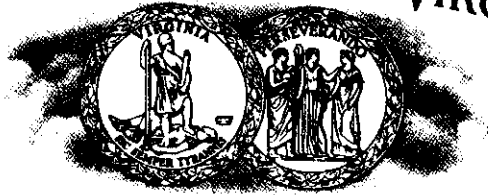


ASSOCIATION EXAMINATION REPORT
on
FIRST VIRGINIA LIFE INSURANCE COMPANY
Winston-Salem, North Carolina
as of
December 31, 2006

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.state.va.us/sec>

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of First Virginia Life Insurance Company as of December 31, 2006, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 1st day of February, 2008

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
November 2, 2007

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

Honorable Julie Mix McPeak
Secretary, NAIC Southeastern Zone
Executive Director
Kentucky Office of Insurance
Frankfort, Kentucky

Dear Commissioners:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, a National Association of Insurance Commissioners (NAIC) Association Examination of the records and affairs of

FIRST VIRGINIA LIFE INSURANCE COMPANY

Winston-Salem, North Carolina

hereinafter referred to as the Company, has been completed. The report thereon is hereby submitted for your consideration.

DESCRIPTION

The Company is a stock life insurance company licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. The Company was last examined as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006, and was conducted by representatives from the Virginia State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") representing the Southeastern Zone of the NAIC.

HISTORY

The Company was first issued a charter by the Commission on March 23, 1959, under the name of Mt. Vernon Insurance Agency, Inc. The Agency's charter was amended on May 25, 1966, to change the name to First Virginia Insurance Agency, Inc., and again on April 1, 1967, when the name was changed to First Virginia Life Insurance Company. At that time, the articles of incorporation were restated to provide for

transactions of a life insurance company. On June 30, 1994, the Company's license was amended to include life as an additional line of insurance.

Effective July 1, 2003, the Company was acquired by BB&T Corporation through the merger of the Company's direct parent, First Virginia Banks, Inc. with and into BB&T Corporation pursuant to an Agreement and Plan of Reorganization and a related Plan of Merger. BB&T Corporation obtained Commission approval on June 4, 2003 and obtained the necessary approvals from the Federal Reserve Board and the Maryland Division of Financial Regulation for this transaction. Each share of the Company's stock issued and outstanding as of the effective date was converted into the right to receive shares of BB&T Corporation common stock and cash payable in exchange for any fractional shares of BB&T Corporation common stock.

The Company is currently running off its existing block of business and is not accepting any new business.

MANAGEMENT AND CONTROL

The Company's bylaws provide that the business and affairs of the Company shall be managed by a board of four directors, a majority of who shall constitute a quorum for the transaction of business. According to the bylaws, the officers of the Company shall consist of a chairman and a vice chairman of the board, a president, a secretary, a treasurer and other officers as the board of directors may from time to time elect. The president is the principal executive officer of the company and shall supervise and control the management the Company according to the bylaws.

At December 31, 2006, the board of directors and principal officers of the Company were as follows:

<u>Directors</u>	<u>Principal Business Affiliation</u>
Matthew E. Brown .	Vice President and Senior Financial Analysis Project Leader BB&T Corporation Winston-Salem, North Carolina
David L. Craven	Senior Vice President, Associate General Council and Assistant Corporate Secretary BB&T Corporation Winston-Salem, North Carolina

<u>Directors</u>	<u>Principal Business Affiliation</u>
Robert E. Greene	Senior Executive Vice President BB&T Corporation Winston-Salem, North Carolina
Christopher L. Henson	Senior Executive Vice President and Chief Financial Officer BB&T Corporation Winston-Salem, North Carolina
Edward D. Vest	Executive Vice President and Corporate Controller BB&T Corporation Winston-Salem, North Carolina

<u>Officers</u>	<u>Title</u>
Christopher L. Henson	President, Chief Executive Officer and Chairman of the Board
Matthew E. Brown	Vice Chairman of the Board
James M. Cochrane	Vice President
F. Kent Graham	Controller
M. Patricia Oliver	Secretary
Edward D. Vest	Treasurer

BB&T Corporation, the parent company, is the sole stockholder of the 100,000 shares of common stock outstanding at December 31, 2006, with each share having a par value of \$10. At December 31, 2006, the company had common capital stock of \$1,000,000 and gross paid in and contributed surplus of \$526,500. Pursuant to § 38.2-1322 of the Code of Virginia, the Company qualifies as a member of an insurance holding company system.

