September 6, 2007
CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Tracy Tucker, President
Indemnity National Insurance Company
4800 Old Kingston Pike
Knoxville, TN 37919

RE: Report of Examination as of December 31, 2006

Dear Mr. Tucker:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

GEORGE DALE
COMMISSIONER OF INSURANCE

BY J. Mark Haire
Special Assistant Attorney General

GD/JMH/bs
Encls. Order w/exhibit
BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI

IN RE: REPORT OF EXAMINATION OF INDEMNITY
NATIONAL INSURANCE COMPANY

CAUSE NO. 06-5471

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination, together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999).

II.

That Indemnity National Insurance Company is a Mississippi-domiciled company licensed to write Accident & Health; Automobile Physical Damage/Liability; Boiler & Machinery; Casualty/Liability; Fidelity; Fire/Allied Lines; Guaranty; Home/Farm Owners; Industrial Fire; Inland Marine; Legal; Mortgage Guaranty; Ocean Marine; Plate Glass; Surety; Title and Workers' Compensation coverages.
FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of Indemnity National Insurance Company and appointed Mitch Rayborn, Examiner-In-Charge, to conduct said examination.

IV.

That on or about May 14, 2007, the draft Report of Examination concerning Indemnity National Insurance Company for the period of December 21, 2005, through December 31, 2006, was submitted to the Department by the Examiner-In-Charge, Mitch Rayborn.

V.

That on or about June 19, 2007, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The company responded to the draft on or about July 17, 2007, and in response thereto, minor revisions were made to the draft report.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of Indemnity National Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.
IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage prepaid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential information for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, Indemnity National Insurance Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that Indemnity National Insurance Company take the necessary actions and implement the necessary procedures to properly and promptly comply with all recommendations contained in the Report of Examination.

SO ORDERED, this the 6th day of September, 2007.

[Signature]
GEORGE DALE
COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI
CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy
of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was
sent by certified mail, postage pre-paid, return receipt requested, on this the 6th day of
September, 2007, to:

Mr. Tracy Tucker, President
Indemnity National Insurance Company
4800 Old Kingston Pike
Knoxville, TN 37919

J. Mark Haire
Special Assistant Attorney General

J. Mark Haire
Special Assistant Attorney General
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 2065
STATE OF MISSISSIPPI
COUNTY OF LINCOLN

Mitch Rayborn, CFE, FLMI, being duly sworn, states as follows:

1. I have authority to represent the Commissioner of Insurance of the State of Mississippi in the examination of Indemnity National Insurance Company.

2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

3. I have prepared the examination work papers and examination report, and the examination of Indemnity National Insurance Company as of December 31, 2006, was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

The affidavit says nothing further.

Mitch Rayborn, CFE, FLMI
Examiner

Subscribed and sworn before me this 28th day of August, 2007.

(SEAL)

Notary Public

My commission expires
Mississippi Insurance Department

Report of Examination

of

Indemnity National Insurance Company
633 North State Street
Jackson, Mississippi 39202

As of December 31, 2006

NAIC Company Code 18468
NAIC ETS No. MS029-C27
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April 18, 2007

Honorable Alfred Gross  
Financial Condition (E) Subcommittee  
Southeastern Zone  
Bureau of Insurance  
1300 East Main Street  
Richmond, Virginia 23219

Honorable George Dale  
Commissioner of Insurance  
Mississippi Insurance Department  
501 North West Street  
1001 Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205-0079

Honorable Kevin McCarty  
Commission of Insurance  
Florida Department of Insurance  
200 East Gaines Street  
Tallahassee, Florida 32399

Dear Sirs:

Pursuant to Commissioner Dale's instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2006, of the affairs and financial condition of:

INDEMNITY NATIONAL INSURANCE COMPANY  
(NAIC COMPANY CODE 18468)  
633 North State Street  
Jackson, Mississippi 39202

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Jackson, Mississippi and at the main administrative office of the Company in Knoxville, Tennessee. The report of examination is herewith submitted.
INTRODUCTION

This examination was performed by examiners representing the Mississippi Insurance Department ("MID") and covered Indemnity National Insurance Company's ("INIC" or "the Company") operations and financial condition from December 21, 2005, through December 31, 2006, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

For purposes of this examination report, the examination period is defined as December 21, 2005 through December 31, 2006, and the examination date is defined as December 31, 2006.

