STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF

ASSOCIATION EXAMINATION

OF

ALFA LIFE INSURANCE CORPORATION

Montgomery, Alabama

AS OF

DECEMBER 31, 2006

Participation:

ALABAMA
Southeastern Zone, NAIC

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AFFIDAVIT

STATE OF ALABAMA
COUNTY OF MONTGOMERY

Blase Francis Abreo, being first duly sworn, upon his oath deposes and says:

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

THAT an examination was made of the affairs and financial condition of *ALFA LIFE INSURANCE CORPORATION,* for the period of January 1, 2002 through December 31, 2006;

THAT the following 44 pages constitute the report therein to the Commissioner of Insurance of the State of Alabama; and

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

Francis Blase Abreo
Blase Francis Abreo, CFE

Subscribed and sworn to before the undersigned authority this 23rd day of May 2008.

Dianne B. Mills
(Signature of Notary Public)

Dianne B. Mills Notary Public
(Print Name)

in and for the State of Alabama

My Commission expires 4-18-2009

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DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303350
MONTGOMERY, ALABAMA 36130-3350
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BOB RILEY
GOVERNOR

WALTER A. BELL
COMMISSIONER

ASSISTANT COMMISSIONER
LORENZO (REN) WHEELER

DEPUTY COMMISSIONER
D. DAVID PARSONS

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
RALPH (REYN) NORMAN

RECEIVER
DENISE B. AZAR

LICENSING MANAGER
JIMMY W. GUNN

Montgomery, Alabama
May 23, 2008

Honorable Mary Jo Hudson
Chairman, Examination Oversight Task force
Ohio Department of Insurance
50 West Town Street, Third Floor, Suite 300
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South Carolina Department of Insurance
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Columbia, South Carolina 29202-3105

Honorable Walter A. Bell
Commissioner of Insurance
Alabama Department of Insurance
P. O. Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioners and Directors:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2006, has been made of

ALFA LIFE INSURANCE CORPORATION

at its home office at 2108 East South Boulevard, Montgomery, Alabama, 36116. The report of examination is submitted herewith.

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

SCOPE OF EXAMINATION

A full scope financial and market conduct examination was authorized pursuant to the instructions of the Alabama Commissioner of Insurance, and in accordance with the statutory requirements of the *Alabama Insurance Code* and the regulations and bulletins of the State of Alabama Department of Insurance in accordance with the applicable guidelines and procedures promulgated by the National Association of Insurance Commissioners (NAIC), and in accordance with generally accepted examination standards.

The Company was last examined for the five-year period ended December 31, 2001. A limited scope examination for the period ended December 31, 2004, concluded on June 30, 2005. The current examination covers the intervening period from January 1, 2002, through December 31, 2006, and was conducted by examiners from the Alabama Department of Insurance. Where deemed appropriate, transactions subsequent to December 31, 2006, were reviewed.

The examination included a general review of the Company's operations, administrative practices, and compliance with statutes and regulations. Corporate records were inspected. Income and disbursement items for selected periods were tested. Assets were verified and valued, and all known liabilities were established or estimated as of December 31, 2006. However, the discussion of assets and liabilities contained in this report has been confined to those items which resulted in a change to the financial statements, or which indicated a violation of the *Alabama Insurance Code* and the Insurance Department's rules and regulations, or other insurance laws or rules, or which were deemed by the examiner to require comments and/or recommendations.

Company office copies of the filed Annual Statements for the years 2002 through 2006 were compared with or reconciled to account balances with respect to ledger items.

The market conduct phase of the examination consisted of a review of the Company's territory, plan of operation, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, claims payments and practices, and compliance with privacy policies and practices.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to have valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2006. A signed

letter of representation was also obtained at the conclusion of the examination whereby management represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, the financial position of the Company, and contingent liabilities.

ORGANIZATION AND HISTORY

The Company is the product of a merger between two Alabama domestic insurers; a brief history of each follows.

The Cotton States Life Insurance Company (CSL):

CSL was incorporated on December 4, 1954, in Dallas County, Alabama, to do business as a mutual aid, benefit and industrial company, with the powers and privileges prescribed by the State of Alabama. At incorporation, the authorized capital of the Company consisted of 150,000 shares of common stock with a par value of $0.80 per share. The capital structure of the Company changed, as to the number of authorized shares and the par value of the shares, from the time of incorporation through the merger of the Company in 1973.

Federated Guaranty Life Insurance Company (FGL - Old):

FGL – Old was incorporated on October 22, 1971, in Montgomery County, Alabama. It was formed as a subsidiary of Alabama Farm Bureau Mutual Casualty Insurance Company, Inc. (AFBM), an Alabama company (currently, Alfa Mutual Insurance Company). The authorized capital of the Company consisted of 3,000,000 shares of common stock with a par value of $1 per share. The Company started business with paid in capital of $1,000,000, and paid in and contributed surplus of $2,000,000 derived from the sale of 1,000,000 shares of authorized stock.

Federated Guaranty Life Insurance Company (FGL)

Effective December 31, 1973, FGL - Old was merged into CSL and the surviving corporation was named FGL. The authorized capital stock of FGL on the date of the merger consisted of 5,000,000 shares of common stock, par value of $1 per share. Each share of the capital stock of FGL – Old was automatically converted into a share of capital stock of the surviving corporation. The share certificates of FGL – Old were not necessary to be surrendered for exchange of new certificates of FGL. Each share of the capital stock of CSL represented by $2.50 par value common stock

issued and outstanding at the effective date of merger, and the certificates, were automatically converted into one and one-third shares of FGL capital stock. The shares of CSL capital stock, not surrendered for conversion into $2.50 par value FGL capital stock represented $0.50 par value stock, (some of which had been issued at $0.80 par value), were automatically converted into 4/15th fractional shares of the capital stock of FGL.

On January 4, 1983, AFBM contributed the stock of FGL and the stock of FGL's property and casualty subsidiary "Federated Guaranty Insurance Company" to Federated Guaranty Corporation, a Delaware corporation. Federated Guaranty Corporation, (currently, Alfa Corporation) is an SEC registrant. (See the heading SUBSEQUENT EVENTS for development on Alfa Corporation).

Effective May 1, 1987, the Alabama Farm Bureau Federation withdrew from the national Farm Bureau Federation, of which it was a franchise member, and changed its name to Alabama Farmers Federation. The names of all the insurance companies within the group also changed. The name of the Company was changed from FGL to Alfa Life Insurance Corporation.

During the period covered by the examination, the Company amended, Sub-Article(c) of Article XII, of the Articles of Incorporation, which was effective February 24, 2003, and amended Article 2, Section 1, of the *By-Laws*, which was effective April 22, 2004.

On December 31, 2006, the authorized capital was 5,000,000 shares, of which 4,211,498 shares were issued and outstanding at the rate of $1 par value, per share, and the Gross paid and contributed surplus was $14,616,411.

The 2006 Annual Statement indicated the following:

- Net Admitted Assets: $1,050,767,852
- Liabilities: $848,569,514
- Total capital and surplus:
  - Common capital stock: $4,211,498
  - Gross paid in and contributed surplus: $14,616,411
  - Aggregate write-ins for other special funds: $245,000
  - Unassigned funds (surplus): $183,125,429

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation with ultimate control vested in its stockholders. At December 31, 2006, one hundred percent (100%) of the issued and outstanding common stock was owned by Alfa Corporation, an SEC registrant. The controlling interest in Alfa Corporation is held by Alfa Mutual Insurance Company, Alfa Mutual Fire Insurance Company, and Alfa Mutual General Insurance Company (collectively, Alfa Mutual Group). Alfa Mutual Group owns 54.9% of Alfa Corporation, and the remaining 45.1% is publicly held.

Board of Directors

The *By-Laws* of the Company provided that the business and affairs of the Corporation shall be managed by its Board of Directors. ARTICLE 2, Section 1 of the amended *By-Laws* effective April 22, 2004, set the number of directors at "...not less than ten (10) persons who shall be elected at the annual meeting of stockholders for a term of one year, and shall hold office until their successors are elected and qualified."

The following directors were elected by the stockholders and were serving at December 31, 2006:

Name and Residence	Principal Occupation
Jerry Allen Newby Athens, Alabama	Chairman of the Board, CEO, President Alfa Life Insurance Company
Boyd Eugene Christenberry Montgomery, Alabama	Retired Executive Vice President, Marketing
Russell Riley Wiggins Andalusia, Alabama	Vice President (Southeast Area) Alfa Mutual Insurance Company
Clyde Lee Ellis, III Montgomery, Alabama	Executive Vice President, COO Alfa Mutual Insurance Company
Stephen Leonard Dunn Evergreen, Alabama	Treasurer Alfa Life Insurance Company
Curtis Dean Wysner Woodland, Alabama	Vice President (Central Area) Alfa Mutual Insurance Company
Larry Earl Newman Birmingham, Alabama	Alfa Corporation, Director

Benjamin Phil Richardson Montgomery, Alabama	Retired, Company Executive Vice President
Hal Franklin Lee Hartselle, Alabama	Vice President Alfa Insurance Corporation
Jacob Calhoun Harper III Camden, Alabama	Vice President, (Southwest Area) Alfa Mutual Insurance Company
John Russell Thomas Alexander City, Alabama	President Aliant National Corporation

Officers

ARTICLE 4, Section 1 of the *By-Laws* states: "THE OFFICERS OF THE CORPORATION shall consist of a Chairman of the Board, President, Executive Vice President, one or more Vice Presidents, Secretary, and Treasurer, who shall be elected for one year by the Board of Directors at its annual meeting after the annual meeting of stockholders. . . . The offices of Chairman of the Board and President may be held by the same person."

