

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT ON EXAMINATION

as of

DECEMBER 31, 2004

of the

ADAMS LIFE INSURANCE COMPANY

MONTGOMERY, ALABAMA

PARTICIPATION:

ALABAMA

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EXAMINATION AFFIDAVIT

STATE OF ALABAMA

COUNTY OF MONTGOMERY

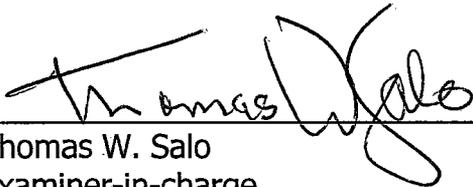
Thomas W. Salo being first duly sworn, upon his oath deposes and says:

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

That a full-scope examination was made of the affairs and financial condition of Adams Life Insurance Company for the period of January 1, 2000 through December 31, 2004.

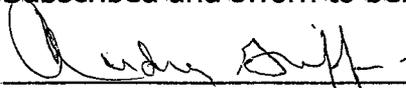
That the following 28 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

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

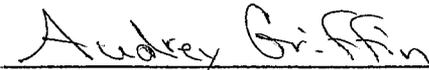


Thomas W. Salo
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this June 16, 2006.



(Signature of Notary Public)



Printed name

Notary Public

In and for the State of Alabama

My commission expires

11/2/09



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 Monroe Street, Suite 1700
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MONTGOMERY, ALABAMA 36130-3351

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WALTER A. BELL
COMMISSIONER

ASSISTANT COMMISSIONER
RAGAN INGRAM

DEPUTY COMMISSIONER
D. DAVID PARSONS

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
REYN NORMAN

RECEIVER
DENISE B. AZAR

LICENSING MANAGER
JIMMY W. GUNN

June 16, 2006

Honorable Walter A. Bell
Commissioner of Insurance
State of Alabama
P.O. Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioner Bell:

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

Adams Life Insurance Company
Montgomery, Alabama

At its home office located at 500 Adams Avenue, Montgomery, AL 36104, as of December 31, 2004. The report of the full-scope examination is submitted herewith.

Where the description "Company" appears herein without qualification, it will be understood to indicate Adams Life Insurance Company.

SCOPE OF EXAMINATION

The examination reported herein covers the period from January 1, 2000, through December 31, 2004, and has been conducted by examiners representing the State of Alabama Department of Insurance. Events subsequent to December 31, 2004, have been reviewed, and are reported herein, as deemed appropriate.

The examination has been conducted in accordance with statutory requirements of the *Alabama Insurance Code* and regulations and bulletins of the Alabama Department of Insurance; in accordance with the applicable guidelines and procedures of the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

The examination included a general review of the Company's operations, administrative practices, and compliance with statutes and regulations. Corporate records were inspected. Income and disbursement items for selected periods were tested. Assets were verified and valued, and all known liabilities were determined or estimated as of December 31, 2004, as shown in the financial statements contained herein.

In compliance with requirements of the Alabama Department of Insurance, a signed certificate of representation was obtained from the President of the Company. In this certificate, the President attests to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2004. A signed letter of representation was also obtained at the conclusion of the examination whereby the President represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities.

Within this report, discussions of financial statement balances have been confined to those items for which a material change in the financial statement has been noted or for which comments and /or recommendations have been made.

A market conduct examination was performed concurrently with the financial examination. The market conduct examination included a review of the Company's operations/management; complaint handling; marketing and sales; producer licensing; policyholder service; policy forms, rating and underwriting practices; privacy issues; and claims. (See page 10 for further discussion of the market conduct examination). Certain required elements relating to these areas of examination will be included in this report. However, where no exceptions were noted in particular areas, details of the various tests conducted are not included in this report. If exceptions were identified as part of this examination,

the details of the exceptions, the related tests, and recommendations are included in the appropriate sections of this Report of Examination.

ORGANIZATION AND HISTORY

Adams Life Insurance Company was incorporated in the state of Alabama under the laws governing a mutual aid company on August 24, 1978, and commenced business operations on October 24, 1979. In February 1987, two of the four stockholders, Jack Rainer and Jack F. Rainer agreed to sell their ownership interest to two of the remaining stockholders of the Company, Ralph W. Adams, Sr. and Samuel Adams. The Alabama Department of Insurance on March 31, 1988 approved this sale and acquisition. Since 1988 to 1991, Adams Life amended its Articles of Incorporation three times to increase its authorized capital. At December 31, 1994 the Company's authorized capital was \$600,000, consisting of 100,000 shares of \$6.00 par value common stock. In December of 1997, the Company amended its Articles of Incorporation again to increase total authorized capitalization to \$1 million, consisting of 100,000 shares of common stock at \$10.00 per share. Also, in 1997 Adams Life sold securities to become a legal reserve stock company effective January 1, 1998. Upon approval of the Department of Insurance, Adams Life executed a bulk sale agreement with American Colonial, a one time transaction, which created a large reserve requirement in 1998. However, reserves have materially decreased over the last three years as the run-off continues with less than 50 policies remaining in force.

On December 31, 1998, the Company owned 328,050 shares of Southtrust bank stock valued at \$12,117,347.

