$(196,536)</td>
<td>$220,797</td>
<td>$24,261</td>
</tr>
<tr>
<td>Change in asset valuation reserve</td>
<td>$(6,051,268)</td>
<td>$1,504,943</td>
<td>$(4,546,325)</td>
</tr>
<tr>
<td>Change in deferred tax asset</td>
<td>$660,066</td>
<td>$(220,795)</td>
<td>$439,271</td>
</tr>
</tbody>
</table>

Due to the untimely receipt of this report, none of the information was utilized in the completion of our examination. At the conclusion of this examination, audit workpapers were still not available for review by the examiners. ALA. ADMIN. CODE 482-1-100-.06 (2004) states:

“(2) The insurer shall obtain a letter from the accountant, and file a copy with the Commissioner stating that the accountant is aware of the provisions of the insurance code and the rules and regulations of the insurance department of the state of domicile that relate to accounting and financial matters and affirming that the accountant will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by that insurance department, specifying such exceptions as he or she may believe appropriate.”

In addition, section .13, of the aforementioned regulation requires that:

“(2) Every insurer required to file an audited financial report pursuant to this chapter, shall require the accountant to make available for review by insurance department examiners, all workpapers prepared in the conduct of the accountant's examination and any communications related to the audit between the accountant and the insurer, at the offices of the insurer, at the insurance department or at any other reasonable place designated by the Commissioner. The insurer shall require that the accountant retain the audit workpapers and communications until the insurance department has filed a report on examination covering the period of the audit but no longer than seven (7) years from the date of the audit report.

(3) In the conduct of the aforementioned periodic review by the insurance department examiners, it shall be agreed that photocopies of pertinent audit workpapers may be made and retained by the department. Such reviews by the department examiners shall be considered investigations and all working papers and communications obtained during the course of such investigations shall be afforded the same confidentiality as other examination workpapers generated by the department.”
Actuarial Services

The Company’s reserve calculations for 2002 – 2006 were certified by William Rodney Windham, ASA, MAAA. Mr. Windham serves as the Company’s Vice President and Actuary. Actuarial services and certifications for the aforementioned years were all performed by Mr. Windham.

Deficiency in Actuarial Opinion
The actuarial examiners’ review of the Actuarial Opinion noted the following items:

- The opinion does not include all elements of a table of cash flow testing results as outlined by ALA. ADMIN CODE 482-1-112-.06 (2003), the Statement of Actuarial Opinion Based on an Asset Adequacy Analysis. The format should include all columns required by the administrative code and clearly identify the method of analysis and any additional actuarial reserve required.
- The opinion places reliance on reports provided by “various cedents” but does not state that the information was reviewed for reasonableness and does not include a statement of reliance as required by ALA. ADMIN. CODE 482-1-112-.06 (2003).

General Interrogatories and Notes to Financial Statements

The review of the General Interrogatories and Notes to Financial Statements in the Company’s Annual Statements indicated that the Company did not complete the following items accurately and/or in accordance with the NAIC’s Annual Statement Instructions:

**General Interrogatories:**

- #9 – In 2006, the Company did not provide the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit.
- #10 – In 2006, the Company did not report the name, address, and affiliation of the individual providing the statement of actuarial opinion/certification.
- #20.1 – In 2005 and 2006, the Company answered “no” to the question: “Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits?” but did not provide details and complete information in the next interrogatory, #20.2.
• #24 - In 2004, 2005 and 2006 - the Company answered “no” to the question: “Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity’s offices, vaults or safety deposit boxes, were all stocks, bonds and other securities owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 - General, Section IV.H - Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook?” and then did not give the name and location for the agreements that did not comply with the requirements of the Handbook.

• #27.1 – In 2006, the Company answered “no” to the question: “Have all of the filing requirements of the Purposes and Procedures manual of NAIC Securities Valuation Office been followed?” but did not list the exceptions in the next interrogatory, #27.2.

**Notes to Financial Statements:**

• In the Notes to Financial Statements, the Company did not report any information for the description of the valuation basis of the mortgage loans that are reported on Schedule B – Part 1, under Note 1. Summary of Significant Accounting Policies, Section C.(5), for the years 2004 through 2006, which is not in accordance with the NAIC’s Annual Statement Instructions, which state: “C. Disclose all accounting policies that materially affect the assets, liabilities, capital and surplus or results of operations. Include: (5) Description of the valuation basis of the mortgage loans.” In addition, the Company did not report any information for the mortgage loans that are reported on Schedule B - Part 1, under Note 5. Investments, Section A. Mortgage Loans, including Mezzanine Real Estate Loans, for the years 2004 through 2006, in accordance with instructions thereto, which state: “5. Investments A. Mortgage Loans, including Mezzanine Real Estate Loans, For mortgage loans, disclose the following information…”

Company management indicated that the missing information was oversight, and would be corrected or included henceforth.

Alabama Department of Insurance Regulation No. 97, Section 4, requires that:

“When submitting required financial reports to the department, all insurers shall use the appropriate NAIC Annual Statement Blank which shall be prepared in accordance with the NAIC Annual Statement Instructions and follow those accounting practices and procedures prescribed by the NAIC Accounting Practices & Procedures Manual, except when in conflict with Alabama Statutes or other Alabama Insurance Department Regulations.”
Operations

Computer center – Risk of water damage
It was noted that the adjacent room to the computer center located in the basement contains Bryant Bank’s HVAC and fire suppression systems. Two six-inch chilled water lines from the HVAC system run directly overhead the computer center. If the HVAC waterlines fail, water could damage the computer center.

The computer center does not have moisture sensors installed. The close proximity of the computer center to pressurized water in the HVAC room increases the risk of water damage. The basement is a restricted area and does not house any business offices. Inspection of these areas is not on a scheduled, routine basis, and the examiners could not determine how long an incident would go undetected before there was computer damage.

Tape backup failure rate
A review of the Company’s backup tape log indicated that backup attempts have a less than 50% success rate. The Corporate Controller confirmed that if a tape does not backup properly, another attempt to backup that day does not occur, and stated that this was “an acceptable risk.” As a result, the Company is not backing up its files at least half of the time because of backup failures. Failure to maintain accurate backup tapes reduces the efficiency of the backup process and indicates that the Company is not keeping complete records. ALA. CODE § 27-27-29(a) (1975) requires:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

Records retention
The Company does not have a formal records retention policy. Failure to maintain appropriate records increases the risk of prematurely destroying needed data and records. The Company is not in compliance with Alabama Department of Insurance Regulation No. 118, Section 3, which states: “All records must be maintained for at least five (5) years…” Additionally, ALA. CODE § 27-27-29(a) (1975) requires that the Company “…shall keep therein complete records of its assets, transactions and affairs…”

Storage in off-premises location
The Company restricts access to its tape library (daily backups) by storing the tapes in Bryant Bank’s vault in the basement. The Company’s offices are located in the bank building. Each day, the Corporate Controller takes backups of Company files to his
personal residence, and returns them to permanent storage in the vault the next day. Procedures do not exist to store Company backups at off-site locations when the Controller is or is not available.

Employee homes are not appropriate locations to store Company data. Storing the Company's programs, essential documents, records and files at a personal residence increases the risk of loss, corruption, misuse, and abuse of the data. A commercial off-site contractor could provide services which would alleviate these risks. Management indicated that it has not considered an off-site contractor for storing its backups.

Written procedures for backup storage
The Company has a gentleman's agreement with the parent company for storage of data on the parent's server. There have been no written provisions created to maintain Company data subsequent to the Company ceasing operations. Without written guidance, there is an increased risk the Company's electronic data will be lost, damaged, corrupted or otherwise compromised.

Network configuration documentation and monitoring
Company management stated that "[T]here is no documentation of the Greene Group network configuration..." and "...no monitoring process for detecting failed nodes, circuits or segments." There is no agreement that safeguards the Company's access to the network and to its own data.

Alabama Department of Insurance Regulation No. 118, Section 3, states that: "...All records must be maintained for at least five (5) years..." Additionally, ALA. CODE § 27-27-29(a) (1975) requires that: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

OPERATIONS/MANAGEMENT General Examination Standard 2, of the NAIC's 2006 Market Regulation Handbook requires that "The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

Logical and Physical Security

Assignment and security of passwords
The Corporate Controller provided a list of current LogonIds and passwords to the examiners, thereby compromising the integrity of its computer information. Keeping a list of current LogonIds is appropriate but increases the risk of unauthorized access.
Logon procedures are more easily compromised when known passwords are used and especially so when a list is maintained.

**Change passwords**
Company personnel do not change their passwords. Failure to change passwords increases the risk of a security incident. Over time, unchanged passwords lose their intended security effect. Passwords should be changed at least quarterly.

**Access for terminated employees**
The Company does not have written guidance to cancel logon identification and passwords when an employee is terminated. Failure to remove terminated employee information systems privileges increases the risk of unauthorized access.

**Intrusion Detection System**
The Company does not have written policies or procedures which outline the Company’s computer system security. Without such procedures in place, the Company could lose financially significant information. In addition, the Company does not have formal monitoring procedures and systems to detect unauthorized access attempts from either outside or inside the Company. The Corporate Controller indicated that Greene Group, Inc., the Company’s parent, “has no plans to implement any intrusion detection system.”

**Emergency Response Procedures**
The Company does not have procedures to follow in the event a computer security incident occurred. Failure to maintain security incident procedures increases the timeline associated with incident response and exposes the Company to potentially negative consumer sentiment. Without such procedures, the Company could lose financially significant information. This issue was also addressed in the previous examination, as detailed in Business Contingency Planning section, following.

**Business Contingency Planning**
The December 31, 2001 examination report determined that the Company lacked emergency response procedures. As noted previously, Executive Management has not developed, implemented, or tested a business continuity plan. Failure of top management to maintain a current and tested plan greatly increases the risk of business failure due to a localized catastrophic event. Management must consider all significant business activities when developing a plan. The plan must clearly describe senior management roles and responsibilities associated with implementation of an emergency response. The plan must be periodically tested to validate contingency requirements. Copies of the contingency plan should be maintained at relevant off-site locations. A
restoration priority which assesses all significant business activities and critical computer applications should be included in the plan. Consideration should be given to alternate site services. Supply/vendor sources should be included in the plan. Manual processing of business transactions should be developed at department level and included in the plan.

Wide Area Network (WAN) and Internet Controls

The Company uses the Internet for E-mail and also uses the Word Wide Web. There are no financial applications or transactions which use a Wide Area Network (WAN). The Company does not have an Internet usage policy. Failure to establish a policy governing Internet use reduces the efficiency of Internet usage and decreases the productivity among the workforce. Without Internet use guidance from management, the Company may be exposed to adverse events, such as malware and viruses that attach themselves to Internet browsers.