SCOPE OF EXAMINATION

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with the law. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

This examination was conducted in accordance with procedures recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

HISTORY OF THE COMPANY

The Company was incorporated as Great River Insurance Company ("Great River") on December 2, 1993 under the laws of the State of Mississippi and commenced business on that date.

The purpose for which the Company was formed, as stated in the Articles of Association, was to enter into all forms of insurance contracts insuring perils similar to those described within Miss Code Ann. § 83-19-1 "Class One (1) – Fire and Casualty", and to carry on any other business activities and financial services that an insurance company can lawfully conduct under the laws of the State of Mississippi.

On July 1, 2004 Great River entered into a 100% Transfer and Assumption Agreement with a former affiliate, Union Insurance Company ("Union"), under which all policies in force, all policy liabilities, and all non-policy liabilities were transferred to Union. This transaction was approved by the domiciliary insurance departments of both companies.
On December 15, 2005 the Mississippi Commissioner of Insurance approved the sale of all of the issued and outstanding shares of Great River to Knox Holdings, Inc. Knox Holdings, Inc. is a holding company organized in August 2005 as a corporation under the laws of Tennessee for the purpose of acquiring Great River.

On December 27, 2005 Great River amended its Articles of Association to change the name of the Company to Indemnity National Insurance Company.

**HOLDING COMPANY STRUCTURE**

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company completed and filed with the MID the necessary documentation to comply with Miss. Code Ann. §§ 83-6-5 and 83-6-9 for the period under examination. The statements and applicable amendments that were filed during the examination period were reviewed, and it appeared that any changes and/or material transactions by and between the Company and its affiliates were reported.

**Organizational Chart**

The following organizational chart depicts the ownership and affiliated companies:

```
           Knox Holdings, Inc.  Various Investors
                               93.23% Ownership  6.77% Ownership

                  Indemnity National
                          Insurance Company
```

**KNOX HOLDINGS, INC. (KNOX);** Knox Holdings, Inc. is a Tennessee corporation organized in August 2005 for the purpose of acquiring Great River Insurance Company. Through its subsidiary, INIC, it is primarily engaged in the business of bond reclamation insurance.

**VARIOUS INVESTORS;** Various investors representing management of the Company currently own 6.77%, or 2,257 shares of the outstanding stock of the Company.
Related Party Transactions

Investment Advisory Agreement

Effective January 1, 2006, the Company entered into an investment advisory agreement with CKS Advisors, LLC whereby CKS Advisors, LLC provided investment advice and investment management services. During the year 2006, CKS Advisors changed its name to NFC Investments, LLC. For the year ended December 31, 2006, INIC paid NFC Investments, LLC (f/k/a CKS Advisors, LLC) $70,476.

MANAGEMENT AND CONTROL

Stockholders

As of December 31, 2006, the Company had issued and outstanding thirty-three thousand three hundred thirty-four (33,334) shares of common capital stock with a par value of $60.00 per share. Knox Holdings, Inc. owned 93.23% and various investors representing management owned the balance of the outstanding shares. No dividends were paid to the shareholders during the examination period.

Board of Directors

The Articles of Association and Bylaws vest the management and control of the Company's business affairs with the Board of Directors (the "Board"). The members of the duly elected Board, along with their place of residence and principal occupation, as of December 31, 2006, were:

<table>
<thead>
<tr>
<th>Name and Place of Residence</th>
<th>Principal Occupation or Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthew Tracy Tucker</td>
<td>President, Indemnity National Insurance Company</td>
</tr>
<tr>
<td>Knoxville, Tennessee</td>
<td></td>
</tr>
<tr>
<td>Charles Kyle Slatery</td>
<td>Chief Executive Officer, NFC Investments, LLC</td>
</tr>
<tr>
<td>Memphis, Tennessee</td>
<td></td>
</tr>
<tr>
<td>James Donald Lackie</td>
<td>President, Lackie Trading, Inc.</td>
</tr>
<tr>
<td>Memphis, Tennessee</td>
<td></td>
</tr>
</tbody>
</table>
Officers

The officers holding the following positions as of December 31, 2006, were:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthew Tracy Tucker</td>
<td>President</td>
</tr>
<tr>
<td>Charles Kyle Slatery</td>
<td>Secretary</td>
</tr>
<tr>
<td>James Donald Lackie</td>
<td>Treasurer</td>
</tr>
</tbody>
</table>

Conflict of Interest

As of the examination date, the Company did not have or maintain a written conflict of interest policy. Subsequent to the examination date, the Company established a conflict of interest policy whereby disclosure was made to the Board of any potential financial or other interests that impair or appear to impair their independence in their responsibilities to the Company. This policy was signed by all directors and officers of the Company.

