Report

of the

Examination of

Liberty Bankers Life Insurance Company

Milwaukee, Wisconsin

As of December 31, 1999

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September 15, 2000

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State of Wisconsin
121 East Wilson Street
Madison, WI 53702

Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

LIBERTY BANKERS LIFE INSURANCE COMPANY
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

Liberty Bankers Life Insurance Company ("Liberty", the "company") redomiciled to the state of Wisconsin in 1998. The current examination is the first examination of the company conducted by the Wisconsin Office of the Commissioner of Insurance. The examination covered the intervening period from the company's redomicile effective September 30, 1998, through December 31, 1999, and included a review of such year 2000 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of aggregate reserves, dividends to policyholders, cash flow testing, deferred and uncollected premiums for life insurance, and in force testing. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

Liberty Bankers Life Insurance Company was incorporated in 1957 under the name Royal Oak Life Insurance Company, organized pursuant to the laws of the Commonwealth of Pennsylvania. The company was originally incorporated as a wholly owned subsidiary of Pilgrim Life Insurance Company of America (Pilgrim Life), which was wholly owned by Middle Atlantic General Investment Company (Atlantic). In 1985 the name of the company was changed to Middle Atlantic Life Insurance Company. Effective July 14, 1987, Atlantic merged with and into United Security Financial Corporation of Illinois (USFC). On June 1, 1989, Pilgrim Life reinsured all of its business into the company, transferred its ownership of the company to USFC, and was sold to new interests.

USFC sold 100% ownership interest of the company to American Hilton Corporation (AHC), a South Carolina insurance holding company, in December 1992. Upon the transfer of ownership to AHC, the name of the company was changed to Liberty Bankers Life Insurance Company, the name presently used by the company, and the company redomiciled to the state of Ohio. Effective August 25, 1995, the holding company Circle Investors, Inc. acquired 100% of the company's common capital stock from AHC. On June 26, 1996, Circle Investors, Inc., through its subsidiary Securus Financial Corporation, acquired 100% ownership of Laurel Life Insurance Company and its subsidiaries including American Founders Life Insurance Company (AFL). As part of the 1996 transaction, 100% of the capital stock of the company was contributed to AFL.

Effective September 30, 1998, 100% of the capital stock of the company was purchased by Atlantic Financial Company (AFC), a Florida insurance holding company, the present holder of the company's capital stock. Upon AFC's acquisition of the company, the company redomiciled to the state of Wisconsin under ch. 611, Wis. Stat., and AFC appointed a new board of directors and a new senior management team. As of the date of Liberty's acquisition by AFC, Liberty had approximately $5.5 million of reserves on a small block of run-off life and annuity renewal business, and had not issued any new insurance business for several years.

At the time that AFC purchased Liberty, AFC also owned Bankers Reserve Life Insurance Company of Wisconsin (BRLW) and BRLW's subsidiary Bankers Reserve Life Insurance Company (BRLC), domiciled in the states of Wisconsin and Colorado, respectively. Concurrent with AFC's purchase of Liberty, all of the general-account direct annuity business of BRLW was ceded to Liberty through a 100% co-insurance agreement. Effective April 1, 1999, Liberty purchased 100% of the capital stock of BRLC for the purchase price of $2,149,723. Concurrent with the purchase, BRLC merged with and into Liberty, with Liberty remaining as the surviving corporation. The inactive BRLW corporate entity was subsequently sold by AFC to new interests effective July 1, 1999.

In order for AFC to finance its purchase of Liberty, effective September 30, 1998, AFC issued a zero coupon convertible note to AFC Re, Ltd. (AFC Re), a Bermuda corporation. AFC Re is a reinsurance company organized in 1997 by an investor group that owned an investment fund managed by Atlantic Portfolio Analytics & Management, Inc (APAM). APAM is an investment portfolio management company that is wholly owned by two of the three individuals who collectively own 100% of AFC capital stock.

The 1998 AFC convertible note to AFC Re has principal value of $18.2 million, issue date of December 31, 1998, and maturity date of December 31, 2008. Proceeds received by AFC under the transaction were $18 million, of which $10 million was used to repay an outstanding prior AFC note to AFC Re, and $8 million was contributed to Liberty as paid-in capital. The total AFC contribution of capital to Liberty in 1998 was $12,784,834.

The 1998 AFC convertible note to AFC Re gives AFC Re the right to exercise a unilateral option to exchange the AFC note for 100% of the common capital stock of Liberty. Due to the rights available to AFC Re under the terms of the AFC note, AFC Re is recognized as the entity that has ultimate ownership control of Liberty Bankers Life Insurance Company.

Liberty's authorized capital stock consists of 1,500,000 shares of common capital stock, par value $1.75 per share, 1,500,000 shared issued and outstanding, having total capital stock value of $2,625,000. The company amended its articles of incorporation effective July 7, 1999, to increase the par value of its capital stock to $1.75 per share from $1.00 per share. The

1999 change in capital stock par value transferred $1,125,000 from the company's paid-in surplus account to paid-in capital, and was undertaken to provide the company with sufficient paid-in capital to satisfy minimum capitalization requirements in the state of California.

In 1999 the company wrote direct premium in the following states:

Tennessee	23%
Colorado	16
Wisconsin	10
Illinois	8
Florida	7
All others	36
	100%

Liberty was maintained as a dormant insurer during the time period when Circle Investors, Inc. controlled the company, and approximately 10 states suspended the company's licensure. Subsequent to the company's acquisition by AFC, the company has removed all but two of the suspensions. The company is currently licensed in the following 30 states: Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Louisiana, Maryland, Montana, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, and Wisconsin. The company is pursuing application for licensure in additional states, and anticipates that it will ultimately be licensed in nearly all state jurisdictions.

Prior to the company's acquisition by AFC, the company had suspended writing new insurance business for several years, and its in-force business consisted of several closed blocks of ordinary life and annuity policies that were issued from 1974 to 1995. The pre-AFC business written by the company is administered under an administrative management agreement with AFL. AFL provides all administrative functions for the business block, including accounting, premiums processing, and claims adjudication and payment.

The major products presently marketed by the company consist of two plans of single premium deferred annuity policies. The annuity plans provide a current first-year interest rate of 5.5%, guaranteed minimum interest rate of 3%, permit additional premium contributions until the end of the second policy year, and permit one annual 10% withdrawal without penalty beginning in the second policy year. The two annuity plans marketed by the company are similar except that one of the plans has restrictive endorsements with regard to settlement options in order to be Medicaid qualified. Liberty personnel at the Milwaukee, Wisconsin home office perform all policy administration for the company's new business production and for business acquired as of result of the AFC sale of BRLW in 1998. Liberty also performs policyholder administration for a closed block of business issued under a fronting agreement with Security Life Insurance Company of America (SLICA). The business fronted by SLICA was 100% ceded to unaffiliated reinsurers, and Liberty assumed 15% of a portion of the policies written by SLICA. Liberty terminated the fronting arrangement in May 2000.