COMPANY OPERATIONS/MANAGEMENT Standard 2, of the NAIC’s Market Conduct Examiner Handbook requires the Company to have “appropriate controls, safeguards and procedures for protecting the integrity of computer information.

Anti-fraud Plan

The Company does not have formal, written procedures to identify, investigate and report fraudulent activity. Management stated that: “There are procedures in place to separate some of the accounting functions, i.e., check writing, check signing, bank reconciliations, and general ledger to reduce the risk of fraud.” No additional details or documentation were provided.
OPERATIONS/MANAGEMENT General Examination Standard 3, of the NAIC’s Market Regulation Handbook states that the Company should have “antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

Company’s response time to information requests

During the course of this examination, the Company did not always respond to the examiners’ requests in accordance with Section 6. Time limits, of Alabama Department of Insurance Regulation No. 118, 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 reasonable justification for the delay.”

In general, the accounting records appeared to reflect the operations during the period under review and the condition of the Company at the examination date, unless otherwise commented upon under appropriate captions, elsewhere in this report.

FINANCIAL STATEMENT INDEX

The Financial Statements included in this report were prepared on the basis of the Company’s records and the valuations and determinations made during the course of the examination for the year 2006. Amounts shown in the comparative statements for the years 2002, 2003, 2004, and 2005 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

<table>
<thead>
<tr>
<th>Statement of Assets, Liabilities, Surplus and Other Funds</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>33</td>
</tr>
<tr>
<td>Summary of Operations</td>
<td>35</td>
</tr>
<tr>
<td>Capital and Surplus Account</td>
<td>36</td>
</tr>
</tbody>
</table>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.
# ALABAMA REASSURANCE COMPANY, INC.

## STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

For the Year Ended December 31, 2006

<table>
<thead>
<tr>
<th>Assets</th>
<th>Nonadmitted Assets</th>
<th>Net Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stocks <em>(Note 1)</em></td>
<td>$199,055,241</td>
<td>$7,903,579</td>
</tr>
<tr>
<td>Mortgage loans on real estate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First liens</td>
<td>66,881</td>
<td>66,881</td>
</tr>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Properties held for sale <em>(Note 2)</em></td>
<td>1,020,556</td>
<td>319,919</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments <em>(Note 3)</em></td>
<td>52,441,462</td>
<td>11,730,802</td>
</tr>
<tr>
<td>Subtotals, cash and invested assets</td>
<td>$252,584,140</td>
<td>$20,021,181</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>64,241</td>
<td>64,241</td>
</tr>
<tr>
<td>Premiums and considerations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred premiums, agents' balances and installments booked but deferred and not yet due</td>
<td>580,446</td>
<td></td>
</tr>
<tr>
<td>Reinsurance:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts recoverable from reinsurers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other amounts receivable under reinsurance contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current federal and foreign income tax recoverable and interest thereon <em>(Note 4)</em></td>
<td>863,400</td>
<td></td>
</tr>
<tr>
<td>Net deferred tax asset <em>(Note 5)</em></td>
<td>2,683,360</td>
<td></td>
</tr>
<tr>
<td>Electronic data processing equipment and software</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate write-ins for other than invested assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due from reinsurers on reinsurance assumed</td>
<td>264,977</td>
<td></td>
</tr>
<tr>
<td>Cash Value of Life Insurance Policy <em>(Note 6)</em></td>
<td>1,008,837</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>$258,049,401</td>
<td>$20,021,181</td>
</tr>
</tbody>
</table>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.
ALABAMA REASSURANCE COMPANY, INC.
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
(continued)
For the Year Ended December 31, 2006

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate reserve for life contracts</td>
<td>$42,949,405</td>
</tr>
<tr>
<td>Contract claims:</td>
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</tr>
<tr>
<td>Life</td>
<td>826,518</td>
</tr>
<tr>
<td>Interest Maintenance Reserve (IMR)</td>
<td>290,365</td>
</tr>
<tr>
<td>General expenses due or accrued (Note 7)</td>
<td>52,363</td>
</tr>
<tr>
<td>Taxes, licenses and fees due or accrued</td>
<td>3,500</td>
</tr>
<tr>
<td>Current federal and foreign income taxes</td>
<td>603,658</td>
</tr>
<tr>
<td>Net deferred tax liability (Note 5)</td>
<td>2,004,983</td>
</tr>
<tr>
<td>Amounts withheld or retained by company as agent or trustee (Note 8)</td>
<td>31,616,452</td>
</tr>
<tr>
<td>Asset valuation reserve (AVR) (Note 9)</td>
<td>141,237</td>
</tr>
<tr>
<td>Payable to parent, subsidiaries and affiliates (Note 10)</td>
<td></td>
</tr>
<tr>
<td>Aggregate write-ins for liabilities:</td>
<td></td>
</tr>
<tr>
<td>Amounts payable to insurers</td>
<td>404,178</td>
</tr>
<tr>
<td>Deferred Compensation Liability (Note 11)</td>
<td>585,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$79,477,659</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CAPITAL AND SURPLUS</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common capital stock</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>$72,752,837</td>
</tr>
<tr>
<td>Unassigned funds (surplus) (Note 12)</td>
<td>84,597,724</td>
</tr>
<tr>
<td>Surplus</td>
<td>157,350,561</td>
</tr>
<tr>
<td>Total Capital and Surplus</td>
<td>$158,550,561</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL LIABILITIES, CAPITAL AND SURPLUS</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$238,028,220</td>
</tr>
</tbody>
</table>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.
# ALABAMA REASSURANCE COMPANY, INC.
## SUMMARY OF OPERATIONS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums and annuity</td>
<td>$697,694</td>
<td>-$13,648,617</td>
<td>-$36,033,680</td>
<td>$112,469,588</td>
<td>$51,206,103</td>
</tr>
<tr>
<td>considerations for life and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>accident and health contracts</td>
<td>2,593,080</td>
<td>2,957,914</td>
<td>5,653,270</td>
<td>6,332,506</td>
<td>7,352,986</td>
</tr>
<tr>
<td>Net investment income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of Interest</td>
<td>105,837</td>
<td>135,875</td>
<td>184,550</td>
<td>219,537</td>
<td>193,771</td>
</tr>
<tr>
<td>Maintenance Reserve (IMR)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions and expense</td>
<td>1,743,241</td>
<td>2,901,202</td>
<td>3,639,713</td>
<td>4,064,111</td>
<td></td>
</tr>
<tr>
<td>allowances on reinsurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ceded</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate write-ins for</td>
<td>279</td>
<td>407,320</td>
<td></td>
<td>9,233,182</td>
<td>10,578,548</td>
</tr>
<tr>
<td>miscellaneous income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve Adjustments on</td>
<td>5,506,716</td>
<td>4,445,962</td>
<td>568,534</td>
<td>-74,753,339</td>
<td>-22,442,358</td>
</tr>
<tr>
<td>Reinsurance Assumed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life Insurance Policy Interest Income</td>
<td>1,008,837</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTALS</td>
<td>$9,912,443</td>
<td>-$3,958,305</td>
<td>$-26,726,124</td>
<td>$57,141,187</td>
<td>$50,953,161</td>
</tr>
<tr>
<td>Death benefits</td>
<td>$6,995,646</td>
<td>$7,460,257</td>
<td>$19,575,465</td>
<td>$22,637,581</td>
<td>$22,909,332</td>
</tr>
<tr>
<td>Disability benefits and</td>
<td>55,403</td>
<td>687,743</td>
<td>7,805,160</td>
<td>5,900,895</td>
<td>6,424,236</td>
</tr>
<tr>
<td>benefits under accident</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and health contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in aggregate reserves for life and accident and health contracts</td>
<td>-$1,230,898</td>
<td>-$15,297,931</td>
<td>-$166,878,512</td>
<td>-$10,940,180</td>
<td>-$16,188,718</td>
</tr>
<tr>
<td>TOTALS</td>
<td>$5,820,151</td>
<td>-$7,149,931</td>
<td>-$139,497,887</td>
<td>$17,598,296</td>
<td>$13,144,850</td>
</tr>
<tr>
<td>Commissions on expense</td>
<td>797,117</td>
<td>-3,441,849</td>
<td>7,948,482</td>
<td>29,685,492</td>
<td>22,381,857</td>
</tr>
<tr>
<td>allowances on reinsurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>assumed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General insurance expenses</td>
<td>758,931</td>
<td>594,252</td>
<td>590,363</td>
<td>546,077</td>
<td>651,578</td>
</tr>
<tr>
<td>Insurance taxes, licenses and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>fees, excluding federal</td>
<td>28,691</td>
<td>23,114</td>
<td>29,922</td>
<td>25,913</td>
<td>23,507</td>
</tr>
<tr>
<td>income taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate write-ins for</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>deductions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experience Premium Refunds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brokerage</td>
<td>40,448</td>
<td>27,950</td>
<td>118,397</td>
<td>207,609</td>
<td>225,675</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>-1,500,043</td>
<td>74,511,489</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Expense Due Parent</td>
<td>-135,317</td>
<td>-87,173</td>
<td>-1,461</td>
<td>96,429</td>
<td></td>
</tr>
<tr>
<td>Deferred Compensation Expense</td>
<td>585,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTALS</td>
<td>$7,895,021</td>
<td>-$11,572,716</td>
<td>-$56,035,337</td>
<td>$48,507,784</td>
<td>$36,702,350</td>
</tr>
<tr>
<td>Net gain from operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>after dividends to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>policyholders and before</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>federal income taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal and foreign income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>taxes incurred</td>
<td>$2,017,422</td>
<td>$7,614,411</td>
<td>$29,309,213</td>
<td>$8,633,403</td>
<td>$14,250,811</td>
</tr>
<tr>
<td>Net gain from operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>after dividends to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>policyholders and federal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>income taxes and before</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>realized capital gains or</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(losses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net realized capital gains</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(losses) less capital</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>gains tax</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Net income</td>
<td>-$3,856,993</td>
<td>-$5,553,716</td>
<td>-$22,032,176</td>
<td>$6,661,964</td>
<td>$10,681,806</td>
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</tbody>
</table>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.
### ALABAMA REASSURANCE COMPANY, INC.

