

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

REPORT OF
EXAMINATION

OF

ALABAMA LIFE REINSURANCE COMPANY, INC.

TUSCALOOSA, ALABAMA

AS OF DECEMBER 31, 2014

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EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF TUSCALOOSA**

Toni L. Bean, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Alabama Life Reinsurance Company, Inc.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Alabama Life Reinsurance Company, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Toni Bean
Toni L. Bean, CFE, EIC

Subscribed and sworn before me by Toni L. Bean on this 11th day of December, 2015.

(SEAL)

Ann Ruth Brown **COMMISSION EXPIRES MARCH 2, 2016**
(Signature of Notary Public)

My commission expires _____.



ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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Deputy Commissioner
CHARLES M. ANGELL

Chief Examiner
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

General Counsel
REYN NORMAN

December 11, 2015

Jim L. Ridling, Commissioner
State of Alabama
Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your authorization 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

Alabama Life Reinsurance Company, Inc.
Tuscaloosa, Alabama

at the office located at 5000 Grantswood Road, Suite 323, Irondale, Alabama 35210, as of December 31, 2014. The report of examination is submitted herewith.

Where the description "Company" or "ALRC" appears herein, without qualification, it will be understood to indicate Alabama Life Reinsurance Company.

SCOPE OF EXAMINATION

An examination was performed on Alabama Life Reinsurance Company, Inc. a single state, life insurer. The last examination covered the period of January 1, 2007 through December 31, 2009. This examination covers the period of January 1, 2010 through December 31, 2014. The examination was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to 2014 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama, 1975*, as amended, which included the Alabama Insurance Code, Alabama Insurance Department regulations, bulletins and directives in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to:

- Evaluate the financial condition of the Company as of December 31, 2014.
- Assess corporate governance.
- Identify current and prospective risks and evaluate system controls and procedures used to mitigate those risks.
- Identify and evaluate significant risks that could result in a material misstatement of surplus, currently or prospectively.
- Evaluate management's compliance with statutory accounting principle.

The examination was conducted in accordance with the risk-focused examination approach. All accounts and activities were considered including significant estimates made by management. The examination does not attest to the fair presentation of the financial statements included herein. Adjustments identified including their impact on surplus was documented in the Analysis to Change in Surplus on page 22.

An examination of the market conduct activities and information systems (IS) was conducted concurrently with the financial examination. The market conduct examination included a review of the Company's territory and plan of operation. The IS examination included a review of physical access, logical assess, cybersecurity and disaster recovery controls. See "**Market Conduct Activities**" and "**Information Systems**" on pages 11 and 14 respectively, for further discussion of the market conduct and IS and examinations.

The Company's Annual Statements for all years under examination were compared with or reconciled to the corresponding general ledger account balances.

For years-ending 2010 – 2011 and 2012 – 2014, respectively, PricewaterhouseCoopers, LLP and Warren Averett LLC., respectively, were the Company's external auditors. The auditor's work papers were utilized during the examination as deemed appropriate.

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 nonexistence of unrecorded liabilities as of December 31, 2014.

ORGANIZATION AND HISTORY

On December 2, 2006, the Company was incorporated under the laws of the State of Alabama. On July 20, 2007, the Commissioner of Insurance approved a bulk reinsurance transaction whereby the Company assumed all of the liabilities associated with the business administered by its predecessor, Alabama Reassurance Company (Ala Re). Ala Re surrendered its Certificate of Authority to the Alabama Department of Insurance and was merged into Greene Group, the Company's parent.

The Company commenced business with capitalization of \$4,000,000. The paid-in capital consisted of 2,000,000 shares of common capital stock with a par value of \$1 per share, for \$2,000,000 and paid-in surplus of \$2,000,000.

Years-ending 2007 and 2009, Greene Group, made capital contributions of \$500,000 and \$1.0 million, respectively. Year-ending 2008, surplus notes in the amounts of \$1.6 and \$1.8 million were issued. On December 31, 2010, the surplus notes referenced above were contributed to the Company as paid-in capital.

On May 23, 2014, the reinsurance agreement with North America Life Insurance Company (NAL) was commuted and the policies reinsured or retroceded pursuant to the agreement, were recaptured in full by NAL.

At December 31, 2014, the Company reported \$6.9 million and \$2.4 million in gross paid in and contributed surplus and unassigned funds (surplus), respectively.

MANAGEMENT AND CONTROL

Stockholders

At December 31, 2014, Greene Group, Inc. owned 100% of the Company's common capital stock.

Board of Directors

Directors are elected at the annual meeting of the stockholders and serve until their successors are elected and qualified. The following Directors were serving at December 31, 2014:

| <u>Name and Residence</u> | <u>Principal Occupation</u> |
|---|--|
| Paul William Bryant Jr. Tuscaloosa, Alabama | Greene Group, Inc. Chairman |
| Scott Moore Phelps Tuscaloosa, Alabama | Alabama Life Reinsurance Company, Inc. President |
| Allen Wayne May Tuscaloosa, Alabama | May Veterinarian Hospital Veterinarian |
| Anna Laurie Bryant McKibbens Tuscaloosa, Alabama | Alabama Life Reinsurance Company, Inc. Secretary and Attorney |

In December 2013, a new Director was elected and qualified to serve on the Board. The number sign (#) was not included on the jurat page of the 2014 Annual Statement indicating a new director was elected. This was not in accordance with the NAIC Annual Statement Instructions which states:

Show full name (initials not acceptable) and title (indicate by number sign (#) those officers and directors who did not occupy the indicated position in the prior annual statement).