The following officers were elected by the Board of Directors and were serving at December 31, 2006.

Officer	Title
Jerry Allen Newby	Chairman of the Board, President and CEO
Clyde Lee Ellis III	Vice President and Treasurer
Herman Alan Scott	Secretary

The following officers were appointed by the Board of Directors and were serving at December 31, 2006.

Officer	Title
Clyde Lee Ellis III	Executive Vice President, Operations
Herman Tyrone Watts	Executive Vice President, Marketing
Stephen Goddard Rutledge	Senior Vice President, CFO & CIO
Herman Alan Scott	Senior Vice President and General Counsel
James Roger Azar	Senior Vice President, Audit & Risk Management
John Thomas Jung	Senior Vice President, CIO
Thomas Earle Bryant	Senior Vice President, Human Resources
William Bradley Harper Jr.	Senior Vice President, Life & Loan Operations
Jerry Charles Ralph	Senior Vice President, Marketing, North Alabama

William Merit Hardy Jr.	Senior Vice President, Marketing, South Alabama
Carol Lynn Golsan	Senior Vice President, Marketing Services
Darrell Lee McNeal	Vice President, Georgia Marketing
Robert Watt Pace	Vice President, Mississippi Marketing
Alfred Edwin Schellhorn	Vice President, Corporate Development
Ralph Clayton Forsythe	Vice President, Finance & Assistant CFO
David Ray Proctor	Vice President, Taxes
Gordon Thomas Carter	Vice President, and Associate General Counsel
Thomas Allen Foster	Vice President, Loan Operations
Kenneth Leonard Nelson**	Vice President, Life Actuary
Christine Gnann Cantrell	Vice President, Marketing Communications
Domnic Charles Labriola	Vice President, Advanced Sales
Connie Leah Whitecotton	Vice President, Chief Risk & Compliance Officer
Patti Jo Everage	Vice President, Financial Reporting & Planning
Russell John Sinco	Vice President, Projects, Finance
Julie Meadows Parish	Asst. Vice President, Financial Reporting Compliance
Tammy Renee Hackett	Asst. Vice President, Life & Investment Accounting
George Clifford Crosby	Asst. Vice President, Life Actuary
David Eric Swedenburg	Asst. Vice President, Life Underwriting
Kerry Horner Lashlee*	Vice President, Life Underwriting & Policyholder Service

* Retired: December 1, 2007
** Retired: March 1, 2008

Committees

The following committees were appointed by the Board of Directors and were serving at December 31, 2006:

Executive Committee	
Jerry Allen Newby	Hal Franklin Lee
Stephen Leonard Dunn	John Russell Thomas
Russell Riley Wiggins	Jacob Calhoun Harper III
Benjamin Phil Richardson	Curtis Dean Wysner
Contribution Committee	
Jacob Calhoun Harper III	Curtis Dean Wysner
Stephen Leonard Dunn	Hal Franklin Lee
Russell Riley Wiggins	

Conflict of Interest

The Company follows an established procedure for the disclosure of conflicts between the Company's interest and the personal interest of directors and officers. The conflict of interest policy is part of the "Principles of Business Conduct" (Principles) policy, which was effective August 14, 2001. Effective February 4, 2003, the Principles went into major revision, when the Company incorporated the provisions required by the Federal Sarbanes-Oxley Act.

Section 8 of the revised Principles, does not require the employees to sign annual conflict of interest statements. Under the policy, all new employees are required to confirm their compliance with the policy at their hiring. Confirmations are obtained from all existing employees when the policy undergoes significant revision, or whenever circumstances dictate that reconfirmation would be helpful in reinforcing the Company's "tone at the top" message.

The listing that indicated that the officers and directors had read the Principles and electronically acknowledged that they had read the Principles was reviewed. The disclosures made during the period did not appear to represent a conflict of interest. The listing was checked with the names of the officers and directors listed on the Company's Annual Statements under examination. The review indicated that some directors, which were non-employees, had not acknowledged reading the Principles, since it had a significant revision, effective February 4, 2003. Company management indicated that the aforementioned directors had signed the acknowledgement, confirming reading and adhering to the Principles, since its significant revision. However, according to Company management, the signed copies had been misplaced and could not be located.

The Company indicated "Yes" to the GENERAL INTERROGATORIES of the NAIC Annual Statement Instructions, which asks the following question:

> "Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officer, directors, trustees, or responsible employees that is in conflict or likely to conflict with the official duties of such persons?"

As noted above, the Company had an established procedure for the disclosure of conflicts of interest to the Board of Directors; however, not all directors and officers signed the conflict of interest statements.

CORPORATE RECORDS

The Articles of Incorporation, *By-Laws,* and related amendments were inspected and found to provide for the operation of the Company in accordance with usual corporate and applicable statutes and regulations.

Records of the meetings and actions of the Stockholders, Board of Directors, and committees of the Board of Directors were reviewed for the period covered by the examination. Except, as to the acquisition and implementation of the new policy administrative system detailed below, the minutes appeared to be complete with regards to recording actions taken on matters before the respective bodies for deliberation and action.

The Company indicated in the Notes to Financial Statements of its 2002 Annual Statement that it had committed to spend $12,183,820 to implement a new policy administration system. The amount reported in the Notes to Financial Statements as committed to the implementation of the system increased each year during the period under examination. At December 31, 2006, the amount committed was $22,550,126, approximately 11 percent of the Company's surplus or a total increase of 85%. The acquisition and implementation of the new policy administration system was determined to be a particular investment in accordance with ALA. CODE § 27-41-31 (1975), which states:

> "An insurer may invest in electronic and mechanical machines constituting a data processing and accounting system if the cost of such system is not less than $10,000.00 and cost for such machines is amortized in full over a period not to exceed 10 calendar years."

The documentation provided to the examiners indicated that the Chief Financial Officer presented a budget annually to the Board of Directors, which included technology expense and amortization. However, there was no indication in the minutes of the meetings that the investment in the new policy administrative system had been authorized or approved by the Board. Therefore, it was determined that the Company was not in compliance with ALA. CODE § 27-41-5 (1975), which states:

> "An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee, or other persons so authorized shall be

recorded and regular reports thereof shall be submitted to the board of directors. . . ."

The minutes of the Board of Directors' meetings did indicate that discussions on the project took place; however, there were no references to the increasing costs of the project or the approval of additional investments into the project. Since there were no references to the costs or approval of the project, the Company did not comply with ALA. CODE § 10-2B-16-.01 (a) (1975), which states:

> "A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation."

HOLDING COMPANY AND AFFILIATES

Holding Company Registration and Reporting

The Company is subject to the *Alabama Insurance Holding Company Regulatory Act*, as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as joint registrant of an Insurance Holding Company System. The Company is responsible for holding company registration and periodic filings in accordance with ALA. CODE § 27-29-4 (1975), and ALA. ADMIN. CODE 482-1-055 (1994).

Appropriate filings required under the Holding Company Act were made from time to time by the Company as registrant. The examination did not determine that any required disclosures were excluded from the Company's filings.

