

REPORT OF
ASSOCIATION EXAMINATION
OF
LIFE INSURANCE COMPANY OF ALABAMA
GADSDEN, ALABAMA
AS OF
DECEMBER 31, 1999

PARTICIPATION:
SOUTHEASTERN ZONE
ALABAMA

TABLE OF CONTENTS

<i>EXAMINER AFFIDAVIT</i>	<i>i</i>
<i>SALUTATION</i>	<i>1</i>
<i>SCOPE OF EXAMINATION</i>	<i>2</i>
<i>ORGANIZATION AND HISTORY</i>	<i>3</i>
<i>MANAGEMENT AND CONTROL</i>	<i>5</i>
Stockholders	5
Board of Directors	5
Committees	6
Executive Committee	7
Audit Committee	7
Compensation Committee	7
Loan and Investment Committee.....	8
Management Committee.....	8
Marketing Committee.....	9
Officers	9
Conflict of Interest	9
<i>CORPORATE RECORDS</i>	<i>10</i>
<i>HOLDING COMPANY AND AFFILIATE MATTERS</i>	<i>10</i>
Holding Company	10
Dividends to Stockholders	10
Organizational Chart	11
<i>FIDELITY BOND AND OTHER INSURANCE</i>	<i>11</i>
<i>EMPLOYEE AND AGENT WELFARE</i>	<i>12</i>
<i>SPECIAL DEPOSIT SCHEDULE</i>	<i>12</i>
<i>FINANCIAL CONDITION/GROWTH OF THE COMPANY</i>	<i>13</i>
<i>MARKET CONDUCT ACTIVITIES</i>	<i>13</i>
Plan of Operation	13
Territory	14
Policy Forms and Underwriting Practices	14
1) Life	14
2) Accident and Health	15
Dividends to Policyholders	15
Policyholder Complaints	15
Treatment of Claimants	16
Advertising	16

Compliance with Agents' Licensing Requirements	17
REINSURANCE	17
Reinsurance Assumed.....	17
Reinsurance Ceded	17
ACCOUNTS AND RECORDS	18
FINANCIAL STATEMENTS INDEX	19
NOTES TO FINANCIAL STATEMENTS	24
COMMENTS AND RECOMMENDATIONS	27
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS	30
SUBSEQUENT EVENTS	31
CONCLUSION	32

**STATE OF ALABAMA
COUNTY OF ETOWAH**

James L. Hattaway, III being first duly sworn, upon his oath deposes and says:

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

That an examination was made of the affairs and financial condition of Life Insurance Company of Alabama for the period of January 1, 1996 through December 31, 1999.

That the following 32 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama.

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

James L. Hattaway, III
Examiner in charge

Subscribed and sworn to before the undersigned authority this 9th day of March, 2001.

Alice Strange
(Signature of Notary Public)

Alice Strange
(Print Name of Notary Public)

in and for the State of Alabama

My commission expires 4-6-2002



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
Telephone: (334) 269-3550
Facsimile: (334) 241-4192

D. DAVID PARSONS
COMMISSIONER

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
JOHN S. ROBISON

GENERAL COUNSEL
MICHAEL A. BOWNES

March 9, 2001
Birmingham, Alabama

Chairperson, Examination Oversight Committee
Honorable Diane Koken, Commissioner
Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, Pennsylvania 17120

Secretary, Southeastern Zone
Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

Honorable D. David Parsons, Commissioner
Alabama Department of Insurance
Post Office Box 303351
Montgomery, Alabama 36130

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 (NAIC), an examination has been made of the affairs and financial condition of

Life Insurance Company of Alabama
Gadsden, Alabama

at its home office located at 302 Broad Street, Gadsden, Alabama, as of December 31, 1999. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate Life Insurance Company of Alabama.

SCOPE OF EXAMINATION

The Company was last examined for the four-year period ending December 31, 1995 by examiners from Alabama representing the Southeastern Zone, NAIC. The current examination covers the intervening period from the date of the last examination through December 31, 1999 and was conducted by examiners from Alabama representing the Southeastern Zone, NAIC.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department'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, and 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, 1999 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 Insurance Department's rules and regulations or other insurance laws or rules, or which were deemed by the examiners to require comments or recommendations.

A Company office copy of the filed Annual Statement for the year 1999 was compared with or reconciled to accounts balances with respect to ledger items.

The market conduct review consisted of a review of the Company's plan of operation, territory, policy forms and underwriting practices, dividends to policyholders, policyholder complaints, treatment of claimants, advertising and marketing, and compliance with agents' licensing requirements.

The Company's accounts were audited by Dudley, Hopton-Jones, Sims and Freeman, Certified Public Accountants (CPAs), for each of the four 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, 1999.

ORGANIZATION AND HISTORY

The Company was incorporated in Etowah County on July 28, 1952 under the laws of the State of Alabama and commenced business on August 13, 1952.

The charter empowered the Company to engage in the life insurance business and the writing and making of life insurance contracts and issuing of life insurance policies of every lawful kind on the lives of human beings; and also the writing and making of insurance contracts and issuing of insurance policies of every lawful kind for health and accident insurance, insuring against injury or disability to the person by reason of accidents, illness and disease; and insuring against loss of earnings and medical and hospital expenses caused by bodily injury, illness and disease, and insuring against other causes or contingencies such as may impair or affect the life and health of a person; and generally to engage in the writing, making and issuing of contracts of life, health and accident insurance, to individuals or groups, upon such terms, conditions and provisions as may be permitted by law.

The original charter provided for authorized capital of \$500,000 comprised of 100,000 shares of \$5 par value per share common stock. The Company commenced business with 26,000 shares issued and outstanding which provided paid-up capital of \$130,000 and surplus of \$65,000.

