

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF
ASSOCIATION EXAMINATION
OF
LIBERTY NATIONAL LIFE INSURANCE COMPANY
BIRMINGHAM, ALABAMA
AS OF
DECEMBER 31, 2005

PARTICIPATION:
SOUTHEASTERN ZONE
ALABAMA

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STATE OF ALABAMA

COUNTY OF JEFFERSON

Mary B. Packard, being first duly sworn, upon her oath deposes and says:

THAT she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

THAT an examination was made of the affairs and financial condition of LIBERTY NATIONAL LIFE INSURANCE COMPANY, Birmingham, Alabama, for the period of January 1, 2002 through December 31, 2005;

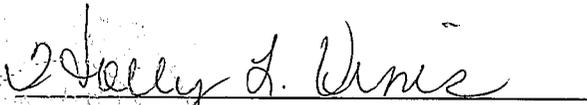
THAT the following 48 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

AND THAT the statements, exhibits and data therein contained are true and correct to the best of her knowledge and belief.



Mary B. Packard, CPA, CFE
(Examiner-in-Charge)

Subscribed and sworn to before the undersigned authority this 16th day of January, 2007.



(Signature of Notary Public)

Notary Public

In and for the State of Alabama

My Commission expires MY COMMISSION EXPIRES MAY 8, 2010



BOB RILEY
GOVERNOR

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DEPARTMENT OF INSURANCE
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DEPUTY COMMISSIONER
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EDWARD S. PAULK
GENERAL COUNSEL
REYN NORMAN
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

January 16, 2007

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Austin, Texas 78701

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Alabama Department of Insurance
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Secretary, Western Zone
Kent Michie, Commissioner
Utah Department of Insurance
3110 State Office Building
Salt Lake City, Utah 84114

Dear Commissioners:

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, a full scope financial and market conduct examination as of December 31, 2005, has been made of the affairs and financial condition of

LIBERTY NATIONAL LIFE INSURANCE COMPANY

at its home office located at 2001 Third Avenue South, Birmingham, Alabama 35233.
The report of examination is submitted herewith.

Where the description "Company" or "LNL" appears herein, without qualification, it will be understood to indicate Liberty National Life Insurance Company.

SCOPE OF EXAMINATION

The Company was last examined for the five-year period ended December 31, 2001, by examiners from Alabama representing the National Association of Insurance Commissioner's (NAIC) Southeastern Zone. The current examination covers the intervening period from the date of the last examination through December 31, 2005, and was conducted by examiners from Alabama representing the NAIC's Southeastern Zone. Where deemed appropriate, transactions subsequent to 2005 were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Department of Insurance's (ALDOI) regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, a general review of records and files pertaining to operations, administrative practices, and compliance with statutes and regulations. Assets were verified and valued, and all known liabilities were established or estimated as of December 31, 2005, as shown in the financial statements contained herein. However, the discussion of specific assets or liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the Alabama Insurance Code and the ALDOI's rules and regulations or other insurance laws or rules, or which were deemed by the examiners to require comments or recommendations.

A Company copy of the filed Annual Statement for the year 2005 was compared with or reconciled to account balances with respect to ledger items.

The market conduct review consisted of a review of the Company's territory; plan of operation; complaints handling; marketing and sales; compliance to agents' licensing requirements; policyholder services; underwriting and rating practices; claim payment practices; and privacy policy and practices.

The Company's accounts were audited by Deloitte & Touche, LLP, Certified Public Accountants (CPAs), for each of the four years under examination. Audit reports and workpapers were made available to the examiners and were used where deemed appropriate in the completion of this examination.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2005.

ORGANIZATION AND HISTORY

The Company was incorporated as a fraternal benefit society on August 31, 1900, under the name Heralds of Liberty, pursuant to the provisions of Article 15, Chapter 28, of the Code of 1896 of the State of Alabama. The Declaration, Articles and Certificate of Incorporation were filed and recorded in the office of the Judge of Probate of Madison County, Alabama. The incorporation of the Company was confirmed by a special act of the General Assembly of Alabama on February 12, 1901.

On October 5, 1925, the Declaration, Articles and Certificate of Incorporation were amended to change the corporate name from Heralds of Liberty to Liberty Life Assurance Society and to change the location of the principal office from Huntsville, Alabama to Birmingham, Alabama.

On September 6, 1927, the Alabama Legislature adopted an act designed to authorize and regulate the conversion of fraternal benefit societies into stock life insurance companies or mutual life insurance companies. Pursuant to this act, the Supreme Lodge of the Company, which was the supreme governing or legislative body, adopted a resolution on March 29, 1929, authorizing the conversion of the Company into a stock life insurance company, changing the corporate name from Liberty Life Assurance Society to Liberty National Life Insurance Company and providing for proper amendments to the Declaration, Articles and Certificate of Incorporation.

The object of the Company, as stated in the Certificate of Incorporation, as amended, was to issue insurance upon the lives of persons and every insurance appertaining thereto or connected therewith, as permitted by the laws of the State of Alabama.

The Company began operations as a stock company on July 1, 1929, with paid-up capital of \$216,830 and paid-in surplus of \$108,415. The authorized capital stock at the date of conversion to a stock company was \$306,125, comprised of 61,225 shares of common stock with a par value of \$5 per share. Since the date of incorporation, a number of changes in the authorized capital have been approved by the stockholders as evidenced by properly recorded amendments to the Certificate of Incorporation. The most recent amendment, adopted at the meeting

of the stockholders held December 30, 1980, increased the total authorized capital to \$44,000,000, comprised of 10,500,000 shares of \$4 par value per share common stock and 2,000,000 shares of \$1 par value per share preferred stock, which was the authorized capital at December 31, 2005. The issued and outstanding capital stock at December 31, 2005 was \$42,390,708, composed of 10,265,177 shares of \$4 par value per share common stock and 1,330,000 shares of \$1 par value per share preferred stock. No changes to the authorized or issued and outstanding capital occurred during the current examination period.

Pursuant to an agreement and plan of merger, Globe Life And Accident Insurance Company (Globe), Delaware, acquired all of the Company's issued and outstanding stock on May 28, 1980. Globe was a wholly owned subsidiary of Torchmark Corporation (Torchmark). In a transaction effective October 1, 1992, Globe paid a dividend of all of the issued and outstanding common stock of the Company (10,265,177 shares) to Torchmark, with the Company then becoming a direct wholly owned subsidiary of Torchmark. The 1,330,000 issued and outstanding preferred shares at December 31, 2005 were owned by Torchmark.

MANAGEMENT AND CONTROL

Stockholder

The Company is a privately held stock corporation with ultimate control vested in its parent and sole stockholder, Torchmark Corporation (Torchmark).

Board of Directors

Members elected to the Board of Directors by the sole stockholder and serving at December 31, 2005, were as follows:

Director

City of Residence

Principal Occupation

Anthony Leon McWhorter
Birmingham, Alabama

President and Chief Executive Officer,
Liberty National Life Insurance Company

Hillary Carnley, Jr.
Eclectic, Alabama

Senior Vice President,
Liberty National Life Insurance Company

Larry Mac Hutchinson
Duncanville, Texas

Vice President, Secretary and General
Counsel, Liberty National Life Insurance
Company

Tony Gerald Brill
Plano, Texas

Executive Vice President,
Liberty National Life Insurance Company

Gary Lee Coleman
Plano, Texas

Executive Vice President and Chief Financial
Officer, Torchmark Corporation

Officers

The following officers were elected by the Board of Directors and were serving at
December 31, 2005.

Anthony Leon McWhorter
Elizabeth Ann Allen
Danny Hugh Almond

President and Chief Executive Officer
Vice President, Claims Administration
Executive Vice President, Chief Financial
Officer and Assistant Treasurer

Eugene Mims Barnett, Jr.
Charles Brantsford Beene
Craig Clark Boudreaux

Second Vice President, Information Systems
Second Vice President
Vice President, Information Systems
Development

Tony Gerald Brill
Michael Wilkins Bryant

Executive Vice President
Second Vice President, Agency
Administration

Hillary Carnley, Jr.
Margaret Chandler
Sidney Newell Cheesborough
Hung-Cheng Chou
Robert Street Clayton, Jr.
Terry Wayne Davis
Robert Hoyt Dobbs
Andrew Marc Dvorine
Charles Scot Ferguson
William Allen Fite
Martha Seals Fountain

Senior Vice President
Second Vice President
Senior Vice President
Senior Vice President and Chief Actuary
Second Vice President
Senior Vice President
Vice President
Second Vice President and Associate Actuary
Regional Vice President
Manager of Internal Audit
Second Vice President, Customer Service
Department

Thomas Earl Graham, Jr.
Wester Adams Gray

Second Vice President, Mass Marketing
Senior Vice President and Chief Information
Officer