The company plans to enlarge its product offerings to satisfy additional life insurance and annuity market segments, and has various new products proposed or under development. Proposed new products include single premium immediate annuities with cost of living adjustment on monthly benefit payouts, multi-year guaranteed annuities, and single premium whole life policies.

All operations of the company's marketing administration are conducted by the affiliate Atlantic Financial Marketing (AFM) under an affiliated marketing agreement. AFM solicits company business through a national network of approximately 500 brokers, third party administrators, and independent insurance agents. The company cedes a 90% quota share portion of its new business to AFC Re. Further examination review of the treaty with AFC Re is included in the section of this report captioned "Reinsurance."

The following chart is a summary of the net insurance premiums written by the company in 1999. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Conventional life	$ 161,914	$ 0	$ 29,107	$ 132,807
Universal life				
Annuities	14,697,816	2,379,176	13,764,768	3,312,224
Total All Lines	$14,859,730	$2,379,176	$13,793,875	$3,445,031

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors currently consists of five members. The company's by-laws provide that directors shall be elected annually by the sole shareholder to serve a term of one year. Officers of the company are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. Board members who are also executives within the company's holding company group do not receive compensation for their participation on the company's board of directors. Board members who are not employed within the company's holding company group receive meeting fee compensation of $2,000 per meeting attended out-of-state, $1,000 per meeting attended in-state or by teleconference, and reimbursement of travel expenses. Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Roberta Hopkins Hamilton, Bermuda	President, AFC Re Ltd.	2001
Allen Booth Brookfield, Wisconsin	President, Liberty Bankers Life	2001
Jeffrey K. Adams Castle Rock, Colorado	President, Atlantic Financial Marketing Company	2001
Lois Keefe Orlando, Florida	President, Atlantic Preferred Insurance Company	2001
William Toman Madison, Wisconsin	Attorney	2001

Further examination comments and recommendations regarding aspects of the company's management and control are included in the examination findings section of this report.

Officers of the Company

Officers of the company are appointed annually by the board of directors to serve one-year terms of office. Principal officers of the company serving at the time of this examination are as follows:

Name	Office	Compensation
Allen Booth	President	$117,899
Susan Hume	Secretary	$42,000
Derek J. Metcalf	Treasurer	$68,000

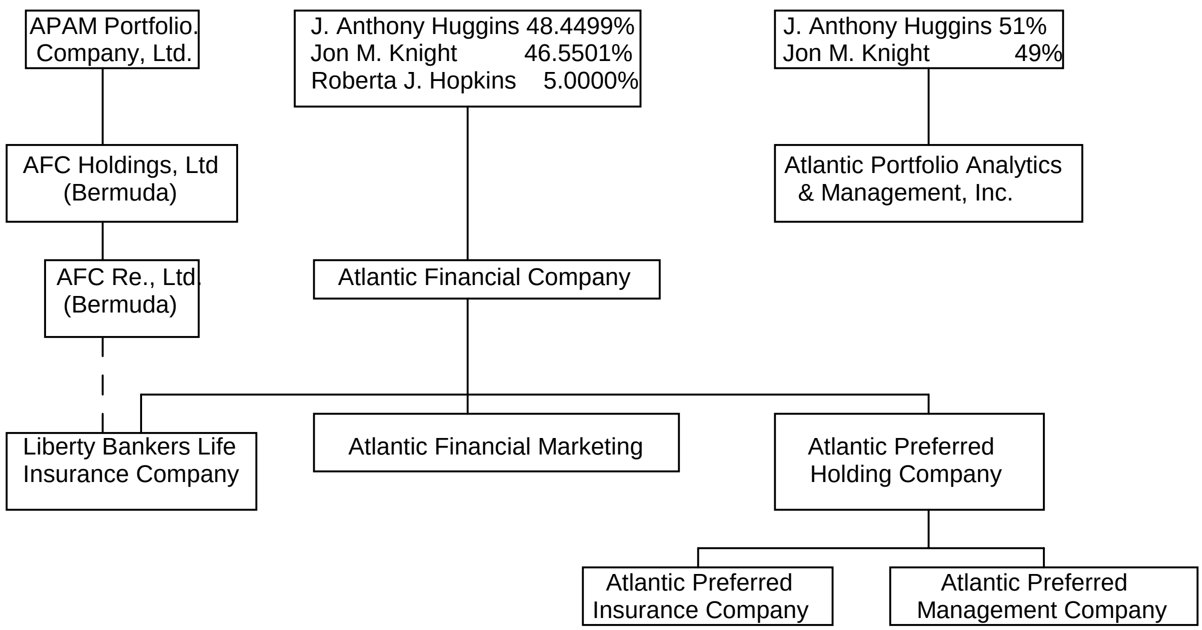
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The board of directors has not appointed any standing executive committees of directors. However, the company has been subject to executive actions exercised on behalf of the company by executive committees of the holding company. Further examination comment and recommendation is included in the examination findings section of this report captioned "Management and Control—Committees of the Board of Directors."

IV. AFFILIATED COMPANIES

Liberty Bankers Life Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

Organizational Chart
As of December 31, 1999



AFC Re Ltd. of Bermuda

AFC Re Ltd. is an insurer and reinsurer of life and annuity products. AFC Re was incorporated in Bermuda on September 24, 1997, as a wholly owned subsidiary of AFC Holdings, Ltd. of Bermuda. Liberty has a 90% quota share coinsurance agreement with AFC Re that became effective January 1, 1999. Under the agreement, the company cedes a 90% coinsurance portion of its liability for the annuity policies currently written by the company as new business. AFC Re is not authorized as a reinsurer in the state of Wisconsin. A Stipulation and Order issued by the Commissioner enables the company to recognize reserve credits for the business the company cedes to AFC Re.

AFC Re as grantor entered into a reserve credit trust agreement with a US bank effective June 30, 1999. The agreement established the trust with Liberty as the sole beneficiary. The trust account is established for the deposit and maintenance of AFC Re assets that are derived from the Liberty's cessions of risks to AFC Re on the 90% coinsurance treaty noted above. The AFC Re assets held in the trust account constitute the corpus of ceded reserves that support the company's recognition of reserve credits for the business ceded to AFC Re, and are held in trust to collateralize the company's cession of loss reserves. Further examination comment on the AFC Re treaty is included in the sections of this report captioned "Reinsurance."

As of December 31, 1999, AFC Re's GAAP basis audited financial statements reported assets of $246,463,189, liabilities of $141,414,333, and unassigned funds and special reserves of $105,048,856. Operations for 1999 produced net income of $4,172,814.

Atlantic Financial Company

Atlantic Financial Company (AFC) was incorporated on September 5, 1991, as a holding company that engaged in the business of insurance and reinsurance. AFC is now an inactive company having no employes or operations. AFC presently has negative net owner's equity resulting from operating losses sustained during the 1997 through 1999 time period.

AFC holds four chief assets, each of which is for sale. AFC assets include the capital stock of Liberty, the capital stock of Atlantic Preferred Holding Company and its wholly owned subsidiary property and casualty insurer Atlantic Preferred Insurance Company, the capital stock of Atlantic Financial Marketing, and an office building in Orlando, Florida. The current plans for AFC are to sell off its existing assets and to then terminate the AFC business entity. AFC owners project that the holding company has sufficient cash resources to meet all of its obligations in the intermediate-term while conducting the sale of AFC assets. The three individuals who own AFC's capital stock will absorb any ultimate net loss of owners' equity upon the dissolution of AFC.

