

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Family Benefit Life Insurance Company as of December 31, 2006

ORDER

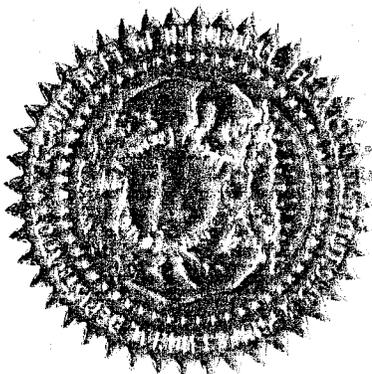
After full consideration and review of the report of the financial examination of Family Benefit Life Insurance Company for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Family Benefit Life Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this November 16, 2007.

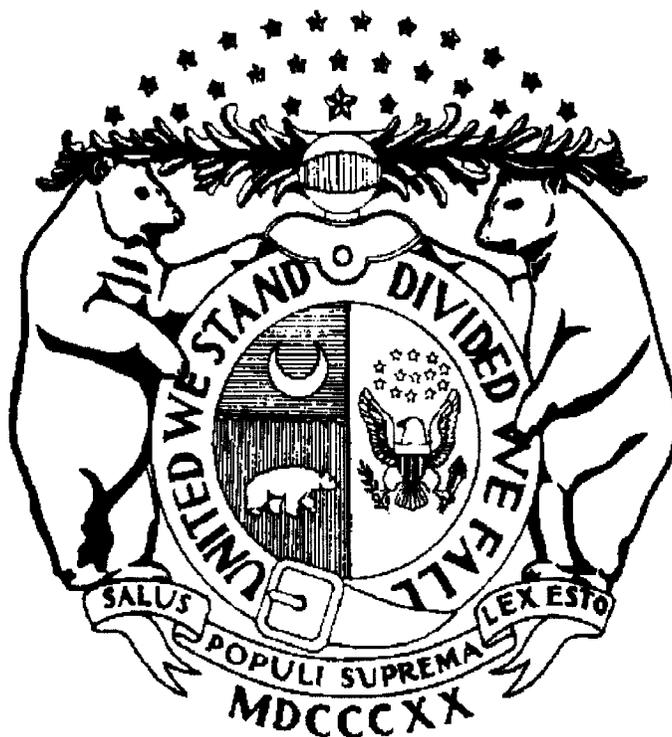
Handwritten signature of Douglas M. Ommen.

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration



**REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
FAMILY BENEFIT LIFE INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2006**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI**

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Jefferson City, Missouri
August 23, 2007

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition (E) Committee

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Family Benefit Life Insurance Company

hereinafter referred to as such, as Family Benefit, or as the Company. Its administrative office is located at 325 East McCarty, Jefferson City, Missouri 65101, telephone number (573) 636-3181. This examination began on April 23, 2007, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Family Benefit was made as of December 31, 2003, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2004, through December 31, 2006, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, Jay Seaver, CPA, LLC, of Jefferson City, Missouri, for its audit covering the period from January 1, 2006, through December 31, 2006. Information relied upon included bank confirmations, fraud risk assessment, and policy loan testing.

Comments - Previous Examination

The previous financial examination of Family Benefit was conducted by the Missouri DIFP for the period ending December 31, 2003. Listed below are the comments, recommendations, and notes from the previous examination report, the Company's response, and the findings in the current examination.

Purchase of Outstanding Common Stock

Comment: Section 375.350 RSMo (Investment in Insurer's Own Stock) requires a report to be filed with the Missouri DIFP when an insurance company purchases more than 5% of an outstanding class of stock. The Company purchased 187,959 shares, or 12% of its outstanding common stock in January 2004, but did not report the purchase to the Missouri DIFP. It was recommended that the Company should ensure that it complies with the filing requirements of this statute in the future.

Company's Response: The Company stated that it was unaware of the Missouri statute that requires reporting of purchases greater than 5% of the Company's common stock. The Company further stated that it will report any stock purchase greater than 5% in the future.