CORPORATE RECORDS

The minutes of the meetings of the Stockholders and Board, prepared during the period under examination, were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained commercial general liability and commercial property insurance, as well as other policies, as deemed appropriate by the Company’s management. The Company maintained a financial institution bond with a $750,000 aggregate limit of liability, which exceeded the minimum fidelity coverage suggested by the NAIC for a company of this size.

During the review of these policies, it was noted that the financial institution bond in place at December 31, 2006, contained an exclusion regarding “loss resulting solely from any violation of any law regulating insurance companies, or of any rule or regulation made pursuant to any such law.” It is recommended that the Company obtain fidelity coverage that does not exclude violations relating to the laws or regulation of insurance companies.
STATUTORY DEPOSITS

The Company’s statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31 (2). The following chart displays the Company’s deposits as of December 31, 2006:

<table>
<thead>
<tr>
<th>Type of Security</th>
<th>State Deposited</th>
<th>Par Value</th>
<th>Book Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>UST Note</td>
<td>Arkansas</td>
<td>$ 210,000</td>
<td>$ 210,000</td>
<td>$ 212,936</td>
</tr>
<tr>
<td>UST Note</td>
<td>Georgia</td>
<td>$ 75,000</td>
<td>$ 75,000</td>
<td>$ 76,049</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>Louisiana</td>
<td>$ 70,000</td>
<td>$ 70,000</td>
<td>$ 70,000</td>
</tr>
<tr>
<td>UST Note</td>
<td>Mississippi</td>
<td>$ 1,700,000</td>
<td>$ 1,700,000</td>
<td>$ 1,754,510</td>
</tr>
<tr>
<td>UST Note</td>
<td>Nevada</td>
<td>$ 300,000</td>
<td>$ 300,000</td>
<td>$ 304,200</td>
</tr>
<tr>
<td>UST Note</td>
<td>New Mexico</td>
<td>$ 620,000</td>
<td>$ 620,000</td>
<td>$ 619,031</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>$ 2,975,000</td>
<td>$ 2,975,000</td>
<td>$ 3,036,726</td>
</tr>
</tbody>
</table>

The amounts reported by the Company in column 6 (Fair Value) on the 2006 Annual Statement, Schedule E – Part 3 – Special Deposits did not always correspond to the Fair Value reported by the financial institution holding the investments. It is recommended that the Company accurately report the Fair Value of the Special Deposits.

DIRECTORS’, OFFICERS’, EMPLOYEES’ AND AGENTS’ WELFARE

The Company had two employees that performed the day-to-day operations of the Company and provided paid vacation, holidays, and sick leave for the employees.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in the following states:

- Alabama
- Arizona
- Arkansas
- Colorado
- Georgia
- Kentucky
- Louisiana
- Mississippi
- Nevada
- New Mexico
- Oklahoma
- South Carolina
- Tennessee
- Texas
- Utah

The Company currently writes coal reclamation bonds. These bonds are to warrant that land used for coal mining will be returned to its pre-existing condition.

REINSURANCE

Reinsurance Intermediary:

The Company used the services of Humphreys Haggas Sutton & Co Ltd, ("HHS"), a reinsurance intermediary, to place reinsurance with various Lloyd’s Underwriter Syndicates and Aspen.
Insurance UK LTD. HHS was acquired by Integro Insurance Brokers in 2005, a Mississippi licensed reinsurance intermediary.

Ceded Reinsurance Agreement:

The Company had one reinsurance agreement in force as of the examination date. This agreement was an Excess of Loss ("XOL") Reinsurance Agreement with various Lloyd's Underwriter Syndicates and Aspen Insurance UK LTD on any occurrence in excess of $2,000,000 up to $20,000,000 in aggregate.

ACCOUNTS AND RECORDS

The 2006 trial balance of the Company's accounts was tied to the balance sheet of the Company's statutory annual statement filed with the Mississippi Insurance Department, with no exceptions noted. The Company was audited annually by an independent CPA firm.

It was noted in the review of the bonds and stocks that the Company did not have a safekeeping agreement with LaSalle Bank that conformed to the criteria established in Part 1 Section IV of the NAIC Financial Condition Examiners Handbook. Subsequent to the examination date, the Company amended its safekeeping agreement with LaSalle Bank to comply with the NAIC Financial Condition Examiners Handbook.