**CAPITAL AND SURPLUS ACCOUNT**


<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and surplus, December 31, prior year</td>
<td>$157,253,619</td>
<td>$167,231,823</td>
<td>$148,984,788</td>
<td>$128,066,488</td>
<td>$122,030,640</td>
</tr>
<tr>
<td>Net income</td>
<td>$-3,856,993</td>
<td>$5,553,716</td>
<td>$22,032,176</td>
<td>$6,661,964</td>
<td>$10,681,806</td>
</tr>
<tr>
<td>Change in net unrealized capital gains or (losses)</td>
<td>35,376,054</td>
<td>2,298,545</td>
<td>9,529,759</td>
<td>11,935,916</td>
<td>3,937,908</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td>660,066</td>
<td>992,470</td>
<td>-2,396,768</td>
<td>-1,642,204</td>
<td>-290,383</td>
</tr>
<tr>
<td>Change in nonadmitted assets and related items, per Annual Statement</td>
<td>-196,536</td>
<td>3,370</td>
<td>1,104,268</td>
<td>-247,613</td>
<td></td>
</tr>
<tr>
<td><strong>Examination changes:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 1 – Common stocks</td>
<td>-7,903,579</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 3 – Cash, cash equivalents and short-term investments</td>
<td>-11,730,802</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in asset valuation reserve</td>
<td>-6,051,268</td>
<td>-1,826,305</td>
<td>-918,132</td>
<td>7,858,356</td>
<td>-3,045,870</td>
</tr>
<tr>
<td>Surplus adjustment:</td>
<td>4,000,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid in</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends to stockholders</td>
<td>-9,000,000</td>
<td>-17,000,000</td>
<td>-10,000,000</td>
<td>-5,000,000</td>
<td>-5,000,000</td>
</tr>
<tr>
<td>Change in capital and surplus for the year</td>
<td>$1,296,942</td>
<td>$-9,978,204</td>
<td>$18,247,035</td>
<td>$20,918,300</td>
<td>$6,035,848</td>
</tr>
<tr>
<td>Capital and surplus, December 31, current year</td>
<td>$158,550,561</td>
<td>$157,253,619</td>
<td>$167,231,823</td>
<td>$148,984,788</td>
<td>$128,066,488</td>
</tr>
</tbody>
</table>

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

36
NOTES TO FINANCIAL STATEMENTS

Note 1 – Common stocks

$191,151,662

The above captioned amount is $7,903,579 less than the $199,055,241 that was reported in the 2006 Annual Statement. The change consisted of the following common stocks, which were non-admitted for the purposes of this examination:

<table>
<thead>
<tr>
<th>Description</th>
<th>Annual Statement Amount</th>
<th>Per Examination Amount</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ready Mix USA</td>
<td>$156,679,560</td>
<td>$155,253,617</td>
<td>$1,425,943</td>
</tr>
<tr>
<td>Greene Group, Inc.</td>
<td>32,877,865</td>
<td>32,877,865</td>
<td>0</td>
</tr>
<tr>
<td>Scottrade</td>
<td>446,319</td>
<td>0</td>
<td>446,319</td>
</tr>
<tr>
<td>Harris Trust (E*Trade)</td>
<td>5,993,402</td>
<td>0</td>
<td>5,993,402</td>
</tr>
<tr>
<td>Securities not confirmed</td>
<td>37,915</td>
<td>0</td>
<td>37,915</td>
</tr>
<tr>
<td>Totals</td>
<td>$196,035,061</td>
<td>$188,131,482</td>
<td>$7,903,579</td>
</tr>
</tbody>
</table>

SUB-2 forms were not filed timely with the NAIC’s Security Valuation Office (SVO) for the year 2006 for the two affiliated common stocks (Ready Mix USA and Greene Group, Inc.) because the independent CPA’s audited financial statements were not completed by June 1st of the following year. According to PART EIGHT, Section 2(c)(ii) of the Purposes and Procedures Manual of the NAIC’s Securities Valuation Office (SVO Manual), the SVO requires that:

"By June of each year, any insurance company that has made a SUB 2-form filing in a previous year must update the information by filing an updated SUB 2-form filing. All SCA investments from the same ultimate Holding Company must be submitted together."

This was also not in compliance with Alabama Department of Insurance Regulation No. 98 Section 2, which states:

"(1) All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC Securities Valuation Office (SVO). Any security owned by an insurer that has not been valued by the SVO shall be submitted to the SVO for valuation in accordance with the procedures of the SVO."

As was noted previously in the CPA’s 2006 Audit Report and Workpapers section of this report (see page 24), the Company requested and received three filing extensions concerning the independent audit report from the ALDOI. The audit report was provided by the CPAs on September 5, 2007.
The two affiliated common stocks, with the aggregate value of $189,557,425, were not valued in accordance with the aforementioned SVO guidelines; consequently, the Company had not complied with the recommendations of the previous examination.

As of December 31, 2006, the Company’s investment in Ready Mix USA, its subsidiary, was valued at $156,679,562, which is $1,425,943 above the $155,253,619 allowable amount that can be invested in any one investment. ALA CODE § 27-41-6 (1975) states that:

“An insurer shall not have at any one time any single investment or combination of investments in or loans upon the security of the obligations, property or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer’s assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of section 27-3-7 and 27-3-8 of the Alabama insurance code.”

The Company should have not admitted the $1,425,943 difference in accordance with the above referenced Code section.

A review of the securities under Schedule D – Part 2 – Section 2 of the 2006 Annual Statement indicated that the wrong market indicators were used for the two Subsidiary, Controlled and Affiliated (SCA) securities: Ready Mix USA and Greene Group Inc. The market indicator used was a “U,” which was not in accordance with the SVO Manual, PART THREE, Section 4., SVO Administrative Symbols (b), which states:

“The SVO SCA Companies Group uses the following administrative symbols to denote the status of the filing or to comment on the value claimed by the reporting insurance company. The symbols and their meaning are published here solely to facilitate understanding by NAIC members.”

The symbols are: “NV,” “AP,” “D,” “R,” and “a,” “e,” and “i.”

In 2005, the Company’s SCA investments were valued using the market valuation method. This method is used for the valuation of SCA entities that are traded on one of the three major exchanges: (1) the New York Stock Exchange, (2) the American Stock Exchange, or (3) the NASDAQ National exchange. The Company’s SCA investments were not traded on any of the major exchanges, and therefore, should have been valued using the audited GAAP equity method of valuation to be in compliance with SSAP No. 88, paragraph 8, of the NAIC’s Accounting Practices and Procedures Manual.

It appeared that the Company changed the valuation method used to value its SCA investments without prior approval from the Alabama Commissioner of Insurance.
The valuation method was changed from GAAP Net Worth, Adjusted GAAP Net Worth in 2002, to a Market Value method of valuation in 2005. This was not in compliance with SSAP No. 88, paragraph 14, of the NAIC's Accounting Practices and Procedures Manual, which states:

"Once the reporting entity elects to use a valuation approach for a particular subsidiary, the reporting entity may not change the valuation method to another method without the approval of the domiciliary commissioner."

When this matter was discussed with Company officials, management indicated that the wrong box on the SUB-2 form had been checked. The oversight was corrected with the submission of the SUB-2 forms filed with the SVO in September 2007, after the receipt of the CPA’s 2006 audit report.

A review of the securities bought and sold determined that there were two securities in 2006, that had the same CUSIP Number: Vesta Insurance Group Inc. and Merchants & Farmers Bank; both had CUSIP #588220103. In addition, the Regions Financial common stock had two different CUSIP numbers listed for the same stock, one under Schedule D – Part 2 – Section 2 with CUSIP #925391104, and the other under Schedule D – Part 3, with the CUSIP #758940100. The NAIC’s Annual Statement Instructions, page 328, states: “Column 1 – CUSIP: All CUSIP/PPN/CINS numbers entered in this column must conform to those as provided and published by the Securities Valuation Office (SVO). CUSIP numbers for all purchased publicly issued securities are available from the broker’s confirmation or the certificate and will be identical to those used by the SVO. For private placement securities the NAIC has created a special number called a PPN to be assigned by the Standard and Poor’s CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard and Poor’s CUSIP Bureau.”

The review of securities bought and sold in 2006, as listed on Schedule D, indicated that the Vesta Insurance Group Inc. common stock was purchased in multiple lots during multiple days, but the acquisition date was reported as the last day of each month. Common stock acquisitions should be recorded on the trade date in accordance with page 325, of the NAIC’s Annual Statement Instructions, which requires: “For public placements use trade date, not settlement date...Each issue of bonds or stocks acquired at public offerings on more than one date may be totaled on one line and the date of last acquisition inserted...” in column 4 – Date Acquired.

It was noted that the Company had brokerage accounts with Scottrade and Harris Trust (currently, E*Trade), in which there were securities deposited as of December 31, 2006. The Company did not have custodial agreements approved by the Alabama Insurance Commissioner with these brokerages. ALA. ADMIN. CODE 482-1-077-.04 (2003) stipulates, in pertinent part, the following:
“(1) An insurance company may, by written agreement with a custodian, provide for the custody of its securities with a custodian. “The securities may be held by the custodian or its agent or in a clearing corporation or in the Federal Reserve book-entry system.”

“(2) The agreement shall be in writing and shall be authorized by a resolution of the board of directors of the insurance company or of an authorized committee of the board.”

“(2)(o) The custody agreement is of no force and effect until the Commissioner approves, in writing, the custody agreement.”

Since there were no approved custodial agreements for the safekeeping of the $446,319 in securities held with Scottrade and the $5,993,402 held with Harris Trust, these accounts, with an aggregate total market value of $6,439,721, were non-admitted for the purposes of the examination.

There were partial amounts of shares of three common stocks that were reported on Schedule D - Part 2 - Section 2, but were not located on any custodial statement, brokerage statement, or stock certificate. The three stocks included 34.66 shares of Energen, 579.73 shares of Atmos Energy, and 475.629 shares of Regions Financial, which the Company classifies as “Dividend Reinvestments.” These items were held with the issuers. While the Company maintains statements of these accounts, ownership of these items could not be established in accordance with ALA CODE § 27-37-1 (1975).

No direct confirmations were received by the examiners during the course of the examination. These securities in the amount of $37,915, were non-admitted for the purposes of this examination.

**Note 2 – Real Estate**

$700,637

The above captioned amount is the same as reported in the 2006 Annual Statement but $700,637 more than determined by this examination.

The Company did not provide a formal appraisal for the three properties listed on Schedule A - Part 1, of the 2006 Annual Statement. Two recreational properties, acquired in 1988 and 2006, and totaling $319,919 in book value, were appropriately not admitted by the Company.