Current Findings: The Company did not make any purchases of its outstanding common stock during the examination period that exceeded the 5% level in the statute cited above.

Fidelity Bond Insurance

Comment: It was stated that the Company's fidelity bond had a liability limit of \$250,000 and a \$5,000 deductible. The suggested minimum level of coverage, according to NAIC guidelines, was \$300,000 based upon the assets and premiums of Family Benefit. It was recommended that the Company increase its fidelity insurance coverage to the minimum amount of \$300,000 or higher.

Company's Response: The Company stated that it would increase its fidelity bond coverage to \$300,000 upon the next policy renewal.

Current Findings: The Company's fidelity bond, as of the date of this report, had a liability limit of \$300,000 with a \$7,500 deductible and was equal to the minimum coverage recommended by the NAIC.

Reinsurance Agreements

Comment: Missouri regulation 20 CSR 200-2.300 (4)(C)1. (Life Reinsurance Agreements) requires a reinsurance agreement to be filed with the Missouri DIFP within 30 days from the date of execution if the agreement involves the reinsurance of business issued prior to the effective date of the agreement. It was noted that the Company's reinsurance agreement with Optimum Re Insurance Company (Optimum Re) ceded risks for policies that were issued prior to the agreement effective date of January 1, 2001. It was recommended that the Company immediately file this agreement with the Missouri DIFP, as required by regulation.

Company's Response: The Company stated that it had filed the reinsurance agreement with Optimum Re with the Missouri DIFP.

Current Findings: The reinsurance agreement with Optimum Re was submitted to the Missouri DIFP on August 30, 2004. Family Benefit did not enter into any new reinsurance agreements during the current examination period.

Reporting of Certificates of Deposit (CDs)

Comment: It was noted that the Company incorrectly reported long-term certificates of deposit (CDs) on the Cash and Short-Term Investments line of the 2003 Annual Statement. It was recommended that the Company ensure that long-term CDs are properly reported on the Bonds line of the Assets page and Schedule D – Part 1 of future Annual Statement filings. The long-term CDs must also be filed with the SVO in order to receive a NAIC Designation.

Company's Response: The Company stated that it will report CDs with maturities greater than one year on Schedule D – Part 1.

Current Findings: The Company owned one long-term CD, as of December 31, 2006, and it was properly reported on Schedule D – Part 1 of the 2006 Annual Statement.

Reporting of Bond Purchases

Comment: It was stated that the Company incorrectly reported \$500,000 on the Receivable for Securities line that should have been reported on the Bonds line. It was recommended that the Company ensure that investment purchases are recorded on the proper Annual Statement lines and not the Receivable for Securities line when the transaction settlement does not occur until after the reporting date.

Company's Response: The Company stated that it would report purchases with trade dates prior to year-end and settlement after year-end in the Bonds line instead of the Receivable for Securities line.

Current Findings: The Company did not report any amounts on the Receivable for Securities or Payable for Securities lines of the 2006 Annual Statement.

HISTORY

General

Family Benefit Life Insurance Company was incorporated on October 14, 1964. The Company commenced business on October 29, 1964, as a stock life and health insurer under the insurance laws of Chapter 376 RSMo (Life, Health and Accident Insurance).

Capital Stock

The Company's Articles of Incorporation allow for the issuance of 1,750,000 shares of common stock with a par value of \$1 per share. As of December 31, 2006, 1,604,378 shares were issued for a total capital stock balance of \$1,604,378. Treasury stock held by the Company consisted of 216,296 shares at a cost of \$953,107. The total issued and outstanding shares were 1,388,082.