On May 13, 1998 Ralph W. Adams, Sr. died. At the time of his death, Ralph W. Adams, Sr. owned 65% of the Company, which represented 64,943 outstanding shares. Due to the size of his estate, no disbursements were made under his will until the Internal Revenue Service notified the estate in 2002 that all taxes had been paid and no audit was required. All taxes were paid with assets not associated with the Company.

Ralph W. Adams, Jr., Samuel Adams and Kelly Adams each inherited a one-third interest in the estate of Ralph W. Adams, Sr. Neither Ralph W. Adams, Jr. nor Kelly Adams had an active participation in the Company. It was decided that the Company would purchase all outstanding shares held by Ralph W. Adams Jr. (15,848 shares), Kelly Adams (16,565 shares), and other nominal shareholders (4 shares). Samuel Adams placed his inherited shares in the Company (32,533 shares) into Adams Family Enterprises, LLC, (AFE), which was formed for tax and estate purposes.

Southtrust stock split 2 for 1 on December 1, 2001 and at this time the Company owned 656,100 shares of Southtrust stock with a fair market value of \$16,185,987 which represented 86% of the Company's assets.

The amended Articles of Incorporation of the Company dated May 30, 2002 reflect that a total of 32,417 shares of the Company stock (15,848 + 16,565 + 4) were retired as a result of disbursements made under the will of Ralph W. Adams, Sr. The Company consisted of a total of 67,583 shares held directly by Samuel Adams and AFE. Stated par value of shares was increased to \$15.00 due to the reduction of outstanding shares so that stated capital equaled \$1,013,745.

On March 10, 2003, the Company amended its Articles of Incorporation and reduced its outstanding shares by 19,727; from 67,583 shares to 47,856 shares. All 19,727 shares came from the redemption of stock certificate #111 owned by AFE. In exchange, AFE received nonadmitted Southtrust stock owned by the Company. The stated capital virtually remained unchanged while par value of the remaining shares increased to \$21.

On December 31, 2003, the Company owned 328,762 shares of Southtrust stock with a fair market value of \$10,763,668 representing 80% of the Company's assets.

On June 17, 2004, the Company amended its Articles of Incorporation and reduced its outstanding shares by 12,805; from 47,856 shares to 35,051 shares. All 12,805 shares came from the redemption of stock certificate #113 owned by AFE. In this exchange, AFE received nonadmitted Southtrust stock owned by the Company. AFE continues to own 1 (one) share of Company stock as represented by stock certificate #114. The stated capital remained virtually unchanged while par value of the remaining shares increased to \$29.

On October 31, 2004, the Company owned 238,050 shares of Southtrust stock. Wachovia Bank acquired Southtrust Bank on November 1, 2004. The Company received .89 shares of Wachovia Bank stock for each share of Southtrust bank stock, which had a market value of \$11,694,046 as of December 31, 2004.

Ownership of the Company is represented by certificate #105 for 35,050 shares and is held by Samuel Adams and certificate #114 held by Adams Family Enterprises with 1 (one) share. The total number of outstanding shares of the Company as of December 31, 2004 is 35,051.

All of the above disbursements were determined to be extraordinary dividends by the Alabama Department of Insurance (ALDOI). The Company sought and received approval from ALDOI for all of the above transactions.

The Company currently writes insurance lines in credit life (group & individual), and accident and health credit (group & individual).

FINANCIAL GROWTH OF THE COMPANY

The following schedule presents financial data, which reflects the growth of the Company for the years indicated:

<u>Year</u>	<u>Net Written Premiums</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
1999	\$98,484	\$2,735,760	\$419,160	\$2,316,600
2000	\$134,770	\$2,965,797	\$367,999	\$2,597,798
2001	\$261,465	\$3,483,635	\$491,195	\$2,992,440
2002	\$306,800	\$3,382,346	\$758,711	\$2,623,575
2003	\$347,491	\$3,637,276	\$766,000	\$2,871,276
2004	\$307,232	\$4,795,575	\$1,281,483	\$3,561,042

Data for the years 2000, 2001, 2002, and 2003 are per the Company's annual statements. Data for 1999 and 2004 are per examination.

STATUTORY DEPOSITS

In accordance with applicable Alabama insurance statutes, the Company maintained the following deposit with the Alabama Department of Insurance, at December 31, 2004:

\$100,000 Certificate of Deposit with the First Bank of Rockford, Alabama maturing November 4, 2005 at 2%

Confirmation of this deposit was obtained directly from the Alabama Department of Insurance.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration and Reporting

The Company was subject to the Alabama Insurance Holding Company Regulatory Act of 1973, as defined in ALA. §CODE §27-29-1 (1975).

The Company is responsible for holding company registration statement (Form B) and periodic informational filings with the Alabama Department of Insurance, in accordance with ALA. CODE §27-29-4 (1975), and the ALA. ADMIN. CODE 482-1-55 (2002).

In connection therewith, the Company was registered with the Alabama Department of Insurance as the registrant of an Insurance Holding Company System. A review of the Company's Form B Amendments filed for the period under examination indicated that all required filings had been made in a timely manner.

The Company included Schedule Y, Part 1 as part of the annual statement, in accordance with NAIC Annual Statement Instructions.

Organizational Chart

The following chart depicts the insurance holding company system with which the Company was affiliated as of December 31, 2004.