Committees

At December 31, 2014, the Company had one committee of the Board: the Audit Committee. Members serving on the Audit Committee at December 31, 2014 were as follows:

Keith Jennings, Chairman
Scott More Phelps
John Mize

Two of the individuals serving on the Audit Committee were not members of the Board of Directors. This was not in accordance with ALA. ADMIN. CODE 482-1-141-.14 (2008) which states:

(2) Each member of the audit committee shall be a member of the board of directors of the insurer or a member of the board of directors of an entity elected pursuant to paragraph 5 and rule 482-1-141-.03(3).

Officers

The following officers were elected by the Board of Directors and serving as of December 31, 2014:

| <u>Name</u> | <u>Title</u> |
|------------------------------|------------------------------|
| Scott Moore Phelps | President |
| Allen Wayne May | Vice President and Treasurer |
| Anna Laurie Bryant Mckibbens | Secretary |

In December 2013, a new officer was elected and qualified to serve. The number sign (#) was not included on the jurat page of the 2014 Annual Statement indicating a new officer was elected. This was not in accordance with the NAIC Annual Statement Instructions which states:

Show full name (initials not acceptable) and title (indicate by number sign (#) those officers and directors who did not occupy the indicated position in the prior annual statement).

Conflict Of Interest

The conflict of interest statements filed by the officers, directors and key employees were reviewed for the examination period. There were no material conflicts noted.

Dividends to Policyholders

The following table depicts the dividends paid to policyholders during the examination period:

YEAR DIVIDEND

| | |
|-------|--------|
| 2010* | 94,563 |
| 2011 | - |
| 2012 | - |
| 2013 | - |
| 2014 | - |

*Assumed from reinsured.

CORPORATE RECORDS

The Company’s Articles of Incorporation, as filed with the Tuscaloosa County Judge of Probate, and the *By-Laws*, as amended, were inspected during the course of this examination. On February 23, 2010, the *By-Laws* were amended to include the following provision:

Thereafter, the number of directors constituting the board of directors shall be between three (3) and six (6), the exact number within such range to be determined by resolution of the board of directors.

For years-ending 2010-2012, the board of directors or a committee thereof did not authorize, approve or ratify the investment transactions. This was not in accordance with ALA. CODE § 27-41-5 (1975) which states:

An insurer shall not make any investment or loan exceeding 10 percent of the admitted assets of the insurer, other than loans on policies or annuity contracts, unless authorized, approved or ratified by the board of directors of the insurer or by the committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee, or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors. This requisite shall not apply to funeral supplies authorized for mutual aid associations under Section 27-41-38 which are purchased in the regular course of business under the general supervision of the association's board of directors.

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

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company was subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975), as amended. Appropriate filings required under the Holding Company Act were made from time to time by the Company. A review of the filings for the examination period indicated appropriate disclosures were included regarding the Company, except as noted otherwise in the Report of Examination.

Dividends to Stockholders

There were no dividends paid to the stockholders during the examination period.

Management and Service Agreements

Joint Office Expense Allocation Agreement

Effective, October 31, 2008, this agreement was between the Company and Greene Group (parent). The Company reimbursed Greene Group a specified percentage for rent (which included janitorial services, utilities, insurance, and telephone and computer equipment). The Company was billed directly for salaries, payroll taxes; and travel and related expenses.

Greene Group, Inc. owned the records of transactions and granted the Company and all its regulators access. Expenses were billed on a monthly basis with reimbursements made within thirty days of the billing date. The agreement could be terminated by either party provided a sixty day written notice was delivered to the other party.

For the months of January to April 2010 and February to May 2013, the monthly rent paid was not in accordance with the terms of the agreement. A similar situation was noted during the last examination whereby it was recommended: (1) the Company reimburse the Greene Group for those expenses specified in the agreement only; and (2) the Company obtain a refund of all amounts paid in excess of the contractual agreement.

On January 19, 2013, the agreement was amended changing the amount of monthly rent paid. The amendment was not approved by the Department of Insurance in accordance with ALA. CODE § 27-29-5 (1975) which states:

(b) The following 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.

(4) All management agreements, service contracts, and all cost-sharing arrangements.