The Plum Creek Timberlands property in Cleveland County, Arkansas, purchased in 2003, and valued at $700,637, was recorded as an admitted asset in the line item *Properties*
held for sale on the balance sheet. SSAP No. 40, paragraph 12, of the NAIC’s Accounting Practices and Procedures Manual states that:

“For all properties held for sale, an appraisal shall be obtained at the time such property is classified as held for sale, and subsequently an appraisal shall be maintained that is no more than five years old as of the reporting date. If any of the previous conditions exist but an appraisal has not been obtained, the related property shall be considered a non-admitted asset until the required appraisals are obtained.”

In addition, ALA CODE § 27-37-7(b) (1975), requires:

“Other real property held by an insurer shall not be valued at an amount in excess of fair value as determined by recent appraisal. If valuation is based on an appraisal more than three years old, the commissioner may at his discretion call for and require a new appraisal in order to determine fair value.”

The Company should have not admitted this property in accordance with the referenced SSAP and section of the Alabama Insurance Code. The $700,637 amount was not material for the purposes of this examination, and no changes will be made to the financial statements in this report.

The Company did not provide appraisals for any of the properties listed on Schedule A – Part I, but listed appraisal dates for all three properties under column 6 (Date of Last Appraisal). This was not in compliance with the NAIC’s Annual Statement Instructions, which require the Company to “State date of last appraisal.”

Note 3 – Cash, cash equivalents and short-term investments

$40,710,660

The captioned asset is $11,730,802 less than the $52,441,462 amount reported by the Company in its 2006 Annual Statement. The difference included the following items, which were not admitted for the purposes of this examination:

<table>
<thead>
<tr>
<th>Description</th>
<th>Per Schedule E-Part 1</th>
<th>Per Examination</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harris Trust Cash Account</td>
<td>$177,253</td>
<td>$0</td>
<td>$177,253</td>
</tr>
<tr>
<td>Bryant Bank Accounts</td>
<td>11,437,344</td>
<td>0</td>
<td>11,437,344</td>
</tr>
<tr>
<td>Regions Bank Time Deposit Open Bal.</td>
<td>947,296</td>
<td>831,091</td>
<td>116,205</td>
</tr>
<tr>
<td>TOTALS</td>
<td>$12,561,893</td>
<td>$831,091</td>
<td>$11,730,802</td>
</tr>
</tbody>
</table>

Pledge of assets in excess of recorded reserves:

The Company, as an unauthorized reinsurer, pledged certain assets for trust accounts, which were controlled by ceding companies. As of December 31, 2006, the Company still had $100,000 that was pledged above the recorded reserves to ceding companies.
under reinsurance contracts. Management indicated that the excess was accounted for on Schedule E – Part 1 – Cash as a negative $100,000, for the purpose of nonadmitting the over pledged amount. The NAIC’s Annual Statement Instructions require the Company to report deposit balances on Schedule E, but if the cash is not under the exclusive control of the Company, then “it is to be identified by placing one of the symbols identified in the General Investment Schedules instructions” in column 2 (Code). The Company should have nonadmitted the $100,000, instead of reporting it as a negative amount.

Cash Accounts Held Outside State of Domicile without a Custodial Agreement:

The Harris Trust Cash Account with an amount of $177,253 was held in a brokerage account outside of the state of domicile without a custodial agreement. After repeated requests to the brokerage firm and the Company for confirmation, the examiners did not receive a confirmation of the cash held under this account. This was not in compliance with ALA ADMIN. CODE 482-1-077-.04 (2003), which stipulates, in pertinent part, the following:

“(1) An insurance company may, by written agreement with a custodian, provide for the custody of its securities with a custodian. The securities may be held by the custodian or its agent or in a clearing corporation or in the Federal Reserve book-entry system.”

“(2) The agreement shall be in writing and shall be authorized by a resolution of the board of directors of the insurance company or of an authorized committee of the board.”

“(2)(a) The custody agreement is of no force and effect until the Commissioner approves, in writing, the custody agreement.”, and also to be in compliance with Ala Code § 27-37-1 (1975), which states: "In any determination of the financial condition of an insurer, there shall be allowed as assets only such assets as are owned by the insurer and which consist of: (1) Cash in the possession of the insurer or in transit under its control, and including the true balance of any deposit in a solvent bank or trust company;”

This $177,253 cash account was non-admitted for the purposes of this examination.

Bryant Bank Pecuniary Interest Violations:

A review of the cash accounts listed on Schedule E – Part 1 – Cash of the 2006 Annual Statement determined that the Company had funds deposited in three separate accounts at Bryant Bank totaling $11,437,344 as of December 31, 2006. This examination has determined that the depositing of funds in Bryant Bank was a pecuniary interest violation due to the common ownership of Bryant Bank and Alabama Reassurance Company Inc., and was not in compliance with ALA CODE § 27-27-26(a) (1975), which states:
“(a) 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 deposit or invest such funds except in the insurer’s corporate name; except, that such insurer may for its convenience hold any equity investment in a street name or in the name of a nominee; shall not borrow the funds of such insurer; 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 and 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 $11,437,344 total amount deposited in Bryant Bank at December 31, 2006, was non-admitted for purposes of this examination. Subsequent to the examination period, the Company removed the referenced funds from Bryant Bank and closed all of these accounts.

**Cash Amounts Not Confirmed:**

The Company reported $947,296 in the Regions Bank Time Deposit Open Balances account, which was $116,205 above what was listed on the custodial confirmation. Management indicated that the bank had made an error in the amount confirmed, but the Company did not provide any information to support the amount listed on Schedule E – Part 1. ALA Code § 27-27-29(a) (1975), requires:

> “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

In addition, ALA Code § 27-37-1 (1975), states:

> “In any determination of the financial condition of an insurer, there shall be allowed as assets only such assets as are owned by the insurer and which consist of: (1) Cash in the possession of the insurer or in transit under its control, and including the true balance of any deposit in a solvent bank or trust company;”

The $116,205 cash amount was non-admitted for the purposes of this examination.

**Note 4 – Current federal and foreign income tax recoverable**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current federal and foreign income taxes</td>
<td>$603,658</td>
</tr>
<tr>
<td>Note 4 – Current federal and foreign income tax recoverable</td>
<td>$863,400</td>
</tr>
</tbody>
</table>

The referenced items are the same as reported by the Company in its 2006 Annual Statement. The Company reported an asset of $863,400, and also reported a liability of
$603,658 on the balance sheet. These items should have been netted resulting in an asset of $259,742. 

Paragraph 3, of SSAP No. 10 of the NAIC’s Accounting Practices and Procedures Manual, states:

“‘Income taxes incurred’ shall include current income taxes, the amount of federal and foreign income taxes paid (recovered) or payable (recoverable) for the current year.”

The netting of the current federal and foreign income tax asset and liability did not have an effect on surplus, and therefore, the financial statements in this report were not changed.

**Note 5 – Net deferred tax asset**

<table>
<thead>
<tr>
<th>Net deferred tax asset</th>
<th>$2,683,360</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net deferred tax liability</td>
<td>$2,004,983</td>
</tr>
</tbody>
</table>

The referenced amounts are the same as was reported by the Company in its 2006 Annual Statement.

At year-end 2006, the Company reported $2,683,360 as the *Net deferred tax asset* and $2,004,983 as the *Net deferred tax liability*. These items should have been netted on the balance sheet, thereby evidencing a $678,377 asset. SSAP No. 10, paragraph 7, of the NAIC’s Accounting Practices and Procedures Manual states:

“DTAAs and DTLs shall be offset and presented as a single amount on the statement of financial position.”

Because the netting of these amounts did not affect the financial statements, no changes were made to the line items on the balance sheet for the purposes of this examination. It was noted that the Company properly reported the $678,377 net asset under item #9, in the Notes to Financial Statements of the 2006 Annual Statement.

The tax review required that the examiners determine if the Company properly reported changes in net deferred income taxes, unrealized gains and losses net of tax, and the change in nonadmitted deferred tax assets. During the course of the examination, the examiners had concerns that the Company was not properly accounting for the unrealized valuation gains. This matter was discussed with management and representatives from PricewaterhouseCoopers, LLP (PWC), the independent CPA firm that performs the Company’s annual audit. The unrealized capital gain was reported gross of taxes because the Company maintained that the change in unrealized valuation increase did not need to be reported under the capital and surplus account net of DTA (or DTL) because the affiliated stock valuation increases were taxed on the parent’s level due to filing taxes on a consolidated basis. The unrealized valuation increase of
unaffiliated stocks did not need to be reported net of the DTL because this amount of the DTL allocated to these unaffiliated stocks was included in the change in deferred tax amount that is also under the capital and surplus account. The examiners could not determine whether or not this was an appropriate treatment at the time of the issuance of the examination report.

Note 6 – Cash Value of Life Insurance Policy $1,008,837

The above captioned amount is the same as reported in the Company’s 2006 Annual Statement.

It was noted that the Cash Value of Life Insurance Policy of $1,008,837, reported in Aggregate write-ins for other than invested assets on page 2, of the 2006 Annual Statement, was $5,698.40 more than the stated cash value of $1,003,139 of the policy on the confirmation letter received from the issuer.

The amount of the difference was immaterial, and no changes were made to the financial statements in this report.

Note 7 – General expenses due or accrued $52,363

The referenced liability is the same as reported by the Company in its 2006 Annual Statement but $585,000 less than the $637,363 amount determined by this examination.

As was noted during the review of the liability pertaining to unfunded postretirement benefits (see “Note 11 – Deferred Compensation Liability”), $585,000 was included in the Aggregate Write-ins for Liabilities line item on the balance sheet but should have been included under this caption on liability line 12, in accordance with page 59 of the NAIC’s Annual Statement Instructions, which states: “Line 12 - General Expenses Due or Accrued Include: ...Unfunded postretirement benefit obligation.”

The misclassification had no effect on the financial statements of this report, and no changes were made for the purposes of this examination.

Note 8 – Amounts withheld or retained by company as agent or trustee $-0-

The referenced amount is the same as reported by the Company in its 2006 Annual Statement. The Company did not report any amount under this caption during the five-year examination period.
Unclaimed property filings
The Company indicated that because there was no direct business, it did not have any unclaimed property. Even if a company has no unclaimed property, an insurance company is required to file annual zero remittance reports by November 1st for the accounting period preceding July 1st, beginning in 2004. The report for 2004 was not filed by November 1st, nor were reports filed at any time thereafter. ALA. CODE §§ 35-12-76(a) and (8)(c) (1975), require that:

“A holder of property presumed abandoned shall make a report to the Treasurer concerning the property. The report must be verified and must contain, at a minimum, all of the following:..(8) (c) The report shall be filed before November 1 of each year and cover the 12 months next preceding July 1 of that year.”