ADAMS LIFE INSURANCE COMPANY

SAMUEL ADAMS, PRESIDENT, SECRETARY AND TREASURER
99.997% OF THE STOCK OF THE COMPANY (35,050 SHARES)

↓
↓
↓

ADAMS FAMILY ENTERPRISES, LLC
.003% OF THE STOCK OF THE COMPANY (ONE SHARE)

Agreements with Affiliates

During the period covered by this examination, the Company had no affiliates.

Dividends to Stockholders

<u>Year</u>	<u>Dividend Amount</u>
2000	\$ -0-
2001	\$ -0-
2002	\$4,295,607
2003	\$2,832,804
2004	\$2,356,436

CORPORATE RECORDS

The Articles of Incorporation and By-Laws were reviewed and found to provide for operation of the Company in accordance with Alabama statutes and regulations and accepted corporate practices.

Minutes of the meetings of the Board of Directors and Stockholders from May 15, 2000 through the most recent meetings recorded were reviewed. The minutes appeared to be complete and to adequately document the actions of the governing bodies.

MANAGEMENT AND CONTROL

Stockholders

At December 31, 2004, Mr. Samuel Adams owned 35,050 of the 35,051 shares of the total issued and outstanding common shares of stock. The remaining 1 (one) share of common stock was owned by Adams Family Enterprises.

Board of Directors

The Company's By-Laws provide that the affairs and business of the Company shall be managed by its Board of Directors which will consist of not less than seven or more than fifteen directors. At December 31, 2004, the Company had only six directors. The majority of the directors must be residents of Alabama.

The following persons were serving as directors of the Company at December 31, 2004:

<u>Directors</u>	<u>Residence</u>	<u>Occupation</u>
Mary M. Adams	Montgomery, Alabama	Housewife
Ralph W. Adams III	Davis, California	Banker
Samuel Adams **	Montgomery, Alabama	President, Adams Life Insurance Company
Samuel Adams	Montgomery, Alabama	Manager, Adams Family Enterprises
James B. Allen	Homewood, Alabama	College Professor, retired
Walter Edmunds	Pike Road, Alabama	Financial VP, Troy State University, Montgomery, Alabama, (retired)
Becky Livingston	Norfolk, Virginia	Military, (retired)

**Samuel Adams serves as:

Chairman of the Board
President and CEO
Secretary and Treasurer

During the examination it was noted that the Company did not have the minimum number of members on its Board of Directors as set forth in its By-Laws. The Company should take appropriate actions to comply with its Bylaws with regard to the number of members on its Board of Directors.

Officers

The Company's By-Laws provide that its officers shall include the Chairman of the Board, President, Secretary, and a Treasurer. Any number of offices may be held by the same person. The officers of the Corporation shall be appointed annually by the Board of Directors at the regular meeting of the Board.

The following person was serving as officers of the Company at December 31, 2004:

<u>Officer</u>	<u>Title</u>
Samuel Adams	President
Samuel Adams	Secretary
Samuel Adams	Treasurer

Conflict of Interest

Conflict of Interest statements filed by the directors and officers of the Company were reviewed for the period of the examination and no conflicts were noted.

ALA. CODE §27-27-26 (1975) states that: "Any officer, or director...shall not be pecuniarily interested in any loan, pledge or deposit, security, investment, sale, purchase, exchange, reinsurance or other similar transaction or property of such insurer..."

During the examination it was found that the Company rents office space from the President of the Company at a rate commensurate with that of other tenants within the same apartment building.

Even though the examiner found no evidence that this relationship was harmful to the Company, a literal interpretation of ALA. CODE §27-27-26 (1975), would indicate that this relationship is not in compliance with the aforementioned statute.

Employee and Agent's Welfare

As of the date of this examination, the only individual authorized to draw a salary was the President of the Company. The Company had no benefit plans established for its employee. No additional benefits were provided.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2004, the Company was a named insured under a policy issued by The Cincinnati Insurance Company, Cincinnati, Ohio. The single loss limit liability of the bond was \$50,000, with a single loss deductible of \$250, which did not meet the minimum requirements for fidelity coverage as defined by NAIC guidelines.

The President of the Company was notified of this situation and he immediately contacted his insurance carrier and had the loss limit liability raised to \$100,000 which exceeded the fidelity coverage guidelines as defined by the NAIC.

In addition to the aforementioned financial institution bond, the Company maintained the following coverages:

Theft, Disappearance and Destruction

Loss inside the premises -- \$10,000 limit; \$250 deductible

Loss outside the premises -- \$2,500 limit; \$250 deductible

Limits of Liability Insurance

Each occurrence limit \$1,000,000

General aggregate limit \$1,000,000

Products-completed (agg. limit) \$1,000,000

Personal & advertising injury limit \$1,000,000

The coverages and limits (as amended during the examination), carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company's interests.

MARKET CONDUCT ACTIVITIES

Territory

During the examination period and at December 31, 2004, the Company was licensed to transact business in the state of Alabama only.