TRANSACTIONS WITH AFFILIATES

Service Agreement

The Company has a service agreement in effect with its parent, BB&T Corporation. Under the terms of the agreement, BB&T Corporation shall provide accounting, auditing, marketing, legal, investment, real estate, personnel, methods and procedures, printing, purchasing, record retention, trust, tax, insurance and corporate planning services. The Company paid BB&T Corporation \$4,380 for administrative fees and \$3,179 for trust fees in 2006.

DIVIDENDS TO STOCKHOLDERS

A cash dividend of \$3,000,000 was paid to the Company's sole shareholder in December of 2005. The dividend payment was considered to be an extraordinary dividend and was approved in advance by the Commission.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on a financial institutions bond and an excess bond of its parent, BB&T Corporation. The primary policy provides fidelity coverage of \$25,000,000 after a deductible of \$5,000,000. In addition, the excess policy provides aggregate and single loss coverage of \$30,000,000. The Company maintains officers and directors coverage of \$100,000,000 with a \$10,000,000 deductible. In addition, the Company participates in an inter-company loss sharing agreement with its affiliates whereby losses in excess of \$100,000 by the Company will be shared by participating affiliates in proportion to their percentage of assets comprising total assets of the holding company. Because the Company is running off its existing block of business and has no employees, it does not carry other typical insurance coverages.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in Virginia, Tennessee and Maryland. In Virginia, the Company is authorized to transact the business of life, credit life and credit accident and sickness insurance. Until January 1, 1997, the Company functioned as a direct writer. However, after this date, the Company's operating strategy was changed to provide reinsurance only. Under the terms of a reinsurance treaty with American Bankers Life Assurance Company (American Bankers), formerly Union Security Life Insurance Company, the Company reinsures those life and accident and health policies written by American Bankers which name BB&T Corporation and/or any of its affiliates as a beneficiary. Effective September 1, 2003, the Company ceased reinsuring and retroceding business and only provides reinsurance for business in effect at this date.

GROWTH OF THE COMPANY

The following data, obtained from copies of annual statements and from examination reports, reflects the growth of the Company for the ten-year period ending December 31, 2006:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital Stock</u>	<u>Surplus Paid In</u>	<u>Unassigned Funds</u>
1997	18,421,430	12,859,388	1,000,000	526,500	4,035,542
1998	17,241,818	12,413,561	1,000,000	526,500	3,301,757
1999	17,935,195	12,839,917	1,000,000	526,500	3,568,778
2000	17,563,542	12,638,792	1,000,000	526,500	3,398,250
2001	17,711,605	12,702,097	1,000,000	526,500	3,483,008
2002	16,680,468	11,887,937	1,000,000	526,500	3,266,031
2003	15,570,422	8,757,151	1,000,000	526,500	5,286,771
2004	13,367,141	4,296,860	1,000,000	526,500	7,543,781
2005	9,819,413	3,083,510	1,000,000	526,500	5,209,403
2006	7,945,943	2,018,613	1,000,000	526,500	4,400,830

Insurance In Force

<u>Year</u>	<u>Credit Life</u>	<u>Group</u>	<u>Total</u>
1997	253,949,000	0	253,949,000
1998	240,081,000	0	240,081,000
1999	236,147,000	0	236,147,000
2000	221,457,000	0	221,457,000
2001	188,307,000	17,446,000	205,753,000
2002	148,080,000	28,281,000	176,361,000
2003	83,417,000	20,988,000	104,405,000
2004	40,835,000	15,335,000	56,170,000
2005	23,506,000	13,237,000	36,743,000
2006	14,215,000	10,778,000	24,993,000

REINSURANCE

The Company ceased reinsuring and retroceding new business as of September 1, 2003. According to the Company's 2006 Management's Discussion and Analysis, BB&T Corporation intends to allow the Company's current book of business to run off. The Company's retention limit is \$35,000 and the excess is retroceded to American Bankers.