Note 9 – Asset valuation reserve (AVR) $31,616,452

The above captioned amount is the same as reported by the Company in the 2006 Annual Statement but $858,831 more than the $30,757,621 amount determined by this examination.

Information to support the 2006 portfolio beta calculation, as well as the weighted average portfolio beta calculations for the rest of the years under review was repeatedly requested from the Company but no information was received. ALA. ADMIN. CODE 482-1-118-.06 (1999), requires that:

“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...”

In addition, ALA CODE § 27-27-29(a) (1975), states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

Since the Company did not provide the supporting information to corroborate the portfolio beta calculation, the examiners recalculated the reserve objective and the maximum reserve in accordance with the NAIC’s Annual Statement Instructions, which states: “Companies that do not want the extra administrative complexity of calculating the beta factor may use the maximum AVR factor of 20%.” Utilizing the 20% increased the amount of the unaffiliated public common stock reserve objective and the maximum reserve from $1,234,716 to $1,899,563.
At a result of $7,903,579 in examination changes to Common stocks (see Note 1 – Common stocks on page 37), AVR was recalculated. Unaffiliated Public stocks were reduced from $9,497,814 to $3,020,178. The reserve objective and maximum reserve were recalculated using the 20% factor, thereby reducing the contribution to AVR to $604,036. Affiliated All Other stocks were reduced from $189,557,427 to $188,131,484. The $1,425,943 difference was the amount over the allowable amount that can be invested in any one investment in accordance with ALA CODE § 27-41-6 (1975). Utilizing the 0.16 factors in the reserve objective and maximum reserve, the contribution to AVR was decreased $227,881 from $30,329,188 to $30,101,037.

Unrealized capital gains for these nonadmitted stocks in the amount of $1,070,515 were removed from the AVR calculation as well.

As of December 31, 2006, the AVR, after recalculation, is $30,757,621, a decrease of $858,831. The change in AVR is immaterial for the purposes of this examination, and no changes were made to the financial statements in the examination report.

It was noted that in 2003, the AVR was over reserved by $183,170, due to an over reserving of the common stock sub-component by $194,649 and an under reserving of the real estate sub-component by $11,479. In addition, in 2005, there were no reserve objectives or maximum reserve amounts reported in the AVR for the unaffiliated public common stock, due to this the ending reserve was under reserved by $656,330. The total of these amounts was $473,160, by which the AVR was under reserved.

In 2003, the Company over reserved for the common stock sub-component by $194,649, and under reserved for the real estate and other invested assets sub-component by $11,479 on the 2003 AVR exhibit. This caused the AVR to be over reserved by a total of $183,170.

In 2005, there were no reserve objective or maximum reserve amounts calculated for the unaffiliated public common stock amount listed on the AVR supporting calculations exhibits. This caused the ending reserve on the AVR exhibit to increase by $656,330 in 2005. In addition, the Unrealized Capital Gains/(Losses) Net of Deferred Taxes-General Account amount for the common stock under the equity component was overstated. The amount reported was $3,110,021, and the amount that should have been reported was $2,298,545. The new amount caused the ending reserve of the AVR to increase by $656,330.

Individually, and in the aggregate, these errors were not material, and no changes were made to the financial statements in this report.
Note 10 – Payable to parent, subsidiaries and affiliates    $141,237

The captioned amount is the same as was reported by the Company in its 2006 Annual Statement but $17,743 less than the $158,980 amount determined by this examination.

The 2006 accrual included certain amounts that were incurred in 2005, and not paid until 2007, subsequent to the December 31, 2006 examination date. The $206,423 liability reported on the 2005 Annual Statement was under accrued by $105,249, which consisted of invoices for expenses that were due to Greene Group, Inc., the Company’s parent. According to management, the Company was not invoiced for these amounts until July 2007, at which time the invoices were paid. Apparently, the invoicing was overlooked by the Company due to the move to a new home office facility.

The review of payables to parent, subsidiaries and affiliates at year-end 2006, indicated that the liability was again under accrued but only by $17,743. Page 38, of the NAIC’s Annual Statement Instructions states:

“Line 24.4 – Payable to Parent, Subsidiaries and Affiliates: Report a liability as due to affiliates for expenditures incurred on behalf of the company by a parent, affiliate, or subsidiaries or for amounts owed through other intercompany transactions.”

In addition, SSAP No. 25, paragraph 14, of the NAIC’s Accounting Practices and Procedures Manual, requires that:

“When accounting for a specific transaction, reporting entities shall use the following valuation methods: a. Economic transactions between related parties shall be recorded at fair value at the date of the transaction.”

The referenced $17,743 difference was not material for the purposes of the examination, and no changes were made to the financial statements in this report.

Note 11 – Deferred Compensation Liability    $585,000

The captioned liability is the same as reported by the Company in its 2006 Annual Statement. The review of the deferred compensation liability pertaining to the unfunded postretirement benefits of the Company’s employees indicated that the $585,000 was included on the Aggregate Write-ins for Liabilities line item on the balance sheet but should have been included in liability line 12 (General expenses due or accrued) in accordance with page 59 of the NAIC’s Annual Statement Instructions, which states: “Line 12 – General Expenses Due or Accrued Include: ...Unfunded postretirement benefit obligation.” The misclassification had no effect on the financial statements of this report, and no changes were made for the purposes of this examination.
In 2002, the Company entered into a non-qualified retirement plan with its Vice President and Actuary. This plan was discussed in the EMPLOYEE AND AGENTS WELFARE section of the examination report (see page 16). During the 2005 annual audit, the Company’s independent CPAs determined that the ultimate liability of the retirement plan was approximately $824,000, which is the amount of the liability that should be recorded by the April 2008 retirement date and accrued by year-end 2008. Using the Equal Annual Accrual Method, the Company should have begun accruing the liability in 2002, when the plan was established, in equal increments each year until December 31, 2008. As a result, at the December 31, 2006 examination date, the accrual would equal five years worth of expenses at $117,000 per year, totaling $585,000.

**Note 12 – Unassigned funds (surplus)** $84,597,724

Unassigned funds (surplus), as determined by this examination, was $19,634,381 less than the $104,232,105 amount reported by the Company in its 2006 Annual Statement. The following presents a reconciliation of unassigned funds per the Company’s filed Annual Statement to that developed by this examination:

**Unassigned funds (surplus) per Company** $104,232,105

**Examination increase (decrease) to assets:**

Note 1 – Common stocks $ (7,903,579)
Note 3 – Cash, cash equivalents and short-term Investments (11,730,802)

Total increase/(decrease) to assets $ (19,634,381)

**Examination (increase)/decrease to liabilities:**

Total (increase)/decrease to liabilities 0

**Net Increase/(Decrease)** $ (19,634,381)

**Unassigned funds (surplus) per Examination** $ 84,597,724

**CONTINGENT LIABILITIES AND PENDING LITIGATION**

The review of contingent liabilities and pending litigation included an inspection of representations made by Company management, the Annual Statement disclosures, holding company documents and agreements with affiliates, minutes of the corporate governing bodies, pending claims, and a general review of the Company’s records and
files conducted during the examination. Other than the following item noted herein, these reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an unfavorable outcome.

As detailed in the “Transactions and Agreements with Affiliates” section of this report, the Company was a party to a $100,000,000 line of credit Loan Agreement (see page 13). The outstanding loan balance at the December 31, 2006 examination date was $6,650,000. Because the Company was a named party to the agreement at year-end 2006, the Company was contingently liable for the $6,650,000 outstanding loan balance. Subsequent to the examination date, the agreement was amended and revised and did not include the Company.

From time to time, the Company, in the ordinary course of business, is involved in legal actions arising from reinsurance treaties to which the Company has been a party. While the outcome of such legal actions cannot be predicted, management believes that at the present time, there are no pending or threatening lawsuits that are reasonably likely to have a material adverse effect on the financial position, results of operations, or liquidity of the Company. The Company reported that there was no ongoing litigation as of December 31, 2006, and had not set aside any reserves for contingent liabilities.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company’s compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations, with the exception of certain items listed below.

Agreements with Affiliates – The previous examination report noted that the Company was charged for expenses that were not included in the Joint Office Expense Allocation agreement, and recommended that the Company pay only those expenses allocated through the agreement, or revise the agreement to include all fees charged. During the examination period, the Company continued to pay for certain expenses that were not included in the agreement and did not revise the agreement to include those expenses. Consequently, the Company did not comply with prior recommendations.

Accounts and records – The prior examination report recommended that the Company adopt adequate procedures and a security policy relating to the security of its computer systems. This examination determined that the Company still does not have policies or procedures regarding its computer system and emergency response system; therefore, the Company did not comply with the previous recommendation.
Common stocks – The previous examination report recommended that the Company comply with Alabama Department of Insurance Regulation Number 98 § 2, which requires that all securities be valued in accordance with the Purposes and Procedures Manual of the NAIC’s Securities Valuation Office. SUB-2 forms were not filed as of December 31, 2006, for two affiliated entities; consequently, the Company did not comply with the recommendation. Additional information is included in “Note 1 – Common stocks,” beginning on page 37.

General expenses due and accrued – The previous examination recommended that the Company establish accruals for obligations not yet paid in its financial statements in accordance with NAIC Annual Statement Instructions. A review of legal fees determined that certain of those fees were incurred in 2006, but not expensed and paid until 2007, thereby under accruing the liability at year-end 2006. While the Company did establish an accrual under the referenced caption, the amount was not sufficient to cover legal expenses. Consequently, the previous recommendation had not been complied with in its entirety. Further discussions with management on this matter indicated that certain legal invoices received prior to year-end 2006, were to be revised based on billing for services that had not been rendered.

COMMENTS AND RECOMMENDATIONS

The following summary presents the comments and recommendations that are made in the current Report of Examination.

Board of Directors – Page 4

It is recommended that the Company elect its Board of Directors in accordance with Article III, Section 2, of its By-Laws, which sets the number of directors at six.

Corporate Records – Page 6

It is recommended that the Company’s corporate minutes document the approval of its investments and the authorization of salaries in accordance with ALA. CODE § 27-41-5 (1975), which states that: “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 shall be recorded and regular reports thereof shall be submitted to the board of directors.”
It is recommended that the Company include all members of its holding company group on Schedule Y – Part 1, in accordance with the NAIC’s Annual Statement Instructions, which requires the Company to “Attach a chart or listing presenting the identities of and interrelationships between the parent, all affiliated insurers and other affiliates, identifying all insurers as such and listing the Federal Employer’s Identification Number for each.”