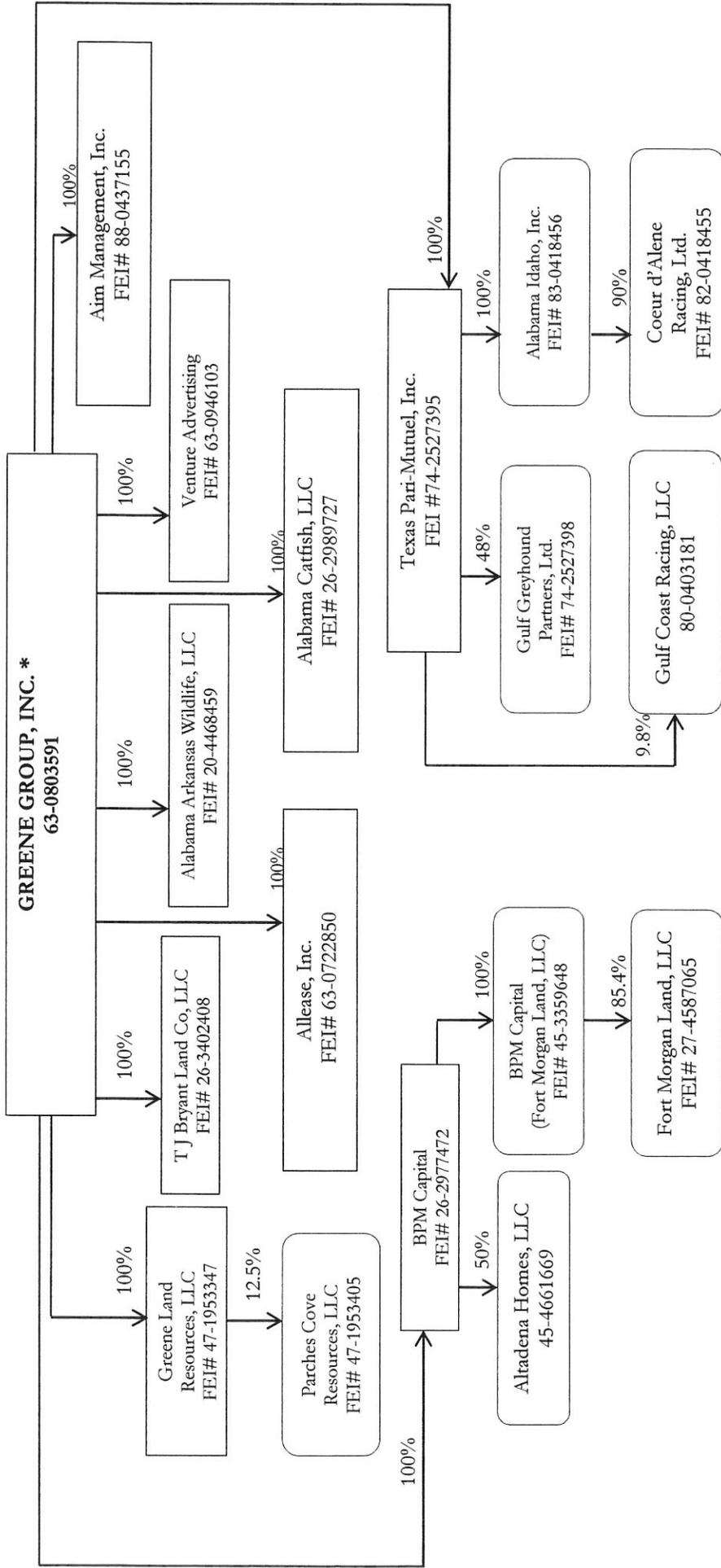
ALA. ADMIN. CODE 482-1-055-.18 (1994) states:

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 chapter.

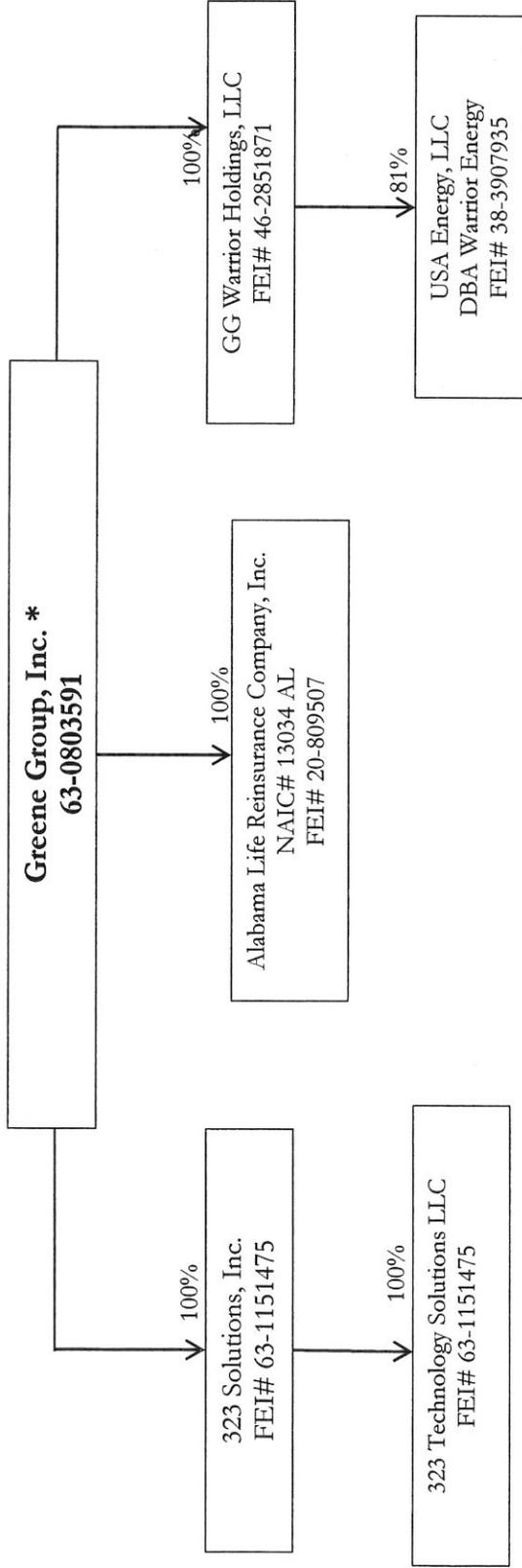
Organizational Chart

The following chart presents the corporate affiliations of the Company as of December 31, 2014. See page 9 for organizational chart.