The Company's reinsurance agreements were reviewed and found to include insolvency provisions.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period January 1, 2004 through December 31, 2006. Assets were verified and liabilities were established at December 31, 2006. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the NAIC Examiners Handbook. Analytical review procedures were applied for non-SRA items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in the report.

History
Management and control
Corporate records
Fidelity bonds and other insurance
Territory and plan of operations
Growth of the company
Business in force by states and loss experience
Reinsurance
Accounts and records
Financial statements

FINANCIAL STATEMENTS

There follows a statement of financial condition of the Company at December 31, 2006, a summary of operations for the year ended December 31, 2006, a reconciliation of capital and surplus for the period under review, a statement of cash flow for the year ending December 31, 2006 and a statement of Examiners' changes in capital and surplus at December 31, 2006. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$3,796,998		\$3,796,998
Cash and short-term investments	<u>5,164,861</u>		<u>5,164,861</u>
Subtotals, cash and invested assets	\$8,961,859	\$0	\$8,961,859
Investment income due and accrued	101,136		101,136
Current federal income tax recoverable	21,958		21,958
Net deferred tax asset	12,425	5,345	7,080
Aggregate write-ins for other than invested assets	<u>197,136</u>		<u>197,136</u>
Total assets	<u><u>\$9,294,514</u></u>	<u><u>\$5,345</u></u>	\$9,289,169
Deduct category 2 investments in excess of amount allowable by Code of Virginia § 38.2-1403			<u>1,343,226</u>
Total assets			<u><u>\$7,945,943</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$1,626,333
Aggregate reserve for accident and health contracts	158,007
Contract claims:	
Life	45,691
Accident and health	21,586
Commissions and expense allowances payable on reinsurance assumed	41,025
General expenses due or accrued	(30,145)
Payable to parent, subsidiaries and affiliates	48,979
Aggregate write-ins for liabilities	107,137
	<hr/>
Total liabilities	\$2,018,613
	<hr/>
Common capital stock	\$1,000,000
Gross paid in and contributed surplus	526,500
Unassigned funds (surplus)	4,400,830
	<hr/>
Total surplus and other funds	\$5,927,330
	<hr/>
Total liabilities, capital and surplus	\$7,945,943
	<hr/> <hr/>

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and accident and health contracts	(\$102,958)
Net investment income	311,177
	<u>\$208,219</u>
Totals	<u>\$208,219</u>
Death benefits	\$195,645
Disability benefits and benefits under accident and health contracts	74,660
Increase in aggregate reserves for life and accident and health contracts	(884,008)
	<u>(884,008)</u>
Totals	<u>(\$613,703)</u>
Commissions on premiums, annuity considerations and deposit-type funds	(\$49)
Commissions and expense allowances on reinsurance assumed	10,166
General insurance expenses	7,630
Insurance taxes, licenses and fees, excluding federal income taxes	8,257
	<u>8,257</u>
Totals	<u>(\$587,699)</u>
Net gain from operations before federal income taxes	\$795,918
Federal income taxes incurred	144,692
	<u>144,692</u>
Net income	<u>\$651,226</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Capital and surplus, December 31, prior year	<u>\$6,813,271</u>	<u>\$9,070,281</u>	<u>\$6,735,903</u>
Net income	\$2,266,239	\$670,755	\$651,226
Change in net deferred income tax	(49,844)	(23,443)	(11,896)
Change in nonadmitted assets and related items	40,540	18,310	(1,447,903)
Change in asset valuation reserve	75		
Dividends to stockholders		<u>(3,000,000)</u>	
Net change in capital and surplus for the year	<u>\$2,257,010</u>	<u>(\$2,334,378)</u>	<u>(\$808,573)</u>
Capital and surplus, December 31, current year	<u><u>\$9,070,281</u></u>	<u><u>\$6,735,903</u></u>	<u><u>\$5,927,330</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	(\$102,958)
Net investment income	313,509
Total	<u>\$210,551</u>
Benefit and loss related payments	\$342,464
Commissions, expenses paid and aggregate write-ins for deductions	26,004
Federal income taxes	305,000
Total	<u>\$673,468</u>
Net cash from operations	<u>(\$462,917)</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$3,000,000
Total investment proceeds	<u>\$3,000,000</u>
Net cash from investments	<u>\$3,000,000</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	\$17,695
Net cash from financing and miscellaneous sources	<u>\$17,695</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$2,554,778
Cash and short-term investments:	
Beginning of the year	2,610,083
End of the year	<u>\$5,164,861</u>