William Ray Grinstead	Second Vice President, Manpower Development
John Ray Hadder	Regional Vice President
Michael Gene Hadder	Second Vice President, Information Services -Telecommunications
Thomas Evan Hamby	Vice President
Ernest Duncan Hamilton	Vice President and Assistant General Counsel
Douglas Harold Harris	Second Vice President
Daniel Lynn Harrison	Regional Vice President
Patricia Gayle Herring	Second Vice President, Field Personnel
Susan Diane Huff	Vice President, Administration
Larry Mac Hutchison	Vice President, Secretary and General Counsel
Jamie Lloyd Jones	Second Vice President and Associate Controller
Jack Arnold Kelly, Jr.	Executive Vice President, Marketing Support
Michael Joseph Klyce	Vice President and Treasurer
Costanzo Joseph LaRussa	Second Vice President
John Hartridge Livingston	Associate Counsel and Assistant Secretary
Bobby Ray Loudermilk	Vice President, Information Services-Technical Systems
Brenda Kaye Martin	Second Vice President
James Lamar Mayton, Jr.	Vice President and Controller
Teresa Sanford McCollum	Assistant Secretary
Carol Ann McCoy	Assistant Secretary
Danny Curtis McClain	Regional Vice President
Michael Alan Michalke	Vice President, Information Services-Operations
Hubert Leon Morrison, Jr.	Vice President
Francis Davis Neelley	Second Vice President, Issue Department
Hughlen Howell Padgett	Second Vice President, Marketing Services
Tommy Ray Payne	Second Vice President
Cathy Cutliffe Pilcher	Second Vice President
James Dewitt Poole	Vice President and Assistant General Counsel
Richard Clyde Porter	Second Vice President, Information Systems
David Calvin Price	Assistant Secretary
Sammy Dale Rainey	Second Vice President
Roger Craig Rich	Regional Vice President
Ann Mobley Robertson	Second Vice President and Director of Human Resources
Carol Joyce Fisher Sample	Second Vice President, Telephone Interview Department

Suzane Patrice Saxon
Joseph Frank Simonetti, Jr.
David Leon Smith
Russell Benton Tucker
Ranal Leighton Vance

Second Vice President and Chief Underwriter
Senior Vice President
Vice President and Associate Counsel
Vice President
Second Vice President

Committees

As of December 31, 2005, there were no Board Committees. In 1985, the Board of Directors changed Article IV of the By-laws no longer requiring the organization of the Executive, Investment, and Contributions Committees. The Torchmark Compensation Committee determined salaries for officers whose annual salaries and bonuses were \$150,000 or greater.

Conflict of Interest

Torchmark adopted and established a policy and procedure, whereby all directors, officers, and responsible employees of Torchmark and its subsidiaries file annually with Torchmark a questionnaire disclosing to the Board of Directors any possible conflict between employee interests and the interests of any company in the Torchmark group. In 2002, Torchmark incorporated Sarbanes & Oxley requirements into its disclosure form.

The conflict of interest statements filed by the directors and officers for the four year period covered by this examination were reviewed. No material conflicts were reported.

CORPORATE RECORDS

The Articles of Incorporation and By-laws, as amended, were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practiced and applicable statutes and regulations.

Minutes of meetings of the Stockholder and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with regard to recording actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company is deemed to be subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith the Company is registered with the Alabama Department of Insurance as joint registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company as joint registrant.

Dividends to Stockholders

The following dividends were paid to the Company's parent corporation, Torchmark Corporation, during the current examination period.

Year	Common Stock Dividends Paid	Preferred Stock Dividends Paid	Total Dividends Paid
2002	\$121,040,000	\$15,960,000	\$137,000,000
2003	98,940,000	15,960,000	114,900,000
2004	116,440,000	15,960,000	132,400,000
2005	134,740,000	15,960,000	150,700,000

Transactions and Agreements with Affiliates

Service Agreements with United Investors Life Insurance Company (United)

- A. On January 1, 1985, the Company entered into a service agreement with United. Under the terms of the agreement, as amended, the Company shall perform all such administrative, professional, technical and other home office services and functions as United may from time-to-time, reasonably request and as may be necessary to insure an efficient home office operation for United. The scheduled services, which the Company performed for United, included all home office functions normally performed by an insurance company.
- B. On January 1, 2002, the Company entered into a second service agreement with United. Under the terms of this agreement, the Company will perform application verification telephone calls in exchange for reimbursement of a proportionate share of salary and/or wage expenses.

These agreements may be terminated by the Company giving written notice 365 days in advance or by United giving written notice at least 60 days but no more than 365 days in advance.

Service Agreements with Globe Life And Accident Insurance Company (Globe)

A. On January 25, 1995, the Company entered into a service agreement with Globe. Under the amended terms of this agreement, Globe agrees to perform administrative health claims services and functions to insure the efficient operation and processing of health insurance claims in exchange for a monthly fee of \$42,350. The amended agreement states that Globe will review and process life and health claims; handle premium billing and collections; administer and process policy loans and surrenders; issue policies and maintain records, as requested. The agreement may be terminated by Globe giving written notice 365 days in advance or by the Company giving written notice at least 60 days but no more than 365 days in advance. The Company was granted a permitted practice by the ALDOI on April 27, 2005 that is valid until January 1, 2011 which allows the following files and records to be removed from the State of Alabama and be stored by Globe in Oklahoma:

- Life insurance policy death claim files for paid and rejected claims for the years 1997 and following;
- Accident and health policy claims for paid and rejected claims; and
- Cash surrender and cash loan files for policies surrendered or on which a cash loan was made for the years 1997 and following.

The Company's premiums are being deposited into a Globe bank account along with funds from multiple affiliates. Globe wires premiums to the Company on the day after they are deposited. This is a violation of ALA. CODE § 27-27-26 (1975) which states, in part, "any employee of a domestic insurer who is charged with the duty of...handling the insurer's funds shall not deposit...such funds except in the insurer's corporate name."

B. On January 1, 2002, the Company and Globe entered into a service agreement whereby the Company, in consideration of reimbursement of a proportionate share of salary and/or wage expenses, will perform application verification telephone calls for Globe. The agreement may be terminated by either party by giving 90 days written notice.

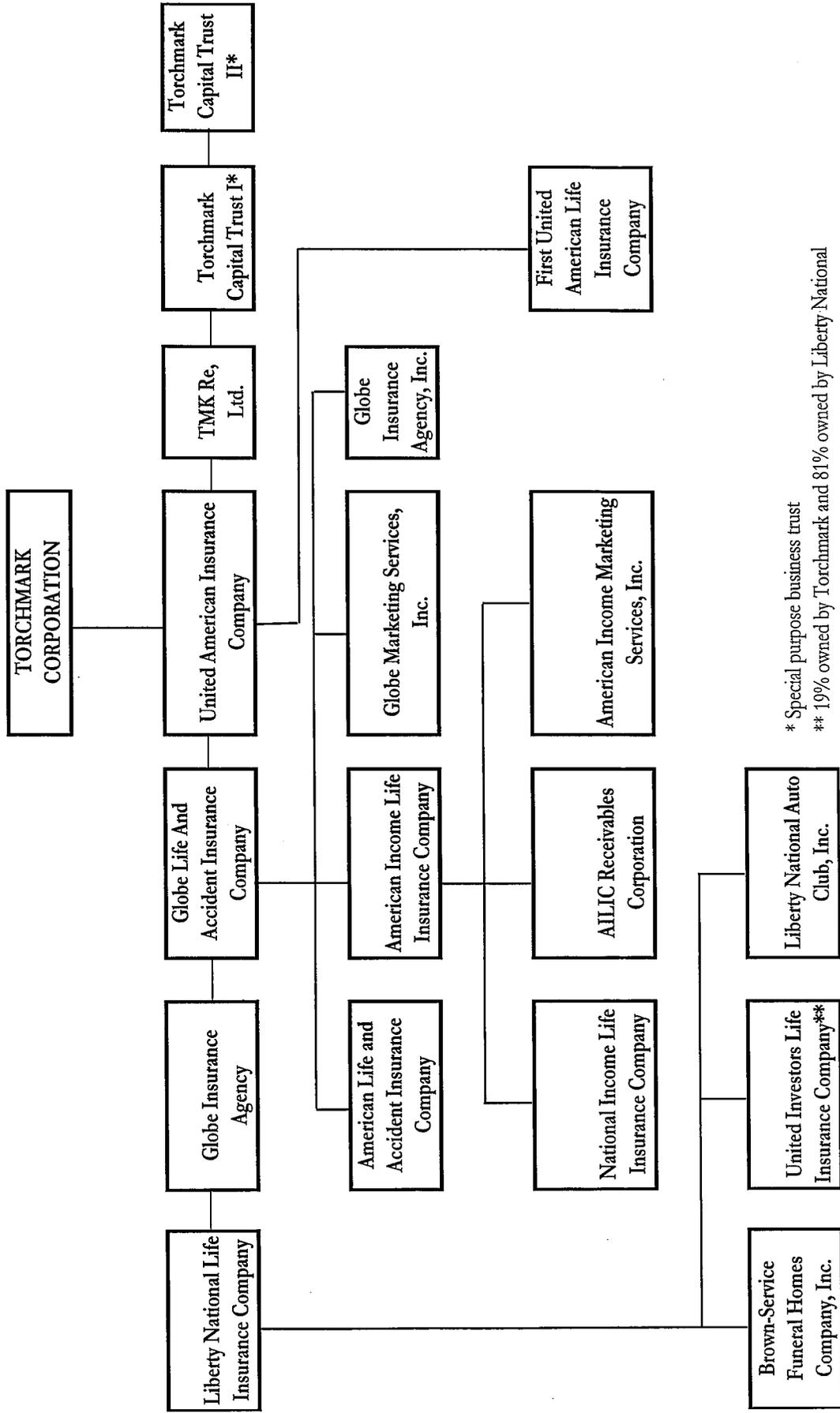
Service Agreement with United American Insurance (UA)

On January 1, 2002, the Company and UA entered into a service agreement whereby the Company, in consideration of reimbursement of a proportionate share of salary and/or wage expenses, will perform application verification telephone calls for UA. The agreement may be terminated by either party by giving 90 days written notice.

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons with the Insurance Holding Company System at December 31, 2005.

ORGANIZATIONAL CHART



* Special purpose business trust
 ** 19% owned by Torchmark and 81% owned by Liberty National

FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on a financial institution bond issued by Hartford Fire Insurance Company of Hartford, Connecticut, which met the suggested minimum requirements of the NAIC Financial Examiners Handbook. The bond covered the following: forgery or alteration, securities, computer systems fraud, trading loss and counterfeit currency.