Dividends to Stockholders

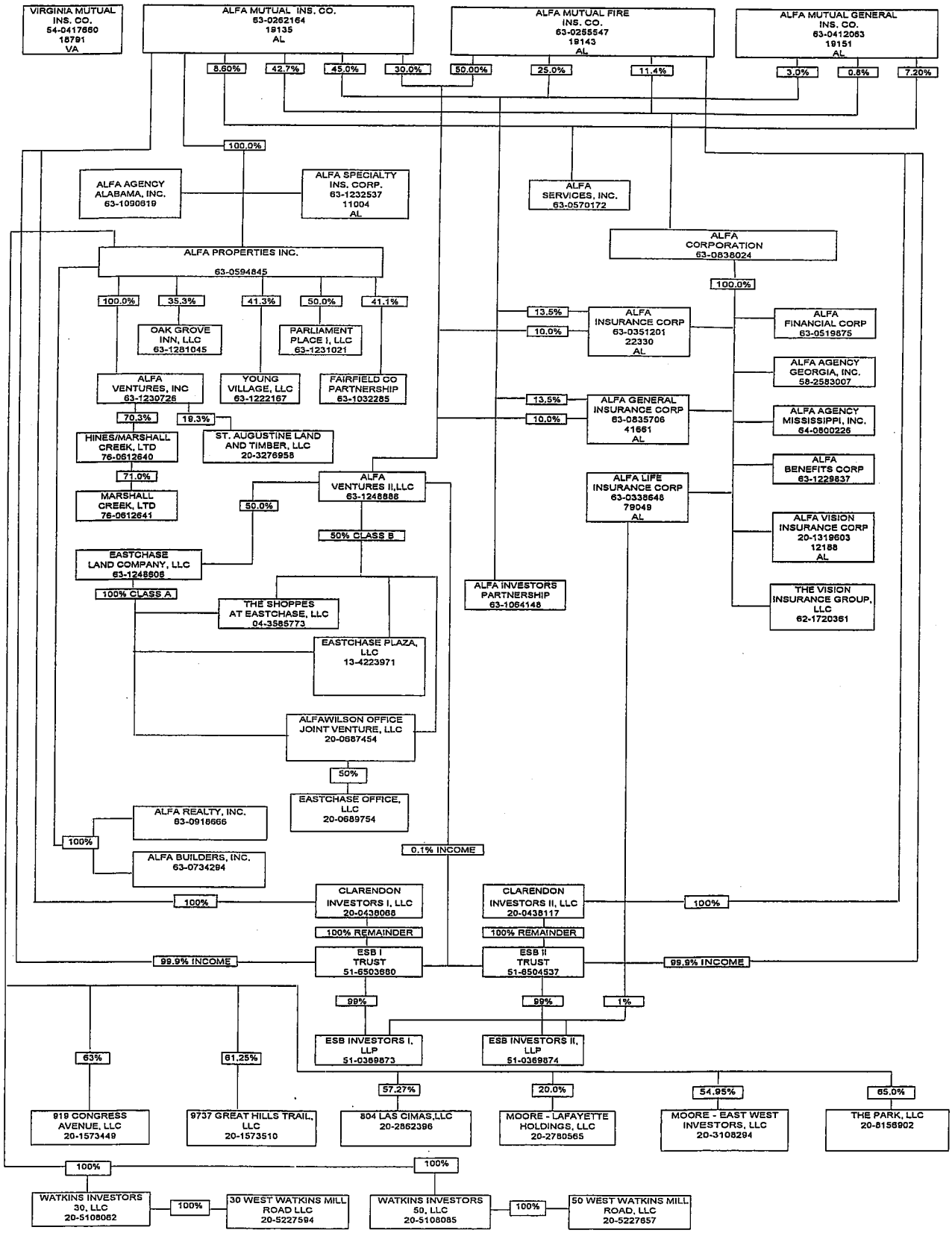
During the period under examination, the Company paid the following cash dividends to its sole stockholder, Alfa Corporation.

Year	Dividend
2002	$11,741,656
2003	3,230,219
2004	-0-
2005	-0-
2006	-0-

Dividends paid appeared to be in accordance with Alabama statutes and regulations.

Organizational Chart:

The following chart presents the identities and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2006.


VIRGINIA MUTUAL INS. CO. 54-0417660 18791 VA
ALFA MUTUAL INS. CO. 63-0262164 19135 AL
ALFA MUTUAL FIRE INS. CO. 63-0255547 19143 AL
ALFA MUTUAL GENERAL INS. CO. 63-0412063 19151 AL
8.60%
42.7%
45.0%
30.0%
50.00%
25.0%
11.4%
3.0%
0.8%
7.20%
100.0%
ALFA AGENCY ALABAMA, INC. 63-1090619
ALFA SPECIALTY INS. CORP. 63-1232537 11004 AL
ALFA SERVICES, INC. 63-0570172
ALFA CORPORATION 63-0838024
ALFA PROPERTIES INC. 63-0594845
100.0%
35.3%
41.3%
50.0%
41.1%
OAK GROVE INN, LLC 63-1281045
PARLIAMENT PLACE I, LLC 63-1231021
ALFA VENTURES, INC 63-1230726
YOUNG VILLAGE, LLC 63-1222167
FAIRFIELD CO PARTNERSHIP 63-1032285
70.3%
19.3%
HINES/MARSHALL CREEK, LTD 76-0612640
ST. AUGUSTINE LAND AND TIMBER, LLC 20-3276958
71.0%
MARSHALL CREEK, LTD 76-0612641
ALFA VENTURES II,LLC 63-1248888
50.0%
50% CLASS B
EASTCHASE LAND COMPANY, LLC 63-1248806
100% CLASS A
THE SHOPPES AT EASTCHASE, LLC 04-3585773
EASTCHASE PLAZA, LLC 13-4223971
ALFAWILSON OFFICE JOINT VENTURE, LLC 20-0587454
50%
EASTCHASE OFFICE, LLC 20-0689754
ALFA REALTY, INC. 63-0918666
100%
ALFA BUILDERS, INC. 63-0734294
0.1% INCOME
100%
CLARENDON INVESTORS I, LLC 20-0438066
CLARENDON INVESTORS II, LLC 20-0438117
100%
100% REMAINDER
100% REMAINDER
99.9% INCOME
ESB I TRUST 51-6503680
ESB II TRUST 51-6504537
99.9% INCOME
99%
99%
1%
ESB INVESTORS I, LLP 51-0369873
ESB INVESTORS II, LLP 51-0369874
13.5%
10.0%
ALFA INSURANCE CORP 63-0351201 22330 AL
ALFA FINANCIAL CORP 63-0519675
ALFA AGENCY GEORGIA, INC. 58-2583007
13.5%
10.0%
ALFA GENERAL INSURANCE CORP 63-0835706 41661 AL
ALFA AGENCY MISSISSIPPI, INC. 64-0800226
ALFA BENEFITS CORP 63-1229837
ALFA LIFE INSURANCE CORP 63-0338646 79049 AL
ALFA VISION INSURANCE CORP 20-1319603 12188 AL
ALFA INVESTORS PARTNERSHIP 63-1064148
THE VISION INSURANCE GROUP, LLC 62-1720361
63%
61.25%
57.27%
20.0%
54.95%
65.0%
919 CONGRESS AVENUE, LLC 20-1573449
9737 GREAT HILLS TRAIL, LLC 20-1573510
804 LAS CIMAS,LLC 20-2862396
MOORE - LAFAYETTE HOLDINGS, LLC 20-2780565
MOORE - EAST WEST INVESTORS, LLC 20-3108294
THE PARK, LLC 20-8158902
100%
100%
WATKINS INVESTORS 30, LLC 20-5108062
100%
30 WEST WATKINS MILL ROAD LLC 20-5227594
WATKINS INVESTORS 50, LLC 20-5108085
100%
50 WEST WATKINS MILL ROAD, LLC 20-5227657

Transactions and Agreements with Affiliates

Management and Operating Agreement

The following insurers were under the control of Alfa Mutual Insurance Company (AMI) and were parties to a Management and Operating Agreement with AMI: 1)The Company; 2) Alfa Mutual Fire Insurance Company; 3) Alfa Mutual General Insurance Company; 4) Alfa Insurance Corporation; 5) Alfa General Insurance Corporation; 6) Alfa Specialty Insurance Corporation; and 7) Alfa Vision Insurance Corporation. The Companies will be referred to, collectively, as the "affiliates" in the remainder of the discussion of this topic.

The original agreement had been in effect since January 1, 1960, with periodic amendments to modify the terms and to add companies as they became affiliated. Effective January 1, 2001, it was amended and restated ". . . in its entirety in order to clarify and make more certain their relationship to one another." Also, the term of the agreement was to be five years, through December 31, 2005, then automatically renewed for periods of one year. Effective January 1, 2005, it was amended to include Alfa Vision Insurance Corporation.

Pertinent terms of the agreement include the following:

- The affiliates appoint and engage AMI to take charge of, conduct, operate and manage the business operations of the affiliates, as authorized by their respective charters and Board of Directors, and in a proper and prudent fashion. AMI will provide all home office operating service to the affiliates, including accounting, disbursement and payroll services and will serve as a disbursing agent for the payment of all employees and agents of the affiliates.

- AMI agrees to employ, in its own name, all personnel necessary to perform the aforesaid, and reserves all rights and responsibilities of the employer of said personnel. All agents of the affiliates shall be appointed in the name of the respective affiliates and shall work on behalf of the respective affiliates. All personnel and agents of any affiliate employed outside Alabama are the sole responsibility of that affiliate. AMI agrees to indemnify and hold the affiliates harmless against any loss on account of the dishonesty or infidelity of any of AMI's employees. Also, the affiliates agree to indemnify and hold AMI harmless for liabilities and obligations prior to the effective date of the agreement, failure or negligent failure of the affiliate to perform under the agreement, breach of

warranty by the affiliate and liabilities or obligations of AMI's management or operation of the affiliate.

- AMI agrees that the business of each party to the agreement shall be conducted in the name of the respective party and that the records of each party shall be kept separately. AMI agrees to provide all required records, record-keeping services and data processing necessary to the efficient and economical operation of such business.

- The affiliates agree to reimburse AMI for expenses and additional charges in accordance with schedules which are attached to the agreement. These schedules are subject to periodic amendment. Expense allocations and other charges are determined by time, usage, and related special expense allocation studies conducted by AMI. Expenses entirely attributable to the affiliates such as printing and supplies are purchased and paid for directly by the respective affiliate.

- Arbitration: Disputes not resolved in 30 days are to be submitted for arbitration in the Birmingham, Alabama, office of the American Arbitration Association in accordance with commercial arbitration rules.

- Confidentiality: Each party agrees to keep all Confidential Information strictly confidential.

Numerous expense categories are prorated between affiliates on Schedule A, an attachment to the agreement. Certain other expenses are allocated directly to the affiliates that benefit from expenditures. Agents' commissions are allocated 100% to the affiliate writing the business. Fixed monthly charges are paid by the affiliate for certain other expenses.

Tax Allocation Agreement

The Company entered into a Tax Allocation Agreement between Alfa Corporation, the Company's Parent, and among several affiliates including Alfa Insurance Corporation, Alfa Vision Insurance Corporation, Alfa Financial Corporation, Alfa Builders, Inc., Alfa Realty, Inc., Alfa Agency Georgia, Inc., Alfa Agency Mississippi, Inc., Alfa Benefits Corporation, and Alfa General Insurance Corporation on January 1, 2004, that applied to the taxable year ending December 31, 2003, and subsequent years until terminated. The agreement was amended and restated effective March 1, 2004, to remove affiliates Alfa Builders, Inc. and Alfa Realty, Inc. from the affiliated group. The agreement was amended and restated again on May 22, 2006, to change

the tax allocation method to the percentage method pursuant to Treasury Regulation §1.1502-33(d)(3).

The Company and affiliates, parties to the agreement, agree as follows:

- A U.S. consolidated income tax return shall be filed by the Parent for the taxable year ending December 31, 2006, and for each subsequent taxable period in respect of which this agreement is in effect and for which the affiliated group is required or permitted to file a consolidated tax return.

- The agreement stipulates that the tax liability of the group shall be apportioned among the members of the group on the basis of the percentage of the total tax which the tax of such member if computed on a separate return would bear to the total amount of the taxes for all members of the group so computed.

- The tax liability of the group shall be apportioned under the percentage method consistent with the provisions of Treasury Regulation §1.1502-33(d)(3). This percentage method allocates tax liability based upon the absorption of tax attributes, without taking into account the ability of any member to subsequently absorb its own tax attributes.

- Payment of the consolidated tax liability for a taxable period shall include the payment of estimated tax installments due for such taxable period, and each subsidiary shall pay to the Parent its share of each payment within ten days of receiving notice of such payment. Any amounts paid by a subsidiary on account of a separate return or separate estimated tax payments which are credited against the consolidated tax liability of the Affiliated Group, shall be included in determining the payments due from such subsidiary. Any overpayment of estimated tax should be returned to the subsidiary.

- If the consolidated tax liability is adjusted for any taxable period, whether by means of an amended return, claim for refund, or after a tax audit by the IRS, the liability of each member shall be recomputed to give effect to such adjustments, and in the case of a refund, the Parent shall make payment to each member for its share of the refund, within ten days after the refund is received by the Parent. In the case of an increase in tax liability, each member shall pay to the Parent its allocable share of such increased liability within ten days after receiving notice of the liability from the Parent.

- If, during a consolidated return period, the Parent or any subsidiary acquires or organizes another corporation that is required to be included in the consolidated return, then such corporation shall join in and be bound by the agreement.

- The agreement shall be binding upon and inure to the benefit of any successor, whether by statutory merger, acquisition of assets or otherwise, to any of the parties, to the same extent as if the successor had been an original party to the agreement.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2006, the Company was named insured under a financial institution bond issued by Fidelity and Deposit Company of Baltimore, Maryland. The single loss limit of the bond met the NAIC suggested minimum requirements for fidelity coverage. The bond provided the following coverages:

- Fidelity
- Forgery or alteration
- Optional
  - Agents # 1
  - Computer systems fraud.

The Fidelity coverage insured the Company against any loss through any dishonest or fraudulent act committed by an employee acting alone or in collusion with others. The dishonest or fraudulent acts must be committed by the employee with the manifest intent to cause the insured to sustain such loss and to obtain financial benefit in the normal course of employment.

In addition to the fidelity bond, Alfa Mutual Insurance Company maintained other insurance policies to protect the Company and its affiliates against hazards to which they may be exposed.

EMPLOYEES' AND AGENTS' WELFARE

The Company had no employees; therefore, it had no formal employees' or agents' welfare program. Its operations were conducted by the personnel of Alfa Mutual Insurance Company, an ultimate parent of the Company, under the terms of a Management and Operating Agreement. The Company's officers, elected and

appointed, were also employees of Alfa Mutual Insurance Company. For further comment, see the caption *Management and Operating Agreement* under the heading HOLDING COMPANY AND AFFILIATES.

Section 1033 of Title 18 of the U.S. CODE

As noted above, the Company's operations were conducted by personnel employed by Alfa Mutual Insurance Company (AMI) under the terms of a Management and Operating Agreement. According to ALA. ADMIN. CODE 482-1-121 (2003), persons who act as or are officers, directors, producers, or employees, including those authorized to act on their behalf are subject to Section 1033 of Title 18 of the U.S. CODE; therefore the Company and those acting on its behalf including Directors, officers, agents, and employees working under the terms of a Management and Operating Agreement are subject to the terms of the aforementioned ALA. ADMIN. CODE.

The Company was asked how it determined if those working on its behalf were not in conflict with Section 1033 of Title 18 of the U.S. CODE, and ALA. ADMIN. CODE 482-1-121 (2003), which prohibits certain persons from participating in the business of insurance.

The Company provided an employment application used during the examination period which asks potential employees about any criminal convictions during the previous ten years and the authorization to obtain consumer and/or investigative consumer reports on the applicant. Company management indicated that the Company does not hire applicants who have been convicted of a felony unless prior authorization has been obtained from the Alabama Department of Insurance in accordance with ALA. ADMIN. CODE 482-1-121 (2003). The Company's "Principles of Business Conduct" (Principles) policy requires that employees report any felony convictions, either personal or about another employee immediately to Human Resources.

Although, the employment applications used during the examination period, asked potential employees about felony convictions within the last ten years, and the Principles policy requires employees to report felony convictions, the Company could not demonstrate that employees who had been with the Company before the Principles went into effect were not in conflict with ALA. ADMIN. CODE 482-1-121 (2003), which states:

> ". . . The Act contains no grandfather provision for persons already transacting the business of insurance. The Act contains no automatic waivers for individuals who may possess a state insurance license. Further, there is no time limitation on how far back the felony conviction that triggers the prohibited person status may have occurred. . . ."

The Company indicated it had a procedure in place to perform background checks on agents and customer service representatives since 1998, and on its home office employees since 2004. The Company provided evidence that in 2003-2004 its employees electronically certified pursuant to the Company's Principles policy that they had not been convicted of a felony and would inform management of any changes to their responses. According to the Company, employees hired subsequent to 2004 signed the policy when hired and a copy is maintained in their personnel file.

The Company could not provide evidence that it had a policy in place to ensure those authorized to act on its behalf continue to meet the requirements of Section 1033 of Title 18 of the U.S. CODE, and ALA. ADMIN. CODE 482-1-121 (2003), which states:

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

MARKET CONDUCT ACTIVITIES

Territory

As of December 31, 2006, the Company was licensed to transact insurance business in the following jurisdictions:

Alabama	Arkansas	Florida
Georgia	Louisiana	Mississippi
Missouri	North Carolina	South Carolina
Tennessee	Virginia	

The Certificates of Authority from the respective jurisdictions were inspected and found to be in effect at December 31, 2006.

Plan of Operation

At December 31, 2006, the Company's business was produced by 645 captive agents operating from 420 service centers throughout Alabama, Mississippi and Georgia. At December 31, 2006, there were 486 licensed agents in Alabama; 83 in Georgia; and 76 in Mississippi.

Although, the Company is licensed in eleven states, 90% of its business in 2006 was written in Alabama, and another 9% was split almost equally between Georgia and Mississippi. The remaining 1% was written in the other states.

The Company did not disclose any plans for acquisitions or expansion in the future.

Policy Forms and Underwriting Practices

The Company issued a general line of life insurance including the following plan types:

- non-participating whole life
- single premium
- annual renewable term
- level term
- decreasing term
- joint decreasing term
- interest sensitive
- universal life
- benefit riders include:
    - accidental death
    - waiver of premium
    - waiver of monthly deduction
    - payor death or disability
    - spouse and children
    - guaranteed insurability
    - guaranteed renewability
    - accelerated death benefits

The Company also issued tax qualified annuities, a corporate owned universal life policy for employees of Alfa Mutual Insurance Company, and a small volume of credit life and credit accident and health in connection with consumer loans made by an affiliated finance company.

As of December 31, 2006, the Company's non-medical limits for life insurance were $99,000 through age 40, $50,000 for ages 41 through 45, and none for ages 46 and above. Blood chemical profiles were required on all policies of more than $99,000. The Company's maximum retention on one life was $500,000. (See the historical retention amounts under the caption REINSURANCE.)

Compliance with Agents' Licensing Requirements

The inspection of the Company's records was made to establish that the agents representing the Company were duly licensed in the State of Alabama. The agents listing, maintained by the Company, had 486 agents licensed by the Alabama Department of Insurance for the Company. A sample of fifty agents was compared with the listing maintained by the Alabama Department of Insurance on its website. No noteworthy discrepancies were found within the sample.

Advertising and Marketing

The Company's advertising materials were reviewed for the period covered by the examination. The advertisements consisted of signs, billboards, newspaper advertisements and spot advertisements on radio and television. The examiners did not come across any advertisements that misrepresented policy benefits, made unfair or incomplete comparisons with other policies, or made false, deceptive or misleading statements or representations.

The Company's web page (www.alfains.com) was reviewed and found to include the following links: Company's background, product lines, claim information, career opportunities, how to locate an agent or the Alabama Farmers Federation, headlines, and Company contact information.