In 1956, the Company's charter was amended to increase the total authorized capital to \$1,000,000, with an additional 500,000 shares of common stock being authorized at a par value of \$1 per share. The \$1 par value stock was designated as Class "A" common.

The Life and Accident Insurance Company of Alabama, Gadsden, Alabama was merged into the Company in 1958. This merger was effected through an exchange of stock and resulted in an increase to the Company's assets of \$572,605 and an increase to insurance in force of \$4,671,981.

The charter was again amended in 1966 to increase the total authorized capital to \$2,000,000, comprised of 100,000 shares of \$5 par value per share common stock and 1,500,000 shares of \$1 par value per share common stock.

An amendment to the charter in 1968 defined the preemptive rights of stockholders as follows:

- “(a) The holders of “CLASS “A” COMMON STOCK” of the corporation shall have no pre-emptive rights to purchase any portion or part of any class of stock of the corporation, including “COMMON STOCK”, and “CLASS “A” COMMON STOCK”, and also including Treasury Shares of both of said Classes of Stock, that may be issued or offered for sale by the corporation:
- (b) The holders of “COMMON STOCK” of the corporation shall have no pre-emptive rights to purchase any portion or part of any “CLASS “A” COMMON STOCK”, including Treasury Shares of “CLASS “A” COMMON STOCK”, that may be offered or issued for sale by the corporation:
- (c) Every holder of “COMMON STOCK” of the corporation shall have the pre-emptive right to purchase his portion of any “COMMON STOCK”, including Treasury Shares of “COMMON STOCK”, that may be issued or offered for sale by the corporation, according to the proportion of his holdings of such “COMMON STOCK”, at such price, which may be in excess of par value, within such time and on such terms as shall be fixed and determined by the Board of Directors of the corporation.”

Effective May 30, 1977, the Company acquired all of the policies in force of Vanguard Security Life Insurance Company, Montgomery, Alabama pursuant to an agreement executed with the court appointed receiver of said company.

In 1978, the Company acquired College Investment Company of Gadsden, Alabama as a wholly-owned subsidiary of the Company and liquidated that Company during 1978.

Effective September 26, 1979, the Company acquired certain policies of the Life Insurance Company of America, Birmingham, Alabama pursuant to an agreement executed with the court appointed receiver of said company.

In 1987, the capital stock of the Company was increased by \$75,364 as a result of the increase in par value of the Class “A” common stock from \$1 per share to \$1.12 per share. This change in the par value of the Class “A” common stock increased the total

authorized under this class of stock to \$1,680,000, which exceeded the \$1,500,000 authorized by the Company's Charter. On February 8, 1993, the Company decreased the par value of the Class "A" common stock from \$1.12 to \$1. Also, on February 8, 1993, the Company issued 371,963 shares of authorized but unissued Class "A" common stock as treasury stock to meet the requirements of the state of Georgia.

These changes resulted in an issued and authorized capitalization of \$500,000 (common stock) and \$1,000,000 (Class "A" common stock) for an aggregate of \$1,500,000. 12,452 shares of common stock (\$5 par) and 412,496 shares of Class "A" common stock (\$1 par) were held by the Company as treasury stock at a net repurchase cost of \$727,342.

The authorized capital of the Company has not changed during the four-year period covered by this examination. The authorized capital of the Company at December 31, 1999 was \$2,000,000 consisting of 100,000 shares of \$5 par value per share common stock, and 1,500,000 shares of \$1 par value Class "A" common stock. The issued capital stock was \$1,500,000, comprised of 100,000 shares of \$5 par value per share common stock and 1,000,000 shares of \$1 par value per share Class "A" common stock. Treasury stock held at December 31, 1999 consisted of 12,452 shares of \$5 par value common stock and 412,496 shares of \$1 Class "A" common stock with an aggregate repurchase cost of \$727,342.

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation with ultimate control vested in its stockholders. The Class "A" common stock has voting power limited to one-fifth vote per share, and may only vote on matters pertaining to the creation of bonded indebtedness, increases in capital stock, the issuance of preferred stock, and the dissolution or liquidation of the assets of the Company. The \$5 par value common shareholders have full voting rights.

Board of Directors

Members elected to the Board of Directors by the stockholders on April 26, 1999, and serving at December 31, 1999 were as follows:

Name and Residence	Principal Occupation
Jimmy Thomas Bowen Gadsden, Alabama	President Bowen Electric
James Wesley Cameron Montgomery, Alabama	Attorney Cameron & Cameron
Herman Warren Cobb Dothan, Alabama	Attorney Buntin, Cobb, & Shealy
Florence Throckmorton Daugette Gadsden, Alabama	Chairman, Board of Directors Life Insurance Company of Alabama
Clarence William Daugette, III Gadsden, Alabama	President Life Insurance Company of Alabama
Robert Wootten Echols, Jr. Gadsden, Alabama	Executive Vice President and Secretary Life Insurance Company of Alabama
Mark Carroll Epsy, Sr. Gadsden, Alabama	President The Headland National Bank
James Clarence Inzer, Jr. Gadsden, Alabama	Attorney Inzer, Suttle, Swann & Stivender
William Owen Leach, Jr. Gadsden, Alabama	President Leach & Company
Alburta Daugette Lowe Gadsden, Alabama	Homemaker
Marvin Lynn Lowe Gadsden, Alabama	Executive Vice President Life Insurance Company of Alabama
Anne Daugette Renfrow Gadsden, Alabama	Homemaker
Raymond Rudolph Renfrow, Jr. Gadsden, Alabama	Executive Vice President Life Insurance Company of Alabama
Steven William Rowe, M.D. Gadsden, Alabama	Medical Director Life Insurance Company of Alabama

Committees

The By-Laws, as amended, provided that “The Board of Directors shall have power and authority to create such Committees as it may by resolution determine, and to describe and define the power and authority of such Committee, or Committees.”