ORGANIZATIONAL CHART



**ORGANIZATIONAL CHART
(CONTINUED)**



*** Greene Group, Inc. Ownership***

| | |
|--|---------|
| Paul William Bryant Jr. | 71.875% |
| Scott Moore Phelps | 19.25% |
| Sam & Mary Ann Phelps Trust Scott M. Phelps – Trustee | 5.75% |
| Allen Wayne May | 3.125% |

ALA. ADMIN. CODE 482-1-146-.11 (2009) (18 U.S.C. § 1033 Compliance)

ALA. ADMIN. CODE 482-1-146-.11(2009) states:

A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:

(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

The Company had internal procedures in place for determining if applicants for employment had been convicted of a Section 1033 offense. There were procedures to periodically ascertain if existing employees had been convicted of a Section 1033 offense since the date of hire as well.

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company was incorporated as an Alabama domestic stock insurance company on December 22, 2006, and commenced business in July 2007. The Company was a wholly-owned subsidiary of Greene Group, Inc. (Greene Group). The Company was licensed in the state of Alabama only; did not write any direct business; and did not have any plans to write direct business. During the examination period, the Company assumed business via two reinsurance agreements, one of which was commuted. The business assumed was for closed blocks of business in run-off. Once run-off was completed, or the agreement sold, whichever occurred first the Company would exit the insurance business.

Territory

At December 31, 2014, the Company was licensed to transact business in the state of Alabama only. The Certificate of Authority and other documentation was reviewed and found to be in order at December 31, 2014.

SCHEDULE OF SPECIAL DEPOSITS

The Company maintained the following deposit with the respective statutory authority at December 31, 2014, as required or permitted by law.

| <u>States and Territories</u> | <u>Book Value</u> | <u>Fair Value</u> |
|-------------------------------|--------------------------|--------------------------|
| Alabama* | \$ 110,212 | \$ 109,716 |
| TOTAL | <u>\$ 110,212</u> | <u>\$ 109,716</u> |

*Held for protection of policyholders

FINANCIAL CONDITION AND GROWTH OF COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated.

| | Admitted | | Capital & | Premiums |
|------|-----------------|--------------------|----------------------|-----------------|
| | <u>Assets</u> | <u>Liabilities</u> | <u>Surplus</u> | <u>Earned</u> |
| 2014 | \$ 28,698,380 | \$ 17,448,183 | \$ 11,250,197 | \$ 737,122 |
| 2013 | 37,746,054 | 29,083,983 | 8,662,071 | 826,273 |
| 2012 | 35,758,652 | 19,937,722 | 15,820,930 | 941,412 |
| 2011 | 39,922,518 | 23,969,750 | 15,952,768 | 1,373,666 |
| 2010 | 45,051,034 | 40,439,857 | 4,611,177 | 1,800,670 |
| 2009 | 46,109,441 | 41,379,411 | 4,730,030 | 1,421,855 |

REINSURANCE

The Company did not cede any business at December 31, 2014.

During the examination period, the Company assumed business from Security Life Insurance Company of America (SLICA). This contract was examined with regard to type, appropriate contract provisions and pertinent safeguards.

Reinsurance Assumed

Security Life Insurance Company of America (SLICA)

Effective, September 30, 1997, this was a quota share coinsurance agreement whereby SLICA ceded 90% of the blocks of business reinsured. The Company received 90% of the gross net premiums less the ceding allowance which included premium taxes, maintenance expenses and commissions, and termination expenses. The business assumed included: whole life products, Michigan CPI business, extended-term insurance, reduced paid-up; and pre-need business.

At December 31, 2014, the amount of business in-force reported by the Company and SLICA was \$23.2 and \$22.8 million, respectively. There was a difference of roughly \$440,000. The Company's Actuary indicated an estimation formula was used to calculate the amount of business in-force. The estimation formula was used because the information needed to determine the amount of business in-force was not provided by SLICA within a timely manner.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premium, and investments data electronically utilizing commercial software. There were some work papers maintained in hard copy format as well.

For years-ending 2010–2011 and 2012–2014, respectively, the Company's independent audits were performed by PricewaterhouseCoopers, LLP (PwC) and Warren Averett, LLC (WA) respectively. In addition to performing the annual audits, Warren Averett prepared the tax returns as well. The external auditor's work papers were reviewed and incorporated into the examination as deemed appropriate.

In 2012, there was a change in accountant. The Company notified the Alabama Department of Insurance of the change. However, a "Confirmation Letter" from the former accountant was not obtained by the Company. This was not in accordance with ALA. ADMIN. CODE 482-1-141-.06 (2008) which states:

- (3) If an accountant who was the accountant for the immediately preceding filed audited financial report is dismissed or resigns, the insurer shall within five (5) business days notify the commissioner of this event. The insurer shall also furnish the commissioner with a separate letter within ten (10) business days of the above notification stating whether in

the twenty-four (24) months preceding such event there were any disagreements with the former accountant.. The insurer shall also in writing request the former accountant to furnish a letter addressed to the insurer stating whether the accountant agrees with the statements contained in the insurer's letter and, if not, stating the reasons for which he or she does not agree; and the insurer shall furnish the responsive letter from the former accountant to the commissioner together with its own.