The Company's advertising was planned and coordinated by Integrated Marketing Communication, a subdivision of the Alfa Mutual Insurance Company's marketing division. The cost of advertisement was shared on a proportionate basis with other participating affiliates of the Company and the Alabama Farmers Federation. Company management indicated that the producers are not allowed to create their

own advertising and sales material, including internet sites. Producers were required to use Company approved advertising material.

Claims Payments Practices

A sample of fifty items was taken from the 2002 – 2006 paid claims listing. The sample was reviewed for compliance with policy provisions, timeliness of payments, and adequacy of documentation. No material discrepancies were found within the sample.

Policyholders' Complaints

The Company's complaint register was reviewed in order to verify if all written complaints were logged on the register. Company management indicated that complaints from insurance departments and written complaints received at the home office that allege violation of state or federal laws or of any regulations, directives, or bulletins of the insurance departments are logged on the register. During the period covered by the examination, the Company had fourteen complaints logged on the register, of which ten complaints were from Alabama policyholders. The examiners reviewed the complaint files to determine whether the Company maintained appropriate documentation and responded to policyholders' issues in a timely manner. The examiners determined that the Company maintained adequate documentation.

The Alabama Department of Insurance adopted the NAIC Market Regulation Handbook, effective May 7, 2007, via ALA. ADMIN. CODE 482-1-097-.07 (2007). According to the handbook, the regulated entity should include, but not be limited to, the following information in the complaint register:

- Line of business
- Function (underwriting, marketing and sales, claims, policyholder services or miscellaneous);
- Reason for complaint (underwriting, application, cancellation, rescission, nonrenewal).

The handbook also requires that the regulated entity record all written communication expressing a grievance in the regulated entity's complaint register.

Privacy Policies and Practices

The Company's policy is that non-public information involving underwriting, marketing, claims handling, and fraud prevention is not shared with anyone outside the Company except for that sharing allowed by the exceptions in the Gramm-Leach-Bliley Act. The insured receives a Privacy Notice at the point-of-sale, and the Company sends a Privacy Notice to the insured on an annual basis. The Company complied with the privacy requirements of ALA. ADMIN. CODE 482-1-122 (2001).

SPECIAL DEPOSITS

In order to comply with the statutory requirements for doing business in the various jurisdictions, in which it was licensed, the Company had the following securities on deposit with state authorities at December 31, 2006.

State	Book Value	Fair Value
Alabama*	$239,497	$326,620
Arkansas	95,799	130,648
Georgia	33,530	45,727
North Carolina	383,195	522,592
South Carolina	129,328	176,375
Virginia	396,534	399,484
Total	**$1,277,883**	**$1,601,446**

*Held for the protection of all policyholders.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

Year	Admitted Assets	Liabilities	Capital and Surplus	Premiums Earned
2001*	$ 723,464,769	$577,144,944	$146,319,825	$ 90,404,721
2002	762,662,793	630,194,459	132,468,334	98,232,637
2003	834,387,350	689,553,285	144,834,065	103,523,738
2004	904,589,275	742,597,235	161,992,040	107,610,309
2005	975,447,751	798,258,512	177,189,239	113,195,499
2006*	1,050,767,852	848,569,514	202,198,338	119,938,144

*Per examination.
Amounts for the remaining years were obtained from Company copies of filed Annual Statements.

REINSURANCE

Reinsurance Assumed

The Company did not assume any reinsurance during the examination period.

Reinsurance Ceded

The Company's ceded reinsurance program consisted of automatic coinsurance agreements and yearly renewable term reinsurance agreements with an option to negotiate facultative reinsurance over the reinsurers' maximum limits. The Company also participated in a catastrophic reinsurance agreement with Special Pooled Risk Administrators, Inc. (SPRA), which provided catastrophe coverage against any occurrence which might cause the deaths of three or more insureds. The reinsurance contracts were negotiated with nine reinsurers for its "Life" and one for its "Accident and Health" insurance products.

The reinsurance agreements in-force at December 31, 2006, had effective dates ranging from January 1, 1972, through July 1, 2006. During the examination, the Company negotiated an increase in the maximum retention amount from $350,000 to $500,000 (Standard – Table D) and from $200,000 to $300,000 (Table E and UP) on ordinary life policies. The historical retention amounts are summarized in the following table:

Year	Standard Thru Table C	Table D and UP
1972 – 08/31/80	$ 50,000	$ 25,000
9/01/80 – 04/30/82	75,000	40,000
5/01/82 – 06/30/89	100,000	50,000
7/01/89 – 10/31/97	200,000	100,000
	Standard Thru Table D	**Table E and UP**
11/01/97 – 02/28/03	$350,000	$200,000
3/01/03 – 12/31/06	500,000	300,000

Schedule S-Part 3- Section 1, of the 2006 Annual Statement indicted that the reserve credit taken by the Company was $5,404,826 and the ceded premiums were $5,789,813 at year end, 2006. The reinsurance treaties summarized below are considered significant as of December 31, 2006:

Generali USA Life; Kansas City, MO

Treaty Number	200001-007
Type	Automatic Coinsurance/Facultative Reinsurance Agreement Yearly Renewable Term
Coverage	Universal Life (U03) 10, 15, & 20 Level Term. Surname L – Z (Amendment – January 1, 2000)
Retention	*Date* / *Standard* / *Substandard Thru Table D* / *Substandard Over Table D* / *Disability Rider* 03-01-2003 / $500,000 / $500,000 / $300,000 / $5,000
Limit	Jumbo limit: o Life: $10,000,000 Binding Limit: o Four times the retention of the ceding company.
Amendment	Amendment: January 1, 2000.
Insolvency	Standard insolvency language without cut-through provisions

Generali USA Life; Kansas City, MO

Treaty Number	200501-025
Type	Automatic Coinsurance/Facultative Reinsurance Agreement Yearly Renewable Term
Coverage	Level Term Plans (1, 15, 20, 25, & 30). Surname A – K (January 1, 2006). Effective 1/1/2006 – LT 20 with Return of Premium Rider
Retention	Effective with policies dated: *Date* / *Standard* / *Substandard Thru Table D* / *Substandard Over Table D* / *Disability Rider* 03-01-2003 / $500,000 / $500,000 / $300,000 / $5,000
Limit	Jumbo Limits: o Life: $10,000,000 Automatic Binding Limits: o Four times the retention of the ceding company
Amendment	
Insolvency	Standard insolvency language without cut-through provisions

Transamerica Occidental Life Insurance Company, Charlotte, NC

Treaty Number/s	0085-02
Type	- Automatic Excess of Loss Coinsurance /Facultative Reinsurance - Yearly Renewable Term
Coverage	Life insurance and disability waiver of premium benefit issued by Company o Annual Renewable Term with surnames beginning with letters L – Z o 10 Year Level Term Plan 701 and 20 Year Level Term Plan 703 with surnames beginning with the letters O – Z. o 10 Year Level Term Plan 711, 15 Year Term Plan 713, and 20 Year Level Term Plan 715 with surnames beginning with the letters O – Z. o Individual and joint decreasing term plans issued to surnames beginning with letters O – Z.
Effective	Effective April 1, 1988
Retention	*Date* — *Standard Thru Table D* — *Standard Over Table D* — *Disability Rider* 03-01-2003 — $500,000 — $300,000 — $5,000
Reinsurers Limits	Jumbo Limit: o Life: $10,000,000 o Disability Waiver of Premium: $5,000,000
Amendment	Last Amendment No. 7, effective March 1, 2003, increased the retention limits.
Insolvency	Standard insolvency language without cut-through provisions

Lincoln National Life Insurance Co, Fort Wayne, IN

Treaty Number	2073 – Effective date January 1, 2001
Type	Automatic Excess of Loss Coinsurance/Facultative Reinsurance
Coverage	10, 15, 20, 25 and 30 year level term Waiver of Premium Disability
Retention	Effective with policies dated: *Date* — *Substandard Thru Table D* — *Substandard Over Table D* — *Disability Rider* 03-01-2003 — 500,000 — 300,000 — 5,000
Reinsurers Limit	Automatic Coinsurance Effective with policies dated (life): *Date* — *Age* — *Standard - Table D* — *Tables E – P* — *Over Table P* 11-01-1997 — 0 – 75 — $2,000,000 — $1,400,000 — None
Amendment	The Lincoln Treaty terminated, as to all new business, as of September 30, 2005. Swiss Re assumed all new business eligible for reinsurance issued after September 30, 2005, on identical terms and conditions as specified in the Lincoln Treaty.
Insolvency	Standard insolvency language without cut-through provisions

Munich American Reinsurance, Atlanta, GA

Treaty Number	1554, 1635 - (3249 effective January 1, 2005)
Type	- Automatic Excess of Loss Coinsurance /Facultative Reinsurance - Yearly Renewable Term
Coverage	Effective January 1, 1998 – Treaty No. 1554, and Effective January 1, 2005 – Treaty No 3249: (Surname beginning L – Z.) Plan Name / Plan Code o 10 Year Term 721, 731 o 15 Year Term 723, 733 o 20 Year Term 725, 735 o 25 Year Term 727 o 30 Year Term 729 Effective January 1, 2005 - Treaty No. 3249 o Return of premium 20 Year Level Term : Form No. 745 Effective January 1, 2005 - Treaty No. 1635 (Surname beginning A – F.) o Individual and joint decreasing term plans: 10 year – Plan 511; 15 year – Plan 512; 20 year – Plan 513; 25 year – Plan 514; and 30 year – Plan 515 (Attachment Number 1). o Flexible Premium Adjustable Life, Form Number UL-01-87 (Attachment Number 2). o Annual Renewable Term: Plan code 309 (Surname beginning A – D). (Attachment Number 3).
Retention	Effective with policies dated:

Date	*Standard*	*Substandard Tables A- D*	*Substandard Tables E-P*	*Disability Rider*
03-01-2003	$500,000	$500,000	$300,000	N/A

Limit	Jumbo Limits: o Life (with or without waiver of premium): $4,000,000 o Accidental Death Benefits: $200,000 Binding Limits: o Life Insurance: Certain limits apply. o Waiver of Premium Disability Benefits: Disability Benefits not insured, unless the parties to the treaty agree to include such benefits. o Accident Death Benefits: Accident Death Benefits not insured, unless the parties to the treaty agree to include such benefits.
Amendment	Amendment numbers 1 and 2 (Treaty # 3249.)
Insolvency	Standard insolvency language without cut-through provisions

Munich American Reinsurance, Atlanta, GA

Treaty Number	3015
Type	- Automatic Excess of Loss Coinsurance /Facultative Reinsurance
Coverage	- DBO Insurance – Company Employees
Effective	Effective January 1, 2003
Retention	All ages: Standard and Substandard $100,000.
Limit	Maximum amount by the ceding Company is $5,000,000 on one life.
Amendment	Last Amendment No. 7, effective March 1, 2003, which increased the retention limits.
Insolvency	Standard insolvency language without cut-through provisions

Schedule S – Part 3 – Section 2 of the 2006 Annual Statement indicated that the Company's ceded reinsurance program for Accident and Health Insurance policies encompassed an agreement with Lincoln National Life Insurance Company. The agreement was effective January 1, 1972, and updated in 2000 and 2003. The reserve credit taken by the Company was $317,784, and the ceded premiums were $400,406 at year end, 2006.

Fronting Arrangement with Indianapolis Life Insurance Company, Indianapolis, IN:

The Company has a fronting arrangement with Indianapolis Life Insurance Company, Indianapolis, Indiana. During 2006, the amount of insurance in-force was $4.5 million; the reinsurance premiums ceded was $40,535; and the reserve credit taken was $119,475.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained on electronic data processing equipment. Management and record-keeping functions were performed by the personnel of Alfa Mutual Insurance Company (AMI) under the terms of a Management and Operating Agreement. For further discussion of the aforesaid agreement, see the caption *Management and Operating Agreement* under the heading HOLDING COMPANY AND AFFILIATES.

Internal Accounting Records

The Company's internal controls and information systems are those of AMI, since the Company is operated by the personnel of AMI, in accordance with the

aforementioned Management and Operating Agreement. Said internal controls and information systems were reviewed during the concurrent examination of AMI. They were evaluated by observation, interviewing AMI personnel, and reviewing the NAIC Internal Controls and Information Systems Questionnaires and Examiner Planning Questionnaire completed by AMI. AMI's internal controls and information systems controls appeared to be sufficient to safeguard the Company's assets and to generate adequate records of its business. The Company's accounting systems and documentation of its transactions were deemed adequate.

External Audit and Actuarial

The Company and its affiliates were audited annually, on a statutory basis. In 2006, the Company and its affiliates were audited by the certified public accounting (CPA) firm of PriceWaterhouseCoopers, Birmingham, AL; and annually in 2002-2005 by KPMG, Birmingham, AL. The audit reports and workpapers of the external auditors were made available to the examiners, and were utilized as deemed appropriate.

The Company's reserves were certified as of December 31, 2002, 2003, 2004, and 2005, by Kenneth L. Nelson, Vice President and Actuary of the Company. The Company's reserves were certified as of December 31, 2006, by George C. Crosby, Assistant Vice President and Valuation Actuary of the Company.

Record Retention Policy

The Company's Record Retention Policy stated that the Company maintains its records as required by law and as long as the records were useful to the Company. Company management also indicated that each department within the Company is responsible for developing a record retention schedule that meets the specific needs of the department. The examination determined that the Company's record retention policy did not contain specific language as to the actual length or time the records are to be retained in accordance with ALA. ADMIN. CODE 482-1-118-.03 (1999), which states:

> "Every insurer, which term shall include every domestic insurer . . . or any other legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years."

Disaster Recovery Plan

The NAIC Information System Questionnaire (ISQ) assisted the examiners in determining the strengths and weaknesses within the Company's IS Department. Based on a review of the ISQ responses and supporting documentation, it was determined that the Company's business continuity plan described senior management's roles and responsibilities associated with the declaration of an emergency and implementation of the disaster recovery and business continuity plans.

The Company provided a copy of its Disaster Recovery Plan and documentation supporting its testing. The Company's ISQ responses, Disaster Recovery Plan and supporting documentation were reviewed and it was determined the Company has an adequate and up-to-date plan in place. The plan is reviewed quarterly, and tested annually at an alternate site.

Consideration of Fraud

The examiners utilized the procedures recommended in the NAIC Financial Condition Examiners Handbook in Exhibit M – Consideration of Fraud. The CPA documentation on the fraud risk factors was reviewed and procedures were included during the examination to test the risk factors identified during the planning stages of the examination. Company management was interviewed; management showed an understanding of the fraud risk factors in the Company and has taken action over the years to mitigate the risk.

FINANCIAL STATEMENTS

The Financial Statements included in this report were prepared based on the Company's records, and the valuations and determinations made during the examination for the year ended December 31, 2006. Amounts shown in the comparative statements for the years 2002, 2003, 2004 and 2005, were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

Statement of Assets, Liabilities, Surplus	31 and 32
Summary of Operations	33
Capital and Surplus	34

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

ALFA LIFE INSURANCE CORPORATION
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

For the Year Ended December 31, 2006

	Assets	Assets Not Admitted	Net Admitted Assets
ASSETS			
Bonds	$ 814,363,296		$ 814,363,296
Stocks:			
Preferred stocks	5,410,357	$ 1,000	5,409,357
Common stocks	69,463,336		69,463,336
Cash ($5,922,048, Sch. E-Part 1), cash equivalents and short-term investments($68,666,933, Sch. DA)	74,588,981		74,588,981
Contract loans **(Note 1)**	64,949,854	-0-	64,949,854
Other invested assets (Schedule BA)	8,238,459		8,238,459
Subtotals, cash and invested assets	$1,037,014,283	$ 1,000	$1,037,013,283
Investment income due and accrued	$ 10,009,555		$ 10,009,555
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection **(Note 2)**	720,227		720,227
Amounts recoverable from reinsurers **(Note 3)**	-0-		-0-
Net deferred tax asset	21,367,947	18,344,026	3,023,921
Electronic data processing equipment and software	16,645,021	16,645,021	
Health care and other amounts receivable	13,469	12,603	866
Aggregate write-ins for other than invested assets:			
Disallowed IMR balance	3,983,738	3,983,738	
Prepaid insurance premiums	93,806	93,806	
TOTALS	$1,089,848,046	$39,080,194	$1,050,767,852

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

ALFA LIFE INSURANCE CORPORATION
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

For the Year Ended December 31, 2006

LIABILITIES	
Aggregate reserve for life contracts (Note 4)	$ 795,178,676
Aggregate reserve for accident and health contracts	1,634,265
Liability for deposit-type contracts	16,703,426
Contract claims:	
Life	3,664,766
Accident and health	46,894
Dividends apportioned for payment	3,721,907
Premiums and annuity considerations for life and accident and health contracts received in advance	331,115
Contract liabilities not included elsewhere:	
Surrender values for canceled contracts	57,612
Commissions to agents due or accrued-life contract	846,613
General expenses due or accrued	477,529
Taxes, licenses and fees due or accrued, excluding federal income taxes	212,035
Current federal and foreign income taxes	4,356,261
Unearned investment income	12,645
Amounts withheld or retained by company as agent or trustee	2,636
Remittances and items not allocated	134,409
Miscellaneous liabilities:	
Asset valuation reserve	11,248,958
Payable to parent, subsidiaries and affiliates	2,840,977
Payable for securities	3,613,847
Aggregate write-ins for liabilities	3,484,944
Total Liabilities	$ 848,569,514
CAPITAL AND SURPLUS	
Common capital stock	$ 4,211,498
Gross paid in and contributed surplus	14,616,411
Aggregate write-ins for other than special surplus funds	245,000
Unassigned funds (surplus)	183,125,429
Total Surplus	197,986,840
Total Capital and Surplus	$ 202,198,338
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$ 1,050,767,852

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

ALFA LIFE INSURANCE CORPORATION
SUMMARY OF OPERATIONS

For the Years Ended December 31, 2006, 2005, 2004, 2003, and 2002

Income	2006	2005	2004	2003	2002
Premiums and annuity consideration	$119,938,144	$113,195,499	$107,610,309	$103,523,738	$98,232,637
Considerations for supplementary contracts with life contingencies	476,231			30,929	137,372
Net investment income	55,475,991	50,829,817	49,101,065	45,979,016	48,404,416
Amortization of IMR	(344,647)	(107,327)	(136,124)	3,772	97,548
Commissions and expense allowances on reinsurance ceded	3,652	7,256	33,623	62,377	59,911
Total Income	$175,549,371	$163,925,245	$ 156,608,873	$149,599,832	$ 146,931,884
Deductions:					
Death benefits	$36,751,874	$30,475,918	$29,395,857	$26,242,418	$20,695,369
Matured endowments	124,032	82,434	60,199	39,568	51,715
Annuity benefits	132,115	249,965	167,965	391,693	270,553
Disability benefits and benefits under accident and health contracts	1,227,242	1,219,468	865,948	598,852	520,512
Surrender benefits and withdrawals for life contracts	20,612,518	17,076,981	17,133,377	16,977,249	14,425,886
Interest and adjustments on contract or deposit-type contract funds	1,088,842	1,001,330	1,021,759	975,661	981,563
Payments on supplementary contracts with life contingencies	57,764	20,860	20,968	93,570	91,580
Increase in aggregate reserves for life and accident and health contracts	47,988,637	52,869,096	55,711,459	56,053,565	56,038,835
Totals	$107,983,024	$102,996,052	$104,377,532	$101,372,576	$ 93,076,013
Commissions on premiums, annuity considerations & deposit-type contract funds (direct business only)	11,792,732	10,946,756	11,052,100	10,856,922	10,960,983
General insurance expenses	18,183,949	14,822,059	14,080,479	10,530,769	17,152,102
Insurance taxes, licenses and fees, excluding federal income taxes	3,808,714	3,673,805	3,437,868	3,445,102	3,146,242
Increase in loading on deferred and uncollected premiums.	24,918	(17,610)	(2,990)	(61,509)	80,104
Aggregate write-ins for deductions	34,934	24,901	135,236	(1,930)	229,336
Total deductions	$141,828,271	$132,445,963	$ 133,080,225	$ 126,141,930	$124,644,780
Net gain from operations before dividends to policyholders and FIT	$ 33,721,099	$ 31,479,282	$ 23,528,648	$ 23,457,902	$ 22,287,104
Dividend to policyholders	4,161,996	4,055,195	3,923,246	3,769,647	3,700,957
Net gain from operations after dividends to policyholders and before FIT	$ 29,559,103	$ 27,424,087	$ 19,605,402	$ 19,688,255	$ 18,586,147
Federal and foreign income taxes incurred	8,147,469	8,871,126	3,277,997	4,895,299	7,196,429
Net gain from operations after dividends to policyholders and FIT and before realized capital gains or (losses)	21,411,634	18,552,961	16,327,405	14,792,956	11,389,718
Net realized capital gains or (losses) transferred to the IMR)	6,152,072	4,143,517	8,250,013	3,425,439	1,614,070
Net income	$ 27,563,706	$ 22,696,478	$ 24,577,418	$ 18,218,395	$ 13,003,788

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

ALFA LIFE INSURANCE CORPORATION
CAPITAL AND SURPLUS ACCOUNT

For the Years Ended December 31, 2006, 2005, 2004, 2003, and 2002

	2006	2005	2004	2003	2002
Capital and surplus, December 31, prior year	$ 177,189,239	$ 161,992,040	144,834,065	132,468,334	146,319,825
Gains and (losses) in surplus:					
Net income	27,563,706	22,696,478	24,577,418	18,218,395	13,003,788
Change in net unrealized capital gains or (losses)	(89,009)	(2,342,914)	(1,935,034)	5,613,788	(18,889,230)
Change in net deferred income tax	(533,240)	1,324,764	709,049	8,419,988	8,825,965
Change in nonadmitted assets and related items	1,223,200	(6,865,402)	(5,246,483)	(8,674,150)	(9,877,643)
Change in asset valuation reserve	(418,776)	(994,412)	(946,975)	(7,987,021)	4,791,784
Cumulative effect of changes in accounting principles	(2,843,010)				
Surplus adjustment- paid in	106,228	1,378,685			
Dividend to Stockholders				(3,230,219)	(11,741,656)
Aggregate write-ins for gains and losses in surplus				4,950	35,501
Net change in capital and surplus for the year	$ 25,009,099	$ 15,197,199	$ 17,157,975	$ 12,365,731	$(13,851,491)
Capital and surplus, December 31, current year	$202,198,338	$177,189,239	$161,992,040	$144,834,065	$132,468,334

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Contract loans **$64,949,854**

The captioned amount is the same as reported by the Company in its 2006 Annual Statement, but $149,713 more than that determined by the examination. Due to immateriality, no changes were made to the financial statements.

The contract loans policy-by-policy inventory was provided to the examiners in three Electronic Data Processing (EDP) files. The three files were identified as 1) Contract Loans inventory, 2) Accelerated Death Benefits Loans inventory, and 3) Minimum Deposits Policies inventory. The examiners utilized Audit Command Language (ACL) to perform statistical analysis, and to reconcile the totals of the inventory to the Company's 2006 Annual Statement.

The Accelerated Death Benefits (ADB) loans inventory had four policyholders listed with an aggregate loan balance of $158,300. The policy reserve, for the four policies, at December 31, 2006, was $8,587, which was $149,713 less than the $158,300 in ADB loans. SSAP No. 49, paragraph 6 of the NAIC Accounting Practices and Procedures Manual, states in pertinent part:

> "A loan resulting from early payment benefits or accelerated payment benefits and secured by an assignment of the policy to the reporting entity as collateral for the loan shall be an admitted asset, except that the amount of any loan (including accrued interest) in excess of the policy reserve for that policy shall be nonadmitted. . . ."

The examiners established that the EDP files, provided by the Company, did not contain the policy-by-policy level details (fields) suggested by the audit procedures in the NAIC Financial Condition Examiners Handbook. The following table lists the requested details and the information provided by the Company in EDP format:

Information requested	Contract Loans Inventory	Accelerated Death Benefits	Minimum Deposits
Policy number	Yes	Yes	Yes
Name of the policyholder	Yes	Yes	No
Date of the original policy loan	No	Yes	No
Interest rate	Yes	No	Yes
Original loan value	No	Yes	No
Principal and interest received to date	No	No	No
Outstanding loan balance	Yes	Yes	Yes
Cash surrender values of each policy	No	No	No

Because the contract loans inventories listed above did not contain some of the requested details, the examiners used ACL to select a sample of contract loans, and requested the information not contained in the EDP file. Therefore, the testing of the contract loan inventory was limited to a sample; hence, ACL could not be utilized to the fullest extent to determine the contract loans' balance. After evaluating the results of the testing, which was limited to the sample items, the examiners projected that the Contract loans account was appropriately stated.

Note 2 - Uncollected premiums and agents' balances in course of collection **$720,227**

The captioned asset is the same as reported by the Company in its 2006 Annual Statement.

The examiners reviewed the Company's accounts and records and determined that the ceded reinsurance premiums payable liability in the amount of $989,555 was recorded under *Aggregate write-ins for liabilities* of the 2006 Annual Statement. The amount consisted of reinsurance ceded premium payable on uncollected premiums, and collected premiums. From the Company's accounts and records, the examiners were unable to identify the ceded premiums on uncollected premiums. The Company should maintain records that clearly identify reinsurance premiums ceded on uncollected premiums, and net the liability against *Uncollected premiums and agents' balances in course of collection.* The guidance provided by the NAIC Annual Statement Instructions, state:

> "Include: Direct and group billed uncollected premiums. . . . Life insurance premiums and annuity considerations uncollected on in force business (less premiums on reinsurance ceded and less loading)."

SSAP No. 61, paragraph 25 of the NAIC Accounting Practices and Procedures Manual, states:

> ". . . The ceding entity shall reduce its deferred and uncollected premiums reported as an asset by the corresponding proportionate amount of any deferred and uncollected premium attributable to those insurance policies reinsured. When the ceding entity has collected the premium but has not remitted the proportionate share to the reinsurer, the ceding entity shall establish a liability for the amount due the reinsurer. . . ."

Note 3 - Amounts recoverable from reinsurer **$-0-**

The captioned amount is the same as reported by the Company in its 2006 Annual Statement, but $345,799 less than that determined by the examination. The errors had no effect on the policyholders' surplus; hence, no changes were made to the financial statements.

The examination determined that the Company had inappropriately netted reinsurance recoverables on paid claims (life) for $333,299, under *Contract claims: Life* (liability line 4.1), and paid claims (A & H) for $12,500 under *Contract claims: Accident and Health* (liability line 4.2). The reinsurance recoverable on paid losses shall be recorded in accordance with the guidance provided by the NAIC Annual Statement Instructions, which state:

> "Line 14.1 - Amounts Recoverable from Reinsurers
>
> Include: For Property and Casualty and Title Companies: Amounts recoverable on paid losses and loss adjustment expenses.
>
> Reinsurance recoverables on unpaid losses are treated as a deduction from the reserve liability."

Note 4 – Aggregate reserve for life contracts **$795,178,676**

The captioned amount is the same as reported by the Company in its 2006 Annual Statement.

The review of the completeness of aggregate reserve included a reconciliation of the reserves, on policy-by-policy basis, recorded on Exhibit 5 – Aggregate Reserve for Life Contract (referred to as, Exhibit 5), and the number of policies in-force, and the amount of insurance, recorded on Exhibit of Life Insurance (referred to as, Life exhibit). Company management indicated that the aforementioned exhibits were completed by reports generated by the Information System from the policy in-force database. The policy-by-policy details included in Exhibit 5 were available to the examiners in EDP format, and the details supporting the Life exhibit were available in hard copy. In coordinated efforts between Company employees and the examiners, the reserve amount on a policy-by-policy basis, including the factors to recalculate the reserve, was merged with the policy-by-policy listing consisting of the amount of insurance.

The examination determined that the Company did not include the following in the Life exhibit:

- 242 policies not included on column 3.
- Amount of insurance understated by $51,400,000, in column 4.

The examiners determined that the errors noted in the Life exhibit did not have any effect on the aggregate reserve recorded on Exhibit 5.

Since the Company did not complete the exhibit appropriately, the Company did not follow the guidance provided by the NAIC Annual Statement Blank, for Life, Accident and Health.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included review of the Company's Annual Statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of the accounts for unrecorded items. No unreported contingent liabilities were noted and all litigation pending against the Company, at December 31, 2006, appeared to be within the ordinary course of its business.

The Company's Chief Executive Officer and its Chief Financial Officer executed a letter of representation, attesting to the non-existence of unreported liabilities and contingencies as of December 31, 2006.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with recommendations contained in the immediately preceding Report on Examination.

COMMENTS AND RECOMMENDATIONS

Conflict of Interest – Page 8

It is recommended that the Company maintain evidence of its conflict of interest statements signed by each officer, director and other key personnel as required by the Company's "Principles of Business Conduct" policy and the GENERAL INTERROGATORIES of the NAIC Annual Statement Instructions.

Corporate Records – Page 9

It is recommended that the investment in the new policy administrative system – "Particular investment" is approved and ratified by the Board of Directors as required by ALA. CODE § 27-41-5 (1975), which states:

> "An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors. . . ."

It is recommended that the Company keep a permanent record of all actions taken by the Board of Directors or a committee of the Board of Directors, including approval of the policy administrative system, in accordance with ALA. CODE § 10-2B-16.01 (a) (1975), which states:

> "A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation."

Section 1033 of Title 18 of the U.S. CODE – Page 17

It is recommended that the Company create a policy that ensures those authorized to act on its behalf continue to meet the requirements of Section 1033 of Title 18 of the U.S. CODE, and ALA. ADMIN. CODE 482-1-121 (2003), which states:

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

Policyholders' Complaints – Page 21

It is recommended that the Company record all written communication primarily expressing a grievance in the Company's complaint register. The recommendation is effective May 7, 2007, when the Alabama Department of Insurance adopted the NAIC Market Regulation Handbook.

It is recommended that the company log the function and reasons for complaints in its complaint register. The recommendation is effective May 7, 2007, when the Alabama Department of Insurance adopted the NAIC Market Regulation Handbook.

Record Retention Policy – Page 28

It is recommended that the Company's record retention policy indicate that all records should be maintained for no less than five years in accordance with ALA. ADMIN. CODE 482-1-118-.03 (1999), which states:

"Every insurer, which term shall include every domestic insurer . . . or any other legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years."

Contract Loans – Page 35

It is recommended that the Company not admit policy loan balances in excess of the policy reserve for Accelerated Death Benefits Loans made by the Company in accordance with the guidance provided by SSAP No. 49, paragraph 6 of the NAIC Accounting Practices and Procedures Manual, which states in pertinent part:

> "A loan resulting from early payment benefits or accelerated payment benefits and secured by an assignment of the policy to the reporting entity as collateral for the loan shall be an admitted asset, except that the amount of any loan (including accrued interest) in excess of the policy reserve for that policy shall be nonadmitted. . . ."

It is recommended that the Company maintain the policy loans inventories in such a manner that they are readily available at the policy-by-policy detail level including those details (fields) recommended by the audit procedure included in the NAIC Financial Condition Examiners Handbook. The recommended fields are: 1) policy number, 2) name of policyholder 3) date of the original policy loan, 4) interest rate, 5) original loan value, 6) principal and interest received to date, 7) outstanding loan balance, and 8) cash surrender value.

Uncollected premiums and agents' balances in course of collection – Page 36

It is recommended that the ceded reinsurance premiums payable on due and uncollected premiums be netted against the asset *Uncollected premiums and agents' balances in course of collection* in accordance with the guidance provided by the NAIC Annual Statement Instructions, which state:

> "Include: Direct and group billed uncollected premiums. . . . Life insurance premiums and annuity considerations uncollected on in force business (less premiums on reinsurance ceded and less loading)."

SSAP No. 61, paragraph 25 of the NAIC Accounting Practices and Procedures Manual, states:

> ". . . The ceding entity shall reduce its deferred and uncollected premiums reported as an asset by the corresponding proportionate amount of any deferred and uncollected premium attributable to those insurance policies reinsured. When the ceding entity has collected the premium but has not remitted the proportionate share to the reinsurer, the ceding entity shall establish a liability for the amount due the reinsurer. . . ."

Amounts recoverable from reinsurers – **Page 37**

It is recommended that reinsurance recoverable on paid losses be recorded under *Amounts recoverable from reinsurer* in accordance with the guidance provided by the NAIC Annual Statement Instructions, which state:

> "Line 14.1 - Amounts Recoverable from Reinsurers.
>
> Include: For Property and Casualty and Title Companies: Amounts recoverable on paid losses and loss adjustment expenses.
>
> Reinsurance recoverables on unpaid losses are treated as a deduction from the reserve liability."

Aggregate reserve for life contracts – **Page 37**

It is recommended that the Company not exclude any information from the Exhibit of Life Insurance. The policies in-force and the amount of insurance shall be reported in the appropriate columns of Exhibit of Life Insurance in accordance with the guidelines provided by the NAIC Annual Statement Blank, for Life, Accident and Health.

It is recommended that the Company maintain an in-force database as of the annual statement date, in such a manner that the amounts of insurance are readily available at the policy-by-policy detail level.

SUBSEQUENT EVENTS

The review of events subsequent to December 31, 2006, and up to the date of this report included: review of the March 31, 2007, June 30, 2007, and September 30, 2007, Quarterly Statements; 2) review of the December 31, 2007 Annual Statement; and 3) general review of the cash disbursements/receipts transactions that might potentially have a material impact on the Company's continued operations and/or financial conditions. In addition, the examiners inquired of management regarding any significant subsequent events. There were no significant subsequent events other than those discussed below.

Privatization of Alfa Corporation

On April 15, 2008, Alfa Mutual Insurance Company (AMI) and Alfa Mutual Fire Insurance Company (AMF) completed a merger transaction (the Merger) in which they acquired the shares of Alfa Corporation (AC) not previously owned by them. As a result of the transaction, AC became a wholly owned subsidiary of AMI (65%) and AMF (35%). Each share of common stock of AC (other than shares owned by AMI, AMF, AC, and its wholly owned subsidiaries, and holders of shares subject to certain company awards) was cancelled and converted into the right to receive $22.00 in cash, without interest.

Also, as a result of the Merger, AC's common stock ceased to trade on the Nasdaq Global Select Market as of the close of trading on April 15, 2008, and the registration of AC's common stock under the Securities Exchange Act of 1934, as amended, was terminated.

Contingencies

Subsequent to the end of the second quarter 2007, and following the initial announcement of the proposed Merger, certain purported class action lawsuits were brought on behalf of the public stockholders of AC in the Delaware Court of Chancery and in the Circuit Court of Montgomery County, Alabama. On April 14, 2008, the Circuit Court of Montgomery County, Alabama, formally approved the settlement reached by the parties to the aforementioned class action lawsuits.

In addition, on November 9, 2007, a policyholder of AMI filed a purported class action against AMI in the Circuit Court of Macon County, Alabama, also relating to the Merger. The policyholder subsequently elected to dismiss the class action claims. Also, on November 21, 2007, certain policyholders of AMI, AMF, and AMG filed a purported class action and derivative action against AMI, AMF, AMG, AC, and certain of their officers and directors in the Circuit Court of Walker County, Alabama. On February 23, 2008, counsel for the parties in the Walker County action entered into a Memorandum of Understanding to settle such action, subject to approval of the court. On March 4, 2008, the Walker County court conditionally approved the settlement and set a final approval hearing for May 28, 2008.

CONCLUSION

In concluding this Report on Examination, as of December 31, 2006, of *ALFA LIFE INSURANCE CORPORATION*, acknowledgment is hereby made of the courtesy and cooperation extended by all persons representing the Company during the course of the examination.

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

In addition to the undersigned, Jerry Hyche, Charles Turner, Toni Bean, Jennifer Haskell, Mora Perkins, Theo Goodin, Frank Fricks, CFE, AIE, Examiners, and Harland Dyer, ASA, MAAA, FCA, Consulting Actuarial Examiner, all representing the Alabama Department of Insurance, participated in this examination of Alfa Life Insurance Corporation.

Respectfully submitted,

Francis Blase Abreo

Blase Francis Abreo, CFE
Examiner-in-Charge
State of Alabama
Department of Insurance