It is recommended that the Company complete Note 10.G., of its Notes to Financial Statements in accordance with the NAIC’s Annual Statement Instructions, which require the Company to report “the control relationship whereby the reporting entity and one or more other enterprises that are under common ownership or control…” and “[d]isclose the relationship even though there were no transactions between the enterprises…”

Transactions and Agreements with Affiliates – Page 9

It is recommended that the Company keep records of the minutes of the Board of Directors meetings showing the approval of Joint Expense Office Allocation agreement and the Consolidated Tax Allocation Agreement so as to be in compliance with ALA Code § 27-27-29(a) (1975), which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

It is recommended that the Company pay for only those expenses that it is contracted to pay for under the Joint Office Expense Allocation agreement, or revise the agreement to include those other expenses not included on the agreement for which the Company has been charged in the past, and file such agreement with the Alabama Department of Insurance in accordance with Section 18, of Alabama Department of Insurance Regulation No. 55, which states: “An insurer required to give notice of a proposed transaction pursuant to Section 27-29-5 shall furnish the required information on Form D, hereby made a part of this regulation.” This recommendation was also made in the previous examination report.

It is also recommended that the Company establish a non-admitted receivable for all amounts that they paid that were not covered by the Joint Office Expense Allocation agreement and seek collection of those amounts.

It is recommended that the Company file agreements with affiliated companies with the Alabama Department of Insurance in accordance with ALA Code § 27-29-5(b)(4)
(1975), which stipulates that: “...transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period.”

**It is recommended** that the Company follow the terms of its *Consolidated Tax Allocation Agreement*, and obtain repayment for the amount of payments in excess of its liability for federal and foreign income tax in a timely manner to be in compliance with said agreement, which states: “If a member shall have made payments to another member for any taxable year in excess of its liability computed under Articles Two and Three (whether determined on audit or otherwise), the amount of any overpayment shall be repaid to that member. The repayment shall be made to the member no later than the date the payment would have been made to this member by the internal revenue service had the member filed a separate return, or as soon thereafter as possible.”

**Dividends to stockholders** – Page 14

**It is recommended** that the Company include specific reference to ALA. CODE § 27-27-37 (1975) in its Annual Statement *Notes to Financial Statements*, and in the CPA’s audit reports under the “Dividend Restrictions” caption.

**Compliance with ALA. ADMIN. CODE 482-1-121 (2003)** – Page 16

It is recommended that the Company require all current employees to sign an affidavit concerning the Violent Crime Control and Law Enforcement Act of 1994 on an annual basis in order to ensure compliance with US Code, Title 18, Section 1033 (e)(1)(A), and ALA. ADMIN. CODE 482-1-121 (2003). Guideline 1 of the referenced regulation states that: “Failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred.”

**Reinsurance** – Page 20

**It is recommended** that the Company provide documentation evidencing that the transfer of securities back to the ceding company was in accordance with the novation of the reinsurance contract so as to be in compliance with Alabama Department of Insurance *Regulation No. 118*, 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 reasonable
justification for the delay.”

Accounts and Records:

*CPA’s 2006 Audit Report and Workpapers* – Page 24

*It is recommended* that the Company require its independent certified public
accountants to complete their annual audit in a timely manner, whereby the audited
financial report is filed with the Alabama Department of Insurance “...on or before
June 1 for the year ended December 31 immediately preceding...” in accordance with
the NAIC’s *Annual Statement Instructions*. Said instructions also require that the
Company’s CPA “make available for review by domiciliary Department examiners all
workpapers prepared in the conduct of his/her examination...”

*It is also recommended* that comply with *ALA. ADMIN. CODE 482-1-100-.06* (2004),
which states: “(2) The insurer shall obtain a letter from the accountant, and file a copy
with the Commissioner stating that the accountant is aware of the provisions of the
insurance code and the rules and regulations of the insurance department of the state of
domicile that relate to accounting and financial matters and affirming that the
accountant will express his or her opinion on the financial statements in terms of their
conformity to the statutory accounting practices prescribed or otherwise permitted by
that insurance department, specifying such exceptions as he or she may believe
appropriate.” In addition, section .13, of the aforementioned regulation requires that:
“(2) Every insurer required to file an audited financial report pursuant to this chapter,
shall require the accountant to make available for review by insurance department
examiners, all workpapers prepared in the conduct of the accountant’s examination and
any communications related to the audit between the accountant and the insurer, at the
offices of the insurer, at the insurance department or at any other reasonable place
designated by the Commissioner. The insurer shall require that the accountant retain
the audit workpapers and communications until the insurance department has filed a
report on examination covering the period of the audit but no longer than seven (7)
years from the date of the audit report.

(3) In the conduct of the aforementioned periodic review by the insurance department
examiners, it shall be agreed that photocopies of pertinent audit workpapers may be
made and retained by the department. Such reviews by the department examiners shall
be considered investigations and all working papers and communications obtained
during the course of such investigations shall be afforded the same confidentiality as
other examination workpapers generated by the department.”
**Deficiency in Actuarial Opinion** – Page 26

It is recommended that the Company’s actuary closely follow the format and content requirements outlined in ALA. ADMIN. CODE 482-1-112-.06 (2003), which requires detailed reporting of the results of asset adequacy testing in tabular form with clear explanations of any reliance placed on other experts and including statements from each expert relied upon. This recommendation should be applied on a going forward basis, and future submissions monitored for compliance by the Alabama Department of Insurance, beginning for the year ending December 31, 2007.

**General Interrogatories** – Page 26

It is recommended that the Company complete the Annual Statement’s *General Interrogatories* in accordance with the NAIC’s *Annual Statement Instructions*, and Alabama Department of Insurance *Regulation No. 97*, Section 4, which requires that: “When submitting required financial reports to the department, all insurers shall use the appropriate NAIC Annual Statement Blank which shall be prepared in accordance with the NAIC Annual Statement Instructions and follow those accounting practices and procedures prescribed by the NAIC Accounting Practices & Procedures Manual, except when in conflict with Alabama Statutes or other Alabama Insurance Department Regulations.”

**Operations**

**Computer center – Risk of water damage** – Page 28

It is recommended that the Company assess the risk of water damage to computer equipment in the basement and consider the installation of moisture sensors in the computer center in order to safeguard its computer data and equipment.

**Tape backup failure rate** – Page 28

It is recommended that the Company reduce its tape backup failure rate, thereby insuring the efficiency of the backup process and the accurate maintenance of its records. ALA. CODE § 27-27-29(a) (1975) requires: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

**Records retention** – Page 28

It is recommended that the Company maintain a complete records retention policy in accordance with Alabama Department of Insurance *Regulation No. 118*, Section 3, which states: “All records must be maintained for at least five (5) years...”, and ALA. CODE § 27-27-29(a) (1975), which requires that: “Every domestic insurer shall have, and
maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.’’

_Storage in off-premises location_ – Page 28

_It is recommended_ the Company store data at commercial off-site locations in order to reduce the risk of loss, corruption, misuse and abuse of such information.

_Written procedures for backup storage_ – Page 29

_It is recommended_ that the Company establish written procedures for electronic data storage subsequent to dissolution.

_Network configuration and monitoring_ – Page 29

_It is recommended_ that the Company document the process used in changing the network configuration so that it can be demonstrated or the process validated.

_It is recommended_ that the Company monitor and document the process for monitoring the network for failed nodes, circuits or segments.

_It is recommended_ that the Company execute a formal agreement with its parent in order to ensure that the Company’s access to the network and its own data are safeguarded.

Alabama Department of Insurance _Regulation No. 118_, Section 3, states that: ‘’...All records must be maintained for at least five (5) years.’’ Additionally, _ALA. CODE § 27-27-29(a) (1975)_ requires that: ‘’Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.’’

_Logical and Physical Security_

_Assignment and security of passwords_ - Page 29

_It is recommended_ that the Company require its personnel to create and maintain unique and individual logon passwords.

_It is recommended_ that the Company not grant unauthorized access to the Company’s users’ passwords.

_Change passwords_ – Page 30

_It is recommended_ that Company personnel change their passwords at least quarterly.
Access for terminated employees – Page 30
It is recommended that the Company maintain written guidance to promptly remove information system access for terminated employees.

Intrusion Detection System – Page 30
It is recommended that the Company adopt a security policy and adequate procedures, including an Intrusion Detection System, relating to the security of its computer system.

Emergency Response Procedures – Page 30
It is recommended that the Company maintain procedures to follow in the event of a computer security incident. A similar recommendation was made in the previous examination report.

Business Contingency Planning – Page 30
It is recommended that the Company develop, test, and maintain a current business contingency plan.

Wide Area Network (WAN) and Internet – Page 31
It is recommended that the Company establish and maintain written guidance governing Internet usage.

OPERATIONS/MANAGEMENT General Examination Standard 2, of the NAIC’s 2006 Market Regulation Handbook requires that: “The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.”

Antifraud Plan – Page 31
It is recommended that the Company establish a formal, written antifraud plan in accordance with OPERATIONS/MANAGEMENT General Examination Standard 3, of the NAIC’s Market Regulation Handbook, which states that the Company should have “antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.”

Company’s response time to information requests – Page 31
It is recommended that the Company respond to information requests from the examiners in compliance with Section 6. Time limits, of Alabama Department of Insurance Regulation No. 118, which requires that: “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 reasonable justification for the delay.”

**Common stocks** – Page 37

**It is recommended** that the Company file a SUB-2 form with the NAIC’s Securities Valuation Office (SVO) for each of the two Subsidiary, Controlled and Affiliated (SCA) securities it owns by June 1st of each year, to be in compliance with PART EIGHT, Section 2(c)(ii) of the Purposes and Procedures Manual of the NAIC’s Securities Valuation Office (SVO Manual), which states that: “By June of each year, any insurance company that has made a SUB 2-form filing in a previous year must update the information by filing an updated SUB 2-form filing. All SCA investments from the same ultimate Holding Company must be submitted together.”

**It is also recommended** that the Company comply with Alabama Department of Insurance Regulation No. 98 Section 2, which requires: “(1) All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC Securities Valuation Office (SVO).” Any security owned by an insurer that has not been valued by the SVO shall be submitted to the SVO for valuation in accordance with the procedures of the SVO.”