EXAMINERS' CHANGES IN CAPITAL AND SURPLUS

<u>Assets:</u>	<u>Company</u>	<u>Examiner</u>	<u>Increase/ (Decrease)</u>
Current federal income tax recoverable	\$131,876	\$21,958	(\$109,918)
Category 2 Assets in excess of Code of Virginia § 38.2-1403	0	1,343,226	<u>(1,343,226)</u>
Examiners' decrease in capital and surplus			<u>(\$1,453,144)</u>
Total capital and surplus per the Company			\$7,380,474
Total capital and surplus per the Examiners			<u>5,927,330</u>
Net decrease in capital and surplus			<u>(\$1,453,144)</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The Company's Bylaws require an annual board of directors meeting for the election of officers and other business. The Examiner's review of the Company's minutes indicated there was no board of directors meetings during 2006. Thus, there was no annual election of officers during 2006.

The Company's Bylaws state that the number of directors shall be four. During the February 25, 2005 and the February 24, 2006 shareholder meetings, five individuals were elected to the board rather than four.

The Examiners recommend that the Company hold annual board of directors meetings to elect officers and take measures to ensure the number of directors elected is in compliance with their Bylaws.

2. The Company's board of directors approved the appointment of the Appointed Actuary for the year 2005 but did not approve such appointment during 2006. The Examiners recommend that the Company's board of directors approve the appointment of its actuary on an annual basis.
3. Code of Virginia § 38.2-1408 states, in part, "No domestic insurer shall make any loan, investment, or any sale or exchange of a loan or investment... unless authorized or approved. Authorization or approval shall be made by (i) its board of directors, or other governing body, or (ii) a committee authorized by the governing body or bylaws, to make investments, loans, sales or exchanges. The minutes of the committee shall be recorded, and reports of the investments, loans, sales or exchanges authorized or approved shall be submitted to the board or other governing body at its next meeting." During the review of the Company's board minutes, it was noted that the board did not ratify all investments for each year under review. In addition, the reports of such investments were not submitted to the board at its next meeting.

It is recommended that the Company implement procedures in order to ensure compliance with § 38.2-1408 of the Code of Virginia.

Accounts and Records

4. Category 2 Assets in Excess of Amounts Allowable Pursuant to Code of Virginia § 38.2-1403 \$1,343,226

Code of Virginia § 38.2-1403 states, "The value of Category 2 investments shall be excluded from the value of admitted assets to the extent the value of Category 2 investments exceeds seventy-five percent of the amount by which an insurer's surplus to policyholders exceeds its minimum capital and surplus." The Examiners decreased admitted assets by \$1,343,226, which is the amount of Category 2 investments that exceeded the available limit allowed by § 38.2-1403. Category 2 treatment was accorded to a savings account and a U.S. Instrumentality held by the Company. The savings account reported by the Company exceeded the \$100,000 exclusion pursuant to § 38.2-1413 A 4 and the 10% of admitted assets pursuant to § 38.2-1413 A. 7. The U.S. Instrumentality security exceeded the 10% of admitted assets in a single U.S. Instrumentality pursuant to § 38.2-1413 A 6. The calculation of the excess Category 2 investments is as follows:

a. Surplus to policyholders reported in the 2006 Annual Statement	\$6,380,474
b. Minimum capital and surplus requirement	<u>4,000,000</u>
c. Balance available for Category 2 investments ({a-b} x 75%)	\$1,785,355
d. Investment in a savings account in excess of 10% of admitted assets in one depository when the investment is classified as cash, cash equivalent, or short-term investment by the NAIC (§ 38.2-1413 A 7)	1,069,004
e. Investment in a U.S. Instrumentality in excess of 10% of admitted assets in a single obligor (§ 38.2-1413.6)	<u>2,059,577</u>
Category 2 investments in excess of amount allowed by § 38.2-1403 of the Code of Virginia (c-d-e)	<u>(\$1,343,226)</u>