As of December 31, 1999, AFC's unaudited GAAP basis financial statements reported assets of $13,987,330, liabilities of $20,149,023, and net owners equity of $(6,161,693). Operations for 1999 produced a net loss of $5,029,055.

Through year-end 1999 there were two active intercompany services agreements between Liberty and AFC, including a general services agreement and system lease agreement. As of December 31, 1999, AFC ceased all operations, and the services formerly performed by AFC under the service agreements were transferred to the company's Milwaukee home office. Pursuant to a transition plan for the discontinuance of AFC operations, the company's intercompany service contracts terminated by agreement, as of year-end 1999.

Atlantic Portfolio Analytics & Management, Inc.

Atlantic Portfolio Analytics & Management, Inc. (APAM), was incorporated November 1, 1984, as a Florida corporation. APAM provides investment advisory, management, and brokerage services to individual, corporate, and investment fund clients.

As of December 31, 1999, APAM's unaudited GAAP basis financial statements reported assets of $5,875,719, liabilities of $2,328,619, and unassigned funds and special reserves of $3,547,100. Operations for 1999 produced net income of $1,254,850.

APAM performs investment advisory, accounting, and brokerage services for the company's invested assets. Further examination comment regarding the company's affiliated investment agreements is included in the findings section of this report under the caption "Affiliated Agreements."

Atlantic Financial Marketing

Atlantic Financial Marketing (AFM) was capitalized and incorporated as a separate business entity in mid-year 1998 from an operating unit that was formerly the marketing division of AFC operations. AFM creates and markets fixed rate annuity products, providing sales support and administrative support to a network of contracting licensed insurance brokers, insurance agents, national marketing organizations, and regional managing general agents. AFM provides its marketing services to insurers under agreements whereby AFM performs marketing functions on behalf of the insurers for specified annuity products.

As of December 31, 1999, AFM's unaudited GAAP basis financial statements reported assets of $184,016.38, liabilities of $51,576.64, and net owner's equity of $132,439.74. Operations for 1999 produced a net loss of $26,592.34.

The company has a marketing agreement with AFM under which AFM markets the company products. AFM performs active solicitation of applicants for company annuity polices, processes applications, submits applications and customer remittance of premium payment to the company's home office for company review and policy issuance, and maintains and trains a sales force of qualified, licensed agents and brokers to market company products. AFM receives compensation for its services based on a contract commission schedule, the compensation paid to AFM based on premiums actually received by the company on insurance contracts marketed by AFM agents, brokers, and TPAs.

Atlantic Preferred Insurance Company

Atlantic Preferred Insurance Company (APIC) is a property and casualty insurer domiciled in the state of Florida. APIC was incorporated March 20, 1998, to provide insurance to Florida real estate property owners, and to participate as an insurer in the Market Challenge Program of the Florida Residential Property and Casualty Joint Underwriters Association (FRPCJUA). Under the FRPCJUA program, private insurance companies issued policies to insure risks that had been insured by the state of Florida following the 1993 hurricane Andrew weather event.

As of December 31, 1999, APIC's statutory financial statements reported admitted assets of $14,564,020, liabilities of $5,563,901, and surplus as regards policyholders of $9,000,119. Operations for 1999 produced net income of $1,114,934.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. The contracts contained proper insolvency provisions.

Ceding Contracts

The affiliated treaty with AFC Re, effective January 1, 1999, provides for cession to AFC Re of a 90% quota share coinsurance of Liberty's new direct written annuity business. The contract applies to all single and flexible premium deferred annuities and all immediate annuities and settlement options issued by the company on or after the effective date. In 1999, gross reserves on the subject business were $14.1 million, ceded reserves were $12.4 million, and Liberty's net retained reserves were $1.7 million.

Under the treaty with AFC Re, Liberty pays AFC Re an initial premium equal to 90% of the relevant statutory reserve on the agreement effective date, and thereafter 90% of all relevant premium paid to the company. AFC Re has liability for 90% of all death and annuity benefits paid by the company, 90% of cash surrender values paid by the company, and its full amount of allowances and expenses as defined by the agreement.

Liberty is allowed to recognize reserve credits for risks ceded to AFC Re pursuant to a Stipulation and Order issued by the Commissioner of Insurance July 1, 1999, even though AFC Re is not an accredited reinsurer under chapter Ins 52, Wis. Ad. Code. AFC Re is an unauthorized reinsurer for which the company ordinarily could not recognize reserve credits for ceded insurance risks without first establishing collateralization, in the form of cash deposits or letters of credit, for ceded reserve amounts, plus maintain trusteed surplus in the United States of $20,000,000. The Stipulation and Order provides for recognition for reserves ceded to AFC so long as AFC Re's investments and shareholder equity satisfy requirements applicable to domestic insurers as established by the Wisconsin statutes and Administrative Code. The Stipulation and Order also imposes certain financial reporting and regulatory filing requirements on the company pertaining to AFC Re.

AFC Re has established a trust account with Johnson Trust Company for amounts ceded to AFC Re by Liberty. The trust account agreement provides that AFC Re as grantor establish the trust account for the maintenance of AFC Re assets deposited in trust, for the sole benefit of Liberty as trust beneficiary. The grantor has retained the services of APAM as investment advisor, to act as an investment manager for all the assets in the trust account.

Assets equal to the net ceded premium owed by Liberty to AFC Re are deposited in the trust account. Liberty, at its sole discretion and without notice to AFC Re, may at any time and from time-to-time withdraw assets from the trust account. Liberty's practice is to remit directly to the trust account all amounts of net ceded premiums payable to AFC Re, and to make withdrawals from the trust account as needed to provide for reinsurance recoverables on paid losses and for AFC Re's portion of allocated expenses.

Liberty also cedes business to various unaffiliated reinsurers. The cessions include annuity risks assumed by Liberty upon the AFC sale of BRLW effective September 30, 1998. Under some of the contracts a 75% quota share portion of policy risks is ceded and a 25% portion is retained by Liberty. Under other agreements 100% of the policy risk is ceded and the company assumes by retrocession assumption a quota share portion of the ceded risks.

Assuming Contracts

Concurrent with the purchase of the company by AFC, Liberty acquired all of the general account direct annuity business of BRLW through a 100% coinsurance treaty. On part of its BRLW business, Liberty cedes 100% of its direct policy liability to unaffiliated reinsurers, and assumes back through retrocession assumption a quota share portion of its ceded risk. On the remainder of the BRLW business, Liberty cedes a 75% quota share of policy risks and retains a 25% portion of risk.