For years-ending 2012-2014, the external auditors did not issue written communication regarding internal controls over financial reporting. This was not in accordance with ALA. ADMIN. CODE 482-1-141-.11(2008) which states:

(1) In addition to the annual audited financial report, each insurer shall furnish the commissioner with a written communication as to any unremediated material weaknesses in its internal controls over financial reporting noted during the audit. Such communication shall be prepared by the accountant within sixty (60) days after the filing of the annual audited financial report, and shall contain a description of any unremediated material weakness (as the term material weakness is defined by Statement on Auditing Standard 60, *Communication of Internal Control Related Matters Noted in an Audit*, or its replacement) as of December 31 immediately preceding (so as to coincide with the audited financial report discussed in rule 482-1-141-.04(1) in the insurer's internal control over financial reporting noted by the accountant during the course of their audit of the financial statements). If no unremediated material weaknesses were noted, the communication should so state.

During the examination period, the opining actuary was Dr. Rodney Windham, ASA, MAAA.

Information System(s)

The information system was simplified consisting of a limited internal network that utilized commercially developed software. The commercial software, "QuickBooks" was the only significant application utilized. A network sales and service company, provided server, network, logical security and workstation support. The Company utilized an affiliates disaster recovery and information security policies, which were deemed sufficient. Cybersecurity was not deemed a significant risk because the Company did not maintain any sensitive customer information.

Internal Controls

At December 31, 2014, the Company did not have any employees. All day-to-day operations were performed by employees of the Greene Group (parent company) pursuant to the "Joint Office Expense Allocation" agreement discussed on page 7. There were few formalized, written policies; no internal audit division; and little to no segregation of duties. Based on the aforementioned, internal controls were not relied on for any phase of the examination.

Information Requests

Twenty-five of the 37 requests were not provided within ten working days. This was not in accordance 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.

A similar situation was noted during the last examination whereby it was recommended the Company comply with ALA. ADMIN. CODE 482-1-118-.06 (1999).

Compliance with Annual Statement Instructions

The Company did not complete the following in accordance with the NAIC Annual Statement Instructions:

Analysis of Increase in Reserves During The Year - For years-ending 2013-2014, the Analysis of Increase In Reserves During The Year was not prepared correctly. The analysis included the beginning and ending reserves as well as a balancing item on line 7. Other required information such as: tabular net premiums or considerations, tabular interest and increase in reserves on account of change in valuation basis were not included. This was not in accordance with the NAIC Annual Statement Instructions, which states, in part:

Coinsurance - For the assuming company, all items are included with its direct business and are similarly computed.

Tabular Net Premiums or Considerations - include the full variable life insurance premiums in Columns 3 and 7 corresponding to the gross premiums included in Analysis of Operations by Line of Business, Line 1, Columns 3 and 7.

Tabular interest, tabular less actual reserves released and tabular cost -
For these items use formulas indicated below or derive them from basic
data.

Reserves Released By Death - Entries should be made in the columns
involving life insurance.

Reserves Released by Other Terminations (Net) - Enter reserves released
by all causes in Columns 4, 5, and 8 and other than by death in Columns
2, 3, 6 and 7. The computation should be on a net basis so as to take
account of revivals, increases, changes, etc.

A similar situation was noted during the last examination whereby certain required
information was not included on the Analysis of Increase in Reserves During the
Year.

Exhibit of Life Insurance – At December 31, 2014, the number of policies reported
on the Exhibit was incorrect. The number of policies reported was 10,293. However,
at year-ending 2014, the number of policies in-force was 7,008; a difference of 3,285
policies. This was not in accordance with ALA. CODE § 27-3-26 (1975) which states:

Each authorized insurer shall, annually on or before March 1 ... file with
the commissioner a full and true statement of its financial condition,
transactions and affairs as of December 31, preceding.

Additionally, the death claims, surrenders, or lapses were not reported on the
Exhibit. This was not in accordance with the NAIC Annual Statement Instructions,
which states, in part:

Death – Amounts reported must be those that had been previously
reported as being in-force.

Surrender – Report the cancellation from in force of the face amounts
(or adjusted amounts of insurance) for policies that were surrendered by
the owners for their cash value, or where a policy loan indebtedness
(loan principal plus accrued interest) reached or exceeded the reserve
value causing termination of insurance coverage.

Lapse – Report cancellation from in force of insurance without
nonforfeiture provisions as the result of nonpayment of premiums prior
to the normal expiration date of such insurance coverage.

A similar situation was noted during the last examination period whereby it was recommended the death claims and surrenders be properly listed in the Exhibit of Life Insurance.

FINANCIAL STATEMENTS INDEX

The financial statements included in this report were based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

| | |
|--|----|
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**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
THEREOF**

ALABAMA LIFE REINSURANCE COMPANY INC.
STATEMENT OF ASSETS, LIABILITIES AND OTHER FUNDS
For the Year Ended December 31, 2014

| | Assets | Non Admitted Assets | Net Admitted Assets |
|--|----------------------|---------------------------|----------------------|
| <u>ASSETS</u> | | | |
| Bonds | \$ 15,708,755 | \$ - | \$ 15,708,755 |
| Common stocks | 1,892,395 | - | 1,892,395 |
| Cash (\$10,640,397, Schedule E - Part 1), cash equivalents (\$0, Schedule E - Part 2; and short-term investments (\$0, Schedule DA) | 10,640,397 | - | 10,640,397 |
| Subtotals, cash and invested assets | \$ 28,241,547 | \$ - | \$ 28,241,547 |
| Investment income due and accrued | 67,884 | - | 67,884 |
| Premiums and considerations: | | | |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 135,290 | - | 135,290 |
| Current federal and foreign incom tax recoverable and interest thereon | 152,695 | - | 152,695 |
| Net deferred tax asset | 327,929 | 226,965 | 100,964 |
| TOTAL ASSETS | \$ 28,925,345 | \$ 226,965 | \$ 28,698,380 |