Dividends

Cash dividends declared and paid to common stockholders during each year of the examination period were as follows:

2004	\$179,992
2005	183,136
2006	179,455

Management

The management of the Company is vested in a Board of Directors that are appointed by the shareholders. The Company’s Bylaws specify that there shall be nine directors. The Board of Directors appointed and serving, as of December 31, 2006, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Wayne R. Walquist	Jefferson City, MO	Chairman and First Vice President, Family Benefit
Roscoe F. Bowles	Leawood, KS	Retired Executive, Phillips Petroleum Company
Donald M. Coleman	Springfield, MO	District Sales Manager, Family Benefit
Richard A. Hall	Jefferson City, MO	President, Manchester/Hall Public Relations
Erwin A. Milne	Jefferson City, MO	Attorney, Andereck, Evans, Milne, Widger and Johnson, LLC
Doyle W. Nimmo	Buffalo, MO	President, Nimmo Insurance Agency, Inc.
Carson R. Teel	Columbia, MO	Vice President and Secretary, Family Benefit
Ross A. Walquist	Jefferson City, MO	President, Family Benefit
Jean P. Warden	Holts Summit, MO	President, Capital Reserve Life Insurance Co.

Committees

The Bylaws allow for committees to be appointed by the Board of Directors as needed. As of December 31, 2006, members were appointed to an Investment Committee, a Claims Committee, and a Building Committee. Members were also appointed to staff these committees throughout the examination period. However, none of the committees held meetings during the examination period. Management explained that these committees are informal and any business discussed between the committee members is documented in the minutes of the Board of Directors.

Officers

The officers elected by the Board of Directors and serving as of December 31, 2006, were as follows:

<u>Officer</u>	<u>Elected Position</u>
Wayne R. Walquist	Chairman, First Vice President
Ross A. Walquist	President
Carson R. Teel	Vice President – Operations, Secretary
Howard L. Toombs	Vice President – Data Processing
Linda S. Schroer	Assistant Secretary

Conflict of Interest

The Company has a policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. There were no amendments or changes to the Articles of Incorporation or Bylaws during the period under examination.

The minutes of the Board of Directors' meetings and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

The Company is not a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). This statute specifies that a person or an entity must directly or indirectly control 10% or more of an insurance company's capital stock to be defined as an affiliate. The Company's stock is not publicly traded and is privately held by approximately 600 shareholders. The largest shareholder of Family Benefit owned 9.2% of the issued and outstanding common stock, as of December 31, 2006. Family Benefit also does not own or have 10% or more control in any subsidiaries. The Company does not have any affiliates and therefore, it is not included in an Insurance Holding Company System, pursuant to the cited Missouri statute.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond with a liability limit of \$300,000 and a \$7,500 deductible. This coverage is equal to the suggested minimum level of coverage, according to NAIC guidelines. Family Benefit is also a named insured on the following other insurance policies: commercial general liability, commercial property, workers compensation, directors’ and officers’ liability, and notary errors and omissions coverage. These additional insurance coverages appear to be adequate.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Family Benefit has seven employees at its home office and two outside sales managers. Benefits provided to employees include health insurance, life insurance, workers compensation insurance, flexible spending account (cafeteria) plan, and a stock option plan. The Company does not provide a pension plan, but does make contributions to individual retirement accounts (IRAs) for employees. The Company appears to have properly accounted for employee benefits in the financial statements.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP, as of December 31, 2006, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The funds on deposit as of December 31, 2006, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$1,000,000	\$982,700	\$1,003,178

Deposits with Other States

The Company also has funds on deposit with the New Mexico Public Regulation Commission. Those funds on deposit as of December 31, 2006, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Bond	\$100,000	\$118,875	\$98,971

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Family Benefit is licensed by the Missouri Department of Insurance, Financial Institutions and Professional Registration under Chapter 376 RSMo (Life, Health and Accident Insurance) to write the following lines of business: life, annuities and endowments, and accident and health. The Company is also licensed in the following seven states: Arizona, Colorado, Idaho, Kansas, Nebraska, New Mexico and Oklahoma. Business written in Missouri accounted for 89% of total direct premiums and annuity considerations for 2006.

The major lines of business for Family Benefit are Ordinary Life and Individual Annuities, which represented 40% and 39%, respectively, of 2006 total net earned premiums. Group life accounted for the remaining 21%, which is mainly from assumed reinsurance. The directly written product line includes term life, whole life, and annuity products sold on an individual basis.

New business production is targeted primarily in rural communities in Missouri. Marketing efforts are limited to brochures and the Company's website that describe its products for prospective policyholders. There are over 100 independent agents that are licensed to sell products for Family Benefit. However, only 26 agents produced new business in 2006 and three agents accounted for 91% of new business written in 2006.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. However, no market conduct examination reports were issued by the Missouri DIFP or any other state during the examination period or subsequent periods.

REINSURANCE

General

The Company's premium activity on a direct earned, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct Business	\$2,681,841	\$2,099,852	\$2,066,343
Reinsurance Assumed:			
Affiliates	0	0	0
Non-affiliates	368,855	403,655	466,247
Reinsurance Ceded:			
Affiliates	0	0	0
Non-affiliates	<u>(128,418)</u>	<u>(136,395)</u>	<u>(136,383)</u>
Net Earned Premiums	<u>\$2,922,278</u>	<u>\$2,367,112</u>	<u>\$2,396,207</u>

Assumed

Family Benefit only has one assumed reinsurance agreement, effective July 1, 1970, with The Prudential Insurance Company of America (Prudential). Pursuant to this agreement, the Company assumes a percentage of pooled business from the Servicemember's Group Life Insurance (SGLI) program, which is administered by Prudential. As of December 31, 2006, Family Benefit's share of the SGLI pool was 0.03706%.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Family Benefit utilizes only one reinsurer, Optimum Re Insurance Company (Optimum Re). A reinsurance agreement, effective January 1, 2001, with Optimum Re cedes risks on both an automatic and facultative basis. The Company retains \$50,000 per insured life. Optimum Re is ceded up to \$200,000 per risk in excess of the retention on an automatic basis. Policy limits in excess of the automatic limit of \$250,000 may be reinsured on a facultative basis up to a limit of \$10,000,000 per insured life. This agreement also has terms that provides for Family Benefit to cede policies that were recaptured by the Company from terminated reinsurance agreements.

ACCOUNTS AND RECORDS

The CPA firm, Jay Seaver, CPA, LLC, of Jefferson City, Missouri, issued audited statutory financial statements of the Company for all years in the examination period.

The actuarial opinions regarding the Company's policy and claim reserves were issued by Mark C. Rowley, FSA, MAAA, for all years in the examination period. Mr. Rowley is an actuary that was employed on a part-time basis by the Company until he resigned in early 2007. The Company's Board of Directors, in its March 12, 2007 meeting, appointed Edward F. Cowman, FSA, MAAA, FCA, of Bruce and Bruce Company in Lake Bluff, Illinois, to be a consulting actuary. Mr. Cowman will issue the future actuarial opinions for the Company's policy and claim reserves, beginning with year-end 2007.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Family Benefit for the period ending December 31, 2006. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets
as of December 31, 2006

	<u>Assets</u>	Non- Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$52,856,010	\$ 0	\$52,856,010
Stocks	150,652	0	150,652
Mortgage Loans	289,626	0	289,626
Real Estate	297,828	0	297,828
Cash and Short-Term Investments	2,351,358	0	2,351,358
Contract Loans	981,919	0	981,919
Other Invested Assets	31,228	30,219	1,009
Investment Income Due and Accrued	826,789	0	826,789
Uncollected Premiums and Agents' Balances in the Course of Collection	32,992	32,992	0
Deferred Premiums, Agents' Balances Booked But Deferred and Not Yet Due	329,863	0	329,863
EDP Equipment and Software	1,930	1,930	0
Furniture and Equipment	6,024	6,024	0
Aggregate Write-Ins for Other than Invested Assets:			
Cash Value of Co. Owned Life Insurance	<u>63,233</u>	<u>0</u>	<u>63,233</u>
TOTAL ASSETS	<u>\$58,219,452</u>	<u>\$71,165</u>	<u>\$58,148,287</u>