A review of the Company's 2006 Analysis of Excess Capital and Surplus Investments Exhibit revealed that the Company did not include either of the above mentioned investments in its calculation of excess Category 2 assets. Because of this the Company failed to reduce its admitted assets by the amount of excess Category 2 investments as required by Code of Virginia § 38.2-1403.

It is recommended that the Company complete the Analysis of Excess Capital and Surplus Investments Exhibit correctly in future filings with the Bureau. Additionally, the Company should review its investments so that Category 2 investments can be

identified and those Category 2 investments that exceed limits established by § 38.2-1403 of the Code of Virginia properly reduce admitted assets.

5. Current federal income tax recoverable and interest thereon \$21,958

The Examiners have decreased this asset by \$109,918. This decrease is the result of the Company posting an erroneous entry to this account. The Examiners recommend the Company take steps to ensure that federal income tax recoverable is reported accurately in future filings with the Bureau.

SUBSEQUENT EVENT

On June 26, 2007, a \$2,000,000 cash dividend payable to its sole stockholder was declared by the board of directors. This extraordinary dividend was approved by the Commission on June 29, 2007.

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Bryan Almond, David A. Fiden, David H. Lin, Hai Nguyen and Michael Peterson participated in the work of the examination.

Respectfully submitted,



John P. Dreon, CFE
Senior Insurance Examiner
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC

First Virginia Life Insurance Company

08 JAN 29 AM 9:52

BB&T Corporation
150 S. Stratford Road
Winston-Salem, NC 27104

January 17, 2008

David H. Smith, Chief Examiner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, VA 23218

Re: First Virginia Life Insurance Company
Examination Report as of December 31, 2006

Mr. Smith:

Detailed below are the First Virginia Life Insurance Company's (FVLIC) responses to the recommendations for corrective action that were outlined in the Association Examination Report:

- (1) The board of directors meetings will be held on an annual basis. In reference to the number of directors, when the board meets in February 2008 action will be taken to amend the Bylaws to state that the number of directors can be between four to six members.
- (2) First Virginia Life Insurance has discussed with the BB&T Legal Department the company's Bylaws and requirements to ensure FVLIC is in compliance with the Code of Virginia. An acceptable format has been forwarded to the legal department and will be used effective February 2008. This format includes the shareholder's meeting, election of officers and directors, appointment of its actuary and submission of all investments for ratification.
- (3) This is included in #2. This format will include the submission for all investments for ratification.
- (4) This error was discovered during the review of the March 31, 2007 quarterly filings by the Virginia Bureau of Insurance. At that time FVLIC was advised that they did not need to amend the December 31, 2006 or March 31, 2007 filings. The Virginia Bureau worked through the correct excess capital and surplus calculations with the Assurant Group (servicer that prepares the statutory statements for FVLIC).

Subsequently, FVLIC moved \$500,000 from its interest bearing money market account to general non-interest checking, and purchased an US Treasury security. The state examiner was notified that this was completed in November 2007. Assurant calculated an interim excess capital and surplus report at November 30th month end which indicated a positive status. The report was reviewed by the state examiner.

- (5) The Assurant Group prepares FVLIC's statutory statements and have taken steps to ensure that federal income tax recoverable is reported accurately.

We appreciate all the patience and direction that the Virginia Bureau of Insurance and Jack Drean gave BB&T on behalf of First Virginia Life Insurance Company.

If you have any questions or require additional information, please feel free to contact me at (336) 733-3082.

Sincerely,



Gayle C. Dowdy, Vice President
First Virginia Life Insurance Company