LIABILITIES, SURPLUS AND OTHER FUNDS

| | | | |
|--|--|-----------|-------------------|
| LIABILITIES | | | |
| Aggregate reserves for life contracts | | \$ | 15,940,596 |
| Contract claims: Life | | | 591,797 |
| Contract liabilities not included elsewhere: Interest Maintenance Reserves (IMR) | | | (80,256) |
| Micellaneous liabilities: | | | |
| Asset valuation reserve (AVR) | | | 204,848 |
| Payable to parent, subsidiaries, and affiliates | | | 20,146 |
| Aggregate write-ins liabilities | | | 771,052 |
| Total Liabilities | | \$ | 17,448,183 |
| CAPITAL AND SURPLUS | | | |
| Common capital stock | | \$ | 2,000,000 |
| Gross paid in and contributed surplus | | | 6,900,000 |
| Unassigned funds (surplus) | | | 2,350,197 |
| Total Surplus | | \$ | 11,250,197 |
| TOTAL LIABILITIES, CAPITAL AND OTHER FUNDS | | \$ | 28,698,380 |

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF

ALABAMA LIFE REINSURANCE COMPANY, INC.
SUMMARY OF OPERATIONS

For the Year Ended December 31, 2014, 2013, 2012, 2011 and 2010

| Income | 2014 | 2013 | 2012 | 2011 | 2010 |
|--|-----------------------|-----------------------|---------------------|------------------------|---------------------|
| Premiums and annuity considerations for life and accident and health contracts | \$ 737,122 | \$ 826,273 | \$ 941,412 | \$ 1,373,666 | \$ 1,800,970 |
| Net investment income | 89,179 | 59,507 | 195,782 | 454,051 | 419,099 |
| Amortization of interest maintenance reserve | 13,812 | 21,468 | 30,677 | 38,392 | 48,345 |
| Aggregate write-ins for miscellaneous income | - | - | - | 2,901,817 | 5,351,238 |
| Total income | \$ 840,113 | \$ 907,248 | \$ 1,167,871 | \$ 4,767,926 | \$ 7,619,652 |
| Deductions: | | | | | |
| Death benefits | \$ 2,186,985 | \$ 2,243,494 | \$ 1,856,995 | \$ 3,582,868 | \$ 4,890,981 |
| Annuity benefits | - | - | - | 94,573 | 1,130,615 |
| Surrender benefits and withdrawals for life contracts | 101,472 | 83,142 | 124,427 | 1,507,790 | 1,182,248 |
| Increase in aggregate reserves for life and accident and health contracts | (10,763,726) | 8,319,951 | (1,243,795) | (19,216,993) | (1,050,398) |
| Totals | \$ (8,475,269) | \$ 10,646,587 | \$ 737,627 | \$ (14,031,762) | \$ 6,153,446 |
| Commissions and expense allowance on reinsurance assumed | 106,588 | 118,670 | 129,968 | 465,345 | 883,843 |
| General Insurance Expenses | 319,434 | 416,466 | 435,159 | 278,353 | 312,326 |
| Insurance taxes, licenses, and fees, excluding federal income taxes | 5,063 | 6,650 | 7,731 | 6,768 | 6,744 |
| Aggregate write-ins for deductions | 7,054,313 | 70,223 | - | - | - |
| Total deductions | \$ (989,871) | \$ 11,258,596 | \$ 1,310,485 | \$ (13,281,296) | \$ 7,356,359 |
| Net gain from operations before dividends to policyholders and federal income taxes | \$ 1,829,984 | \$ (10,351,348) | \$ (142,614) | \$ 18,049,222 | \$ 263,293 |
| Dividends to policyholders | - | - | - | - | 94,563 |
| Net gain from operations after dividends to policyholders and before federal income taxes | \$ 1,829,984 | \$ (10,351,348) | \$ (142,614) | \$ 18,049,222 | \$ 168,730 |
| Federal and foreign income taxes incurred (excluding tax on capital gains) | 411,106 | (3,283,283) | (102,822) | 6,304,949 | (666,856) |
| Net gain from operations after dividends to policyholders and federal income taxes before realized capital gains or (losses) | \$ 1,418,878 | \$ (7,068,065) | \$ (39,792) | \$ 11,744,273 | \$ 835,586 |
| Net realized capital gains (losses) less capital gains tax | - | - | - | (288,742) | - |
| Net income | \$ 1,418,878 | \$ (7,068,065) | \$ (39,792) | \$ 11,455,531 | \$ 835,586 |