The former BRLW and BRLC entities had a relationship with Security Life Insurance Company of America, whereby SLICA was the direct writer on policies administered by BRLW. SLICA ceded the business to various reinsurers, and BRLW and BRLC assumed a portion of the business from the reinsurers. Liberty continued the insurance fronting arrangement with the third party insurer, assuming back from reinsurers a 15% portion of some of the business written by SLICA and ceded to unrelated reinsurers. The fronting arrangement was terminated May 26, 2000, and the company now is the direct writer of all of its new insurance issuance.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 1999, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, comment on any exceptional NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the year-end 1999 compulsory surplus and security surplus calculation. Adjustments and reclassifications of account balances made on the basis of examination findings are noted in the section of this report captioned "Reconciliation of Surplus per Examination."

Liberty Bankers Life Insurance Company
Assets
As of December 31, 1999

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	$44,865,999	$	$	$44,865,999
Mortgage loans on real estate:				
First liens	1,362,964			1,362,964
Policy loans	569,084			569,084
Cash	2,016,521			2,016,521
Short-term investments	21,636,962			21,636,962
Receivable for securities	18,389			18,389
Write-ins for invested assets:				
Funds held by reinsurer	8,488,736			8,488,736
Derivative instruments	174,560			174,560
Reinsurance ceded:				
Amounts recoverable from reinsurers	657,301			657,301
Commissions and expense allowances due	1,104,114			1,104,114
Other amounts receivable under reinsurance contracts	482,339			482,339
Electronic data processing Equipment	91,764			91,764
Life premiums and annuity considerations deferred and uncollected		33,477		33,477
Investment income due and accrued		761,096		761,096
Receivable from parent, subsidiaries and affiliates	82,763			82,763
Other assets nonadmitted:				
Agents' balances	229		229	
Furniture and equipment	32,058		32,058	
Write-ins for nonadmitted assets:				
Non-operating system software	85,809		85,809	
Prepaid expenses	4,812		4,812	
Write-ins for other than invested assets:				
Due from reinsurer - premium ceded overpayment	487,470			487,470
Total Assets	$82,161,874	$794,573	$122,908	$82,833,539

Liberty Bankers Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 1999

Aggregate reserve for life policies and contracts	$51,149,828
Supplementary contracts without life contingencies	2,266,641
Policy and contract claims:	
Life	13,780
Policyholders' dividend and coupon accumulations	272,034
Provision for policyholders' dividends and coupons payable in following calendar year:	
Apportioned for payment to December 31, 1999	57,617
Premiums and annuity considerations received in advance	1,338
Liability for premium and other deposit funds:	
Policyholder premiums	1,174,288
Policy and contract liabilities not included elsewhere:	
Interest maintenance reserve	1,010,631
General expenses due or accrued	210,476
Taxes, licenses, and fees due or accrued, excluding federal income taxes	32,312
Unearned investment income	15,879
Amounts withheld or retained by company as agent or trustee	1,136
Amounts held for agents' account, including agents' credit balances	922
Remittances and items not allocated	2,832
Borrowed money and interest thereon	11,306,508
Dividends to stockholders declared and unpaid	
Miscellaneous liabilities:	
Asset valuation reserve	113,659
Payable to parent, subsidiaries and affiliates	66,154
Write-ins for liabilities:	
Due to reinsurer - premium ceded	396,157
Principal/interest overpayments	34,432
Total Liabilities	68,126,624
Common capital stock	2,625,000
Gross paid in and contributed surplus	17,098,006
Unassigned funds (surplus)	(5,016,091)
Capital and Surplus	14,706,915
Total Liabilities, Surplus, and Other Funds	$82,833,539

Liberty Bankers Life Insurance Company
Summary of Operations
For the Year 1999

Premiums and annuity considerations	$ 3,445,031
Considerations for supplementary contracts with life contingencies	5,784
Considerations for supplementary contracts without life contingencies and dividend accumulations	538,785
Net investment income	5,081,527
Amortization of interest maintenance reserve	91,327
Commissions and expense allowances on reinsurance ceded	1,670,812
Miscellaneous income:	
Write-ins for miscellaneous income:	
Administration fees	302,633
Miscellaneous income	9,294
Total income items	11,145,193
Death benefits	27,500
Annuity benefits	2,743,935
Coupons, guaranteed annual pure endowments and similar benefits	1,541
Surrender benefits and other funds withdrawals	7,799,703
Interest on policy or contract funds	7
Payments on supplementary contracts with life contingencies	169,898
Payments on supplementary contracts without life contingencies and of dividend accumulations	514,090
Accumulated coupon payments	17,145
Increase in aggregate reserve for life policies and contracts	(4,753,586)
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	(162,417)
Commissions on premiums, annuity considerations, and deposit type funds	1,685,605
Commissions and expense allowances on reinsurance assumed	227,061
General insurance expenses	1,968,766
Insurance taxes, licenses, and fees excluding federal income taxes	149,044
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	80
Write-in for deductions:	
Fines	500
Total deductions	10,388,872
Net gain from operations before dividends to policyholders and federal income taxes	756,321
Dividends to policyholders	23,215
Net gain from operations after dividends to policyholders and before federal income taxes	733,106
Federal income taxes incurred (excluding tax on capital gains)	34,000
Net Income	$ 699,106

Liberty Bankers Life Insurance Company
Cash Flow
As of December 31, 1999

Premiums and annuity considerations	$5,449,037		
Considerations for supplementary contracts with life contingencies	5,784		
Considerations for supplementary contracts without life contingencies and dividend accumulations	538,785		
Net investment income	4,359,208		
Commissions and expense allowances on reinsurance ceded	566,698		
Write-ins for miscellaneous income:			
Administration fees	302,633		
Miscellaneous income	9,295		
Total		$ 11,231,440	
Death benefits	27,500		
Annuity benefits	3,743,832		
Coupons, guaranteed annual pure endowments and similar benefits	1,541		
Surrender benefits and other fund withdrawals	7,799,703		
Interest on policy or contract funds	7		
Payments on supplementary contracts with life contingencies	169,898		
Payments on supplementary contracts without life contingencies and of dividend accumulations	514,090		
Accumulated coupon payments	17,145		
Subtotal		12,273,716	
Commissions on premiums, annuity considerations, and deposit type funds	1,685,605		
Commissions and expense allowances on reinsurance assumed	246,640		
General insurance expenses	1,857,125		
Insurance taxes, licenses and fees, excluding federal income taxes	126,915		
Write-ins for deductions:			
Fines	500		
Dividends paid to policyholders	14,312		
Federal income taxes (excluding tax on capital gains)	41,286		
Total deductions		16,246,099	
Net cash from operations			$(5,014,659)
Proceeds from investments sold, matured, or repaid:			
Bonds	109,623,881		
Mortgage loans	138,700		
Miscellaneous proceeds	2,349,449		
Total investment proceeds		112,112,030	
Cost of investments acquired (long-term only):			
Bonds	133,140,104		
Total investments acquired		133,140,104	
Net increase (or decrease) in policy loans and premium notes		13,935	

Net cash from investments			(21,042,009)
Cash provided from financing and miscellaneous sources:			
Borrowed money	11,301,564		
Other sources	9,659,500		
Total		20,961,064	
Cash applied for financing and miscellaneous uses:			
Other applications	845,561		
Total		845,561	
Net cash from financing and miscellaneous sources			20,115,503
Net change in cash and short-term investments			(5,941,165)