**Liabilities, Surplus and Other Funds
as of December 31, 2006**

Aggregate Reserve for Life Policies and Contracts	\$45,233,313
Aggregate Reserve for Accident and Health Policies	4,576
Liability for Deposit-Type Contracts	4,627,493
Policy and Contract Claims – Life	131,058
Policyholder Dividends and Coupons Due and Unpaid	408
Policyholder Dividends and Coupons Payable	83,151
Premiums Received in Advance	7,391
Interest Maintenance Reserve	25,782
Commissions to Agents Due or Accrued	4,121
General Expenses Due or Accrued	21,252
Taxes, Licenses and Fees Due or Accrued	1,221
Federal Income Taxes Due or Accrued	57,000
Unearned Investment Income	25,278
Amounts Withheld or Retained	7,946
Remittances and Items Not Allocated	2,467
Liability for Benefits for Employees and Agents	99
Asset Valuation Reserve	198,999
Aggregate Write-In Liability: Unclaimed Property	<u>4,394</u>
TOTAL LIABILITIES	\$50,435,949
Common Capital Stock	1,604,378
Gross Paid In and Contributed Surplus	394,025
Unassigned Funds (Surplus)	6,667,042
Less Treasury Stock	<u>(953,107)</u>
Capital and Surplus	<u>\$ 7,712,338</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$58,148,287</u>

Summary of Operations

For the Year Ended December 31, 2006

Premiums and Annuity Considerations	\$2,396,206
Considerations for Supp. Contracts with Life Contingencies	98,721
Net Investment Income	3,174,761
Amortization of Interest Maintenance Reserve	10,406
Miscellaneous Income	<u>14,975</u>
TOTAL	<u>\$5,695,069</u>
Death Benefits	\$ 715,581
Annuity Benefits	2,464,514
Coupons, Guaranteed Annual Pure Endow. and Similar Benefits	56,846
Surrender Benefits and Withdrawals for Life Contracts	221,496
Group Conversions	(591)
Interest and Adjust. on Policy or Deposit-Type Contract Funds	178,762
Payments on Supplementary Contracts with Life Contingencies	284,591
Increase in Aggregate Reserves for Life, A&H Policies	(193,859)
Commissions on Direct Business	81,519
General Insurance Expenses	774,431
Insurance Taxes, Licenses and Fees	74,846
Increase in Loading on Deferred and Uncollected Premiums	<u>(9,697)</u>
TOTAL	<u>\$4,648,439</u>
NET GAIN FROM OPERATIONS	\$1,046,630
Dividends to Policyholders	78,814
Federal Income Taxes Incurred	81,852
Net Realized Capital Gains (Losses)	<u>(7,407)</u>
NET INCOME	<u>\$ 878,557</u>
CAPITAL AND SURPLUS:	
Capital and Surplus, December 31, 2005	\$7,050,439
Net Income	878,557
Change in Non-Admitted Assets	6,091
Change in Asset Valuation Reserve	9,836
Change in Treasury Stock	(71,039)
Surplus Adjustment: Paid In	17,915
Dividends to Stockholders	<u>(179,455)</u>
CAPITAL AND SURPLUS, DECEMBER 31, 2006	<u>\$7,712,344</u>

Notes to the Financial Statements

None.

Examination Changes

None.

General Comments and/or Recommendations

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Family Benefit Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, Larry Kleffner, CFE, and Angela Campbell, CFE, examiners for the Missouri DIFP, participated in this examination. The firm of Milliman USA, also participated as a consulting actuary.

VERIFICATION

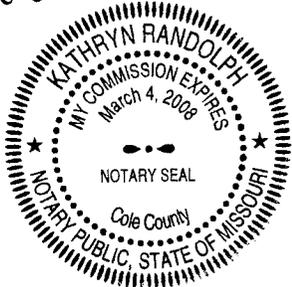
State of Missouri)
County of COLE)

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Family Benefit Life Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim L. Tunks
Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 29th day of August, 2007.

My commission expires: March 4, 2008 Kathryn Randolph
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Frederick G. Heese, CFE, CPA

Audit Manager
Missouri DIFP