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

**ALABAMA LIFE REINSURANCE COMPANY, INC.
CAPITAL AND SURPLUS ACCOUNT**

For the Year Ended December 31, 2014, 2013, 2012, 2011 and 2010

| | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|----------------------|-----------------------|----------------------|----------------------|---------------------|
| Capital and surplus, December 31, prior year | \$ 8,662,071 | \$ 15,820,930 | \$ 15,952,768 | \$ 4,611,177 | \$ 4,730,030 |
| Net income | 1,418,878 | (7,068,065) | (39,792) | 11,455,531 | 835,586 |
| Change in net unrealized capital gains (losses) less capital gains tax | (55,142) | 341,481 | 273,361 | (32,083) | (100,419) |
| Change in net deferred income tax | (163,356) | 517,157 | (860,759) | (156,979) | (793,168) |
| Change in nonadmitted assets | 218,949 | (325,563) | 970,652 | 121,619 | (60,852) |
| Change in asset valuation reserve | 168,797 | (73,869) | (253,279) | (46,497) | |
| Capital changes: | | | | | |
| Transfer to capital (Stock Dividend) | - | - | - | - | (3,400,000) |
| Surplus adjustments: | | | | | |
| Paid in | - | - | - | - | 3,400,000 |
| Aggregate write-ins for gains and losses in surplus | 1,000,000 | (550,000) | (222,021) | - | - |
| Net change in capital and surplus for the year | \$ 2,588,126 | \$ (7,158,859) | \$ (131,838) | \$ 11,341,591 | \$ (118,853) |
| Capital and surplus, December 31, current year | \$ 11,250,197 | \$ 8,662,071 | \$ 15,820,930 | \$ 15,952,768 | \$ 4,611,177 |

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

Analysis of Changes to Surplus

| | | |
|--|------------------------|----------------------------|
| Surplus at December 31, 2014, per Annual Financial Statement | | \$2,350,197 |
| | <u>Increase</u> | <u>Decrease</u> |
| Aggregate Reserves for life contracts | \$860,000 | |
| Net increase or (decrease) | | \$ (860,000) |
| Surplus at December 31, 2014, after adjustment | | <u>\$ 1,490,197</u> |

Summary of Reclassifications

There were no reclassifications as a result of the examination.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no material adverse findings; significant non-compliance issues; material changes or regulatory findings that would adversely affect the financial condition of the Company.

NOTES TO FINANCIAL STATEMENT

| | |
|--|----------------------------|
| <u>Note 1 – Aggregate Reserves for life contracts</u> | <u>\$16,800,596</u> |
| <u>Unassigned funds (surplus)</u> | <u>\$1,490,197</u> |

The captioned amounts are \$860,000 more than and \$860,000 less than the \$15,940,596 and \$2,350,197, respectively, reported by the Company in its 2014 Annual Statement.

Company management elected to voluntarily hold additional interest reserves of \$860,000 based on the 2014 asset adequacy analysis. The additional reserves were not reported in the 2014 Annual Statement because of the timing lag between the Annual Statement filings and the analysis completion.

COMMITMENTS AND CONTINGENT LIABILITIES

Examination of these items included: reviewing the statutory financial statement disclosures, minutes of the corporate governing bodies, examination of the accounts and unrecorded items; and obtaining a letter of representation from management. The external auditor's legal letter summary at December 31, 2014 was reviewed as well. At

December 31, 2014, there was no pending litigation against the Company and no material contingent liabilities were identified.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The Company satisfactorily complied with prior examination recommendations except for the following:

Corporate Records: In the prior examination report, it was recommended the investment transactions be authorized, approved and ratified by the Board or a committee thereof, in accordance with ALA. CODE § 27-41-5 (1975). The investment transactions occurring during years-ending 2010-2012, were not approved by the Board or a committee thereof.

Joint Office Expenses Allocation Agreement: In the prior examination report, it was recommended: (1) the Company reimburse Greene Group for those expenses and amounts specified in the agreement only; (2) the agreement be amended to include additional expenses and reflect any changes to the expense structure; and (3) the Company obtain refunds of all amounts paid in excess of the contractual agreement. The Company did not comply with these recommendations.

Accounts and Records – Information Requests: In the prior examination report, it was recommended requested records and written responses be provided in accordance with ALA. ADMIN. CODE 482-1-118-.06 (1999). Requested records and written responses were not always provided within ten working days as required.

Accounts and Records – Compliance with Annual Statement Instructions: In the prior examination report, it was recommended the Analysis of Increase in Reserves During the Year and Exhibit of Life Insurance be completed in accordance with the NAIC Annual Statement Instructions. The Analysis of Increase in Reserves During the Year did not include the tabular net premiums or considerations; reserves released by death or reserves released by other terminations. The Exhibit of Life Insurance did not include the death, surrenders or lapsed policies.

COMMENTS AND RECOMMENDATIONS

Committees – Page 4

It is recommended each member of the audit committee be a member of the board of directors in accordance with ALA. ADMIN. CODE 482-1-141-.14 (2008) which states:

(2) Each member of the audit committee shall be a member of the board of directors of the insurer or a member of the board of directors of an entity elected pursuant to paragraph 5 and rule 482-1-141-.03(3).

Board of Directors – Page 4

Officers – Page 5

It is recommended the number sign (#) be used on the jurat page of the Annual Statement to denote newly elected officers and directors in accordance with the NAIC Annual Statement Instructions which states:

Show full name (initials not acceptable) and title (indicate by number sign (#) those officers and directors who did not occupy the indicated position in the prior annual statement).

Corporate Records – Page 6

It is again recommended the investment transactions be authorized, approved and ratified by the Board of Directors or a committee thereof in accordance with ALA. CODE § 27-41-5 (1975) which states:

An insurer shall not make any investment or loan exceeding 10 percent of the admitted assets of the insurer, other than loans on policies or annuity contracts, unless authorized, approved or ratified by the board of directors of the insurer or by the committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee, or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors. This requisite shall not apply to funeral supplies authorized for mutual aid associations under Section 27-41-38 which are purchased in the regular course of business under the general supervision of the association's board of directors.

Management and Service Agreement – Page 7

It is again recommended the Company reimburse the Greene Group for those expenses and amounts specified in the Joint Office Expense Allocation Agreement.

It is again recommended the Company amend the Joint Office Expense Allocation Agreement to include additional expenses or changes to the expense structure.

It is again recommended the Company obtain refunds of all amounts paid in excess of the contractual requirements pursuant to the Joint Office Expense Allocation Agreement.

It is recommended amendments to all management and cost sharing agreements be filed with the Department of Insurance in accordance with ALA. CODE § 27-29-5 (1975) and ALA. ADMIN. CODE 482-1-055-.18 (1994).

ALA. CODE § 27-29-5 (1975) states:

(b) The following 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.

(4) All management agreements, service contracts, and all cost-sharing arrangements.

ALA. ADMIN. CODE 482-1-055-.18 (1994) 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 chapter.

Reinsurance Assumed – Page 12

It is recommended the Company accurately report the amount of business in-force assumed from its reinsureds in the Annual Statement.

Accounts and Records – Page 13

It is recommended the Company obtain the “Confirmation Letter” from the former accountant stating they agree with the statements made by the Company to the Department of Insurance in accordance with ALA. ADMIN. CODE 482-1-141-.06 (2008) which states:

(3) If an accountant who was the accountant for the immediately preceding filed audited financial report is dismissed or resigns, the insurer shall within five (5) business days notify the commissioner of this event. The insurer shall also furnish the commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former accountant... The insurer shall also in writing request the former accountant to furnish a letter addressed to the insurer stating whether the accountant agrees with the statements contained in the insurer’s letter and, if not, stating the reasons for which he or she does not agree; and the insurer shall furnish the responsive letter from the former accountant to the commissioner together with its own.

It is recommended the external auditors issue written communication pertaining to internal controls over financial reporting matters in accordance with ALA. ADMIN. CODE 482-1-141-.11 (2008) which states:

(1) In addition to the annual audited financial report, each insurer shall furnish the commissioner with a written communication as to any unremediated material weaknesses in its internal controls over financial reporting noted during the audit. Such communication shall be prepared by the accountant within sixty (60) days after the filing of the annual audited financial report, and shall contain a description of any unremediated material weakness (as the term material weakness is defined by Statement on Auditing Standard 60, *Communication of Internal Control Related Matters Noted in an Audit*, or its replacement) as of December 31 immediately preceding (so as to coincide with the audited financial report discussed in rule 482-1-141-.04(1) in the insurer’s internal control over financial reporting noted by the accountant during the course of their audit of the financial statements). If no unremediated material weaknesses were noted, the communication should so state.

Information Requests – Page 15

It is again recommended the Company provide within ten working days any record or written response in accordance 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.

Compliance with Annual Statement Instructions – Page 15

It is again recommended the Company complete the Analysis of Increase in Reserves During the Year in accordance with the NAIC Annual Statement Instructions which states, in part:

Tabular Net Premiums or Considerations - include the full variable life insurance premiums in Columns 3 and 7 corresponding to the gross premiums included in Analysis of Operations by Line of Business, Line 1, Columns 3 and 7.

Tabular interest, tabular less actual reserves released and tabular cost - For these items use formulas indicated below or derive them from basic data.

Reserves Released By Death - Entries should be made in the columns involving life insurance.

Reserves Released by Other Terminations (Net) - Enter reserves released by all causes in Columns 4, 5, and 8 and other than by death in Columns 2, 3, 6 and 7. The computation should be on a net basis so as to take account of revivals, increases, changes, etc.

It is recommended the correct number of policies in-force be reported on the Exhibit of Life Insurance in accordance with ALA. CODE § 27-3-26 (1975) which states:

Each authorized insurer shall, annually on or before March 1 ... file with the commissioner a full and true statement of its financial condition, transactions and affairs as of December 31, preceding.

It is again recommended the death claims, surrenders and lapses be properly reported on the Exhibit of Life Insurance in accordance with the NAIC Annual Statement Instructions, which states, in part:

Death – Amounts reported must be those that had been previously reported as being in-force.

Surrender - Report the cancellation from in force of the face amounts (or adjusted amounts of insurance) for policies that were surrendered by the owners for their cash value, or where a policy loan indebtedness (loan principal plus accrued interest) reached or exceeded the reserve value causing termination of insurance coverage.

Lapse - Report cancellation from in force of insurance without nonforfeiture provisions as the result of nonpayment of premiums prior to the normal expiration date of such insurance coverage.

SUBSEQUENT EVENTS

The general ledger and cash transactions occurring subsequent to the balance sheet date were reviewed. In addition, the examiners inquired of management regarding any significant subsequent events. There were no significant subsequent events identified.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing Alabama Life Reinsurance Company, Inc. during the course of this examination.

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

In addition to the undersigned, Charles Turner, CISA, examiner and Harland Dyer, ASA, MAAA, actuarial examiner; all representing the Alabama Department of Insurance, participated in the examination of Alabama Life Reinsurance Company, Inc.

Respectfully submitted,



Toni L. Bean, CFE
Examiner-in-charge
State of Alabama
Department of Insurance