Reconciliation

Cash and short-term investments, December 31, 1997	29,594,648
Cash and short-term investments, December 31, 1998	$ 23,653,483

Liberty Bankers Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 1999

Assets		$82,833,539	
Less liabilities		68,126,624	
Adjusted surplus			$14,706,915
Annual premium:			
Individual life and health	$115,211		
Factor	15%		
Total		17,282	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		950,071	
Compulsory surplus (subject to a $2,000,000 minimum)			2,000,000
Compulsory surplus excess			$12,706,915
Adjusted surplus			$14,706,915
Security surplus: (140% of compulsory surplus, the factor reduced 1% for each $33 million in premium written in excess of $10 million, to a minimum factor of 110%)			2,800,000
Security surplus excess			$11,906,915

Liberty Bankers Life Insurance Company
Reconciliation and Analysis of Surplus
For the Two-Year Period Ending December 31, 1999

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1998	1999
Surplus, beginning of year	$ 3,565,350	$14,132,880
Net income	(2,154,732)	699,106
Change in nonadmitted assets and related items	(33,754)	(88,870)
Change in asset valuation reserve	(28,818)	(50,063)
Capital changes:		
Paid in		1,125,000
Surplus adjustment:		
Paid-in surplus	12,784,834	(1,125,000)
Write-ins for gains and (losses) in surplus:		
Prior-year federal income tax adjustment		7,286
Suspense accounts reconciliations		6,576
Surplus, end of year	$14,132,880	$14,706,915

Liberty Bankers Life Insurance Company
Insurance Regulatory Information System
For the Two-Year Period Ending December 31, 1999

The following is a summary of the company's exceptional NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination. A discussion of the exceptional IRIS ratio results follows the presentation of exception IRIS ratio data.

Ratio No. 1—Net Change in Capital and Surplus
NAIC exceptional results are any values equal to or greater than 50, or equal to or less than -10
Company Exceptions - 1998 -62%

Ratio No. 1A—Gross Change in Capital and Surplus
NAIC exceptional results are any values equal to or greater than 50, or equal to or less than -10
Company Exceptions - 1998 296%

Ratio No. 2—Net Income to Total Income
NAIC exceptional results are values equal to or less than 0
Company Exceptions - 1998 -4

Ratio No. 4—Adequacy of Investment Income
NAIC exceptional results are any values equal to or greater than 900, or equal to or less than 125
Company Exceptions - 1998 56%

Ratio No. 9—Change in Premium
NAIC exceptional results are any values equal to or greater than 50, or equal to or less than -10
Company Exceptions - 1998 999%
1999 -93%

Ratio No. 10—Change in Product Mix
NAIC exceptional results are any values equal to or greater than 5%
Company Exceptions - 1998 9.9%

Ratio No. 11—Change in Asset Mix
NAIC exceptional results are any values equal to or greater than 5%
Company Exceptions - 1998 7.6%

Ratio No. 12—Change in Reserving Ratio
NAIC exceptional results are any values equal to or greater than 20, or equal to or less than -20
Company Exceptions - 1998 28%

The 1998 exceptional result for IRIS ratio number 1, net change in capital and surplus, was due to the company's 1998 net loss from operations of $2.2 million.

The 1998 exceptional result for IRIS ratio number 1A, gross change in capital and surplus, was due to the company having a 296% increase in capital and surplus in 1998. The surplus increase was the result of the company's net operating loss combined with 1998 contributed surplus from the company's parent of $12.8 million.

The 1998 exceptional result for IRIS ratio number 2, net income to total income, was due to large increases that the company recorded in its reserves in 1998, and to increases in commissions and expense allowance on reinsurance assumed. The increased reserves and reinsurance expense arose from the company's assumption of BRLW business upon the company's acquisition by AFC. 1998 increases to reserves and reinsurance expense exceeded 1998 policy considerations by $423,499.

The 1998 exceptional result for IRIS ratio number 4, adequacy of investment income, was due to low investment income relative to the amount of tabular interest to be credited to the company's reserves. During 1998 up to the September 30, 1998 acquisition of the company and the assumption of BRLW business, the company had a comparatively small surplus and a correspondingly low invested asset base. The timing of the company's acquisition in late September resulted in low 1998 investment income when compared to the significantly increased reserves and policy obligations from business assumptions that were recorded in the company at year-end 1998.

The 1998 exceptional result for IRIS ratio number 9, change in premium, reflects a 1998 increase of 19,142% in premium considerations compared to year-end 1997. The 1998 premium increase was due to the company's 1998 reinsurance assumption of all the outstanding business of BRLW. The 1999 exceptional result for IRIS ratio number 9 was due to the absence of large reinsurance assumption premiums in 1999 that are reflected in 1998 premium balances.

The 1998 exceptional result for IRIS ratio number 10, change in product mix, also reflects the large 1998 assumption of annuity business, whereas prior to the assumption the company's book of business was comprised primarily of run-off whole life policies.

The 1998 exceptional result for IRIS ratio number 11, change in asset mix, reflects an increase of 568% in invested assets at year-end 1998 compared to the prior year. The 1998 increase was due to the company having received $53.8 million of assets and reserves in 1998 arising from its assumption of BRLW policies.

The 1998 exceptional result for IRIS ratio number 12, change in reserve ratio, reflects the large magnitude of first-year premium requiring new life reserves that was acquired in the 1998 annuity reinsurance assumption from BRLW, compared to the absence of first-year premium life reserving in the company's run-off whole life book of business existent at year-end 1997, prior to the BRLW reinsurance assumption.

Growth of Liberty Bankers Life Insurance Company

Year	Admitted Assets	Liabilities	Surplus
1998	$73,727,372	$59,594,491	$14,132,880
1999	$82,833,539	$68,126,624	$14,706,915

Life Insurance In Force (in thousands)

Year	Gross Direct and Assumed	Ceded	Net
1998	$15,000	$4,000	$11,000
1999	$14,000	$6,000	$ 8,000

The above tables reflect company financial performance and its life business in force for the two-year period under examination. The 1999 increase in admitted assets was primarily due to borrowed money of $11.3 million, which was the result of a reverse repurchase agreement investment transaction executed in late December 1999 and still open at year-end. The 1999 increase in surplus of $574,025 was primarily due to annual net income of $699,106. The life insurance in force data reflect the run-off of the closed-block whole life business written prior to the AFC acquisition of the company. The life insurance in force on the old block of business is decreasing year-to-year, as existing policies are nonrenewed by insureds.

Reconciliation of Surplus per Examination

The examination determined that there were no material exceptions in account balances reported in the company's 1999 statutory annual statement balance sheet, and the examination made no reclassification or adjustment to reported account balances or to surplus. The examination determined that the company's statutory policyholder's surplus as of December 31, 1999 was $14,706,915.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

The current examination is the first examination of the company performed by the Wisconsin Office of the Commissioner of Insurance. A review of compliance with prior examination findings is not an applicable audit procedure for the current examination.