The Company had no minutes of meetings of either the Management or Marketing Committee, although it was indicated that the committees met informally. This is in conflict with Section 10-2B-16.01, Code of Alabama 1975, as amended, which requires that “A corporation shall keep as permanent records... a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation.”

The following committees had been appointed by the Board of Directors and were still serving at December 31, 1999.

Executive Committee

The By-Laws provided that the Board of Directors may, by resolution, create an Executive Committee, and confer upon such Committee the full power and authority of the Board of Directors, during the intervals between the meetings of the Board, except the power and authority to amend the By-Laws and elect a President, and elect new members of the Board of Directors, and fill vacancies on the Board.

The following directors were serving on the Executive Committee at December 31, 1999:

Florence Throckmorton Daugette
Clarence William Daugette, III
James Clarence Inzer, Jr.

Audit Committee

The Audit Committee worked with the internal audit division of the Company with regard to internal audit functions and findings. The following directors were serving on the Audit Committee at December 31, 1999:

James Clarence Inzer, Jr.
Alburta Daugette Lowe, Chairman
Stephen William Rowe

Compensation Committee

The Compensation Committee was responsible for monitoring the performance of all employees and approving their wage increases and bonuses. The following directors were serving on this committee at December 31, 1999.

Clarence William Daugette, III
Florence Throckmorton Daugette
Robert Wootten Echols, Jr.

Examiners noted that, during the period covered by this examination and subsequent to this examination period, payments were made to Anne C. Renfrow as an employee of the Company.

Ms. Renfrow is the daughter of Mr. Raymond Rudolph Renfrow Jr., a director, officer, and stockholder of the Company and Mrs. Anne Daugeette Renfrow, a director of the Company. Management represented that Anne C. Renfrow worked for the Company on a part-time basis in 1998. Anne C. Renfrow is currently a college student and the Company did not provide any evidence that she currently provides any service to the Company although she is still on the Company payroll. Payments made to Ms. Renfrow during 1998, 1999, and 2000 were \$14,226, \$18,374, and \$18,108, respectively. Management represented to examiners that Ms. Renfrow is being removed from the Company payroll effective April 1, 2001.

Loan and Investment Committee

The Loan and Investment Committee monitored the Company's investment policies and results. The following directors were serving on this committee at December 31, 1999:

Clarence William Daugeette, III
Robert Wootten Echols, Jr.
Marvin Lynn Lowe
Raymond Rudolph Renfrow, Jr.

Management Committee

The Management Committee was responsible for monitoring the management and performance of the Company. The following directors were serving on this committee at December 31, 1999:

Clarence William Daugeette, III
Robert Wootten Echols, Jr.
Marvin Lynn Lowe
Raymond Rudolph Renfrow, Jr.

Marketing Committee

The Marketing Committee was responsible for the review and planning of the Company's marketing plan, direction and supervision of the agency force, and for the product lines offered by the Company. The following directors were serving on this committee at December 31, 1999:

Clarence William Daugette, III
Marvin Lynn Lowe
Anne Daugette Renfrow, Chairman
Raymond Rudolph Renfrow, Jr.

Officers

The following officers were elected by the Board of Directors on April 26, 1999, and were serving at December 31, 1999:

Officer	Title
Florence Throckmorton Daugette	Chairman of the Board
Clarence William Daugette, III	President
Robert Wootten Echols, Jr.*	Executive Vice President and Secretary
Marvin Lynn Lowe	Executive Vice President and Treasurer
Raymond Rudolph Renfrow Jr.	Executive Vice President and Agency Director
Robert Larry Crowe	Senior Vice President
Dennis Benjamin Adams*	Senior Vice President
David Augustus Behrens	Vice President and Assistant Treasurer
Maurice Johnson*	Vice President and Assistant Secretary
Dr. Stephen William Rowe	Medical Director
Mary Rebecca Gray	Assistant Vice President and Assistant Secretary
Hoyt Russel Casey	Assistant Vice President

*Retired effective January 1, 2000

Conflict of Interest

The Company had an established procedure for annual disclosure, in writing to the board of directors, of any possible conflict of interest among any of its officers, directors, and certain key employees.

The conflict of interest statements filed by the directors, officers, and key employees for the four-year examination period were reviewed. No material conflicts were reported.

CORPORATE RECORDS

The Articles of Incorporation and By-Laws, as amended, 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.

Minutes of meetings of the stockholders and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with regard to recording actions taken on matters before the respective bodies for deliberation and action. It was noted that the Management Committee and Marketing Committee did not have written minutes of any meetings held.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in Section 27-29-1, Code of Alabama 1975, as amended. 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 are made from time to time by the Company as registrant of an Insurance Holding Company System. A review of the Company's filings during the period under review indicated that all required disclosures were included in the Company's filings.

Dividends to Stockholders

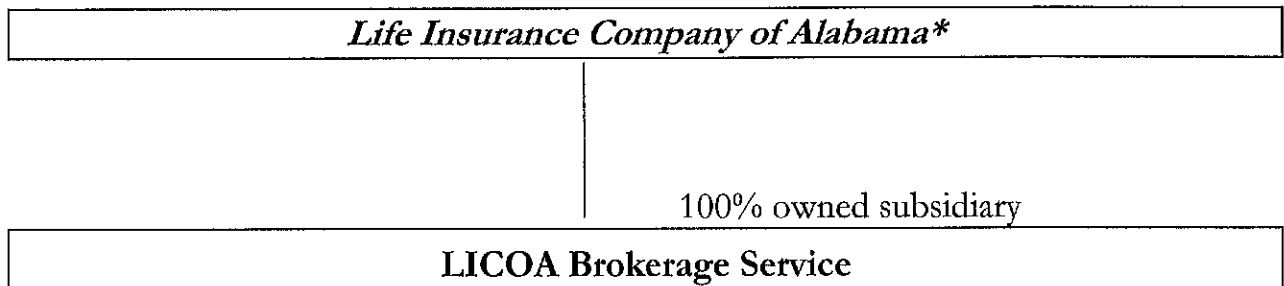
The following dividends to stockholders were paid during the current examination period:

YEAR	Dividends Paid
1996	\$ 92,272
1997	\$ 92,272
1998	\$ 92,274
1999	\$143,538

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 1999:

ORGANIZATIONAL CHART



*Florence T. Daugette owned 28.2% of the outstanding stock and Clarence W. Daugette, III owned 13.4% of the outstanding stock at year-end 1999.

FIDELITY BOND AND OTHER INSURANCE

The Company was insured by a Financial Institution Bond issued by Fidelity and Deposit Company of Maryland, Baltimore, Maryland at December 31, 1999 in an amount which met the suggested minimum requirements of the NAIC Financial Condition Examiners' Handbook. The bond provided dishonesty and fraud coverage for salaried officers, employees and persons provided by employment contracts. The bond did not provide coverage for forgery, alteration or securities.

In addition to the above coverage, the company was insured under the following policies at December 31, 1999:

Commercial Package Policy including Property and Contents
 Commercial Automobile Policy
 Commercial Umbrella Policy including Bodily Injury and Property Damage
 Workers Compensation Policy

EMPLOYEE AND AGENT WELFARE

The Company's agents were not employees of the Company and were not provided with any benefit plans. The Company provided its regular employees with the following benefits at December 31, 1999:

- Group Life Insurance
- Group Hospital and Major Medical Insurance
- Vacation Leave
- Sick Leave
- Short-term Disability
- Paid Holidays
- Personal Leave
- 401(k) Deferred Compensation Plan
- Long-term Disability
- Funeral Leave

SPECIAL DEPOSIT SCHEDULE

At December 31, 1999, as required or permitted by law, the Company maintained the following deposits with the respective statutory authorities.

State	Par Value	Statement Value	Market Value
Alabama	\$ 250,000	\$ 250,000	\$ 242,500
Arkansas	200,000	199,904	232,000
Florida	400,000	397,289	407,000
Georgia	110,000	108,403	107,800
Louisiana	25,000	25,000	25,000
North Carolina	500,000	501,312	500,000
South Carolina	200,000	199,845	193,502
TOTALS	<u>\$1,685,000</u>	<u>\$1,681,753</u>	<u>\$1,707,802</u>

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.

	1995*	1996	1997	1998	1999*
Admitted Assets	\$57,020,596	\$59,514,544	\$63,601,555	\$66,813,497	\$66,552,580
Liabilities	53,356,824	53,466,445	56,107,374	57,860,018	58,413,668
Common Capital Stock	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Gross paid in and contributed surplus	1,773,659	1,773,659	1,773,659	1,773,659	1,773,659
Unassigned funds	1,117,455	3,501,782	4,947,864	6,407,162	5,592,595
Less treasury stock	727,342	727,342	727,342	727,342	727,342
Total capital and surplus	3,663,772	6,048,099	7,494,181	8,953,479	8,138,912
Premiums and annuity considerations	22,143,468	22,549,238	23,033,600	24,088,135	26,224,731

* = Per Examination

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company specialized in individual life insurance and accident and health products, which were paid through payroll deduction. The Company marketed its products through broker general agents and exclusive agents. The field force operations were supervised by an Executive Vice President/Agency Director and his assistant.

Procurement of business was mainly through general agencies. The Company appointed general agents to recruit new agents and build an agency force. The general agents reported to regional directors in the states of Alabama, Florida, Georgia, Louisiana, Mississippi, South Carolina, Kentucky, and Tennessee. The Company did not have an appointed regional director for North Carolina.

All contracts between the Company and its agents were subject to home office approval. The agents were compensated for actual business produced, per a set commission schedule.

Territory

As of December 31, 1999, the Company was licensed to transact business in the following states.

Alabama	Kentucky	North Carolina
Arkansas	Louisiana	South Carolina
Florida	Mississippi	Tennessee
Georgia		

Current or continuous certificates of authority issued by the respective states were reviewed. No applications for admission into other states were pending at December 31, 1999.

Policy Forms and Underwriting Practices

The Company utilized American United Life Insurance Company's Underwriting Guide. This is a published guide which provided ratings based upon a numerical method of risk classifications.

1) Life

The Company wrote life coverages in a variety of forms within the basic classifications of Whole Life (smoker, non-smoker, and unisex), Universal Life, Term and Convertible Term, with or without disability waiver of premium.

Policies were written on a non-medical basis for standard risks for ages zero through sixty with the amount accepted based upon age and plan to a maximum of \$250,000. Policies were offered to members of the armed forces, without war restrictions, on the same basis as non-military.

The Company had no published limitation for the maximum amount of insurance that will be issued on any one life. The Company wrote up to four times retention under automatic reinsurance treaties. Any amount could be written for which excess facultative reinsurance coverages were obtained.

The Company's current established retention limits are as follows:

Ages	Standard through Table 2	Table 3 through 6	Table 8 and up
0-60	\$50,000	\$25,000	\$10,000
61-over	\$25,000	\$10,000	\$ 5,000

A \$10,000 corridor was used for all ages and rating categories to avoid small cessions. The Company's accident and health business was not reinsured except for a \$200,000 stop loss agreement on cancer claims.

2) Accident and Health

The Company wrote Cancer, Accident and Health, Intensive Care and Disability Income coverages on an individual basis collected by direct billing or through payroll deduction. Each type of policy provided benefit schedules for specific treatments, care, or hospital charges due to specific losses or cancer.

Dividends to Policyholders

A review was made of dividends that were declared by the Board of Directors and paid to policyholders during the four-year period covered by this examination. The following exhibit reflects these payments:

Year	Dividends to policyholders
1996	\$34,833
1997	\$32,019
1998	\$30,258
1999	\$26,579

The Company discontinued issuing participating policies in 1987.

Policyholder Complaints

A review of the Company's complaint register for the four-year period under review was made during the examination. Most of the complaints were handled by the Company's claims department. A sample of policyholders' complaints, occurring during the examination period, was selected and reviewed by examiners. It appeared

that the Company answered or resolved complaints in a prompt and reasonable manner.

Treatment of Claimants

A sample of claim files was reviewed during the examination for the life, accident and health, and credit lines of business. This review indicated that the Company paid its claims in a prompt manner upon presentation of proper proof and documentation of loss.

Advertising

The Company's advertising consisted primarily of brochures which were used and distributed by the Company's agents. All advertising was planned and coordinated by home office personnel.

It was noted during the review of the advertising materials that certain brochures were misleading and/or inaccurate. The brochures for the cancer economizer III and the cancer secure policies stated that the Company was a "billion dollar financial institution." The Company's assets and surplus at year-end 199 were \$66,552,580 and \$8,138,912, respectively. The Company does have over \$1 billion of life insurance in force.

Alabama Department of Insurance Regulation Number 69, Section V(1)(a) states: "Advertising shall be truthful and not misleading in fact or by implication. The form and the content of an advertisement of a policy shall be sufficiently accurate, complete, and clear so as to avoid deception or the capacity or tendency to mislead or deceive." Alabama Department of Insurance Regulation Number 69, Section V(6)(1) states: "No advertisement shall contain statements, pictures, comparative financial ratios, or illustrations which are false, misleading, or irrelevant in fact or by implication, with respect to the assets, liabilities, insurance in force, corporate structure, financial condition, age or relative position of the insurer in the business."

In addition, the Company did not provide evidence of filing a certificate of compliance with the Alabama Department of Insurance as required by Alabama Department of Insurance Regulation Number 69, Section VII(2). This exception was also noted in the preceding report of examination.

Compliance with Agents' Licensing Requirements

A review of Company records was made by the examiners to determine that agents representing the Company in Alabama were appropriately licensed. A sample of commission payments was reviewed. No exceptions were noted with the agents' licensing requirements of the State of Alabama.

REINSURANCE

Reinsurance Assumed

The Company assumed reinsurance from two companies under reinsurance pooling arrangements.

Business was assumed from Prudential Life Insurance Company under the Servicemen's Group Life Insurance (SEGLI) program and from Metropolitan Life Insurance Company under the Federal Employee's Group Life Insurance (FEGLI) program at December 31, 1999. These arrangements contributed \$493,365,227 to the Company's December 31, 1999 inforce.

Reinsurance Ceded

The Company ceded reinsurance under life and A&H reinsurance agreements and contracts with life reserve credits taken of \$872,534 and A&H unearned premiums of \$83,200. All contracts involving material reserve credits taken at December 31, 1999 were reviewed. There were no unusual features noted with the treaties reviewed. The review of the Company's Schedule S indicated that the Company was ceding business under yearly renewable term, disability, or coinsurance treaties/contracts.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained on electronic data processing equipment with certain detail subsidiary records manually maintained. Currently, management has no restrictions on access to the Company's computer area. This is cited as a material control weakness.

Audit reports and certain audit workpapers of the opening CPA firm, Dudley, Hopton-Jones, Sims & Freeman PLLP, were made available to the examiners and were used where deemed appropriate.

The Company completed the process of converting to a new insurance administrative system in 1999. The new system, on an AS400 platform, included insurance administration, claims, and general ledger software. The conversion was completed and on-line on October 1, 1999. In addition, the Company completed the electronic imaging of all policy folders and policyholder information was available for inquiry on-line.

Allen Lambert, CPA, was retained by the Company to prepare the quarterly and annual financial statements, as well as to prepare certain accrual and adjusting entries. It was noted that the Company did not always perform timely reconciliations of its checking accounts or maintain adequate supporting documentation of reconciling or adjusting entries.

In general, the accounting records appeared to reflect the operations of the Company during the period under review, except as noted otherwise in the report.

FINANCIAL STATEMENTS 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 examination for the year 1999. Amounts shown in the comparative statements for the years 1996, 1997, and 1998 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

	<u>Page</u>
Statement of Assets, Liabilities, Surplus and Other Funds	20 and 21
Summary of Operations	22
Capital and Surplus Account	23

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

Life Insurance Company of Alabama
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1999

ASSETS	Ledger Assets	Non- Ledger Assets	Non- Admitted Assets	Net Admitted Assets
Bonds (Note 1)	\$53,451,384	\$ 0	\$ 0	\$53,451,384
Preferred stocks	40,256		656	39,600
Common stocks	133,445	2,520,863		2,654,308
Mortgage loans	614,261			614,261
Real estate – Properties occupied by the company	409,048	358,008		767,056
Investment real estate	227,073		5,773	221,300
Policy loans (Note 2)	5,195,435			5,195,435
Cash and short-term investments	91,278			91,278
Amounts recoverable from reinsurers		18,350		18,350
Electronic data processing equipment	337,915			337,915
Federal income tax recoverable and interest thereon (Note 3)		46,723		46,723
Guaranty funds receivable or on deposit	139			139
Life insurance premiums and annuity considerations deferred and uncollected		1,523,687		1,523,687
Accident and health premiums due and unpaid		311,111		311,111
Investment income due and accrued		867,740		867,740
Other assets nonadmitted	716,185		716,185	
Cash surrender value life insurance	412,293	0	0	412,293
TOTALS	\$61,628,712	\$5,646,482	\$722,614	\$66,552,580

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

Life Insurance Company of Alabama
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1999

LIABILITIES	
Aggregate reserve for life policies and contracts	\$40,916,113
Aggregate reserve for accident and health policies	13,604,791
Supplementary contracts without life contingencies	244,704
Policy and contract claims: life	209,246
Policy and contract claims: accident and health	551,956
Policyholders' dividend and coupon accumulations	1,443,969
Policyholders' dividends and coupons due and unpaid	460
Dividends apportioned for payment to December 31, 2000	29,487
Coupons and similar benefits	22,139
Premiums and annuity considerations received in advance	186,398
Policyholder premiums	54,229
Interest maintenance reserve	81,923
Commissions to agents due or accrued (Note 4)	0
General expenses due or accrued (Note 5)	198,035
Taxes, licenses and fees due or accrued	131,297
"Cost of collection" on premiums and annuity considerations deferred and uncollected in excess of total loading thereon	266,725
Unearned investment income	168,178
Amounts withheld or retained by company as agent or trustee	31,872
Amounts held for agents' account	14,674
Remittances and items not allocated	76,195
Asset valuation reserve (Note 6)	181,277
TOTAL LIABILITIES	\$58,413,668
SURPLUS AND OTHER FUNDS	
Common capital stock	\$ 1,500,000
Gross paid in and contributed surplus	1,773,659
Unassigned funds (surplus) (Note 7)	5,592,595
Less treasury stock, at cost	727,342
Surplus	\$ 6,638,912
Total Capital and Surplus	\$ 8,138,912
Total Liabilities Surplus and Other Funds	\$66,552,580

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

Life Insurance Company of Alabama
SUMMARY OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1999

	1996	1997	1998	1999
Premiums and annuity considerations	\$22,549,238	\$23,033,600	\$24,088,135	\$26,224,731
Deposit-type funds	0	5,185	0	0
Considerations for supplementary contracts with life contingencies	23,568	0	0	0
Considerations for supplementary contracts without life contingencies and dividend accumulations	23,521	22,913	22,169	18,590
Coupons left to accumulate at interest	29,090	27,345	25,041	19,328
Net investment income	3,814,611	3,828,653	4,059,888	3,933,818
Amortization of Interest Maintenance Reserve	-19,225	8,379	20,148	39,116
Commissions and expense allowances on reinsurance ceded	15,272	1,379,375	0	0
Miscellaneous income	13,552	3,038	1,976	14,798
Universal life surrender charges	46,589	65,108	85,430	74,267
Total income	\$26,496,216	\$28,373,596	\$28,302,787	\$30,324,648
Death benefits	\$ 2,382,380	\$ 2,141,921	\$ 2,493,081	\$ 2,340,550
Matured endowments	9,754	15,808	0	7,935
Annuity benefits	212,700	429,434	302,979	360,082
Disability benefits and benefits under accident and health policies	10,288,612	9,640,861	10,579,580	13,207,875
Coupons, guaranteed annual pure endowments and similar benefits	26,783	25,375	22,765	17,813
Surrender benefits and other fund withdrawals	1,293,154	1,344,533	1,785,232	1,585,430
Interest on policy or contract funds	2,881	1,095	1,576	3,034
Payments on supplementary contracts with life contingencies	1,511	380	568	8,568
Payments on supplementary contracts without life contingencies and of dividend accumulations	75,579	94,398	58,725	86,912
Accumulated coupon payments	79,327	63,642	73,686	29,075
Increase in aggregate reserves for life and accident and health policies and contracts	1,897,435	3,899,930	1,533,597	1,344,668
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	-43,212	-37,481	-14,918	-9,918
Commissions on premiums and annuity considerations	5,205,419	4,870,188	5,227,954	5,780,528
General insurance expenses	3,553,777	4,325,799	4,538,965	5,162,333
Insurance taxes, licenses and fees	733,335	726,530	746,818	789,377
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	50,336	54,514	39,213	-43,233
Total expenses	\$25,769,771	\$27,596,927	\$27,389,821	\$30,671,029
Net gain from operations before dividends to policyholders and federal income taxes	\$ 726,445	\$ 776,669	\$ 912,966	\$ -346,381
Dividends to policyholders	34,833	32,019	30,258	26,579
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 691,612	\$ 744,650	\$ 882,708	\$ -372,960
Federal income taxes incurred	357,472	-17,952	45,556	64,102
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses	\$ 334,140	\$ 762,602	\$ 837,152	\$ -437,062
Net realized capital gains or losses	322	-2,096	54,506	13
Net income	\$ 334,462	\$ 760,506	\$ 891,658	\$ -437,049

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

Life Insurance Company of Alabama
CAPITAL AND SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1999

	1996	1997	1998	1999
Capital and surplus, December 31, previous year	<u>\$5,693,577</u>	<u>\$6,048,100</u>	<u>\$7,494,181</u>	<u>\$8,953,479</u>
Net income	334,462	760,506	891,658	-437,049
Change in unrealized capital gains or (losses)	337,994	831,584	866,053	-721,028
Change in nonadmitted assets and related items	21,952	15,569	-36,533	-131,845
Change in asset valuation reserve	-61,475	41,813	-169,605	618,892
Dividends to stockholders	-92,272	-92,272	-92,274	-143,538
Prior Years IMR	-67,481	0	0	0
Prior Years Federal Income Tax	-118,654	-111,118	0	0
Rounding	-3	-1	-1	1
Net change in capital and surplus for the year	<u>\$ 354,523</u>	<u>\$1,446,081</u>	<u>\$1,459,298</u>	<u>\$ -814,567</u>
Capital and surplus, December 31, current year	<u>\$6,048,100</u>	<u>\$7,494,181</u>	<u>\$8,953,479</u>	<u>\$8,138,912</u>

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

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds

\$53,451,384

The captioned amount is the same as reported in the Company's 1999 Annual Statement.

The Company had not obtained a value from the NAIC's Securities Valuation Office (SVO) for two bonds, with a combined admitted value of \$524,724, which were owned at December 31, 1999. The Company subsequently filed Security Acquisition Reports (SARs) on both of these bonds with the SVO on November 9, 2000.

Note 2 – Policy loans

\$5,195,435

The captioned amount is the same as reported by the Company in its 1999 Annual Statement.

The examiners noted, during the review of the details of this line item, that sixty-four policies were in an over-loaned status at year-end 1999. The loan inventory also included three policies on which death claims had been paid (policies no longer in force). The policies were over-loaned as follows:

Universal Life policies	\$5,110
Traditional Life policies	490
Policies no longer in force	<u>1,109</u>
Total	<u>\$6,268</u>

Due to immateriality, no change is reflected in the financial statements contained in this report.

Note 3 - Federal income tax recoverable and interest thereon

\$ 46,723

The captioned amount is the same as recorded by the Company in its 1999 Annual Statement.

Examiners identified \$107,375 received after year-end 1999 for federal income taxes relating to the tax year 1998. In addition, the Company's filed 1999 tax return reflected an overpayment that was \$13,316 greater than the amount reflected as

recoverable at year-end 1999. Therefore, the asset established by the Company at year-end 1999 was understated by a total of \$120,691.

No change is reflected in the financial statements contained in this report due to the immaterial amount of this understatement.

Note 4 – Commissions to agents due or accrued **\$ -0-**

The captioned amount is the same as reported by the Company in its 1999 Annual Statement.

The Company did not record an accrual for commissions payable on accident and health premiums due and unpaid. The examiners reviewed the accrual for accident and health premiums due and unpaid and the related agents' contracts. This review determined that the Company should have established an accrual of approximately \$40,000 for commissions payable.

No change is reflected in the financial statements contained in this report due to the immaterial amount of this understatement.

Note 5 – General expenses due or accrued **\$198,035**

The captioned amount is the same as reported by the Company in its 1999 Annual Statement.

During the review of expense payments made subsequent to the balance sheet date, the examiners determined that the liability was \$79,407 more than the \$198,035 reported in the 1999 Annual Statement. The previous examination report had recommended that the Company accrue an adequate amount for all general expenses due or incurred at year-end.

No change is reflected in the financial statements contained in this report due to the immaterial difference noted.

Note 6 – Asset valuation reserve

\$181,277

The captioned amount is the same as reported by the Company in its 1999 Annual Statement.

During the review of the asset valuation reserve (AVR) workpapers, the examiner determined that the Company's liability was \$53,086 more than the \$181,277 reported by the Company in its 1999 Annual Statement. The understatement of the liability was caused due to the change in the AVR factor of 20% utilized by the Company and the maximum of 30% required by the NAIC. The NAIC Annual Statement Instructions Manual for Life, Accident and Health requires that companies which do not want the extra administrative complexity of calculating the beta factor use the maximum AVR factor of 30% when calculating the reserve for unaffiliated companies' common stock.

No change is reflected in the financial statements contained in this report due to the immaterial difference noted.

Note 7 – Unassigned funds (surplus)

\$5,592,595

The captioned amount is the same as reported in the Company's 1999 Annual Statement.

No material exceptions were noted during the course of the examination. The immaterial items noted in this report did not aggregate to a material amount; therefore, no changes are reflected in the financial statements contained in this report.

COMMENTS AND RECOMMENDATIONS

Committees – Page 6

It is recommended that the Company keep a permanent record of all actions taken by a committee of the Board of Directors in accordance with Section 10-2B-16.01, Code of Alabama 1975, as amended.

Compensation Committee – Page 7

It was noted that, during the period covered by this examination and subsequent to this examination period, payments were made to Anne C. Renfrow as an employee of the Company.

Ms. Renfrow is the daughter of Mr. Raymond Rudolph Renfrow Jr., a director, officer, and stockholder of the Company and Mrs. Anne Daugette Renfrow, a director of the Company. Management represented that Anne C. Renfrow worked for the Company on a part-time basis in 1998. Anne C. Renfrow is currently a college student and the Company did not provide any evidence that she currently provides any service to the Company although she is still on the Company payroll. Payments made to Ms. Renfrow during 1998, 1999, and 2000 were \$14,226, \$18,374, and \$18,108, respectively. Management represented to examiners that Ms. Renfrow is being removed from the Company payroll effective April 1, 2001.

Advertising – Page 16

It is recommended that the Company's advertising "be sufficiently accurate, complete and clear so as to avoid deception or the capacity or tendency to mislead or deceive" in compliance with Alabama Department of Insurance Regulation Number 69, Section V(1)(a).

It is recommended that the Company not maintain or distribute advertisements which contain statement which are "false, misleading, or irrelevant in fact or by implication, with respect to the assets, liabilities, insurance in force, corporate structure, financial condition, age or relative position of the insurer in the business" in compliance with Alabama Department of Insurance Regulation Number 69, Section V(6)(a).

It is again recommended that the Company maintain evidence of filing a certificate of compliance with the Alabama Department of Insurance as required by Alabama Department of Insurance Regulation Number 69, Section VII(2).

Accounts and Records – Page 18

It is recommended that management limit access to the Company's computer area to necessary personnel only.

It is recommended that the Company perform timely reconciliations of all of its checking accounts.

It is recommended that the Company maintain supporting documentation of all reconciling and adjusting entries made to the general ledger, subsidiary ledgers, and reconciliations.

Bonds – Page 24

It is recommended that the Company value securities in accordance with the instructions of the NAIC's Securities Valuation Office and Alabama Department of Insurance Regulation Number 98. The two preceding examinations contained similar recommendations.

It is recommended that the Company non-admit any securities which are not valued in accordance with Alabama Department of Insurance Regulation Number 98.

Policy loans – Page 24

It is recommended that the Company write off all outstanding policy loan balances that do not have a related in-force policy in accordance with Section 27-41-25, Code of Alabama 1975, As amended.

It is recommended that the Company not admit the portion of any policy loan that exceeds the cash surrender value of the policy securing the loan in accordance with Section 27-37-1(3), Code of Alabama 1975, as amended.

Federal income tax recoverable and interest thereon – Page 24

It is noted that the Company understated this asset by \$120,691 at year-end 1999.

Commissions to agents due or accrued – Page 25

It is recommended that the Company establish an adequate liability for commissions payable to agents, particularly commissions payable relating to accident and health premiums due and unpaid.

General expenses due or accrued – Page 25

It is recommended that the Company provide an adequate liability for expenses due or accrued at year-end in all future statutory financial statements.

Asset valuation reserve – Page 26

It is recommended that the Company increase its reserve factor in the calculation of reserves for unaffiliated companies' common stock to equal the maximum amount required by the NAIC or maintain workpapers to support the reserve factor reported in the Company's AVR statement in all future statutory financial reports.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Corporate Records

The preceding report of examination also recommended that the Company keep written records of all meetings of committees of the Board of Directors. This examination noted that the Company had no written minutes of meetings of either the Management or Marketing Committee during the examination period. This is in conflict with Section 10-2B-16.01, Code of Alabama 1975, as amended, which requires that "A corporation shall keep as permanent records...a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation."

Advertising

The preceding report of examination recommended that Company maintain evidence of filing a certificate of compliance with the Insurance Department as required by Alabama Department of Insurance Regulation Number 69, Section VII(2). The Company did not provide evidence of filing this certificate with the Alabama Department of Insurance when requested during this examination.

Bonds

The previous examination report recommended that the Company value securities in accordance with the instructions provided by the NAIC publication, Valuation of Securities. In addition, it was recommended that the Company file the required Form SAR for all securities pursuant to Section 7 of the NAIC publication, Valuation of Securities. It was further recommended that all subsequent security acquisitions not in compliance with these recommendations be reflected as non-admitted assets in future Annual Statements. This examination revealed that the Company owned two bonds at December 31, 1999 which were not filed with the NAIC's Securities Valuation Office in accordance with the timeframe required by the NAIC publication, Valuation of Securities.

General expenses due or accrued

The preceding examination recommended that the Company accrue an adequate amount for all general expenses due or incurred at year-end. This examination identified \$79,407 in general expenses that were not accrued at year-end 1999.

SUBSEQUENT EVENTS

The Company installed a new AS400/LSP administrative system in October 1999. However, the Company had considerable difficulties with the new system, whereas it was not fully operational until October 1, 2000. The Company experienced a loss of approximately \$1.7 million during 2000 primarily due to the inability to enact rate increases, on cancer policies with unlimited chemotherapy/radiation treatments, because of difficulties with the new system. On October 1, 2000, the Company was able to implement the approved rate increases.

Effective December 31, 2000, the Company's universal life block of business was 100% coinsured by Madison National Life Insurance Company, Inc., Madison, Wisconsin. The implementation of the coinsurance agreement at December 31, 2000 resulted in an increase to surplus of \$1,000,000. Even with this \$1,000,000 increase, surplus decreased from \$8,138,912 at December 31, 1999 to \$6,397,568 at December 31, 2000. At the conclusion of this examination, the Company was in the process of selling the block of business. The Company has a hearing scheduled on March 13, 2001 with the Alabama Department of Insurance in order to request approval of the assumption agreement to complete the sale of the universal life block of business.

The Company appointed a new external auditor, the accounting firm of Barfiels, Murphy, Shank and Smith, PC, to conduct the audit for the year ending December 31, 2000.

CONCLUSION

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

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

In addition to the undersigned, Blase Abreo, Doryan H. Isenhour, Alan Fox, Tisha Freeman, Thomas Salo, Ann Sapala, Examiners; Donald G. Yates, FSA, MAAA, John A. MacBain, FSA, MAAA, John T. Condo, FSA, MAAA, and Matthew S. McAllister, ASA, MAAA, Consulting Actuaries; all representing the Alabama Department of Insurance, participated in this examination of Life Insurance Company of Alabama.

Respectfully submitted,



James L. Hattaway, III, CFE

Examiner-in-charge

Alabama Department of Insurance

Southeastern Zone, NAIC