Plan of Operation

The Company wrote credit life and credit accident and health insurance through various financial institutions throughout Alabama. The Company issued a Master Policy to the financial institution. The financial institution, would in turn, market credit insurance to its borrowers via an endorsement to the Master Policy. The Certificates of Insurance to the Master Policy were issued directly to the borrower. The financial institution was designated as the first beneficiary on the Certificate while the borrower designated a second beneficiary

The Company offered level term and decreasing term credit life insurance as well as accident and health coverage. The accident and health coverage could be written only after credit life insurance was written. The Company also provides group policy coverage.

Policy Forms and Underwriting

The Company's policy forms were reviewed and it was found that they had been filed with and approved by the Alabama Department of Insurance.

Compliance with Agents' Licensing Requirements

The records of the Company were examined to determine that agents representing the Company were duly licensed by the Alabama Department of Insurance.

A sample of commission payments was reviewed to determine that the agents receiving commissions from the Company were duly licensed. The sample was compared to the licensure records of the Alabama Department of Insurance, Agents' Licensing Division. Within this sample, no payments to unlicensed agents were found.

Advertising and Marketing

The Company did not use any printed advertising media nor did it utilize any other form of advertising. The sales efforts of the Company evolved around personal contact with perspective customers.

Claims Payment Practices and Complaints

A review of a representative sample of claims made by certificate holders during the current examination period was made. The claims within the sample were examined for timeliness of payment, adequacy of documentation, and compliance with policy provisions.

The credit life claims are usually paid within 24 hours of the Company receiving a certified death certificate. If suicide occurs, the claim may be investigated and settlement of the claim may take a longer period of time. Accident and Health claims are paid on the twentieth of each month.

The complaint files which are maintained by the Alabama Department of Insurance indicated no complaints against the Company during this examination period.

Even though the Company has a satisfactory claims payment record, it was noted during the examination that the Company does not maintain a complaints register nor does it have written guidelines for complaint procedures.

PRIVACY POLICY AND PRACTICES

During the examination the following was noted:

- The Company does not have a written privacy policy.
- The Company issues an initial and an annual privacy notice to the banks with which it does business.
- The Company does not have a formal privacy policy training manual.

FRAUD POLICY

The examination found that the Company does not have a formalized anti-fraud program in force.

During the review of the Company's claim forms and applications for credit life insurance and accident and health insurance, it was noted that none of these forms contained any wording relating to fraudulent acts committed by those responsible for completing the forms.

Conversation with management indicated that they have never encountered any fraudulent activity since the Company's inception. Further, if fraud was suspected it would be promptly reported to the appropriate insurance and/or police authority.

REINSURANCE

Assumed Reinsurance

The Company assumed a block of business from American Colonial Life Insurance Company (American Colonial) on January 1, 1998. In this purchase, American Colonial had assumed reinsurance business with Bankers Credit Life Insurance Company (Bankers Credit). The contract between American Colonial and Bankers Credit was terminated August 1, 1995. Further, Bankers Credit was placed in the Receivership Division of the Alabama Department of Insurance in May of 1998. At December 31, 2004, the amount of insurance in force with Bankers Credit was \$2,036.

Ceded Reinsurance

The Company cedes reinsurance business to Munich American Reassurance Company (Munich Re) and to Swiss Re Life & Health America Inc. (Swiss Re). The Company purchased a block of business from American Colonial Life

Insurance Company (American Colonial) on January 1, 1998. In this purchase, American Colonial had ceded reinsurance business with The Lincoln National Life Insurance Company (Lincoln National), Life of the South Insurance Company (LOTS), and Bankers Credit Life Insurance Company (Bankers Credit).

The agreement with LOTS was inactive during the last examination and as previously mentioned, Bankers Credit was placed into receivership in May of 1998. The agreement with Lincoln National was assumed by Optimum Re Insurance Company (Optimum Re) effective January 1, 2000.

50/50 Quota Share Reinsurance Agreement-Munich Re

Term- Effective January 1, 2004 and continuing until terminated. Either party may terminate the contract with ninety days written notice to the other.

Business covered - Credit life and credit disability

Retention and Limits

Credit Life - Adams life retention is 50% of maximum issue amount of \$100,000, maximum issue age is 65, terminates at 66, maximum term is 120 months.

Credit disability - Adams disability retention is 50% of maximum issue amount of \$500, maximum issue age is 65, terminates at 66, maximum term is 120 months.

Insolvency- The contract contains the usual insolvency language, providing for payment of reinsurance without diminution because of the insolvency of the ceding company.

50/50 Quota Share Reinsurance Agreement - Swiss Re (formerly North American Reassurance Company)

Term - Effective July 15, 1989 and continuing until terminated. Either party may terminate the contract with ninety days written notice via registered mail.

Business covered - Credit life and credit disability

Retention and limits - Credit life - Adams life retention is 50% of maximum issue amount of \$30,000, maximum issue age 65, terminates at 66, maximum term is 120 months.

Credit disability - Adams disability retention is 50% of maximum issue amount of \$500, maximum issue age is 64, terminates at 65, maximum term is 120 months.

Insolvency- The contract contains the usual insolvency language, providing for payment of reinsurance without diminution because of the insolvency of the ceding company.

Facultative Risk Premium Reinsurance Agreement-Optimum Re (assumed from Lincoln National effective January 1, 2000).

Term - Effective January 1, 2000 and continuing until terminated. At any time either party may terminate the contract with ninety days written notice.