MARKET CONDUCT ACTIVITIES

A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct which included: agents' licensing, complaints, policy forms, and premiums. No significant exceptions were noted.
INTRODUCTION TO FINANCIAL STATEMENTS

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2006, a Statement of Income for the year ended December 31, 2006, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2006, and a Reconciliation of Examination Adjustments to Surplus as of December 31, 2006.
## Statement of Assets, Liabilities, Surplus and Other Funds
### December 31, 2006

### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$8,810,806</td>
</tr>
<tr>
<td>Common stocks</td>
<td>2,595,356</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>2,136,441</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>141,543</td>
</tr>
<tr>
<td>Uncollected premiums and agents’ balances in course of collection</td>
<td>140,310</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$13,824,456</strong></td>
</tr>
</tbody>
</table>

### Liabilities, Surplus and Other Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses</td>
<td>$97,909</td>
</tr>
<tr>
<td>Loss adjustment expenses</td>
<td>39,653</td>
</tr>
<tr>
<td>Taxes, licenses and fees</td>
<td>48,438</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>904,140</td>
</tr>
<tr>
<td>Ceded reinsurance premiums payable</td>
<td>18,534</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>1,108,674</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common capital stock</td>
<td>2,000,040</td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>10,499,960</td>
</tr>
<tr>
<td>Unassigned funds (surplus)</td>
<td>215,782</td>
</tr>
<tr>
<td><strong>Capital and Surplus</strong></td>
<td><strong>12,715,782</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Liabilities, Surplus and Other Funds</strong></td>
<td><strong>$13,824,456</strong></td>
</tr>
</tbody>
</table>
STATEMENT OF INCOME  
FOR YEAR ENDED DECEMBER 31, 2006

Underwriting Income  
Premiums earned $ (293,988)

Deductions  
Losses incurred 97,909  
Loss expenses incurred 39,653  
Other underwriting expenses incurred 853,090  
Total underwriting deductions 990,652  

Net underwriting gain or (loss) (1,284,640)

Investment Income  
Net investment income earned 404,397  
Net realized capital gains (losses) (68,695)  
Net investment gain 335,702  

Net income before dividends to policyholders and before federal income taxes (948,938)  
Less: Federal income taxes incurred (85,000)  
Net income (loss) $ (863,938)
# RECONCILIATION OF CAPITAL AND SURPLUS
## FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2006

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and surplus, beginning of year</td>
<td>$12,970,207</td>
<td>$13,192,520</td>
</tr>
<tr>
<td>Net Income (loss)</td>
<td>348,759</td>
<td>(863,938)</td>
</tr>
<tr>
<td>Change in net unrealized capital gains</td>
<td>-0-</td>
<td>387,200</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td>(127,500)</td>
<td>-0-</td>
</tr>
<tr>
<td>Change in non-admitted assets</td>
<td>1,054</td>
<td>-0-</td>
</tr>
<tr>
<td>Examination adjustments</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Capital and surplus, end of the year</td>
<td>$13,192,520</td>
<td>$12,715,782</td>
</tr>
</tbody>
</table>
RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2006

As a result of this examination, there have been no adjustments affecting Surplus as regards policyholders reported by the Company in the December 31, 2006 annual statement. The Surplus as regards policyholders reported by the Company of $12,715,782 is accepted as reasonably stated for purposes of the balance sheet per the examination.
COMMENTS AND RECOMMENDATIONS

1. It was noted that the financial institution bond in place at December 31, 2006, contained an exclusion regarding “loss resulting solely from any violation of any law regulating insurance companies, or of any rule or regulation made pursuant to any such law.” It is recommended that the Company obtain fidelity coverage that does not exclude violations relating to the laws or regulation of insurance companies. (Page 5)

2. The amounts reported by the Company in column 6 (Fair Value) on the 2006 Annual Statement, Schedule E – Part 3 – Special Deposits did not always correspond to the Fair Value reported by the financial institution holding the investments. It is recommended that the Company accurately report the Fair Value of the Special Deposits. (Page 6)
ACKNOWLEDGMENT

The examiners representing the MID and participating in this examination were:

Automation: J. Scott Joyner, CISA, AES
Manager: Joseph R. May, CPA, CMA, CFE, CIE
Examiner-in-charge: Mitch Rayborn, CFE, FLMI

The courteous cooperation of the officers and employee responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,

Mitch Rayborn, CFE, FLMI
Examiner-in-charge