**It is recommended** that the Company comply with **ALA CODE § 27-41-6 (1975)**, which states: “An insurer shall not have at any one time any single investment or combination of investments in or loans upon the security of the obligations, property or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer’s assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of section 27-3-26 of the Alabama insurance code, less the minimum capital and surplus required of said insurer for authority to transact insurance by sections 27-3-7 and 27-3-8 of the Alabama insurance code.”

**It is recommended** that the Company use the symbols provided in the PART THREE, Section 4., SVO Administrative Symbols (b), of the SVO Manual, which states: “The SVO SCA Companies Group uses the following administrative symbols to denote the status of the filing or to comment on the value claimed by the reporting insurance company. The symbols and their meaning are published here solely to facilitate
understanding by NAIC members.” The symbols are: “NV,” “AP,” “D,” “R,” and “a,” “e,” and “i.”

It is recommended that the Company use the audited GAAP equity method of valuation when valuing the Company’s two SCA investments so as to be in compliance with SSAP No. 88, paragraph 8, of the NAIC’s Accounting Practices and Procedures Manual, which states: “b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 8 a. or, if the requirements are met, but a reporting entity elects not to use that approach, the reporting entity’s proportionate share of its investments in SCAs shall be recorded as follows: iii. Investments in noninsurance SCA entities that do not qualify under subparagraph 8 b. ii. shall be recorded based on the audited GAAP equity of the investee…”

It is recommended that the Company obtain approval from the Alabama Insurance Commissioner before changing the valuation method used in valuing SCA investments, in compliance with SSAP No. 88, paragraph 14, of the NAIC’s Accounting Practices and Procedures Manual, which states: “Once the reporting entity elects to use a valuation approach for a particular subsidiary, the reporting entity may not change the valuation method to another method without the approval of the domiciliary commissioner.”

It is recommended that the Company list the correct CUSIP for each security listed, to be in compliance with the NAIC’s Annual Statement Instructions, page 328, which states: “Column 1 – CUSIP: All CUSIP/PPN/CINS numbers entered in this column must conform to those as provided and published by the Securities Valuation Office (SVO). CUSIP numbers for all purchased publicly issued securities are available from the brokers confirmation or the certificate and will be identical to those used by the SVO. For private placement securities the NAIC has created a special number called a PPN to be assigned by the Standard and Poor’s CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard and Poor’s CUSIP Bureau.”

It is recommended that the Company list the trade date as the acquisition date, and for multiple purchases, record the total of the items and the date of the last trade so as to be in compliance with page 325, of the NAIC’s Annual Statement Instructions, which requires: “For public placements use trade date, not settlement date…Each issue of bonds or stocks acquired at public offerings on more than one date may be totaled on one line and the date of last acquisition inserted.”

It is recommended that the Company execute custodial agreements with all financial institutions in which there are securities deposited by the Company so as to be in
compliance with ALA ADMIN. CODE 482-1-077-.04 (2003), which requires the Company, “by written agreement with a custodian, provide for the custody of its securities...” The custody agreement “shall be in writing and shall be authorized by a resolution of the board of directors of the insurance company or of an authorized committee of the board...” and “[t]he custody agreement is of no force and effect until the Commissioner approves, in writing, the custody agreement...” in accordance with the relevant sections in item (2) of the referenced regulation.

It is recommended that the Company have its bank or brokerage firm comply with requests for confirmations of assets held by the bank or brokerage firm to be in compliance with ALA CODE § 27-37-1 (1975), which states: “In any determination of the financial condition of an insurer, there shall be allowed as assets only such assets as are owned by the insurer and which consist of: (1) Cash in the possession of the insurer or in transit under its control, and including the true balance of any deposit in a solvent bank or trust company; (2) Investments, securities, properties and loans acquired, or held, in accordance with this title and in connection therewith the following items:”

It is recommended that the Company provide the location of all securities listed on Schedule D - Part 2 - Section 2.

It is recommended that the Company comply with ALA CODE § 27-27-29(a) (1975), which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

Real estate – Page 40

It is recommended that the Company obtain formal appraisals on all three properties listed on Schedule A - Part 1, so that it will be in compliance with SSAP No. 40, paragraph 12, of the NAIC’s Accounting Practices and Procedures Manual, which states: “For all properties held for sale, an appraisal shall be obtained at the time such property is classified as held for sale, and subsequently an appraisal shall be maintained that is no more than five years old as of the reporting date....If any of the previous conditions exist but an appraisal has not been obtained, the related property shall be considered a non-admitted asset until the required appraisals are obtained...” and with ALA CODE § 27-37-7(b) (1975), which requires that: “Other real property held by an insurer shall not be valued at an amount in excess of fair value as determined by recent appraisal.”
It is recommended that the Company complete column 6 (Date of Last Appraisal), on Schedule A – Part 1, in accordance with the NAIC’s Annual Statement Instructions.

Cash, cash equivalents and short-term investments:

Pledge of assets in excess of recorded reserves – Page 41
It is recommended that the Company report cash balances that are not exclusively under the control of the Company by “placing one of the symbols identified in the General Investment Schedules instructions” in column 2 (Code) on Schedule E - Part 1, in accordance with NAIC instructions thereto.

It is recommended that the Company not admit those amounts in excess of recorded reserves from the balance sheet at asset line 5 (Cash, cash equivalents and short-term investments) and not as a negative balance on Schedule E - Part 1 - Cash.

Cash Accounts Held Outside State of Domicile without a Custodial Agreement – Page 42
It is recommended that the Company maintain an approved custodial agreement for any cash held outside of the state of domicile with a brokerage firm, and have its bank or brokerage firm comply with requests for confirmations of assets held by the bank or brokerage firm in order to be in compliance with ALA. ADMIN. CODE 482-1-077-.04 (2003), which stipulates, in pertinent part, the following:

“(1) An insurance company may, by written agreement with a custodian, provide for the custody of its securities with a custodian. The securities may be held by the custodian or its agent or in a clearing corporation or in the Federal Reserve book-entry system.”

“(2) The agreement shall be in writing and shall be authorized by a resolution of the board of directors of the insurance company or of an authorized committee of the board.”

“(2)(o) The custody agreement is of no force and effect until the Commissioner approves, in writing, the custody agreement.”

It is also recommended that the Company comply with ALA CODE § 27-37-1 (1975), which states: “In any determination of the financial condition of an insurer, there shall be allowed as assets only such assets as are owned by the insurer and which consist of: (1) Cash in the possession of the insurer or in transit under its control, and including the true balance of any deposit in a solvent bank or trust company…”

It is recommended that the Company execute custodial agreements with all financial institutions in which there are securities deposited by the Company so as to be in compliance with ALA. ADMIN. CODE 482-1-077-.04 (2003), which requires the
Company, "by written agreement with a custodian, provide for the custody of its securities..." The custody agreement "shall be in writing and shall be authorized by a resolution of the board of directors of the insurance company or of an authorized committee of the board..." and "[t]he custody agreement is of no force and effect until the Commissioner approves, in writing, the custody agreement..." in accordance with the relevant sections in item (2) of the referenced regulation.

**Bryant Bank Pecuniary Interest Violations** – Page 42

It is recommended that the company refrain from depositing funds in banking institutions that have a common ownership with the owners of Alabama Reassurance Company, Inc., to be in compliance with ALA CODE § 27-27-26(a) (1975), which states: "(a) 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 deposit or invest such funds except in the insurer's corporate name; except, that such insurer may for its convenience hold any equity investment in a street name or in the name of a nominee; shall not borrow the funds of such insurer; 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 and 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."

**Cash Amounts Not Confirmed** – Page 43

It is recommended that the Company keep the necessary documentation to support the balances of the cash accounts listed on Schedule E - Part 1 to be in compliance with ALA CODE § 27-27-29(a) (1975), which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

It is recommended that the Company only deposit funds in accounts that are owned by the Company and are held in the Company's name, and admit only those funds that can be confirmed by a bank or trust company to be in compliance with ALA CODE § 27-37-1 (1975), which states: "In any determination of the financial condition of an insurer, there shall be allowed as assets only such assets as are owned by the insurer and which consist of: (1) Cash in the possession of the insurer or in transit under its control, and including the true balance of any deposit in a solvent bank or trust company..."
Annual Statement Notes to Financial Statements and General Interrogatories – Page 26

It is recommended that the Company complete the Notes To Financial Statements and General Interrogatories in accordance with the NAIC’s Annual Statement Instructions, and Alabama Department of Insurance Regulation No. 97, Section 4, which requires the Company “use the appropriate NAIC Annual Statement Blank which shall be prepared in accordance with the NAIC Annual Statement Instructions…”

Current federal and foreign income tax recoverable / Current federal and foreign income taxes – Page 43

It is recommended that the Company net its Current federal and foreign income tax recoverable and interest thereon and Current federal and foreign income taxes, on the balance sheet of its Annual Statement in order to be in accordance with paragraph 3, of SSAP No. 10 of the NAIC’s Accounting Practices and Procedures Manual, which states: “‘Income taxes incurred’ shall include current income taxes, the amount of federal and foreign income taxes paid (recovered) or payable (recoverable) for the current year.”

Net deferred tax asset / Net deferred tax liability – Page 44

Rather than reporting the asset and liability as separate items on the balance sheet, it is recommended that the Company report the net amount of deferred taxes in accordance with SSAP No. 10, paragraph 7, of the NAIC’s Accounting Practices and Procedures Manual, which states: “DTAs and DTLs shall be offset and presented as a single amount on the statement of financial position.”

Cash Value of Life Insurance Policy – Page 45

It is recommended that the Company report the correct cash value of the life insurance policy, which was included in Aggregate write-ins for other than invested assets, on the Balance Sheet of the Company’s Annual Statement.

Unclaimed property filings – Page 46

It is recommended that the Company file its unclaimed property reports each year by the November 1st deadline in compliance with Ala. Code §§ 35-12-76 (a) and (8)(c) (1975), which requires that: “A holder of property presumed abandoned shall make a report to the Treasurer concerning the property. The report must be verified and must contain, at a minimum, all of the following:...(8) (c) The report shall be filed
before November 1 of each year and cover the 12 months next preceding July 1 of that year.”

**Asset valuation reserve (AVR) – Page 46**

*It is recommended* that the Company accurately calculate the adjustment down to maximum/up to zero amount on the AVR exhibit to be in compliance with page 222, line 15 of the NAIC’s *Annual Statement Instructions*, which states: “Individual sub-component reserves may not exceed the maximum reserve amount reported on Line 9. They also may not be less than zero. Adjust the current reserve down or up accordingly.”