In addition to the fidelity bond, the Company maintained the following coverages to protect the Company against hazards to which it may be exposed:

- International General, Workers' Compensation, and Automobile Liability
- Workers' Compensation and Employers' Liability
- Commercial General Liability
- Miscellaneous Professional Liability
- All Risk Property Liability
- Comprehensive Business Aircraft Liability
- Umbrella Excess Liability
- Fiduciary Liability
- Mail Loss Liability
- Automobile Liability

The coverages and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company's interests at the examination date.

EMPLOYEE AND AGENTS WELFARE

On January 1, 2004 the Company's pension plan and non-commissioned pension plan merged with the parent pension plan. After the merger, subsidiary expenses were allocated based on each company's projected benefit obligation. The change in allocation methods was used for the first time in 2005 because operating budgets for 2004 had already been set and parent management considered it unfair to recognize the change late in 2004. Had the change been recognized in 2004, the Company would have recognized an expense of \$853,293 instead of the \$427,515 disclosed in its 2004 Annual Statement. Torchmark Corporation, parent, verified that \$427,515 was the final Company pension expense for 2004 and that it did not intend to seek any additional monies from the Company for the 2004 plan year.

Title 18 United States Code § 1033 Compliance

It was noted during the examination of employment applications that one employee checked "Yes" that he had been convicted of a felony, and that four other applications were not checked "Yes" or "No." The Company's Human Resources Department staff stated no background checks were made on any of the applicants examined, and that background checks on new hires were not conducted until January 2004. The employee who checked "Yes" was terminated April 3, 2006.

ALA. ADMIN. CODE 482-1-121 (2000) titled, "Alabama Department Of Insurance Procedures Governing Persons Subject To 18 U.S.C. 1033" states, "In essence, on September 13, 1994, a person is prohibited, and it has become illegal for an individual convicted of a crime involving dishonesty, breach of trust, or a violation of this Act [U.S.C. 1033] to work or continue to work in the business of insurance...without receiving written consent from...the Commissioner of Insurance."

ALA. ADMIN. CODE 482-1-121 (2000) further states, "Insurance companies, as well as persons employing anyone to conduct the business of insurance may be in violation of this statute if they willfully permit participation by a prohibited person, including persons who are already employed or being considered for employment. Failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred."

It was determined the Company had not verified that all employees were in compliance with ALA. ADMIN. CODE 482-1-121 (2000) and Section 1033, Title 18, of US Code.

SPECIAL DEPOSITS

The Company maintained the following deposits with the respective statutory authorities at December 31, 2005, as required or permitted by law.

States and Territories	Par Value	Statement Value	Market Value
Alabama	\$ 1,975,000	\$ 2,220,017	\$ 2,201,819
California	220,000	289,439	295,517
Florida	125,000	164,454	167,908
Georgia	35,000	35,906	37,135
Guam	50,000	50,000	50,000
Massachusetts	125,000	143,671	142,536
New Mexico	110,000	144,685	147,759
North Carolina	400,000	413,343	406,080
Tennessee	500,000	473,780	511,320
Virginia	50,000	57,468	57,015
TOTAL	\$ 3,590,000	\$ 3,992,763	\$ 4,017,089

FINANCIAL CONDITIONS/GROWTH OF THE COMPANY

	Admitted Assets	Liabilities	Capital & Surplus	Premiums Earned
2005*	\$ 4,565,746,878	\$ 4,049,622,407	\$ 516,124,471	\$ 538,349,209
2004	4,340,420,773	3,897,005,264	443,415,509	539,406,859
2003	4,111,638,448	3,679,603,282	432,035,166	509,442,411
2002	3,891,685,304	3,468,786,499	422,898,805	509,964,600
2001*	3,731,514,462	3,347,749,098	383,765,364	477,734,508

***Per Examination**

SCHEDULE T – PREMIUMS AND ANNUITY CONSIDERATIONS

STATES	PREMIUMS	STATES	PREMIUMS
Alabama	\$ 219,938,663	Nevada	1,358,612
Alaska	1,433,677	New Hampshire	460,259
Arizona	3,298,286	New Jersey	2,095,267
Arkansas	1,326,202	New Mexico	1,943,996
California	10,351,239	New York	1,787,792
Colorado	5,052,650	North Carolina	9,335,145
Connecticut	607,612	North Dakota	417,880
Delaware	353,035	Ohio	2,655,658
District of Columbia	296,689	Oklahoma	2,731,479
Florida	78,034,518	Oregon	474,984
Georgia	94,799,524	Pennsylvania	3,103,607
Hawaii	3,102,655	Rhode Island	527,443
Idaho	574,280	South Carolina	12,900,921
Illinois	3,278,089	South Dakota	363,139
Indiana	937,252	Tennessee	36,606,505
Iowa	385,703	Texas	16,024,127
Kansas	3,216,055	Utah	802,421
Kentucky	2,189,679	Vermont	109,397
Louisiana	2,631,206	Virginia	24,393,203
Maine	517,754	Washington	5,383,303
Maryland	6,422,254	West Virginia	255,823
Massachusetts	873,414	Wisconsin	639,223
Michigan	968,155	Wyoming	649,384
Minnesota	613,659	Guam	269,443
Mississippi	28,265,083	Puerto Rico	83,925
Missouri	2,734,654	Aggregate Other Alien	12,631,648
Montana	609,819	Premiums or annuity considerations waived	3,901,348
Nebraska	2,272,088	Total Direct Business	\$ 616,999,826

MARKET CONDUCT ACTIVITIES

Territory

As of the examination date December 31, 2005, the Company was licensed to write business in the following states and territories:

Alabama	Indiana	Nebraska	South Dakota
Alaska	Iowa	Nevada	Tennessee
Arizona	Kansas	New Hampshire	Texas
Arkansas	Kentucky	New Jersey	Utah
California	Louisiana	New Mexico	Vermont
Colorado	Maine	North Carolina	Virginia
Connecticut	Maryland	North Dakota	Washington
Delaware	Massachusetts	Ohio	West Virginia
Florida	Michigan	Oklahoma	Wisconsin
Georgia	Minnesota	Oregon	Wyoming
Hawaii	Mississippi	Pennsylvania	District of Columbia
Idaho	Missouri	Rhode Island	Guam
Illinois	Montana	South Carolina	

The Company is not licensed in New York, Puerto Rico, U.S. Virgin Islands, Canada or American Samoa. The examiners reviewed each Certificate of Authority and verified that the Company appropriately reported its licensure for each state in its 2002-2005 Annual Statement, Schedule T. For states that issued the Company a perpetual certificate of authority, the certificate is to remain in effect until cancelled, suspended, or revoked.

Plan of Operation

The Company's lines of business included whole life, term, and accident and health policies. The Company offered the following types of products:

Whole Life: Joint Whole Life, Modified Life and Last Survivor Whole Life;

Term: Employer Group Term Life, Decreasing Term, 5 year Renewable Term, and 7 year Renewable and Convertible Term;

Accident and Health: Accidental Death Policy, Hospital Accident Policy, Hospital Income Policy, Hospital Intensive Care, Critical Care Illness, Cancer Care, Cancer Care Plus and Auto Club.

Marketing and Sales

At year end 2005, the Company marketed its products through 105 district offices and twelve branch offices in six Southeastern states: Alabama, Florida, Georgia, Tennessee, Mississippi and South Carolina. The Company expanded its branch offices to include: Nevada, Oklahoma and Texas. These district offices were staffed with 2,338 agents, sales managers, district managers, unit managers and branch managers at year-end 2005. The Company markets Whole Life, Term Life, Cancer, Auto Club, and Accident and Health policies. These products are marketed primarily through the Company's agents and several forms of written sales literature, brochures, newspaper, and radio and television ads. The Company has an agreement with an independent agency, First Command Financial Services, to sell the Company's products predominantly to military personnel.

The Company filed Certificates of Compliance for all years under examination stating that the advertisements which were disseminated by or on behalf of the insurer during the statement year complied or were made to comply in all respects with the provisions of the insurance laws of the State of Alabama.

The Company's advertising materials for all years under examination were reviewed. The Company's advertising file contained specimen copies of all the Company's advertisements that were printed, published and prepared. The copies were maintained in a complete file at the home office for a period of five years or longer.

The Company did not detail in its underwriting guidelines limitations placed on multiple sales, limits of coverage, determination of suitability and predatory sales practices in accordance with the guidelines of the NAIC Market Conduct Examiners Handbook, Standard Six, which requires that: "underwriting guidelines place limitations on multiple sales, i.e. limits on coverage, determination of suitability, detection of predatory sales practices, etc."

Retention of electronic communication between the Company and its Producers and Branch Managers

During the examination period, the Company did not broadcast emails or written communications directly to its producers. The Company primarily used emails to communicate with branch office managers to provide company policy information and regulatory updates to its producers. The Company's communications consisted of Field Memo emails and written publications, such as Marketplace Bulletins which advised of regulatory actions. The Company could not provide

any saved, stored or archived emails that were broadcast to the branch office managers. Therefore, the Company did not comply with ALA. CODE § 27-27-29 (a) (1975), that 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."

Because the Company did not save any electronic communications with its branch office managers, the examiners were unable to determine if the Company's communications were in compliance with Marketing and Sales Standard 1, of the NAIC Market Conduct Examiners Handbook. The Company should develop a policy in order to archive or store communications with its branch office managers.

Compliance with Agents' Licensing Requirements

Recordkeeping:

The Company's list of active producers was reviewed in order to determine whether agents listed in the Company's records reconciled to the Alabama Insurance Department's list of active producers. The Company's list of active producers did not reconcile. There were 27 agents that were not on the Company's listing of active agents. The examiners inquired of the Company's Agent Licensing Manager regarding the discrepancy. Ten agents were employed by the Home Office; four agents were cancelled; and eight were still active. The Company was unable to provide appointment or cancellation documentation for the remaining five agents. This is not 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."