Summary of Current Examination Results

<u>Management and Control—Meetings of Sole Shareholder and Election of Directors</u>

The company's sole shareholder did not conduct an annual meeting and did not perform an annual election of company directors in 2000. In December 1999, the sole shareholder replaced the entire membership of directors with new directors recommended by a board-appointed advisory committee. At the director's annual meeting in 2000, the board resolved to appoint the 1999 replacement board members to a new one-year term, the term to expire at the shareholders' annual meeting in 2001.

Pursuant to ch 180.1701, a corporation shall hold an annual meeting of the shareholders at a time stated in the corporate by-laws. As is provided in chapters 611.40 and ch. 180.0728, Wis. Stat., each director of an insurer shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting of company shareholders at which a quorum is present. It is recommended that the company hold an annual meeting of its shareholders, and that company directors be elected by a plurality of votes cast by shareholders eligible to vote in the election of directors, in compliance with chapters 180.0701, ch. 180.0728, and ch. 611.40, Wis. Stat.

<u>Management and Control—Meetings of the Board of Directors</u>

Review of the minutes of the meetings of the board of directors during the period under examination determined that the board held an annual meeting in 1999 and 2000. One special joint meeting of the board and the sole shareholder was held in 1999. From time to time the board took action by unanimous written consent in lieu of a meeting, to address and take action on topical matters of business. Company by-laws provide that the directors shall hold annual meetings for the election of officers and special meetings as necessary, and do not provide a requirement for scheduled meetings more frequently than annually.

The examiners determined that the board of directors does not meet with sufficient frequency and that the board does not exercise sufficient oversight and management of the affairs of the company. As provided in s. 611.51 (6), Wis. Stat., an insurer's board of directors shall manage the business and affairs of the company, and may not delegate its authority or responsibility to another entity. The expectation of the Commissioner is that, for the board of an active insurance company to satisfy its duty to manage the insurer, the insurer's board of directors must meet at least quarterly. At its periodic meetings the board should take action by vote of the majority of directors as deemed necessary by the board to effect the business of the insurer, in accordance with provisions of company articles and by-laws. Matters necessarily requiring board oversight include the review and approval of investment policy and investment activity, establishment of executive compensation, adjudication of losses, corporate budgeting and planning, review of company operating and financial performance, the election of officers, and any other appropriate matters of business as determined by the board of directors.

It is recommended that company's board of directors conduct meetings not less frequently than quarterly, at which meetings the board shall address relevant matters of company business and take executive action by resolution and vote of its membership in exercise of the board's authority and duty to manage the company. Recommended relevant matters of company business requiring board oversight and executive action at periodic board meetings include the election of officers, review and approve or disapproval of investment activity, and such additional matters of company business as are required or permitted by company articles and by laws and that are necessary for the board's executive management of the company.

Management and Control—Committees of the Board of Directors

Within the company's holding company there exist six committees that were formed by the parent company, AFC, at the initial 1998 organization meeting of the sole shareholder of Liberty. The committees were established to serve as "official Committees for all AFC subsidiary companies," and include committees for Investment; Life Product Development; Mergers, Acquisition and Reinsurance; Compensation; and Rate Review. Membership of the committees includes individuals from numerous affiliated companies including Liberty. Most of the committees have not conducted formal meetings, and the company has, for the most part, not maintained meeting minutes. However, the compensation and rate review committees have held meetings and have taken executive action by resolution on behalf of the company.

Pursuant to ch. 611.56, an insurer's board may designate one or more committees, each committee consisting of three or more directors of the company. When the board is not in session, a committee of the board having at least 5 members may exercise any of the powers of the board in the management of the insurer. The designation of a committee and delegation of authority to the committee shall not relieve the board from any of its statutory responsibilities. As noted earlier in this report, pursuant to s. 611.51 (6), Wis. Stat., an insurer's board of directors shall manage the business and affairs of the company, and may not delegate its authority or responsibility to another entity.

The company's existing committees, committees of the holding company, do not qualify as committees of the company's board of directors and do not have legal standing to take executive action on behalf of the company. The existing committees were not appointed by the board and include non-board committee members. The board may not act to delegate board authority or responsibility to the holding company committees. The existing committees do not qualify for any assumption of the management responsibilities of the board, and may not act in an assumption of the standing of Liberty directors. The holding company committees may only serve the company in the capacity of advisory committees that provide consultation to the company's board, and may not make executive decisions nor execute executive action on the board's behalf.

It is recommended that any and all committees established by the company's holding company cease to act to effect executive management decisions on behalf of Liberty Bankers Life Insurance Company. It is further recommended that any future committees of the directors of Liberty Bankers Life Insurance Company satisfy provisions for committee membership appointment and delegation of responsibilities as provided by ch. 611.56, Wis. Stat., and that the company maintain detailed minutes of each meeting of such committees.

Management and Control—Biographical Disclosures

The examiners reviewed biographical disclosures that were filed by the company during the period under examination. Review determined that company filings did not include biographical information for each of the individuals who were newly appointed as directors, officers, or senior executives.

Pursuant to ch. 611.54 (1), Wis. Stat., an insurer is required to report the name of any person selected as a director or principal should be filed on a timely basis immediately after the selection. It is recommended that the company report the name and respective biographical information for newly selected directors and principal officers immediately upon their election or appointment, in compliance with ch. 611.54 (1), Wis. Stat.

Management and Control—Corporate Contracts

The company engages in derivative investments for portfolio hedging purposes pursuant to a board-approved investment policy. Examination review determined that the company has numerous derivative investment contracts that do not reflect the correct name of the company. Some of the contracts reflect one particular incorrect company name, whereas other contracts reflect a second incorrect company name. In addition, the contracts were transacted by two individuals who held executive positions in the holding company but who did not hold office in the company or have the authorization of the company's board to execute such contracts on behalf of the company. The signatures of the respective individuals on the contracts reflect affirmation of executive office and title in the company that the individuals did not hold. The signatories did not have standing to execute Liberty Bankers Life Insurance Company business.

It is recommended that the company establish each of its business contracts in the true legal name of the corporation, Liberty Bankers Life Insurance Company. It is further recommended that each of the company's contracts be executed by one or more individuals who are vested with the authority to engage in such transactions by the board of directors and who have standing to execute such transactions, and that each authorized individual execute such contracts in the name of the valid office or capacity to which the individual has been elected or appointed by Liberty Bankers Life Insurance Company.

Management and Control—Investment Policy and Investment Management Agreements

The company's investment activities are managed by the affiliated company APAM, pursuant to two investment agreements that the company entered into effective September 30, 1998. The two agreements were a restatement of agreements that were existent for investment of BRLW investments prior to AFC acquisition of the company. Each agreement expresses a specific investment policy and was applicable to a specific portfolio of investment assets in 1998. The company currently has an investment policy approved by the board of directors in 1999 which fundamentally is a blend of the two investment policies incorporated in the 1998 investment agreements.