*It is recommended* that the Company calculate the reserve objective and maximum reserve amounts for each sub-component of the Equity Component of the AVR exhibit to be in compliance with Page 229, line 1 of the NAIC’s *Annual Statement Instructions*, which states: “Report the book/adjusted carrying value of all publicly issued common stock, including money market funds and mutual funds (except those appropriately reported on Schedule DA) in unaffiliated companies in Columns 1 and 4. Multiply Column 4 by the reserve factor calculated for Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10 respectively.”

*It is recommended* that the Company calculate the correct amount for the Unrealized Capital Gains/(Losses) Net of Deferred Taxes – General Account amount for the common stock under the equity component, to be in compliance with line 4, of page 219, of the NAIC’s *Annual Statement Instructions*, which states: “Unrealized Capital Gains/(Losses) – Net of Deferred Taxes – General Account – Unrealized gains/(losses), net of deferred taxes thereon, should be summarized by sub-component asset type and included in the reserve computations...Deferred taxes on the unrealized capital gains/losses included in this line should be determined consistent with the provision of SSAP No. 10, Income Taxes.”

*It is recommended* that the Company comply with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states: “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...”, and that the Company use the maximum AVR factor if supporting information for the weighted average portfolio beta calculation is not provided to be in compliance with page 216 of the NAIC’s *Annual Statement Instructions*, which states: “Companies that do not want the extra administrative complexity of calculating the beta factor may use the maximum AVR factor of 20%.”
**It is recommended** that the Company keep on the premises and also provide the supporting information for the weighted average portfolio beta calculation used to calculate reserve factors in the Asset Valuation Reserve, to be in compliance with ALA Code § 27-27-29(a) (1975), which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

**Payable to parent, subsidiaries and affiliates** – Page 48

**It is recommended** that the Company accrue the correct amount of liabilities for the Payable to parent, subsidiaries and affiliates on the balance sheet of the Annual Statement of the year in which the expense was incurred in accordance with page 38, of the NAIC’s Annual Statement Instructions, which states: “Line 24.4 – Payable to Parent, Subsidiaries and Affiliates: Report a liability as due to affiliates for expenditures incurred on behalf of the company by a parent, affiliate, or subsidiaries or for amounts owed through other intercompany transactions.”

**It is also recommended** that the Company comply with SSAP No. 25, paragraph 14, of the NAIC’s Accounting Practices and Procedures Manual, which requires: “When accounting for a specific transaction, reporting entities shall use the following valuation methods: a. Economic transactions between related parties shall be recorded at fair value at the date of the transaction.”

**Deferred Compensation Liability** – Page 48

**It is recommended** that the Company include the accrual for the unfunded post-retirement benefits of employees of the Company, in liability line 12 of the balance sheet in order to be in compliance with page 59 of the NAIC’s Annual Statement Instructions, which states: “Line 12 - General Expenses Due or Accrued Include: ...Unfunded postretirement benefit obligation.”
SUBSEQUENT EVENTS

The review of events subsequent to the December 31, 2006 examination date indicated the following:

**Bulk Reinsurance Agreement**

On July 12, 2007, a hearing was held at the Alabama Department of Insurance (ALDOI) in accordance with ALA. CODE § 27-27-47 (1975). Within the Bulk Reinsurance Agreement transaction between the Company and its wholly-owned subsidiary, Alabama Life Reinsurance Company, Inc. (Alabama Life Re), there were five agreements, which were discussed at the hearing and are as follows:

- Two agreements to an Assumption of the Reinsurance Agreement between two companies: the first agreement was with North America Life Insurance Company of Texas (NALIC) and the Company; and the second agreement was with Security Life Insurance Company of America (SLIC) and the Company;
- An Assignment and Assumption Agreement between the Company and Alabama Life Re; and
- Two Agreements to amend to Trust Agreements: the first trust agreement was among NALIC, the Company and Regions Bank; and the second trust agreement was among SLIC, the Company and Regions Bank.

All five of these agreements were submitted to the ALDOI for approval.

Essentially, the Reinsurance Agreements between NALIC and the Company, and SLIC and the Company are to be bulk reinsured from the Company to Alabama Life Re. The NALIC Reinsurance Agreement was effective December 31, 2000, and the SLIC Reinsurance Agreement was effective September 30, 1997. Both of these reinsurance agreements are still in existence and will continue to be viable into the future. After approval, these Reinsurance Agreements will be transferred to Alabama Life Re, which will assume all the rights, title and interest to and liabilities applicable to the reinsurance agreement for each company.

On June 7, 2007, the Company and Alabama Life Re entered into an Assignment and Assumption Agreement of that date. This agreement, duly executed by both companies, ensures that any liabilities that may not have been included in the Reinsurance Agreements of NALIC and SLIC will be covered.
Additionally, there were two Trust Agreements; one with NALIC, the Company and Regions Bank, and the other with SLIC, the Company and Regions Bank. The last two agreements discussed at the hearing are Amendments to these trust agreements. Alabama Life Re shall assume all the rights, liabilities and obligations of the Company under each Trust Agreement. These amendments to the two Trust Agreements had not yet been executed but will be signed prior to the closing date, which in all cases for all of the five agreements, will be the fifteenth business day following receipt by the Company and Alabama Life Re of the approval by the Alabama Commissioner of Insurance to this entire transaction.

Both NALIC and SLIC have waived notice of the hearing, and both agreed to enter into the assumption for each of their Reinsurance Agreements.

After reviewing the exhibits introduced at the hearing and having considered the testimony, the Commissioner found the following:

1. That this transaction will not be inequitable to the stockholders of Alabama Re; and
2. That this transaction will not substantially reduce protection to or service to the reinsurance treaty holders of Alabama Re.”

An Order (Case No. C-20070676EB), dated July 20, 2007, approved that:


Amended and Restated Loan Agreement

The line of credit Loan Agreement discussed earlier in this report in the HOLDING COMPANY AND AFFILIATE MATTERS section (see page 13), was amended and restated, dated as of August 24, 2007. This $100,000,000 revolving loan was executed by and between Regions Bank, Greene Group, Inc., and the following of Greene Group’s subsidiaries and affiliates: Ready Mix USA, Inc., Allease, Inc., Texas Pari-
Mutuel Management, Inc., AIM Management, Inc., Venture Advertising, Inc., and Alabama Arkansas Wildlife LLC. The Company is not a party to this agreement.

**Current Status of Alabama Reassurance Company, Inc., and its subsidiary, Alabama Life Reinsurance Company, Inc.**

Company management represented that, as of September 14, 2007:

"Alabama Reassurance Company, Inc. has no insurance liabilities and is in the process of surrendering its licenses. When this is accomplished Alabama Reassurance Company, Inc. will be merged into Greene Group, Inc. and then liquidated.

Alabama Life Reinsurance Company, Inc. is now an Alabama licensed life insurer with two assumed reinsurance treaties (North America Life and Securities Life) in force. There are no plans to add any other insurance or reinsurance business."
CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by all persons representing the Company during the course of the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and evaluation of assets and the determination of liabilities.

In addition to the undersigned, Robert S. Thompson and Charles Turner, Examiners; and John Humphries, ASA, MAAA, CFE, AES, and Irma Martin, FSA, MAAA, Consulting Actuarial Examiners; all representing the Alabama Department of Insurance, participated in this examination of Alabama Reassurance Company, Inc.

Respectfully submitted,

Anne L. Ward, CFE
Examiner-in-Charge
State of Alabama
Department of Insurance

October 4, 2007
November 5, 2007

Richard L. Ford,
Chief Examiner
State of Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, AL 36130-3351

RE: Examination Report for Alabama Reassurance Company, Inc.

Dear Mr. Ford:

This is the Company's response to the Examination Report. We would like for this response to be made public and to be provided to anyone who sees the Examination Report. We are not appealing, but wish to reply to some statements in the Report that are incorrect or misleading. Our response follows the headings in the Report.

Sincerely,

W. Rodney Windham
Bryant Bank Pecuniary Interest Violation

The company does not agree that there were any violations of or non-compliance with ALA CODE §27-27-26(a)(1975). The Department of Insurance was aware of the deposits and had in fact written to the Company requesting information about them. The Company fully responded to this inquiry and heard nothing further from the Department, indicating that the Department was satisfied and had no problem. Non-admitting $11,437,344 of cash deposits results in a significant understatement of the true net worth of the Company.

Deficiency in Actuarial Opinion

The Company does not agree that the Actuarial Opinion is deficient. In fact, the Opinion does follow the tabular form called for by the Examination. The columns not shown have only zero entries.

Common Stocks

The Company did not change the valuation method used to value SCA investments. It continued to use the valuation method prescribed by the Department.

Computer Center-Risk of Water Damage

Alabama Reassurance Company (the Company) does not write any direct insurance. All of the primary data related to the Company's insurance activities is maintained by the seeding companies. As to accounting information, the Company makes less than 30 journal entries to record its activities during any given calendar quarter. Therefore, the amount of data subject to loss due to computer failure is very small. This data is readily retrievable from the seeding companies; therefore, the inherent risk of loss minimal. The Company is a member of a controlled group which makes decisions about expenditures for organizations which compete in a number of industries. These decisions are based on need, risk, and benefit in a particular situation. The Company believes its expenditures on its computer system, and on protecting its system, are appropriate for the level of risk, both actual and inherent, of data loss due to computer failure. The Company monitors this situation on an ongoing basis and would certainly make the necessary and proper expenditures for computer system enhancements were the Company's risk factors to significantly change.

Tape Backup Failure Rate

See Number 1 above.
Records Retention

The Company has maintained complete records since its inception; therefore, the Company is in Compliance with DOI Regulation No. 118.

Storage in Off-Premises Location

See Number 1 above.

Written Procedures for Backup Storage

See Number 1 above.

Network Configuration Documentation and Monitoring

See Number 1 above. Additionally, since the Company is exclusively a reinsurer, the Company's management believes that its records are maintained in a manner that is customary and suitable as to the kind of insurance transacted.

Assignment and Security of Passwords

The Company complied with all requests made by examiners during the examination. In this case, the only way the integrity of the Company's computer information is compromised is by the examiners. The list of LogonIds is maintained in a locked cabinet as well as electronically in a password protected file accessible only to the network administrator.

Change Passwords

See Number 1 above.

Access for Terminated Employees

Any terminated employees are immediately denied access to computer information, regardless of the lack of written guidance.
Intrusion Detection System

See Number 1 above.

Emergency Response Procedures

See Number 1 above.

Wide Area Network and Internet Controls

See Number 1 above. Additionally, the Company's management believes the Company is in compliance with Standard 2.