Business covered - Life, accidental death, and disability

Retention and limits - Adams Life will retain \$25,000 and the limit for Optimum Re is \$25,000 on accidental death

Insolvency- The contract contains the usual insolvency language, providing for payment of reinsurance without diminution because of the insolvency of the ceding company.

ACCOUNTS AND RECORDS

Internal Records

During the examination, it was noted that the Company's principal accounting records were maintained primarily on electronic data processing equipment in the office of the Company's accounting firm, Jackson Thornton & Co., PC.

However, there were certain detailed records that were kept in a manual format. The accounting firm prepares ledgers, journals, financial statements and internal reconciliations as well as the quarterly and annual statements which are filed with the NAIC and the Alabama Department of Insurance.

During the examination, it was noted that many accounting records and documents were not maintained in the home office of the Company. The Company's general ledger and trial balances were maintained in the office of Jackson-Thornton, the Company's CPA.

All documents of the Company should be kept in the principal office of the association located in this state and be available for inspection by the Commissioner on any general business day, in accordance with ALA. CODE §27-30-21 (b)(1975).

All of the accountant's workpapers were not obtained for review. However, the

files which related to this examination were tested and utilized in this examination to the extent deemed appropriate.

External Audits and Actuarial

The Company was audited annually by the certified public accounting (CPA) firm of Jackson Thornton & Co., PC, Montgomery, Alabama, which conducted all of the Company's audits for the five-year period covered by this examination.

The reports generated by the CPA were reviewed for the examination period.

There were three management letters issued:

- The May 13, 2005 letter referenced to the fact that the Company had not removed thirteen life policies from its 2004 in-force listing after death claims on these policies had been paid.
- The May 11, 2004 letter addressed the issue that the Company lacked segregation of duties amongst its employees. [The Company has only one full-time employee].
- The April, 24, 2002 letter related to data-entry errors being made when policies are placed on the Company's database.

The aforementioned issues were investigated during the course of the examination and the findings were reported accordingly.

It was noted that the CPA firm has utilized the same engagement partner since 1998. The NAIC's Annual Statement Instructions and Section 7, of ALDOI *Regulation No. 100*, stipulate that:

"No partner or other person responsible for rendering a report may act in that capacity for more than seven (7) consecutive years. Following any period of service such person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of two (2) years."

The NAIC's Annual Statement Instructions also require that the annual audit shall be conducted by an independent CPA in good standing with the American Institute of Certified Public Accountants (AICPA). The AICPA specifies certain standards for independence, including, among others, that management accepts and understands all work performed and all accounting procedures accomplished by the CPA. The CPAs supervised the accounting operations, prepared monthly financial statements, and was primarily responsible for the preparation of the Company's Quarterly and Annual Statements. The Company had no internal

audit staff; however, the annual financial audit was performed by the CPA firm on its own work. This is further discussed under the "Subsequent Events – Accounting Firm Rotation" section of this report.

The reserve calculations for the examination period were certified by the Company's actuarial consultant, Mr. Michael J. Tucker, FCAS, MAAA, with Wakely Actuarial Services, Clearwater, Florida.

FINANCIAL STATEMENTS

Financial statements included in this report, which reflect the operations of the Company for the years under this full-scope examination and its financial condition at December 31, 2004, consist of the following:

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**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART THEREOF.**

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

For the year ended December 31, 2004

	<u>ASSETS</u>		
	<u>Ledger Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds (NOTE 1)	\$ 650,000		\$ 650,000
Preferred stock	0		0
Common stock (NOTE 2)	11,188,962	(9,172,794)	2,016,168
Cash (NOTE 3)	2,017,279		2,017,279
Investment income due and accrued	102,830		102,830
Uncollected premiums & agent balances	2,496		2,496
Amounts recoverable from reinsurers	6,802		6,802
Furniture and equipment	1,771	(1,771)	0
Aggregate write-in for other than invested assets	3,585	(3,585)	0
Total Assets	<u>\$ 13,973,725</u>		<u>\$ 4,795,575</u>

LIABILITIES SURPLUS AND OTHER FUNDS

Liabilities

Aggregate Reserve for Life Contracts	\$ 483,855
Aggregate Reserve for A & H Contracts	\$ 98,682
Contract Claims-Life	\$ 34,263
Contract Claims-A & H	\$ 34,263
General Expenses Due and Accrued	\$ 9,995
Taxes, Licenses and Fees	\$ 1,647
Current Federal and Foreign Income Tax	\$ 5,703
Increase in Asset Valuation Reserve (NOTE 4)	\$ 403,741
Net Deferred Tax Liability (NOTE 5)	<u>\$ 209,334</u>
Total Liabilities	\$ 1,281,483

Surplus and Other Funds

Common capital stock	\$ 1,016,479
Unassigned funds (NOTE 6)	<u>\$ 2,497,613</u>
Total capital and surplus	<u>\$ 3,514,092</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 4,795,575</u>

COMPARATIVE SUMMARY OF OPERATIONS

For The Years Ended December 31,

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>Income:</u>					
Premium considerations	\$ 307,232	\$ 347,491	\$ 306,800	\$ 261,465	\$ 134,770
Net investment income	262,734	252,995	320,507	363,505	397,750
Commissions and expense allowances on reinsurance ceded	184,165	208,519	187,599	159,912	85,937
Net realized capital gain	<u>2,486,554</u>	<u>2,700,944</u>	<u>4,052,848</u>	<u>784,882</u>	<u>618,457</u>
Total income	\$ 3,240,685	\$ 3,509,949	\$ 4,867,754	\$ 784,882	\$ 618,457
<u>Deductions:</u>					
Death benefits	\$ 43,763	\$ 69,404	\$ 54,998	\$ 25,679	9,267
Disability benefits & benefits under A- H contracts	22,222	12,660	35,361	28,731	44,650
Increase in aggregate reserve for life & A-H contracts	16,028	93,188	51,363	115,376	(48,382)
Commissions on premiums	401,371	451,174	397,858	347,280	183,918
General insurance expenses	234,278	243,617	229,390	307,912	193,117
Insurance taxes, licenses and fees	18,559	18,474	15,088	12,088	7,855
Increase on loading on uncollected premiums			(292)		(172)
Federal income taxes incurred	<u>2,253</u>	<u>(10,107)</u>	<u>3,482</u>		
Total deductions	\$ 738,474	\$ 878,410	\$ 787,248	\$ 837,066	\$ 390,253
Net Income (Loss)	<u>\$ 2,502,211</u>	<u>\$ 2,631,539</u>	<u>\$ 4,080,506</u>	<u>\$ (52,184)</u>	<u>\$ 228,204</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	For the years ended December 31,				
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Capital and surplus, January 1,	\$ 2,871,276	\$ 2,623,575	\$ 2,992,440	\$ 2,597,798	\$ 2,316,600
Net income	2,502,211	2,631,539	4,080,506	(52,184)	228,204
Change in net unrealized capital gain or (losses)	493,497	793,374	579,211	281,198	48,443
Changes in net deferred income tax (NOTE 5)	(81,325)	(53,303)	(242,977)	4,445	
Change in non-admitted assets (NOTE 2)	757,515	5,577	(2,466)	(2,643)	4,551
Change in Asset Valuation Reserve (NOTE 4)	(403,741)				
Cumulative effects of changes in accounting principles				163,826	
Paid in capital	(268,905)	(295,905)	(324,170)		
Transferred from surplus (stock dividend)	280,408	287,136	337,915		
Paid in surplus adjustment		(777)	(163,362)		
Transferred to capital (stock dividend)	(280,408)	(287,136)	(337,915)		
Dividends to stockholders	(2,356,436)	(2,832,804)	(4,295,607)		
Change in capital and surplus during year	<u>642,816</u>	<u>247,701</u>	<u>(368,865)</u>	<u>394,642</u>	<u>281,198</u>
Capital and surplus, December 31,	<u>\$ 3,514,092</u>	<u>\$ 2,871,276</u>	<u>\$ 2,623,575</u>	<u>\$ 2,992,440</u>	<u>\$ 2,597,798</u>

NOTES TO THE FINANCIAL STATEMENTS

<u>Note 1 – Bonds</u>	<u>\$650,000</u>
<u>CMA Money Fund</u>	<u>44,892</u>
<u>Cash Accum. Trust</u>	<u>24</u>

The above amounts were being held by Merrill Lynch without an approved custodial agreement. Since Merrill Lynch is not a bank or a trust company, an approved custodial agreement could not be obtained. Upon notice of this non-compliance issue, the Company immediately liquidated these assets and transferred these funds to its repurchase account which is housed at a bank which is governed by a custodial agreement which has been approved by the Commissioner of the Alabama Department of Insurance. Initially, these amounts were to be non-admitted, but as a result of the Company's expedient corrective action during the examination, these assets will be admitted for examination purposes. (This is further discussed under "Subsequent Events –Accounting Firm Rotation " of this examination report).

<u>Note 2 – Common Stock (net admitted asset balance)</u>	<u>\$2,016,168</u>
<u>-- Change in Non-Admitted Assets</u>	<u>\$757,515</u>

The captioned amount for the net admitted asset balance of common stock as determined by this examination was \$744,892 more than the \$1,271,276 reported by the Company in the 2004 Annual Statement. Also, the change in non-admitted assets as determined by this examination was \$744,892 more than the \$12,623 reported by the Company in its 2004 Annual Statement.

The calculation of the net admitted asset balance for common stock developed by this examination follows:

\$2,871,276	December 31, 2003 surplus
(800,000)	ALA. CODE § 27-3-7 (1975)
(100,000)	ALA. ADMIN CODE 482-1-063 (1977)
\$1,971,276	ALA. CODE § 27-41-17 (a) Investment Limitation
\$3,637,276	December 31, 2003 net admitted assets
<u>X 10%</u>	
\$ 363,727	ALA. CODE § 27-41-35 (1975) [Basket Clause additional investment, if not already used for any other investment purpose]
\$1,971,276	
<u>44,892</u>	CMA Money Fund
\$2,016,168	Net Admitted Asset Balance

Note 3 -Cash
Short-term Investments

\$1,112,279
\$905,000

The amounts of the captioned assets are the same as reported in the Company's 2004 Annual Statement. Under the Company's repurchase agreement with Southtrust Bank it was noted that the Company reported the amount paid for the security at December 31, 2004 in Schedule E- Part 2 – Cash Equivalents instead of in Schedule DA- Part 1 as a short-term investment. This was not in compliance with the NAIC Accounting Practices and Procedures Manual - SSAP 45, paragraph 4. However, this misclassification did not affect the Company's surplus.

During the review of the Company's repurchase agreement with Southtrust Bank, it was noted that the agreement was not appropriately collateralized in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP 45, paragraph 8 a., which requires the following:

"The reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for the securities. If at anytime the fair value of the collateral is less than 100 percent of the purchase price paid by the reporting entity, the counterparty shall be obligated to provide additional collateral, the fair value of which, together with fair value of all collateral then held in connection with the transaction, at least equals 102 percent of the purchase price."

The repurchase agreement should be accounted for as a collateralized lending and not as an actual purchase of the collateral that secures the transaction, in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP 45 and Alabama Department of Insurance Regulation No. 97 Section 4, which adopted the NAIC Accounting Practices and Procedures Manual.

However, on or about July 21, 2003, the Company received authorization from the Commissioner of the Alabama Department of Insurance permitting them to carry the collateral on the repurchase account at 100% of the purchase price.

In reviewing cash payments it was noted that every month the Company pays a fee for a part-time financial consultant, a fee for a part-time medical consultant, and it pays its monthly rent for its home office. The Company could not provide vouchers supporting these transactions. The fact that the Company could not provide the supporting voucher for these transactions is a violation of ALA. CODE §27-27-30 (1975) which states that "No insurer shall make any disbursement of \$25.00 or more unless evidenced by a voucher or other document correctly

describing the consideration for the payment and support by a check or receipt endorsed or signed by, or on behalf of, the person receiving the money."

<u>Note 4 - Asset Valuation Reserve</u>	<u>\$403,741</u>
<u>Change in Asset Valuation Reserve</u>	<u>(\$403,741)</u>

The captioned amount for the Asset Valuation Reserve (AVR) as determined by this examination was \$403,741 more than the -0- reported by the Company in its 2004 Annual Statement. Also, the Change in Asset Valuation Reserve was \$403,741 less than the -0- reported by the Company in the 2004 Annual Statement. It was noted that during the period covered by the examination (2000-2004), the Company has never reported an AVR amount in its annual statements.

<u>Note 5 - Net Deferred Tax Liability</u>	<u>\$209,334</u>
<u>Change in Net Deferred Income Tax</u>	<u>(\$81,325)</u>

The captioned amount for the Net Deferred Tax Liability as determined by this examination was \$46,513 more than the \$162,821 reported by the Company in the 2004 Annual Statement. Also, the Change in Net Deferred Income Tax as determined by this examination was \$46,513 less than the (\$34,812) reported by the Company in its 2004 Annual Statement.

<u>Note 6 - Unassigned Funds</u>	<u>\$2,497,613</u>
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The unassigned Funds (surplus) balance of the Company, as determined by this examination, was \$294,638 more than the \$2,202,975 reported by the Company in its 2004 Annual Statement. The following presents a reconciliation of unassigned funds per the Company's filed Annual Statement to that developed by this examination.

(see next page)

Unassigned funds balance per Company **\$2,202,975**

Examination increase/(decrease) to assets:

Increase in investment limitation \$700,000
(common stock)

Increase in investment limitation \$ 44,892
(basket clause)

TOTAL CHANGE IN ASSETS \$744,892

Examination (increase)/decrease to liabilities:

Increase in AVR (\$403,741)

Increase in Deferred Tax Liability (46,513)

TOTAL CHANGE TO LIABILITIES (\$450,254)

Examination increase/(decrease) to **\$294,638**

Unassigned Funds \$2,497,613

Unassigned funds balance per examination \$2,497,613

CONTINGENT LIABILITIES AND PENDING LITIGATION

Examination of these items included the following: a review of the Company's statutory financial statement disclosures; performance of a search for unrecorded items; and obtaining letters of representation from management.

The Company did not report any contingent liabilities or pending litigation that were deemed to have potential for material adverse action on its surplus. The Company's President executed a letter of representation attesting to the non-existence of contested claims, unreported liabilities, and contingencies, as of December 31, 2004, and for the period from January 1, 2005 to June 9, 2006.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. It appears that the Company has complied with all recommendations except for the pecuniary interest noted in the "Conflict of Interest" section and the Company did not maintain vouchers to support certain disbursements of \$25.00 and over as noted in the "Cash and Short-term Investments" section of this examination report.

COMMENTS AND RECOMMENDATIONS

Board of Directors – page 7

The Company's By-Laws provide that the affairs and business of the Company shall be managed by its Board of Directors which will consist of not less than seven nor more than fifteen directors. At December 31, 2004, the Company had only six directors. The Company is in violation of its own by-laws.

It is recommended that the Company maintain the correct number of members on its board of directors as set forth in its by-laws.

Claims Payment Practices and Complaints – page 11

It is recommended that the Company maintain a complaint register in accordance with Complaint Handling Standard 1 of the NAIC's Market Conduct Examiners Handbook, and ALA. CODE § 27-27-29(a) (1975), which requires that a company maintain all records of its insurance transactions and affairs.

It is recommended that the Company have written guidelines for complaint procedures to ensure that complaints are satisfactorily distributed, recorded and responded to, and communicate this to certificate holders as defined by Complaint Handling Standard 2, of the NAIC's Market Conduct Examiners Handbook.

Privacy Policy and Practices – page 12

It is recommended that the Company maintain a written privacy policy and a written privacy policy training manual in accordance with ALA. ADMIN. CODE 482-1-122(2002).

Fraud Policy - page 12

It is recommended that the Company include wording in their claim forms and applications that indicates that any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or knowingly presents false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.

Accounts and Records - page 14

It is recommended that the Company maintain its records in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

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

Further, it was noted that many accounting records and documents were not maintained in the home office of the Company. The Company's general ledger and trial balances were maintained in the office of Jackson Thornton & Co., PC, the Company's CPA.

It is recommended that the Company maintain all records in its principal office in accordance with ALA. CODE §27-30-21 (b)(1975).

It is recommended that the Company maintain accurate records of its business affairs and retain supporting vouchers for the issuance of checks in excess of \$25.00 in accordance with ALA. CODE §27-27-30(1975).

Cash and short-term investments - page 20

The Company reported the amount paid for the security on its repurchase agreement at December 31, 2004 in Schedule E- Part 2 – Cash Equivalents instead of in Schedule DA- Part 1 as a short-term investment, which was not in compliance with the NAIC Accounting Practices and Procedures Manual- SSAP 45, paragraph 4. This misclassification however did not affect the Company's surplus.

It is recommended that the Company classify, in future financial statements, the amount paid for the securities via its repurchase agreement as short-term

investments in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP 45.

It is recommended that the Company complete Schedule DA- Part 1 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company maintain documentation of disbursements \$25.00 and over in its home office in compliance with ALA. CODE §27-27-30 (1975).

SUBSEQUENT EVENTS

Liquidation of funds held by Merrill Lynch

During the examination it was found that the Company's securities at Merrill Lynch were not being held under a custodial agreement which had been approved by the Commissioner of the Alabama Department of Insurance. ALA. ADMIN CODE 482-1-077 states that a custodian is ... "A national bank, state bank or trust company that shall at all times during which it acts as a custodian pursuant to this chapter be no less than adequately capitalized as determined by the standards adopted by United States banking regulators and that is regulated by either state banking laws or is a member of the Federal Reserve System..."

Management realized that an approved custodial agreement could not be obtained and that the securities and their respective balances at Merrill Lynch were going to be nonadmitted. On or about March 15, 2006, the Company sold the securities that were housed at Merrill Lynch. The securities (namely CUSIP 914031-AS-8, Univ. of AL at Bham, in the amount of \$550,000 + interest and Merrill Lynch CMA Money Fund in the amount of \$44,892 + interest) were liquidated and the resultant \$612,665.37 was wire transferred to the Company's Wachovia bank repurchase account.

Initially, the aforementioned securities and their respective amounts were to be non-admitted but since the Company expediently corrected this issue during the examination, these amounts will be admitted as assets of the Company for the December 31, 2004 examination report.

Accounting firm rotation

The Company has utilized the accounting firm of Jackson Thornton & Co., PC for its annual audits since 1998. The NAIC's Annual Statement Instructions and Section 7, of ALDOI *Regulation No. 100*, stipulates that:

"No partner or other person responsible for rendering a

report may act in that capacity for more than seven (7) consecutive years. Following any period of service such person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of two (2) years."

In accordance with said regulation, the Company has contracted with Strohm Ballweg, LLP (CPAs and Consultants), of Madison, Wisconsin to perform its annual audits. Jackson Thornton & Co., PC, will be retained to prepare ledgers, journals, financial statements and internal reconciliations as well as the quarterly and annual statements which are filed with the NAIC and the Alabama Department of Insurance.

The NAIC's Annual Statement Instructions also require that the annual audit shall be conducted by an independent CPA in good standing with the American Institute of Certified Public Accountants (AICPA). The AICPA specifies certain standards for independence, including, among others, that management accepts and understands all work performed and all accounting procedures accomplished by the CPA.

By utilizing an outside auditor such as Strohm Ballweg, LLP, it appears that the independence required of a CPA will be in effect for upcoming annual audits.

Dividend Paid

On April 19, 2005, the Company paid a \$2,500,000 dividend which was approved by the Commissioner of the Alabama Department of Insurance.

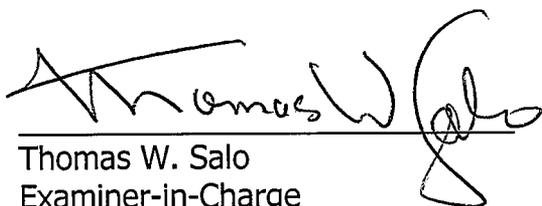
CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by persons representing Adams Life Insurance Company 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, to the extent possible utilizing Company records and accounts.

In addition to the undersigned, Harland Dyer, ASA, MAAA, FCA, Consulting Actuarial Examiner, all representing the Alabama Department of Insurance, participated in this examination of Adams Life Insurance Company.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas W. Salo", written over a horizontal line.

Thomas W. Salo
Examiner-in-Charge
State of Alabama
Department of Insurance

June 16, 2006