The examiners' review of the company's 1999 investment policy determined that there are numerous inconsistencies between current company practice and the stated investment policy. The investment policy provides that an investment management committee meet quarterly, maintain minutes of its meetings, and submit summary and analytical reports as needed to the board of directors for board review and action. However, the board has not appointed an investment management committee, and the board has not undertaken formal review of and executive action on company investment activity. Additionally, the investment policy currently practiced by the investment manager is not the policy expressed in either of the existing 1998 investment agreements.

It is recommended that the company establish internal operating practices and procedures that satisfy the requirements of its investment policy, and that the company amend its investment agreement with its investment manager to accurately reflect the company's investment policy and the contractual relationship between the company and the manager.

Company investment policy includes investment in derivative instruments to manage classes of investment risk and return, by hedging certain assets or portfolios against changes in market interest rates. Pursuant to s. Ins 6.20 (8) (o), Wis. Adm. Code, an insurer may, under a plan approved by the commissioner, invest in options and futures. The insurer's board of directors or board-authorized committee must first approve a plan of investment relating to derivative investments, and the plan must be filed with the Commissioner 30 days in advance of its effective date. The Commissioner may disapprove the plan within the 30-day period.

In August 1999, the company filed with the Commissioner an investment plan providing policies, guidelines and internal control procedures for portfolio hedging. The plan was disapproved because it did not contain specific policy objectives and strategies, did not establish reasonable limits in such investments, did not have adequate internal control procedures, and did not identify the duties, expertise, and limits of authority of personnel authorized by the board of directors to engage in such transactions on behalf of the company. The company is currently engaged in investment practices, including interest rate swap, floor, and swap option derivative investment transactions, for which it has not obtained the required formal policy approval from the Commissioner, in noncompliance with s. Ins 6.20 (8) (o), Wis. Adm. Code. It is recommended that the company submit its board-approved investment policy for transacting in derivative investments to the Commissioner for review and approval, in compliance with the requirements of s. Ins 6.20 (8) (o), Wis. Adm. Code. It is further recommended that the company discontinue investing in futures and options until an investment plan is filed with and approved by the Commissioner.

Investment Transactions and Practices

As noted earlier in this report, the company invests in derivative instruments to hedge its bond portfolio against risk of market interest rate changes. Derivative investments transacted by the company include interest rate swaps, floors and swap options. Under interest rate swaps, the company agrees with one or more counterparties to exchange, at specified settlement dates and for a specified contract duration, the difference between fixed-rate and floating rate interest amounts calculated on an agreed upon notional principal amount. No cash is exchanged at the outset of the contracts, and no principal payments are made by either party. Under floor contracts, the counterparty upon receipt of an agreed premium consideration agrees to limit or cap Liberty's risk associated with a decline in a reference rate or index. Should interest rates fall below an agreed rate, the counterparty is obligated to make cash payments to the company equal to the difference between the market rate and the fixed rate multiplied by a notional amount.

Under swap option contracts, the company obtains the right but not the obligation to enter into an interest rate swap.

The company's bond portfolio hedging strategy also includes the use of short-term short sales of government bond securities. Proceeds of the short sales are invested in short-term cash investments, and when deemed appropriate the short positions are covered and closed by the purchase of bond securities. The purchases are made using the invested cash proceeds that were obtained from the initial short sales. The short sales serve to hedge the company's bond portfolio against the possibility of increasing market interest rates. If market rates increase, the market value of the company's bond assets is decreased but the unrealized loss in the bond portfolio is partially offset by the gain made on the short sales. Should interest rates decrease and the company then cover an outstanding short position, the company will have unrealized gains in the market value of its bond assets, and will have a realized loss on the short position.

At year-end 1999 the company had unusual transactions arising from its bond portfolio hedging activity. In December 1999 the company had several open short sales, under which the company had sold short bond securities to hedge its long-term bond assets against the possibility of rising interest rates. The company had invested the proceeds from the 1999 short sales in short-term repurchase agreement investments having a common maturity date of January 4, 2000. In December the company exercised an opportunity to close its outstanding bond short sales at a profit. Immediately prior to year-end 1999, the company entered into reverse repurchase agreements also having a January 4, 2000 settlement date. Proceeds obtained from the reverse repurchase agreements in 1999 were use to purchase bonds, and the bonds were used to close the company's short sale positions prior to year-end. On January 4, 2000 the repurchase agreements and reverse repurchase agreements matured, and proceeds from settlement of the repurchase agreement investments offset the company's concurrent January 4, 2000, liability for settlement of the reverse repurchase agreements.

Analysis performed by the examiners determined that in 1999 the company had a bond investment asset turnover ratio of 326 percent. An asset turnover ratio in excess of 50 percent is defined as a high ratio result and is a possible indicator of unusual investment activity.

The bond asset turnover ratio is calculated as the average total bond assets held during the year divided by the total bond assets sold, redeemed, or otherwise disposed during the year. The examiners observe that the above cited calculation for the company includes $94 million of bonds that were acquired and fully disposed during the year related to the company's short sales and other short term hedging trade activity. Excluding the 1999 hedge transaction trades, the company's 1999 bond investment asset turnover ratio was 43%.

Accounts and Records

The company's invested assets include a portfolio of mortgage loans that are administered by a mortgage loan servicing company. The company entered into a mortgage loan servicing agreement in 1991, and the agreement predates the company's present ownership and executive management staff. Under the terms of the servicing agreement, the servicing company shall provide services that are usual and customary in the servicing and administration of mortgage loans, including collection of mortgage loan payments, establishment and maintenance of a custodial account, fiduciary performance of the administrator on behalf of the company, and the execution of all necessary executive and accounting functions with respect to the mortgage loan assets.

Review of company records determined that the company does not have a complete copy of the mortgage loan servicing agreement. The company's copy of the loan servicing agreement does not contain all of the pages of the agreement text, and does not include any of the numerous exhibits to the agreement which provide mortgage loan schedules and various supplemental agreements to the loan servicing agreement. It is recommended that the company obtain and retain for its records a complete copy of its current mortgage loan servicing agreement, and that the company maintain in its records complete executed copies of all agreements to which the company is a contracting party.

Financial Reporting—Annual Statement Schedule Y

The company's reported 1999 annual statement Schedule Y, Part 1 did not include a complete organizational chart of the holding company, and failed to include both an affiliate with whom the company has a marketing services agreement and an affiliated property and casualty insurer. The reported Schedule Y, Part 2 did not reflect the transaction activity of the marketing management affiliate. The company did not report a common Schedule Y with its sole affiliated insurer, Atlantic Preferred Insurance Company.

Annual statement instructions provide that insurers within a holding company shall prepare a common Schedule Y schedule for inclusion in each of the insurer's annual statements. An insurer is instructed to report in Schedule Y, part 1, a presentation of the identities and interrelationships between the parent, all affiliated insurers, and other affiliates. In Schedule Y, Part 2, an insurer must reflect transaction activity between insurers and noninsurer affiliates. It is recommended that the company properly reflect the organization of its holding company and transactions between affiliates in its statutory annual financial statements, in conformity with the NAIC Annual Statement Instructions—Life, Accident, and Health.