Agents Properly Licensed:

In order to determine whether agents were properly licensed and appointed to write and issue business on behalf of the Company, the examiners reviewed a sample of in force policies issued during the examination period (2002 – 2005). The examiners reviewed the application files for each of the policies, including the signature page in order to determine the agent of record. The examiners requested

and were provided with copies of each agent's contract and license by the Company's Agent Licensing Manager. The agent's licensing information confirmed the status (active or inactive), effective date of the agent's license, lines of business that the producer was eligible to solicit and the state of appointment. The examiners compared each agent's dates of licensure and appointment with the date of signature on each policy written. It was determined that the agents were properly licensed and appointed to transact business on behalf of the Company at the time the policies were written.

Underwriting and Rating Practices

Policy Forms

The Company issued the following types of policies at December 31, 2005: Term Life, Whole Life, and Accident and Health (A&H). The Company discontinued the sale of its industrial life policies in April 28, 1980. The amount reported in Exhibit- 1 Part 1, was due to renewal premium for this line of business. The Company still services these types of policies. The Company offered several types of plans for its Term and Whole Life policies. For Term policies, the Company issued: Employer Group Term Life, Decreasing Term, 5 year Renewable Term, and 7 year Term Renewable & Convertible plans. For Whole Life policies, the Company had the following types of plans: Joint Whole Life, Modified Whole Life, and Last Survivor Whole Life. For Accident and Health policies, the Company offered: Accidental Death Policy, Hospital Accident Policy, Hospital Income, Hospital Intensive Care, Critical Illness, Cancer Care, Cancer Care Plus, and Auto Club. The Company does offer annuities, but it does not actively market the sale of annuities. The Company does issue policies with a level term rider that provides spouse death benefits (Spouse Term Rider-STR), a Children's Term life Rider (CTR), Accelerated Benefit Rider (ABR) and Option to Purchase Additional Insurance (OPAI). The Company also provides in its policies the following provisions: Waiver of Premium rider (WP) and Accidental Death Benefit rider (ADB). The Company did not issue any policy form filings in 2002. From 2003 to 2005, there were thirty policy form filings that were approved by the ALDOI.

Underwriting Practices

The Company's underwriting guidelines are underwritten by Swiss Re Life Guide; however, the Company does have an Underwriting Department. The Company's underwriters determine when reviewing an application for insurance whether the applicant is an acceptable risk. The underwriting process consisted of the following: verifying the accuracy of application information, medical

examinations, and the "Quality Assurance Call", which is conducted by the underwriters to determine that the written responses to questions contained in the application for insurance match the verbal responses provided in the telephone verification process. The Company's underwriting guidelines were also reviewed in order to determine: (1) if controls and procedures were implemented to deter multiple sales and overinsurance, (2) were policies issued based on: gender, marital status, race, religion, national origin, physical or mental impairment, blindness, domestic abuse, (3) were medical records requested based upon medical history and amount of coverage requested, and (4) were applicants unfairly discriminated against due to sexual orientation. During the review of the Company's underwriting guidelines and policies, the examiners determined that the Company appropriately issued policies in accordance with its guidelines. The guidelines were not discriminatory and complied with the requirements of ALA. ADMIN. CODE 482-1-074-.03, which states, "The following are hereby identified as acts or practices which constitutes unfair discrimination between individuals of the same class: Refusing to insure, or refusing to continue to insure, or limiting the amount, extent or kind of coverage available to an individual or charging an individual a different rate for the same coverage solely because of blindness or partial blindness."

On June 20, 2005, there were new rates implemented for new issues of First Command's whole life and decreasing term policies and their associated term riders. Approval for the basis of computation changes was granted by the ALDOI on September 2, 2005.

The examiners recalculated policy premiums on in-force policies that were issued during the examination period in order to determine the premiums were recalculated based upon the following rating factors: issue date, issue age, gender, amount of insurance, type of coverage selected and classification - preferred (non-tobacco) or standard (tobacco). There were no exceptions noted during this review.

Treatment of Policyholder and Other Claimants

Complaints Handling Practices

The Company documented 701 complaints in its complaint register for the examination period. These complaints were not exclusive to Alabama and included complaints from policyholders residing in the following states:

Arkansas Georgia Mississippi Ohio Tennessee

California Indiana Nebraska Pennsylvania Texas
Florida Louisiana North Carolina South Carolina

The ALDOI documented 292 complaints during the examination period. The examiners compared the policyholders' names listed on the Company's complaint register to the ALDOI's register in order to determine that both registers referenced the same names. The Company's complaint register did not reconcile to the ALDOI listing of complaints filed during the examination period; it had 117 fewer listings. The ALDOI records both complaints and inquires while the Company only records complaints.

The Company does not have a complaint procedures manual. The examiners determined from a review of the Company's written complaint procedures that they were adequate for appropriately handling and resolving complaint issues. The Company's Law Department was primarily responsible for handling and resolving all complaints. However, the Company made efforts to ensure that all necessary information for resolving a complaint was facilitated with other departments such as: Customer Service, Marketing, and Agency personnel.

The examiners selected fifty complaints registered with the ALDOI during the exam period (2002 – 2005). During this review, the examiners determined that the Company appropriately provided its telephone number and address to policyholders, complainants, beneficiaries and the ALDOI in response to a complaint notification. Also, the Company's responses fully addressed the issues raised in each complaint. However, for eight of the fifty complaint files that were reviewed, the examiners noted that the Company's response was not within ten days in accordance with Alabama Insurance Department Bulletin dated January 31, 1963. According to the Bulletin the required time frame for responding to consumer complaints is as follows: "An insurance company must answer both policyholder and this Department within ten days after receipt of a departmental complaint." One of the complaints was dated within 28 days of the ALDOI's ten day response requirement. For this complaint the Company acknowledged in its response to the ALDOI, that the reason for the delay was due to the complaint file being misplaced in claim file documentation. This is not in accordance with ALA. CODE § 27-27-29, 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."

Policyholder Services

The examiners reviewed a sample of twenty cash surrenders and twenty policy loans that were requested by policyholders during the examination period. The Company was unable to provide documentation on four of the cash surrenders and three of the policy loans that were selected. The Company is not in compliance with ALA. CODE § 27-27-29 which states, "Every domestic insurer shall have, and maintain...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."

Claim Payment Practices

Life Claims Reviewed:

The examiners reviewed a sample of 100 life claims paid during the examination period. These claim files were reviewed to determine that claims were accurately processed and paid in a timely manner. From this review, there were eight life claims that were paid beyond 45 days. The Company provided reasonable explanations for seven of the claims. For the remaining policy, the Company indicated that the claim was not processed in a timely manner due to the claim file being misplaced. As a result of the explanation provided, the examiners determined that the Company did not maintain its claim file in accordance with ALA. CODE § 27-27-29, 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."

A&H Claims Reviewed:

A sample of 100 A&H claims paid during the examination period was reviewed in order to determine that claims were accurately processed and paid in a timely manner. During the review of these claims paid files, the examiners noted three claims that were processed beyond 45 days. The Company provided reasonable explanations for two of the claims. For the remaining claim, the Company agreed that the claim was processed beyond 45 days. This is not in accordance with ALA. CODE § 27-1-17 (a) which states, "Each insurer, health service corporation, and health benefit plan that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar

days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim.”

Providing claim documentation in a timely manner:

The examiners requested on October 25, 2006 for the Company to provide an explanation for life claims that were processed beyond 45 days. The examiners received a response for this item on December 15, 2006. The Company is required to comply with ALA. ADMIN. CODE 482-1-118-.06, 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. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule...”

Privacy Policies and Practices

The Company does not disclose any nonpublic personal financial or health information to nonaffiliated third parties. In the “Confidentiality of Information” section in the Privacy Notice, the Company states, “We do not disclose any non-public information about you, either during or after your relationship with us, to anyone, except as permitted by law, such as to your authorized representative, or in order to provide the products and services you requested, or to comply with applicable laws or regulations.” In the Health Insurance Notice of Privacy Practices, the Company stated that personal health information (PHI) would only be released for the following reasons: to collect premiums, pay claims, provide eligibility information to the customer’s doctor, conduct quality assessment and improvement activities, for underwriting, premium rating relating to a new policy, renewal policy or replacement contract, provide the policyholder with information about treatment alternatives, and comply with workers compensation.

The Company appropriately complied with ALA. ADMIN. CODE 482-1-122-.07 (2001), by training its employees on their responsibility for protecting and maintaining confidentiality of applicants and policyholders information, acknowledging that only authorized personnel would have access to personal health information, and establishing information security procedures. ALA. ADMIN. CODE 482-1-122-.07 (2001), requires: “(6) Confidentiality and security. A licensee describes its policies and practices with respect to protecting the confidentiality and security of nonpublic personal financial information if it does both of the following: (a) Describes in general terms who is authorized to have access to the information. (b) States whether the licensee has security practices

and procedures in place to ensure the confidentiality of the information in accordance with the licensee's policy.”

The Company has appropriate policies and procedures in place for the protection against the disclosure of member nonpublic personal medical information. The Company does not collect or disclose any nonpublic personal financial information. The Company's Privacy Notice content and notice delivery procedures complied with ALA. ADMIN. CODE 482-1-122 (2001). The Company also complied with the Health Insurance Portability and Accountability (HIPAA) privacy rule as promulgated by the U.S. Department of Health and Human Services by: (1) describing the ways in which the applicant/policyholder's PHI would be used or disclosed; (2) the Company received authorization from the applicant/policyholder prior to disclosing or releasing any information, which allowed individuals the opportunity to agree to the uses and disclosures of their PHI, and (3) the Company included an authorization expiration date.

REINSURANCE

Reinsurance Assumed

The Company had two reinsurance contracts for which it assumed business during the period under examination.

1. The Company has a Yearly Renewable Term contract with Lincoln National Life Insurance Company of Fort Wayne, Indiana. At the end of 2005, there was no assumed business in-force and the contract was in run-off.
2. The other reinsurance assumed contract was with Security Benefit Life (SBLIC) Company of Topeka, Kansas. The effective date of the treaty was December 31, 1995 which covered both the bulk assumption and all future issues of SBLIC on a block of individual whole life and term insurance policies assumed under this treaty. As of December 31, 2005 the Company had assumed \$2,138,310,157 of business in-force, \$213,451,414 in reserves and \$20,094,447 in premiums.

On September 23, 1998 a successor trustee agreement naming Sterne, Agee & Leach as successor trustee was issued. The Company was required by the Alabama Department of Insurance to make changes to the successor trustee agreement. After the changes were implemented, the agreement was never signed by SBLIC and \$201,598,669 of the Company's surplus at year-end was in this trust

account. It is noted that SBLIC did not object to Sterne, Agee & Leach being named as successor trustee.

Reinsurance Ceded

The Company retained an aggregate maximum retention limit of \$2,000,000 of life insurance on any one life for all ages and classes. Accident and health risks are ceded by the Company to Security Life Insurance Company.

Ceded to Affiliates

1. Coinsurance Treaty – Globe Life And Accident Insurance Company (Globe)

The Company entered into an agreement with Globe on July 1, 1981, whereby the Company cedes 100% of the gross premiums on all direct mail non-participating modified whole life insurance to Globe. Globe has full authority to administer and settle all claims and is responsible for holding and maintaining the required reserves. Globe is required to pay an administrative expense allowance for all premium taxes paid, medical examination charges, inspection fees and any other charges incurred with the issuance of a policy. The contract was amended January 1, 2003 to include a 3.31% ceding commission on all premiums collected. The contract can be terminated by either party, provided three months notification is given. If the contract is terminated, Globe must pay the Company life insurance reserves for the subject business.

2. Coinsurance Treaty – First Command Life Insurance Company (First Command)

This amended agreement, effective July 1, 2001, provides that First Command will assume 3% quota share of preliminary term insurance, including riders and supplemental benefits. The Company will pay reinsurance premiums equal to First Command's quota share of gross premiums collected. First Command will pay allowances for actual agent's commission, production bonuses, policy issuance, policy maintenance and premium taxes. First Command will also participate in policy loans made but will not participate in any other reinsurance that the Company may have on the policies. The Company is responsible for benefit payments to policyholders and claimants and will maintain records to support these payments.

Coinsurance Agreement – TMK Re, LTD (TMK, Re.)

This modified coinsurance agreement, effective January 1, 2000, provides that only the life insurance benefits on a block of whole life policies will be reinsured. TMK, Re. will not participate in policy loans on the policies reinsured. The Company will pay the reinsurance premiums equal to the portion of gross premiums collected on all subject business. Also, TMK, Re. will pay the Company a commission and expense allowance. TMK, Re. will pay the Company the portion of claims paid and the portion of cash surrender values paid by the Company, both of which correspond to the portion of the policies reinsured. The Company is responsible for claim settlements and will maintain records to support its claim payments. Also, the Company shall administer the policies reinsured and shall perform all accounting for the policies. TMK, Re. will pay an experience refund if the formula described in the agreement produces a positive amount. If the formula produces a negative amount the experience refund will be zero and the remaining amount will be carried forward and will be offset against any future positive experience refund.

3. Yearly Renewable Term Agreement – RGA Reinsurance Company (RGA)

This agreement, effective July 1, 2004, provides that only the mortality risk on specific term policies will be reinsured. Claims covered include only death claims. RGA will pay the Company a reinsurance allowance. The Company will bear the expense of all medical examinations, inspection fees and other charges incurred in connection with the original policy. RGA must automatically accept reinsurance if all of the stipulations set-forth in the agreement are met. The Company must send copies of all information pertinent to the insurability of the risk to RGA. Premiums will be increased by any flat extra premium or substandard premium as defined in the agreement. RGA will receive a proportionate share of any premiums for additional benefits. This share will be based on the ratio between the amount at risk and the total initial benefits insured.

Other Reinsurance Ceded

The Company had sixteen other reinsurance treaties per Schedule S – Part 3 – Section 1. Of these treaties, eight were inactive or in run-off. Reserve credits, in an aggregate amount of \$24,869,851, were taken for the remaining treaties:

1. United Investors Life Insurance Company
2. Connecticut General Life Insurance Company
3. Generali USA
4. Lincoln National Life Reinsurance Company (2 treaties)
5. Munich American Reassurance Company
6. Swiss Re Life & Health America
7. Transamerica Occidental Life Insurance Company

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained using computerized data processing equipment, an IBM 2086 mainframe model 140, which included insurance administration, claims and general ledger applications. Operational information such as policyholder information and accounting records were maintained using an imaging application. Information no longer considered current was stored on tape media or microfiche and maintained in the computer operations center or accounting department.

The Company's Mail Department Supervisor stated claims are received from both agents and customers, which are forwarded daily to Globe Life And Accident Insurance Company (Globe) via FedEx. She provided a copy of a FedEx shipping receipt. She stated there was no documentation of FedEx package contents and the mailroom did not track receipt of claims before forwarding them to Globe.

The examiner determined that the Company did not use controls for claims sent to Globe. If a FedEx package was lost or destroyed in transit, the Company had no ability to track and recompose the claims applications, which could cause unnecessary delays in claims processing.

Unclaimed Property

The Company used a period end date of December 31, 2001 for its 2005 unclaimed property filing. According to ALA. CODE § 35-12-76 (1975), the period end for the 2005 filing should have been June 30, 2002.

Reconciliation of Schedule DA

For year-end 2002, the amount reported on Schedule DA for the cost of short-term investments acquired was \$5,000,000 greater than the amount reported on the Form B filing. A loan made to United Investors Life Insurance Company was

reported on the Form B filing as \$10 million instead of \$15 million. The Company failed to amend the Form B filing as required by ALA. ADMIN. CODE 482-1-055-.15 which states, "(1) An amendment to Form B shall be filed within fifteen (15) days after the end of any month in which there is a material change to the information provided in the annual registration statement."

Certified Public Accountants (CPAs)

Deloitte & Touche, LLP has been performing this engagement since 1999. ALA. ADMIN. CODE 482-1-100-.07 (4)(a) states that no partner or other person responsible for rendering a report may act in that capacity for more than seven consecutive years. The managing partner and the reviewing partner were changed in 2005. Deloitte and Touche is in compliance with this Regulation.

The CPAs conducted an audit of Torchmark Corporation's internal controls in 2004 as required by Sarbanes Oxley 404 (SOX) and updated it in 2005. The SOX workpapers for both years were made available for review as were the CPA workpapers for the four years under examination. The statutory audit workpapers were tested and utilized in this examination where deemed appropriate.

FINANCIAL STATEMENTS INDEX

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

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Summary of Operations.....	32
Capital and Surplus Account.....	33

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN
INTREGAL PART THEROF.**

LIBERTY NATIONAL LIFE INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER
FUNDS

For the Year Ended December 31, 2005

	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$ 3,673,286,307	\$ -	\$ 3,673,286,307
Stocks: Preferred stocks	122,687,885	-	122,687,885
Stocks: Common stocks (Note 1)	255,015,997	-	255,015,997
Mortgage loans on real estate: First liens	30,292,252	-	30,292,252
Real estate: (Note 2)			
Properties occupied by the Company	9,590,850	-	9,590,850
Properties held for the production of income	2,487,447	-	2,487,447
Properties held for sale	1,095,000	-	1,095,000
Cash, cash equivalents and short-term investments	41,951,017	-	41,951,017
Contract loans	190,075,766	254,587	189,821,179
Other invested assets	107,849,187	13,814,794	94,034,393
Subtotal, cash and invested assets	\$ 4,434,331,708	\$ 14,069,381	\$ 4,420,262,327
Investment income due and accrued	72,498,637	-	72,498,637
Premium considerations:			
Uncollected premiums and agents' balances in the course of collection	2,013,989	-	2,013,989
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,790,701	-	8,790,701
Reinsurance: Amounts recoverable from reinsurers	67,470	-	67,470
Net deferred tax asset	144,520,000	83,816,000	60,704,000
Guaranty funds receivable or on deposit	114,978	-	114,978
Electronic data processing equipment and software	24,753	-	24,753
Furniture and equipment, including health care delivery assets	668,192	668,192	-
Receivable from parent, subsidiaries and affiliates (Note 3)	1,270,023		1,270,023
Healthcare and other amounts receivable	1,084,406	1,084,406	-
Prepaid pension contribution	11,203,913	11,203,913	-
Loans on personal security and cash advances	893,516	893,516	-
Supplies, stationary, printed materials & bad checks	806,020	806,020	-
TOTAL	<u>\$ 4,678,288,306</u>	<u>\$ 112,541,428</u>	<u>\$ 4,565,746,878</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN
 INTREGRAL PART THEROF.**

LIBERTY NATIONAL LIFE INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER
FUNDS (continued)
For the Year Ended December 31, 2005

<u>LIABILITIES</u>	<u>2005</u>
Aggregate reserve for life contracts	\$ 3,600,741,718
Aggregate reserve for accident and health contracts	260,592,337
Liability for deposit-type contracts	5,001,730
Contract claims:	
Life (Note 4)	23,548,613
Accident and health	38,039,000
Policyholder dividends and coupons due and unpaid	307
Dividends apportioned for payment	40,000
Premiums and annuity considerations for life and accident and health contracts received in advance including \$2,525,386 accident and health premiums	9,551,368
Other amounts payable on reinsurance including \$129,762 ceded (Note 5)	5,501,822
Interest maintenance reserve	21,468,654
Commissions to agents due or accrued	1,059,000
General expenses due or accrued	24,937,899
Taxes, licenses and fees due or accrued	1,769,900
Current federal and foreign income taxes	25,210,932
Unearned investment income	1,182,659
Amounts withheld or retained by company as agent or trustee	3,351,052
Amounts held for agents' account, including agents credit balances	2,504
Remittances and items not allocated	1,024,767
Asset valuation reserve	22,994,169
Reinsurance in unauthorized companies	3,590,875
Payable to parent, subsidiaries and affiliates (Note 6)	13,101
TOTAL LIABILITIES	\$ 4,049,622,407
<u>CAPITAL AND SURPLUS</u>	
Common capital stock	\$ 41,060,708
Preferred capital stock	1,330,000
Gross paid in and contributed surplus	10,766,066
Unassigned funds (surplus) (Note 7)	462,967,697
TOTAL CAPITAL AND SURPLUS	\$ 516,124,471
TOTAL LIABILITIES, CAPITAL AND SURPLUS	\$ 4,565,746,878

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

LIBERTY NATIONAL LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the Years Ended December 31, 2005, 2004, 2003 and 2002

	2005	2004	2003	2002
Premiums and annuity considerations for life and accident and health contracts	\$ 538,349,209	\$ 539,406,859	\$ 509,442,411	\$ 509,964,600
Considerations for supplementary contracts with life contingencies	65,457	9,000	123,296	3,447
Net investment income	336,491,851	311,241,941	312,016,243	265,464,277
Amortization of interest maintenance reserve	5,021,088	4,974,243	4,879,594	1,828,131
Commissions and expense allowances on reinsurance ceded	25,196,671	27,349,112	35,487,512	22,992,614
Reserve adjustments on reinsurance ceded	21,564,887	29,793,889	41,979,749	34,621,147
Miscellaneous income	8,554,974	8,623,481	8,048,730	6,234,457
TOTAL	\$ 935,244,137	\$ 921,398,525	\$ 911,977,535	\$ 841,108,673
Death benefits	\$ 171,161,561	\$ 169,199,691	\$ 162,442,977	\$ 159,933,778
Matured endowments	1,542,244	1,432,611	1,504,791	2,458,094
Annuity benefits	10,954,487	12,152,260	10,275,087	11,854,673
Disability benefits and benefits under accident and health contracts	106,293,093	125,710,463	135,525,133	124,326,659
Surrender benefits and withdrawals for life contracts	37,706,242	39,274,080	35,763,108	36,440,064
Interest and adjustments on contracts or deposit-type contract funds	849,100	733,405	840,641	981,700
Payments on supplementary contracts with life contingencies	163,889	154,112	155,626	160,144
Increase in aggregate reserves for life and accident and health contracts	152,136,504	187,878,303	191,911,622	145,620,688
TOTAL	\$ 480,807,120	\$ 536,534,925	\$ 538,418,985	\$ 481,775,800
Commissions on premiums, annuity considerations, and deposit-type contract funds	117,502,027	111,850,243	116,651,297	108,755,160
Commissions and expense allowances on reinsurance assumed	2,925,264	3,048,879	3,187,474	3,315,394
General insurance expenses	78,101,730	60,816,813	62,009,353	56,413,835
Insurance taxes, licenses and fees, excluding federal income taxes	20,226,204	20,281,451	19,186,588	18,718,698
Increase in loading on deferred and uncollected premiums	(270,306)	(102,689)	(102,194)	(110,624)
Increase surplus for additional reserves ceded	-	-	-	16,758,607
TOTAL	\$ 699,292,039	\$ 732,429,622	\$ 739,351,503	\$ 685,626,870

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

LIBERTY NATIONAL LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS (continued)
For the Years Ended December 31, 2005, 2004, 2003 and 2002

	2005	2004	2003	2002
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 235,952,098	\$ 188,968,903	\$ 172,626,032	\$ 155,481,803
Dividends to policyholders	36,168	29,835	50,992	52,786
Federal and foreign income taxes incurred	<u>49,860,000</u>	<u>38,149,000</u>	<u>40,133,000</u>	<u>40,524,758</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	\$ 186,055,930	\$ 150,790,068	\$ 132,442,040	\$ 114,904,259
Net realized capital gains or (losses)	<u>(2,483,336)</u>	<u>(2,274,183)</u>	<u>(8,558,160)</u>	<u>(32,667,371)</u>
Net income	<u>\$ 183,572,594</u>	<u>\$ 148,515,885</u>	<u>\$ 123,883,880</u>	<u>\$ 82,236,888</u>

CAPITAL AND SURPLUS ACCOUNT

	2005	2004	2003	2002
Capital and surplus, December 31, prior year	<u>\$ 443,415,509</u>	<u>\$ 432,035,166</u>	<u>\$ 422,898,805</u>	<u>\$ 390,211,847</u>
Net income	\$ 183,572,594	\$ 148,515,885	\$ 123,883,880	\$ 82,236,888
Change in net unrealized capital gains (losses)	50,419,099	(2,613,953)	9,808,607	14,777,311
Change in net deferred income tax	9,858,000	(2,061,000)	4,503,000	(11,085,000)
Change in nonadmitted assets and related items	(18,793,873)	10,766,340	(1,162,238)	44,633,728
Change in liability for reinsurance in unauthorized companies	(1,612,882)	(1,213,985)	(562,784)	(144,130)
Change in asset valuation reserve	3,949,636	(5,078,679)	(6,383,666)	16,275,753
Surplus adjustment: Paid in	-	-	-	10,000,000
Dividends to stockholders	(150,700,000)	(132,400,000)	(114,900,000)	(137,000,000)
Amortize gain on inforce business ceded	<u>(3,983,612)</u>	<u>(4,534,265)</u>	<u>(6,050,438)</u>	<u>12,992,408</u>
Net change in capital and surplus for the year	<u>\$ 72,708,962</u>	<u>\$ 11,380,343</u>	<u>\$ 9,136,361</u>	<u>\$ 32,686,958</u>
Capital and surplus, December 31, current year	<u>\$ 516,124,471</u>	<u>\$ 443,415,509</u>	<u>\$ 432,035,166</u>	<u>\$ 422,898,805</u>

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

NOTES TO FINANCIAL STATEMENTS

Note 1 – Common stocks

\$255,015,997

The above captioned amount is the same as reported by the Company in its 2005 Annual Statement.

The NAIC was unable to assign a value to Liberty National Auto Club (LAC) because an audited financial statement was not provided by the Company. Failure to provide this financial statement resulted in the SCA Company not being valued for the year-end filing. The Company did not perform an audit on LAC due to its small size and was considering restructuring the Company making an audit unnecessary. ALA. ADMIN. CODE 482-1-098-.02 (1994) states, "...All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC...Any security not valued in accordance with this section shall be carried as a non-admitted asset..." The Company failed to non-admit the security in accordance with ALA. ADMIN. CODE 482-1-098-.02 (1994). The amount that should have been non-admitted was \$4,630,263. This error was immaterial and would not have a material effect on the financial statements.

Note 2 – Real estate: Properties held for the production of income

\$2,487,447

The above captioned amount is the same as reported by the Company in its 2005 Annual Statement.

The Company initially did not provide depreciation schedules for real estate as documentation that they were in compliance with SSAP No. 40, paragraph 8 which states that the cost of property included in real estate investments, other than land, shall be depreciated over the estimated useful life, not to exceed fifty years. After further requests were made by the examiners, depreciation schedules were provided. However, the Company was not in compliance with ALA. ADMIN. CODE 482-1-118-.06 which states, in part, "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any...examiner of the commissioner."

Note 3 – Receivable from parent, subsidiaries and affiliates

\$1,270,023

The above captioned amount is the same as reported by the Company in its 2005 Annual Statement.

The Company has an implied or understood practice that it can never owe its parent, Torchmark, any money. At the beginning of each month, the Company pays Torchmark a monthly estimate to cover the expenses incurred by LNL as a result of the service agreement the Company has with Torchmark. In December 2005, the Company overestimated this payment and was left with a receivable in the amount of \$305,161. ALA. CODE § 27-37-2 states, "...the following expressly shall not be allowed as assets...advances to officers, directors and controlling stockholders, other than policy loans..." The payments made to Torchmark were advances and as such, should have been non-admitted. As this amount was immaterial, the financial statements were not changed.

Note 4 – Contract claims: Life

\$23,548,613

The above captioned amount is the same as reported by the Company in its 2005 Annual Statement.

The Company did not report any claim adjustment expenses separately from its liability for Contract Claims: Life and, per the Chief Actuary, the Company is not aware of any statutory requirements for reporting a liability for these expenses. SSAP No. 55 establishes statutory accounting principles for recording liabilities for unpaid claims and claim adjustment expenses for life insurance contracts and accident and health contracts, and paragraph 6d, defines claim adjustment expenses as costs expected to be incurred (including legal and investigation) in connection with the adjustment and recording of life claims. ALA. ADMIN. CODE 482-1-097-.04 requires "...all insurers shall use the appropriate NAIC Annual Statement Blank which shall be prepared in accordance with the NAIC Annual Statement Instructions and follow those accounting practices and procedures prescribed by the NAIC Accounting Practices & Procedures Manual..." This is the statutory requirement.

The Company's Chief Actuary stated that if the Company reported a claim adjustment expense, it would be a small number and that the general claim liability should cover it. The Consulting Actuary for the Alabama Department of Insurance concurred with the Chief Actuary that the margin in the unpaid claims liability is adequate to cover a claim adjustment expense.

The Company provided the detail of claims paid from January to June 2006. Utilizing ACL software, the examiner filtered claims paid in 2006 that were reported to the Company prior to year-end 2005 and selected a sample of claims to review. Five of the claims were not included in the year-end liability; however, the aggregate amount of the claims was immaterial. A larger sample was not selected

and no changes were made to the financial statement because the ultimate IBNR and claims liability was determined to be adequate by the Consulting Actuary.

Note 5 – Other amounts payable on reinsurance \$5,501,822

The above captioned amount is \$5,372,060 more than the \$129,762 reported in the 2005 Annual Statement.

The Company included amounts related to reinsurance transactions with TMK Re (affiliate) and United Investors Life Insurance Company (subsidiary) in its payables to parent, subsidiaries and affiliates. This was not in accordance with the NAIC Annual Statement Instructions which states that amounts related to intercompany reinsurance transactions should be excluded from the payables and reported through the appropriate reinsurance accounts. These amounts, \$4,486,933 and \$885,127 respectively, were incorrectly reported in the Annual Statement. The reclassification of these amounts did not have any effects on the surplus.

Note 6 – Payable to parent, subsidiaries and affiliates \$13,101

The above captioned amount is \$5,372,060 less than the \$5,385,161 reported in the 2005 Annual Statement.

The Company included amounts related to reinsurance transactions with TMK Re (affiliate) and United Investors Life Insurance Company (subsidiary) in its payables to parent, subsidiaries and affiliates. This was not in accordance with the NAIC Annual Statement Instructions which states that amounts related to intercompany reinsurance transactions should be excluded from the payables and reported through the appropriate reinsurance accounts. These amounts, \$4,486,933 and \$885,127 respectively, should not have been reported on this line item and were reclassified to Note 5 – Other amounts payable on reinsurance.

Note 7 – Unassigned funds (surplus) \$462,967,697

The above captioned amount is the same as reported by the Company in its 2005 Annual Statement.

The following schedule presents a reconciliation of the unassigned funds per the Company's filed statement to this examinations findings:

Unassigned funds (surplus) per Company \$ 462,967,697

Examination increase/(decrease) to assets:

Total increase/(decrease) to assets \$ -

Examination (increase)/decrease to liabilities:

Note 5 - Other amounts payable on reinsurance \$ (5,372,060)

Note 6 - Payable to parent, subsidiaries and affiliates 5,372,060

Total (increase)/decrease to liabilities \$ -

Unassigned funds (surplus) per Examination \$ 462,967,697

CONTINGENT LIABILITIES AND PENDING LITIGATION

The following disclosures were included in Torchmark's June 30, 2006 10(Q) filing:

"Torchmark and its subsidiaries...are subject to litigation, including claims involving tax matters, alleged breaches of contract, torts, including bad faith and fraud claims based on alleged wrongful or fraudulent acts of agents of Torchmark's subsidiaries, employment discrimination, and miscellaneous other causes of action. A number of such actions involving Torchmark's subsidiary Liberty also name Torchmark as a defendant. Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, management does not believe that such litigation will have a material adverse effect on Torchmark's financial condition, future operating results or liquidity; however, assessing the eventual outcome of litigation necessarily involves forward-looking speculation as to judgments to be made by judges, juries and appellate courts in the future. This bespeaks caution, particularly in states with reputations for high punitive damage verdicts such as Alabama and Mississippi.

Many of these lawsuits involve claims for punitive damages in state courts of Alabama and Mississippi. Torchmark's management recognizes that large punitive damage awards continue to occur bearing little or no relation to actual damages awarded by juries in jurisdictions in which Torchmark has substantial businesses, particularly Alabama and Mississippi, creating the potential for unpredictable

material adverse judgments in any given punitive damage suite. As of June 30, 2006, the Company was a party to approximately 50 active lawsuits (which included 5 employment-related cases and excluded interpleaders), 32 of which were Alabama proceedings and 3 of which were Mississippi proceedings in which punitive damages were sought.”

The following disclosures were included in Torchmark’s March 31, 2006 10(Q) filing:

“As previously reported in Forms 10-K and Forms 10-Q, the Company is a party to a number of lawsuits (both a large number of lawsuits brought by individual plaintiffs and class action litigation with extremely broad class periods and relief sought) involving allegations of racially discriminatory pricing in the sale of insurance to African Americans prior to 1966. The litigation began with the December 8, 1999 filing of *Moore v. Liberty National Life Insurance Company*, Case No. CV-99-BU-3262-S in the U.S. District Court for the Northern District of Alabama. Over 29 race-distinct mortality cases with approximately 2,000 named plaintiffs had been consolidated with the *Moore* case (*In re Liberty National Insurance Cases*, 2:02-CV-02741-UWC) and were pending in the U.S. District Court for the Northern District of Alabama, with one pending Alabama Circuit Court case (*Baldwin v. Liberty National Life Insurance Company*, Case No. CV-00-684) stayed pending a disposition of the *Moore* case.

On January 18, 2006, all parties to *Moore* submitted a Joint Motion for Preliminary Approval of Settlement and a Stipulation and Agreement of Compromise and Settlement in that case to the District Court. After a hearing, the District Court entered an Order Preliminarily Approving Proposed Settlement on January 25, 2006. In the Order, the District Court preliminarily approved the Proposed Settlement Agreement; conditionally certified a settlement class defined as “All black Americans who have (or had at the time of the policy’s termination) an ownership or other legal interest in an industrial life insurance policy or burial policy issued by Liberty National Life Insurance Company, or one of its former subsidiaries, Service Insurance Company of Alabama, or Burial Service Insurance Company of Alabama on or before January 10, 1966, at a higher rate than similar plans offered to similarly situated white Americans;” certified the class representatives and class counsel; found that the claims in the case were primarily equitable and that the primary relief in the form of restitution not to exceed \$6 million in the aggregate; approved and directed the giving of notice to class members in the manner and form set out in the Proposed Settlement Agreement beginning February 3, 2006. No class members filed objections to the Proposed Settlement prior to the fairness hearing nor appeared at that hearing to oppose the

Proposed Settlement. The fairness hearing was held March 31, 2006. On that date at the conclusion of the hearing, the District Court issued a Memorandum Opinion, finding that the terms of the proposed Consent Decree were fair, reasonable and adequate under the circumstances and that the interests of the class as a whole were better served if the action was resolved by settlement, rather than pursued as continued class action litigation or in separate actions, and entered a Judgment consistent with the Memorandum Opinion.

The approved Settlement substantially resolves all class action issues in race-distinct/dual pricing litigation at Liberty National, except for certain consolidated individual claims for mental anguish and punitive damages previously asserted in the District Court by approximately 2000 individual plaintiffs, which claims were expressly excluded from the Settlement and were dismissed without prejudice on March 31, 2006 by the District Court. On April 28, 2006, the District Court issued an order of severance requiring separate trials for the plaintiffs in all such re-filed individual cases and required that these plaintiffs each pay a separate filing fee by May 3, 2006 in order to proceed in the District Court. Liberty will vigorously defend any re-filed claims.”

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Bonds

It was recommended that the Company disclose the practice being used for cutoff dates in the financial statements, unless December 31st was the cutoff date used for everything in the financial statements. The Company did not comply with this recommendation but did so in the Third Quarter 2006 financial statements.

Real Estate: Properties held for sale

It was recommended that the Company perform appraisals on real estate properties to determine fair value in accordance with SSAP No. 40, which states, “The current value of real estate shall be determined on a property by property basis and shall be defined as the price that a property would bring in a competitive and open market under all conditions requisite to a fair sale. If market quotes are unavailable, estimates of fair value shall be determined by an appraisal.” and ALA. CODE § 27-37-7(b) (1975), which states, “Other real property held by an insurer shall not be valued at an amount in excess of fair value as determined by a recent appraisal.”

It was also recommended that, until appraisals are obtained by the Company, real estate investments shall be non-admitted in accordance with SSAP No. 40 of the NAIC Accounting Practices and Procedures Manual.

As of December 31, 2005, the Company had not complied with these recommendations. The Company did not maintain appraisals on its properties listed on Schedule A - Part 1. The Company was granted a permitted practice on August 15, 2006. Commissioner Walter A. Bell stated in his permitted practice letter that the Company is not required to obtain appraisals for valuation as set forth in ALA. CODE § 27-37-7 (1975) on its properties listed on Schedule A - Part 1 of the 2005 Annual Statement. This permitted practice is valid until December 31, 2007. After December 31, 2007 any property lacking an appraisal consistent with the requirements of the above noted statute and SSAP No. 40 must be non-admitted.

The Company disposed of all real estate properties held for sale during 2006.

Aggregate reserves for accident and health contracts

It was recommended for those plans where no additional reserves are required, the Company hold the gross unearned premium rather than the net valuation unearned premium in accordance with section 12 of SSAP No. 54. Failing the Company's ability to comply with this recommendation prior to the next regularly scheduled examination, **it was further recommended**, that an additional liability be established by the Company at an amount equal to the approximate difference between the gross and net unearned premiums for those plans for which no active life reserve is being held. The Company did not comply with these recommendations.

General Expenses

It was recommended in the previous examination report that the Company require outside counsel to provide invoices containing adequate descriptions concerning the nature of the charges and which entities within the Company's Holding Company System the charges relate. It was noted that while the invoices indicated to which entities the charges related, the descriptions concerning the nature of the charges were not adequate. The Company did not comply with this recommendation in its entirety.

It was also recommended that the Company recoup the funds paid for legal services on behalf of Torchmark Corporation. The examiners determined that the

Company continued to pay Torchmark legal expenses, and the examiners requested documentation as to when these expenses had been reimbursed to the Company. The expenses were reimbursed after the inquiry was made by the examiners and included legal expenses from 2004, 2005 and through July 2006. The Company did not comply with this recommendation.

SUBSEQUENT EVENTS

On January 4, 2006, the members of the Board of Directors, by unanimous written consent in lieu of a special meeting, elected Andrew Wayne King to the office of President and Chief Marketing Officer of the Company. Mr. King replaced Anthony Leon McWhorter as Company President.

On March 1, 2006, the Company along with United American Insurance Agency and American Income Life Insurance Company, entered into an agreement with Globe Life And Accident Insurance Company (Globe). The Company agreed to the following:

- Globe would perform new agent recruiting.
- Reimburse Globe a proportional share of employee salary/wage expenses.
- Globe's agent recruiting relationship with the Company would be one of an independent contractor for the Company.
- Waive any type of employer-employee or principal-agent relationship.
- Allow Globe to exercise its own judgment.
- A 90 day prior notice to terminate the agreement.
- Liabilities, expenses and obligations due from any party would survive agreement termination.

On March 15, 2006, the Company began a new corporate cash management account with Wells Fargo Bank. The account was created to establish a line of credit.

On March 31, 2006 in U. S. District Court for the Northern District of Alabama, the Company entered into a final order approving settlement of class action lawsuits relating to insurance policies issued to African-Americans. See the **COMMITMENTS AND CONTINGENT LIABILITY** section for a complete discussion of race-based litigation.

Beginning in June 2006, the Company implemented Internet based e-commerce capabilities. Using a Company developed application, the e-commerce activity

authorized field agents to securely upload policy applications to a Company server. Additional e-commerce activities are planned.

Since July 1, 2004, the Company engaged in a securities lending agreement with its primary custodian which allowed the custodian to lend corporate and U.S. government bonds on a 102% collateralized basis. The collateral was reinvested by the custodian and generally restricted from Company use. By the end of September 2006, the Company had reduced its collateralized investment balance to zero. It was the Company's position that market timing was responsible for the reduction. The agreement with the custodian would remain in force.

It was noted during the examination of 2006 dividends that the Company neglected to inform the Alabama Department of Insurance (ALDOI) of the July 21, 2006 declaration of preferred stock dividends until September 19, 2006. This action did not comply with ALA. CODE § 27-29-5 (g)(2) which states, "A domestic insurer subject to registration under section 27-29-4 shall report to the commissioner all dividends to shareholders within five business days following the declaration of the dividends and not less than 10 days prior to the payment of the dividends. This report shall also include a schedule setting forth all dividends or other distributions made within the previous 12 months." On September 29, 2006, the ALDOI instructed the Company to rescind the dividend which the Company rescinded on October 3, 2006, but the Company continued to report it as a part of the schedule of dividends reported with the September 29, 2006 and October 29, 2006 Dividend Notices. The ALDOI informed the Company that they were not in compliance with ALA. CODE § 27-29-5 (g)(2) by continuing to reflect the dividend on the schedule even though it had been rescinded. The Company sent letters for the September 29, 2006 and October 29, 2006 Dividend Notices which corrected the schedules.

On October 1, 2006, Torchmark transferred approximately 19% of United Investors Life Insurance Company (United) common stock to the Company. The transfer gave the Company 100% ownership of United's common stock.

COMMENTS AND RECOMMENDATIONS

Transactions and Agreements with Affiliates – Page 8

It is recommended that all premiums collected on behalf of the Company be deposited into an account in the Company's name in accordance with ALA. CODE § 27-27-26 (1975) which states, in part, "any employee of a domestic insurer who

is charged with the duty of...handling the insurer's funds shall not deposit...such funds except in the insurer's corporate name."

Employee and Agent Welfare – Page 12

It is recommended that the Company validate personnel for compliance with ALA. ADMIN. CODE 482-1-121 (2000) and Section 1033, Title 18, of US Code.

Marketing and Sales – Page 17

It is recommended that the Company detail in its underwriting guidelines limitations placed on multiple sales, limits of coverage, determination of suitability and predatory sales practices in accordance with Standard Six, NAIC Market Conduct Examiners Handbook.

It is recommended that the Company develop a policy to archive or store communications with its producers in compliance with ALA. CODE § 27-27-29 (a) (1975).

Compliance with Agents' Licensing Requirements – Page 18

It is recommended that the Company maintain complete and accurate records of its producers in accordance with ALA. CODE § 27-27-29 (a) (1975).

It is further recommended that the Company contact the Alabama Department of Insurance to resolve the discrepancies noted.

Complaints Handling Practices – Page 20

It is recommended that the Company respond to the ALDOI and policyholders within ten days in accordance with the requirements of Alabama Insurance Department Bulletin dated January 31, 1963, which states, "An insurance company must answer both policyholder and this Department within ten days after receipt of a departmental complaint."

It is further recommended that the Company maintain in its complaint files complete and accurate records in accordance with ALA. CODE § 27-27-29, 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."

Policyholder Services – Page 22

It is recommended that the Company maintain complete and accurate records in accordance with ALA. CODE § 27-27-29 which states, “Every domestic insurer shall have, and maintain...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.”

Claim Payment Practices – Page 22

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

It is also recommended that the Company process A&H claims within 45 days in accordance with the requirements of ALA. CODE § 27-1-17 which states, (a) “Each insurer, health service corporation, and health benefit plan that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim.”

It is further recommended that the Company provide requested documentation to the examiners within ten days in accordance with ALA. ADMIN. CODE 482-1-118-.06, which requires that: “The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule...”

Reinsurance – Page 24

It is recommended that the Company require Security Benefit Life Insurance Company to sign the successor trustee agreement.

Accounts and Records – Page 27

It is recommended that the Company develop control procedures to ensure if claims sent to Globe were lost or destroyed; the Company would have copies available and could resubmit them for processing.

Unclaimed Property

It is recommended that the Company use the appropriate date, as specified by ALA. CODE § 35-12-76 (1975), in determining its unclaimed property to be remitted.

Reconciliation of Schedule DA

It is recommended that the Company amend its Form B filings in accordance with ALA. ADMIN. CODE 482-1-055-.15 which states, “(1) An amendment to Form B shall be filed within fifteen (15) days after the end of any month in which there is a material change to the information provided in the annual registration statement.”

Note 1 – Common stocks – Page 34

It is recommended that the Company nonadmit those securities not valued by the NAIC in accordance with ALA. ADMIN. CODE 482-1-098-.02 (1994) which states, “...All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC...Any security not valued in accordance with this section shall be carried as a non-admitted asset...”

Note 2 – Real estate – Page 34

It is recommended that the Company comply with ALA. ADMIN. CODE 482-1-118-.06 which states, in part, “The insurer shall provide, within ten (10) working days, any record or response requested in writing by any...examiner of the commissioner.”

Note 3 – Receivable from parent, subsidiaries and affiliates – Page 34

It is recommended that the Company non-admit advances to officers, directors and stockholders in accordance with ALA. CODE § 27-37-2 which states, “...the following expressly shall not be allowed as assets...advances to officers, directors and controlling stockholders, other than policy loans...”

Note 4 – Contract claims: Life – Page 35

It is recommended that the Company comply with SSAP No. 55 and ALA. ADMIN. CODE 482-1-097-.04 and record liabilities for unpaid claims and claim adjustment expenses for life insurance contracts.

It is recommended that the Company include all pending claims on its year-end liability.

Note 5 – Other amounts payable on reinsurance – Page 36

It is recommended that the Company report intercompany reinsurance transactions in accordance with the NAIC Annual Statement Instructions which states that amounts related to intercompany reinsurance transactions should be excluded from the payable to parents, subsidiaries and affiliates and included in the appropriate reinsurance accounts.

Note 6 – Payable to parent, subsidiaries and affiliates – Page 36

It is recommended that the Company report amounts related to intercompany reinsurance transactions through the appropriate reinsurance accounts as required in the NAIC Annual Statement Instructions.

Compliance with Previous Recommendations – Page 39

Bonds

It is again recommended that the Company disclose the practice being used for cutoff dates in the financial statements, unless December 31st is the date used for everything in the financial statements.

Aggregate reserves for accident and health contracts

It is again recommended for those plans where no additional reserves are required, the Company hold the gross unearned premium rather than the net valuation unearned premium in accordance with section 12 of SSAP No. 54. Failing the Company's ability to comply with this recommendation prior to the next regularly scheduled examination, it is again recommended, that an additional liability be established by the Company at an amount equal to the approximate difference between the gross and net unearned premiums for those plans for which no active life reserve is being held.

General Expenses

It is again recommended that the Company require outside counsel to provide invoices containing adequate descriptions concerning the nature of the charges.

It is recommended that the Company cease paying for legal services rendered on behalf of Torchmark Corporation. In the event that Company funds are inadvertently expended for other entities, **it is again recommended** that the Company recoup those funds in a timely manner.

Subsequent Events – Page 41

It is recommended that the Company comply with ALA. CODE § 27-29-5(g)(2) by reporting to the Commissioner all dividends to shareholders within five business days following the declaration and not less than ten days prior to the payment of said dividends, and by not including in the schedule of dividends for the past twelve months any dividends that have been rescinded.

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

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

In addition to the undersigned, Toni Bean, Juliette Glenn, Anne Pruett, Charles Turner, Lori Wright, Examiners for Alabama Department Of Insurance, and James MacDougall, FSA, MAAA, Consulting Actuary, representing the Alabama Department Of Insurance, participated in this examination of Liberty National Life Insurance Company.

Respectfully submitted,



Mary B. Packard, CPA, CFE
Examiner-in-Charge
State of Alabama Department Of Insurance
Southeastern Zone, NAIC