Financial Reporting—Schedule S

The company did not complete Schedule S, Part 4, Reinsurance Ceded to Unauthorized Companies, in its 1999 annual statement. The company currently cedes 90% of its new direct business to AFC Re, Ltd., an unauthorized alien reinsurer. The company is enabled to recognize reserve credits on its business ceded to AFC Re pursuant to a Stipulation and Order issued by the Commissioner; however, AFC Re remains classified as an unauthorized reinsurer with regard to NAIC statutory annual statement reporting requirements.

Annual statement instructions provide that an insurer shall complete Schedule S, Part 4 as appropriate, providing data on the insurer's business in force that is ceded to reinsurers that are not authorized. Reportable data include reserve credits taken and paid and unpaid loss recoverables. It is recommended that the company properly report its reinsurance cession activity with unauthorized reinsurers in the appropriate schedules and exhibits of its annual statutory financial statements, in conformity with the NAIC Annual Statement Instructions—Life, Accident, and Health.

VIII. CONCLUSION

Liberty Bankers Life Insurance Company redomiciled to the State of Wisconsin effective September 30, 1998, upon the company's acquisition by Atlantic Financial Company. Concurrent with the company's acquisition by AFC, Bankers Reserve Life Insurance Company of Wisconsin was merged into Liberty, and Liberty assumed through 100% co-insurance all of the existing in force general account annuity policy obligations of BRLW and its subsidiary, Bankers Reserve Life Insurance Company. Prior to the AFC acquisition, the company was a dormant insurer and its business consisted of a small block of life insurance risks in run-off.

The company's legal holding company parent currently has materially negative owner's equity. The individuals who own the holding company plan to dissolve AFC after all of AFC's assets are sold. AFC is currently a shell corporation and has no employees or business operations. AFC management projects that AFC has sufficient financial resourses to enable AFC to meet its obligations during the period in which AFC assets are liquidated. AFC assets include the capital stock of the company, a Florida domiciled property and casualty insurer, a marketing management company, and an office building.

To finance its 1998 purchase of the company, AFC issued an $18 million convertible note to AFC Re, Ltd., organized as a Bermuda Corporation, which provides to AFC Re the unilateral right to convert the convertable note to the capital stock of the company. AFC Re is recognized as the actual entity having ultimate control of the company.

The company cedes 90% of its present new business writings to AFC Re, Ltd., an unauthorized reinsurer, under a quota share reinsurance treaty. The company is enabled to recognize reserve credits for insurance risks it cedes to AFC Re pursuant to a Stipulation and Order issued by the Commissioner July 1, 1999, even though AFC Re does not have US Trust surplus of $20 million. The Order permits company recognition of reserve credits for business ceded to AFC Re providing that AFC Re's investments and shareholder equity satisfy requirements applicable to domestic insurers as established by Wisconsin statutes and Administrative Code. The Order also imposes financial reporting and regulatory filing requirements on the company pertaining to AFC Re. AFC Re assets equal to the statutory reserves for the risks assumed by AFC Re are held in a trust account at a third party trust bank for the sole benefit of Liberty Bankers Life Insurance Company.

The examination found that the company's investment function is not being supervised by a committee of the board, that investments are not always identified in purchase agreements with Liberty's proper name, and that the company is investing its assets outside the authority of s. Ins 6.20 (8) (o), Wis. Adm. Code. The examination recommended that the company discontinue making investment in futures or options unless a plan for such investments is approved by the Commissioner.

The examination found that there were no material exceptions in account balances reported in the company's 1999 statutory annual statement balance sheet, and made no reclassification or adjustment to reported account balances or to surplus. The examination determined that the company's statutory capital and surplus as of December 31, 1999, was $14,706,915.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Management and Control—Meetings of Sole Shareholder and Election of Directors—It is recommended that the company hold an annual meeting of its shareholders, and that company directors be elected by a plurality of votes cast by shareholders eligible to vote in the election of directors, in compliance with chapters 180.0701, ch. 180.0728, and ch. 611.40, Wis. Stat.

2. Page 28 - Management and Control—Meetings of the Board of Directors—It is recommended that company's board of directors conduct meetings not less frequently than quarterly, at which meetings the board shall address relevant matters of company business and take executive action by resolution and vote of its membership in exercise of the board's authority and duty to manage the company. Recommended relevant matters of company business requiring board oversight and executive action at periodic board meetings include the election of officers, review and approve or disapproval of investment activity, and such additional matters of company business as are required or permitted by company articles and by laws and that are necessary for the board's executive management of the company.

3. Page 29 - Management and Control—Committees of the Board of Directors—It is recommended that any and all committees established by the company's holding company cease to act to effect executive management decisions on behalf of Liberty Bankers Life Insurance Company. It is further recommended that any future committees of the directors of Liberty Bankers Life Insurance Company satisfy provisions for committee membership appointment and delegation of responsibilities as provided by ch. 611.56, Wis. Stat., and that the company maintain detailed minutes of each meeting of such committees.

4. Page 30 - Management and Control—Biographical Disclosures—It is recommended that the company report the name and respective biographical information for newly selected directors and principal officers immediately upon their election or appointment, in compliance with ch. 611.54 (1), Wis. Stat.

5. Page 30 - Management and Control—Corporate Contracts—It is recommended that the company establish each of its business contracts in the true legal name of the corporation, Liberty Bankers Life Insurance Company. It is further recommended that each of the company's contracts be executed by one or more individuals who are vested with the authority to engage in such transactions by the board of directors and who have standing to execute such transactions, and that each authorized individual execute such contracts in the name of the valid office or capacity to which the individual has been elected or appointed by Liberty Bankers Life Insurance Company.

6. Page 31 - Management and Control—Investment Policy and Investment Management Agreements— It is recommended that the company establish internal operating practices and procedures that satisfy the requirements of its investment policy, and that the company amend its investment agreement with its investment manager to accurately reflect the company's investment policy and the contractual relationship between the company and the manager.

7. Page 32 - Management and Control—Investment Policy and Investment Management Agreements—It is recommended that the company submit its board-approved investment policy for transacting in derivative investments to the Commissioner for review and approval, in compliance with the requirements of s. Ins. 6.20 (8) (o), Wis. Adm. Code. It is further recommended that the company discontinue investing in futures and options until an investment plan is filed with and approved by the Commissioner.

8. Page 34 - Accounts and Records—It is recommended that the company obtain and retain for its records a complete copy of its current mortgage loan servicing agreement, and that the company maintain in its records complete executed copies of all agreements to which the company is a contracting party.

9. Page 35 - Financial Reporting—Annual Statement Schedule Y—It is recommended that the company properly reflect the organization of its holding company and transactions between affiliates in its statutory annual financial statements, in conformity with the NAIC Annual Statement Instructions—Life, Accident, and Health.

10. Page 36 - Financial Reporting—Schedule S—It is recommended that the company properly report its reinsurance cession activity with unauthorized reinsurers in the appropriate schedules and exhibits of its annual statutory financial statements, in conformity with the NAIC Annual Statement Instructions—Life, Accident, and Health.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
John E. Litweiler	Insurance Examiner
Danielle C. Rogacki	Insurance Examiner
Sarah M. Salmon	Insurance Examiner

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge