REPORT OF EXAMINATION

OF

ALFA MUTUAL INSURANCE COMPANY

MONTGOMERY, ALABAMA

as of
December 31, 2011

TABLE OF CONTENT

EXAMINER'S AFFIDAVIT iii

SCOPE OF EXAMINATION 2

ORGANIZATION AND HISTORY 3

MANAGEMENT AND CONTROL 5

- POLICYHOLDERS 5
- BOARD OF DIRECTORS 5
- COMMITTEES 6
  - *Executive* 6
  - *Audit Committee* 6
  - *Compensation Committee* 6
  - *Contribution Committee* 7
- OFFICERS 7
- CONFLICT OF INTEREST 9

CORPORATE RECORDS 10

HOLDING COMPANY AND AFFILIATES 10

- HOLDING COMPANY 10
- DIVIDENDS TO STOCKHOLDERS 10
- MANAGEMENT & SERVICE AGREEMENTS 10
  - *Management and Operating Agreement* 10
  - *Tax Allocation Agreement* 13
  - *Monthly Billing Service Agreement* 14
- ORGANIZATIONAL CHART 15

FIDELITY BOND AND OTHER INSURANCE 17

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS 17

- SECTION 1033 OF TITLE 18 OF THE U.S. CODE 18

MARKET CONDUCT ACTIVITIES 19

- PLAN OF OPERATION 19
- TERRITORY 19
- MARKETING AND SALES 19
- DIVIDENDS TO POLICYHOLDERS 20
- CLAIMS PAYMENT PRACTICES 20
  - *Claim Documentation* 21
- COMPLAINTS 21
- STATISTICAL REPORTING 22
- UNDERWRITING AND RATING 22
- RATES AND FORMS 22
- PRODUCER LICENSING 23
  - *Termination of Producers* 23
- PRIVACY STANDARDS 23

SCHEDULE OF SPECIAL DEPOSITS 24
FINANCIAL CONDITION/GROWTH OF THE COMPANY 24
LOSS EXPERIENCE 24
REINSURANCE 25
INTERCOMPANY POOLING AGREEMENT 25
REINSURANCE ASSUMED 26
REINSURANCE CEDED 27
Intercompany Traditional Excess Catastrophe Reinsurance Contract 27
Intercompany Top Layer Traditional Excess Catastrophe Reinsurance Contract 29
ACCOUNTS AND RECORDS 32
FINANCIAL STATEMENTS INDEX 33
NOTES TO FINANCIAL STATEMENTS 38
CONTINGENT LIABILITIES AND PENDING LITIGATION 38
SUBSEQUENT EVENTS 39
OFFICER RETIREMENTS 39
DEBT AGREEMENT 40
COMMENTS AND RECOMMENDATIONS 40
CONCLUSION 44

EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF MONTGOMERY

Palmer Nelson, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Alfa Mutual Insurance Company.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Alfa Mutual Insurance Company was performed in a manner consistent with the standards and procedures required by the state of Alabama.

The affiant says nothing further.

Palmer W. Nelson
Examiner-in-Charge

Subscribed and sworn before me by Palmer W. Nelson on this 11th day of January, 2013.

(SEAL)

Margaret R. Gre
(Signature of Notary Public)

My commission expires My Commission Expires August 1, 2013.

ROBERT BENTLEY
GOVERNOR

STATE OF ALABAMA
Department of Insurance
201 Monroe Street, Suite 502
Post Office Box 303351
Montgomery, Alabama 36130-3351
Telephone: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.gov

JIM L. RIDLING
COMMISSIONER

DEPUTY COMMISSIONER
CHARLES M. ANGELL

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
REYN NORMAN

RECEIVER
DENISE B. AZAR

LICENSING MANAGER
JIMMY W. GUNN

January 11, 2013

Jim L. Ridling, Commissioner
State of Alabama
Department of Insurance
201 Monroe Street, Suite 502
Montgomery, AL 36104

Dear Commissioner Ridling:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

Alfa Mutual Insurance Company
Montgomery, Alabama

at its home office located at 2108 East South Boulevard, Montgomery, Alabama 36116, as of December 31, 2011. The report of examination is submitted herewith.

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

SCOPE OF EXAMINATION

The Company was last examined for the five-year period ended December 31, 2006. The current examination covers the intervening period January 1, 2007 through December 31, 2011, and was conducted by examiners representing the State of Alabama and the Commonwealth of Virginia. The examination of the Company was coordinated with the examination of the following affiliated companies: Alfa Mutual Fire Insurance Company, Alfa Mutual General Insurance Company, Alfa Insurance Corporation, Alfa General Insurance Corporation, all domiciled in Alabama and Alfa Specialty Insurance Corporation, Alfa Vision Insurance Corporation, Alfa Alliance Insurance Corporation, all domiciled in Virginia. Where deemed appropriate, transactions, activities and similar items subsequent to December 31, 2011, were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the State of Alabama Insurance Code and the Alabama Insurance Department regulations and bulletins in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination of the Company was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2011, and to identify the Company's prospective risks by obtaining information about the Company including corporate governance. In addition, the examination was planned and performed to identify and assess inherent risks within the Company and to evaluate system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements, management's compliance with statutory accounting principles and annual statement instructions.

An examination of the Company's information systems (IS) was conducted in conjunction with the financial examination. The IS examination included a review of management and organizational controls, logical and physical security controls, changes in application controls, system and program development controls, contingency planning controls, service provider controls, operation controls, processing controls, and network and internet controls. See the caption "**ACCOUNTS AND RECORDS**" – Page 31.

A market conduct examination was performed concurrently with the financial examination. The market conduct examination included a review of the Company's plan of operations, territory, producers' licensing, claims processing, marketing and sales, rates and forms, statistical reporting, dividends to policyholders, underwriting and rating, policyholder complaints and privacy standards. See the caption "**MARKET CONDUCT ACTIVITIES**" - Page 17.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances. During the period covered by the examination, the Company was audited by PriceWaterhouseCoopers, Birmingham, AL (PwC). PwC's workpapers were reviewed and were used in the examination as deemed appropriate by the examiners.

The workpapers of the Audit Services Department (Internal Audit) and the Risk Management & Compliance Department were reviewed and used in the examination as deemed appropriate.

A signed certificate of representation was obtained during the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2011.

ORGANIZATION AND HISTORY

The Company was incorporated August 13, 1947, under the name, Alabama Farm Bureau Mutual Casualty Insurance Company. It was organized as a mutual insurance company by the Alabama Farm Bureau Federation (AFBF), to provide property and casualty insurance to the members of the AFBF.

On January 4, 1983, the holding company now named Alfa Corporation (AC) was incorporated in Delaware under the name, Federated Guaranty Corporation.

Effective May 1, 1987, AFBF withdrew, as a franchise member, from the national Farm Bureau Federation and changed its name to Alabama Farmers Federation. The name of the Company was changed to Alfa Mutual Insurance Company.

During the interim from the Company's organization through 1987, the Company became affiliated with four other property and casualty insurers: Alfa Mutual Fire Insurance Company (AMF), Alfa Mutual General Insurance Company (AMG), Alfa Insurance Corporation (AIC) and Alfa General Insurance Corporation (AGI). In 1987, an intercompany pooling agreement was formed between these five affiliates. The terms of the agreement provided that the affiliates' direct business, assumed reinsurance and ceded reinsurance would be ceded to the Company. The pooled business was then retroceded according to percentages provided in the pooling agreement. In 1989, an intercompany reinsurance pooling committee, representing the boards of directors of the reinsurance pool participants, was established to review and approve any changes to the pooling agreement.

In 1999, Alfa Specialty Insurance Corporation (ASI) was organized as a wholly-owned subsidiary of the Company. ASI became a participant in the reinsurance pooling agreement in 2001.

In 2004, Alfa Vision Insurance Corporation (AVI) was organized as a wholly-owned subsidiary of AC. AVI commenced business on January 1, 2005, and became a participant in the reinsurance pooling agreement effective January 1, 2005.

On January 1, 2007, the pooling agreement was amended to add Alfa Alliance Insurance Corporation (AAI). Effective April 16, 2008, the pooling agreement was amended to change the pool participation percentages.

AC, a Securities and Exchange Commission (SEC) registrant, was affiliated with AMI, AMF and AMG (collectively the Mutual Group). The Mutual Group owned 54.8% of AC's common stock, their largest single investment. On April 15, 2008, the Mutual Group completed a merger transaction in which they acquired AC's common shares not previously owned by them. Each of these shares was cancelled and converted into the right to receive $22 in cash, without interest. As a result of the merger, AC became a wholly-owned subsidiary of AMI (65%) and AMF (35%). 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.

In July 2010, ASI and AVI redomesticated from the State of Alabama to the Commonwealth of Virginia.

MANAGEMENT AND CONTROL

Policyholders

The Company is a mutual insurance corporation with ownership vested in its policyholders. Alabama customers are required to be members of the Alabama Farmers Federation to purchase of insurance from the Company.

Board of Directors

Directors are elected at the annual meeting and serve until their successors are elected and qualified which is in accordance with the Company's *Bylaws.* The following directors were serving at December 31, 2011.

Name and Residence	Principal Occupation
Jerry Allen Newby* Athens, Alabama	Chairman of the Board, President and CEO Alfa Mutual Insurance Company
David Eugene Bitto Elberta, Alabama	Farmer
Timothy Joel Dickerson Lexington, Alabama	Farmer
Stephen Leonard Dunn Evergreen, Alabama	Treasurer Alfa Mutual Insurance Company
Richard Elmer Edgar Deatsville, Alabama	Farmer
Donald Charles Garrett Centre, Alabama	Farmer
Ted Grantland Somerville, Alabama	Farmer
Jacob Calhoun Harper Wilcox, Alabama	Vice President Alfa Mutual Insurance Company
Darrel Eugene Haynes Cullman, Alabama	Farmer
Davis Garrett Henry, Jr. Hope Hull, Alabama	Farmer
Hal Franklin Lee Hartselle, Alabama	Vice President Alfa Mutual Insurance Company
Dickie Odom Boligee, Alabama	Farmer
Marshall Winston Prickett Jacksonville, Alabama	Farmer

John Carl Sanders Brundidge, Alabama	Farmer
John Elijah Walker, III Berry, Alabama	Farmer
Russell Riley Wiggins Andalusia, Alabama	Vice President Alfa Mutual Insurance Company
Samuel Albert Williams, Jr. Columbia, Alabama	Farmer
Curtis Dean Wysner Woodland, Alabama	Vice President Alfa Mutual Insurance Company

*Retired in 2012.

Committees

The following committees were appointed by the Board of Directors and were serving at December 31, 2011.

Executive

The Executive Committee consisted of the following Directors:

Jerry Allen Newby, Chairman*
Stephen Leonard Dunn
Jacob Calhoun Harper
Hal Franklin Lee
Russell Riley Wiggins
Curtis Dean Wysner

*Retired in 2012.

Audit Committee

The Audit Committee consisted of the following Directors:

Russell Riley Wiggins, Chairman
Stephen Leonard Dunn
Jacob Calhoun Harper
Hal Franklin Lee
Curtis Dean Wysner

Compensation Committee

The Compensation Committee consisted of the following Directors:

Hal Franklin Lee
Stephen Leonard Dunn
Jacob Calhoun Harper
Russell Riley Wiggins
Curtis Dean Wysner

Contribution Committee

The Contribution Committee consisted of the following Directors:

Jacob Calhoun Harper, Chairman
Stephen Leonard Dunn
Hal Franklin Lee
Russell Riley Wiggins
Curtis Dean Wysner

Officers

The Company's *Bylaws* provide that its principal officers shall be a Chairman of the Board, President, four Vice Presidents, a Secretary, a Treasurer and any other officers for such terms, authority and duties as may be determined by the Board. Any two or more offices may be held by the same person, except the offices of President and Secretary. One person may serve as both the Chairman of the Board and President.

The following officers were elected by the Board of Directors and were serving as of December 31, 2011.

Officer	Title
Jerry Allen Newby*	Chairman of the Board, President and Chief Executive Officer
Herman Alan Scott	Secretary
Stephen Leonard Dunn	Treasurer
Clyde Lee Ellis, III*	Assistant Treasurer
Jacob Calhoun Harper	Vice President
Hal Franklin Lee	Vice President
Russell Riley Wiggins	Vice President
Curtis Dean Wysner	Vice President

*Retired in 2012.

The following officers were appointed as of December 31, 2011.

Officer	Title
Clyde Lee Ellis, III*	Executive Vice President, Operations and Assistant Treasurer
Stephen Goddard Rutledge	Executive Vice President Marketing and Business Development
Thomas Earle Bryant	Senior Vice President, Human Resources
Wyman Worley Cabaniss*	Senior Vice President, P&C Underwriting
Ralph Clayton Forsythe*	Senior Vice President, Chief Financial Officer
Carol Lynn Golsan	Senior Vice President, Marketing Services

John Delane Hemmings, Jr.	Senior Vice President, Investments
Jerry William Johnson	Senior Vice President, Claims
John Thomas Jung**	Senior Vice President, Chief Information Officer
John Christopher Pace	Senior Vice President, Non-Standard Auto Operations
Robert Wyatt Pace	Senior Vice President, Georgia/Mississippi Marketing
Robert Earnest Robison	Senior Vice President, Life and Loans Operations
Herman Alan Scott	Senior Vice President, General Counsel and Assistant to the President
Alfred Edwin Schellhorn	Senior Vice President, Corporate Development
Patrick Anthony Smith	Senior Vice President, Marketing
Susan Renee Adcock	Vice President, Marketing Resources
Barry Lawson Baker	Vice President, System Delivery Services
Jacob Daniel Black	Vice President, Property and Casualty Accounting
Jeffrey Joseph Bradwell	Vice President and Associate General Counsel
Hudson Clayton Bush, Jr.	Vice President, Alfa Agency
Mark Clayton Campbell	Vice President, Facilities
Christine Gnann Cantrell	Vice President, Marketing Communications
Joseph Eugene Cantrell	Vice President, Strategic Marketing
Elizabeth Vail Chancey	Vice President, Property & Casualty Underwriting
Angela Long Cooner	Vice President and Associate General Counsel
Jerry Franklin Enoch	Vice President, Life Actuary
Patti Jo Everage	Vice President, Financial Reporting and Planning
William Scott Forrest	Vice President, Compensation, Benefits and HRIS
Thomas Alan Foster	Vice President, Life Underwriting and Policy Owner Service
Janice Thomason Hopkins	Vice President, Life Processing and Claims
Douglas Stephen Joyce	Vice President, President Alfa Alliance Insurance Corporation
Kevin Scott Lawrence	Vice President Office Systems
James Earl Madaris, Jr.	Vice President, Program Management Office
Donald Eugene Manis	Vice President, Property and Casualty Actuary
Melinda Shelley Mattison	Vice President, Property and Casualty Systems
Mikel Bradshaw McCann	Vice President, Emerging Technologies
Thomas Edward Mesaris, Jr.	Vice President, Technical Services
Jesse Edward Mills, III	Vice President, Chief Technology Officer
Jeffrey Holland Nickles	Vice President, Tax Accounting
Harold Eugene Oakes	Vice President, Claims
Walter Leonard Overby	Vice President, Corporate Internet and EBusiness

Julie Meadows Parish	Vice President, Reinsurance
Linda Gail Pelt	Vice President, Auto Underwriting
Tonya Inglish Robison	Vice President, Chief Development Officer
Michael Wayne Rowell	Vice President, Corporate Development
Mona Thompson Russell	Vice President, Policy Processing
Eileen Nix Senn	Vice President, Claims Operations
Rhonda Welch Sikes	Vice President, Corporate Services and Reporting
Douglas Wade Simpson	Vice President, Claims
Russell John Sinco	Vice President, Controller
Vicky Lyn Smith	Vice President, Business Intelligence
Kenneth Everett Stephens	Vice President, P&C Systems Implementation
Rebecca McGilberry Taylor	Vice President, Life and Financial Systems
George Clifford Crosby	Assistant Vice President, Life Actuary
Kristal Dawn Graham	Assistant Vice President, Project Manager
Tammy Lynn Hackett	Assistant Vice President, Life and Investment Accounting
Richard Neal Harrison	Assistant Vice President, Policy Processing
Cheryl Theresa Mitchell	Assistant Vice President and Assistant Secretary
David Eric Swedenburg	Assistant Vice President, Life Underwriting

*Retired in 2012. **Will retire in 2013.

Conflict of Interest

The Company had implemented a written policy for the disclosure of conflicts between the Company's interests and the personal interests of directors, officers, and other employees. Officers and other employees were required biennially to electronically update their original conflict of interest attestation. The original attestation occurred when an employee was hired. The biennial process was performed/monitored by the Risk Management & Compliance Department. The Human Resource Department was also involved in reviewing the responses for potential conflicts.

While there was no written policy governing Board of Director conflict of interest disclosures, Company procedure required the directors to sign written conflict of interest statements annually. These conflict of interest statements were maintained by the Company's legal department. The documents on file were complete and current.

CORPORATE RECORDS

The Articles of Incorporation and *Bylaws*, as amended, were inspected and found to provide for the operation of the Company in accordance with usual corporate practices and applicable statues and regulations. During the period under examination, the Company did not amend either document.

Minutes of the Annual Membership meetings, Board of Directors and Board committees from January 1, 2007 through December 31, 2011 were reviewed. The minutes appeared to be complete with regard to recorded actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATES

Holding Company

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. Appropriate filings required under the Holding Company Act were made from time to time by the Company as joint registrant. A review of the Company's filings during the period under review did not disclose any omissions in them.

Dividends to Stockholders

As the Company is a mutual company, it does not have any stockholders. Therefore, no dividends were paid during the period under examination.

Management & Service Agreements

Management and Operating Agreement

The Agreement was amended and restated effective January 1, 2010, among and between Alfa Mutual Insurance Company (AMI) on one hand and with Alfa Mutual Fire Insurance Company, Alfa Mutual General Insurance Company, Alfa Life Insurance Corporation, Alfa Insurance Corporation, Alfa General Insurance Corporation, Alfa Specialty Insurance Corporation, Alfa Alliance Insurance Corporation, Alfa Vision Insurance Corporation, Alfa Financial Corporation, Alfa Corporation, Alfa Builders, Inc., Alfa Realty, Inc., Alfa Properties, Inc., Alfa Agency, Inc., Alfa Benefits Corporation, East South Boulevard Investors I, LLP, East South Boulevard Investors II, LLP, The Vision Insurance Group, LLC, Alfa Ventures, Inc., Alfa Ventures, II, LLC and Alfa Investors Partnership (each a "company" and collectively "companies")

on the other hand. AMI and the Companies shall be referred herein, collectively as the "Parties" or each, individually, a "Party."

AMI and the companies agreed to the following:

- **Appointment:** Each company appointed and engaged AMI, which accepted the appointments, to conduct, operate and manage the business operation of each company with full power and authority as authorized by the companies' respective charters or Boards of Directors or both.
- **Authority of AMI:** AMI, acting through its employees, would conduct, supervise and manage the day-to-day operations of the companies, exercising reasonable judgment and efforts in the performance of its functions. The business of each company would be conducted in its name and for its benefit, and the records, accounts and business of each company would be maintained separately. AMI would have full authority with respect to but not limited to:
    - Appointment of agents and subagents ("Producers");
    - Collection and payment of commissions;
    - Underwriting;
    - Distribution, endorsement, renewal and cancellation of policies; Regulatory Compliance;
    - Premium payment and collection;
    - Marketing;
    - Information technology;
    - Investments;
    - Preparation and analysis of financial statements, records and reports;
    - Calculation, payment and filing of forms for federal, state and local income, import and excise taxes;
    - Budgeting;
    - Negotiation, assumption, placement and administration of reinsurance;
    - Claims processing and administration;
    - Loss payment; and
    - Reserves.
- **Employees**: AMI would employ, in its own name, all personnel necessary to perform duties under this Agreement and would be solely responsible for the employment, supervision, payment and discharge of all such personnel. Each company may employ personnel in its own name, upon written consent of AMI, and would be solely responsible for the employment, supervision, payment and discharge of all such personnel.

- **Expense Allocation**: Each company would pay and/or reimburse AMI the percentages of expense incurred by AMI, based on special expense allocation studies. The expense allocation rates were variable and based upon business activity metrics that differ between companies, depending upon the type of business, marketing and distribution method, location, etc. The companies understood and agreed that the metrics may change from time to time, and not every company would have the same metrics applied to its expense allocation. The allocations may be adjusted accordingly and when appropriate, in AMI's sole discretion, may be applied retroactively. Each company acknowledged and agreed that there may be certain goods or services used solely by or for the benefit of one company that are not included in this Agreement. All books of accounts, documents and records relating to such expenses would at all times be open to inspection by the company to which the records are applicable.

- **Indemnification:** Each company would indemnify, defend and hold harmless AMI from and against any and all liability, claims, costs, losses, damages and expenses, which AMI may suffer or incur on account of:
  - The operation and management of the Company by the Company or any party other than AMI at any time before the Effective Date;
  - The failure of the Company to perform or the negligent performance of any covenant, obligation, agreement or duty made or arising; or
  - The breach of any warranty or representation made by the Company.
  - AMI would protect, indemnify, defend and hold harmless a Party(ies) from and against any and all damages which the Party(ies) may suffer or incur on account of the gross negligence of AMI or its employees with respect to the provision of, or failure to provide services to the Party(ies) pursuant to this Agreement.
- **Arbitration**: Any controversy or dispute not resolved within thirty days would be submitted for arbitration to the Birmingham, Alabama office of the America Arbitration Association in accordance with the commercial arbitration rule then in effect, and would be determined under the substantive law of the State of Alabama by one arbitrator.

- **Confidentiality**: Each Party agreed to keep any and all information defined as "Confidential Information" strictly confidential.

- **Term and Termination**: The term of the Agreement would be for five years from January 1, 2010 to December 31, 2015, and would automatically renew for additional periods of one year beginning January 1, 2016, unless terminated. AMI and any company may terminate its participation by giving written notice to all Parties not less than thirty days after delivery or

mailing. In the event one or more companies terminated its participation, AMI would reallocate the expense allocations on an equitable basis.

- **Events Causing Termination**:
  - Dissolution, cessation of business, insolvency or receivership of AMI.
  - Dissolution, cessation of business, insolvency or receivership of any company.
  - In the event that any federal state or local law regulation or official interpretation of such that had a reasonably significant adverse impact on this Agreement or a provision of the Agreement, the Parties would renegotiate the Agreement to the extent necessary. If the Parties failed to reach a negotiated agreement within thirty days, the Agreement could be terminated upon thirty days prior written notice.
- **Obligations Upon Termination**: AMI would cease to make available to terminated company(ies) all property and services of AMI. However, if this would materially disrupt the orderly operation of the terminated company, AMI would continue to make available such property and services for a reasonable period not to exceed 180 days after termination of the Agreement to assist with the orderly transition of the day-to-day operations.
- **Governing Law**: The Parties agreed that the validity, construction and enforceability of the Agreement would be governed laws of the state of Alabama.
- **Settlements of Amounts Owed**: Monthly balances due would be settled within sixty days of the month's close.

Tax Allocation Agreement

This Agreement between Alfa Mutual Insurance Company ("AMI" or "Parent") and its subsidiaries was dated May 22, 2006. The subsidiaries included Alfa Specialty Insurance Corporation, Alfa Properties Inc., Alfa Agency Alabama, Inc., Alfa Builders, Inc., Alfa Realty, Inc. and Alfa Ventures, Inc. ("Affiliated Group" "Subsidiary").

The Parent and Affiliated Group agreed to the following terms:

- A U.S. consolidated income tax return would be filed by the Parent for each taxable period for which the Agreement was in effect and for which the Affiliated Group was required or permitted to file a consolidated tax report. Each Subsidiary would execute and file consents, elections and other documents required or appropriate for the proper filing of the returns.

- The tax liability would be allocated among the members (Parent and Affiliated Group) based on the percentage of the total tax for which each member would bear the responsibility if computed on a separate return.
- The tax liability would be apportioned under the percentage method of Treas. Reg. Section 1.1502-33(d)(3), which allocated the tax liability based on the absorption of tax attributes, without taking into account the ability of any member to subsequently absorb its own tax attributes.
- The tax liability would be paid in estimated tax installments due for such taxable period, and each Subsidiary would pay the Parent its share within ten days of receiving payment from the Parent, but in no event later than the due date of the payment. Any amount paid by a Subsidiary on account of a separate return or separate estimated tax payment would be credited against the consolidated tax Subsidiary. Any overpayment of estimated tax would be returned to the Subsidiary.
- If the consolidated tax liability was adjusted for any taxable period, the liability of each member would be recomputed to give effect of the adjustments, and in case of a refund, the Parent would make payment to each Subsidiary for its share within ten days after the refund was received by the Parent. In the case of an increase in tax liability, each Subsidiary would pay the Parent its allocable share within ten days after receiving notice of the liability from the Parent.
- If the Parent or any Subsidiary acquired or organized another corporation that was required to be included in the consolidated return, then that corporation would join in and be bound by this Agreement.
- If the Agreement was terminated, it would continue in effect with respect to any payment or refunds due for all taxable period prior to termination.

Monthly Billing Service Agreement

The Agreement was effective January 1, 2005 and was between Alfa Financial Corporation (AFC) on one hand and on the other hand Alfa Mutual Insurance Company, Alfa Mutual General Insurance Company, Alfa Mutual Fire Insurance Company, Alfa Insurance Corporation and Alfa General Insurance Corporation ("Insurers"). AFC and the Insurers shall be referred herein, collectively as the "Parties" or each, individually, a "Party."

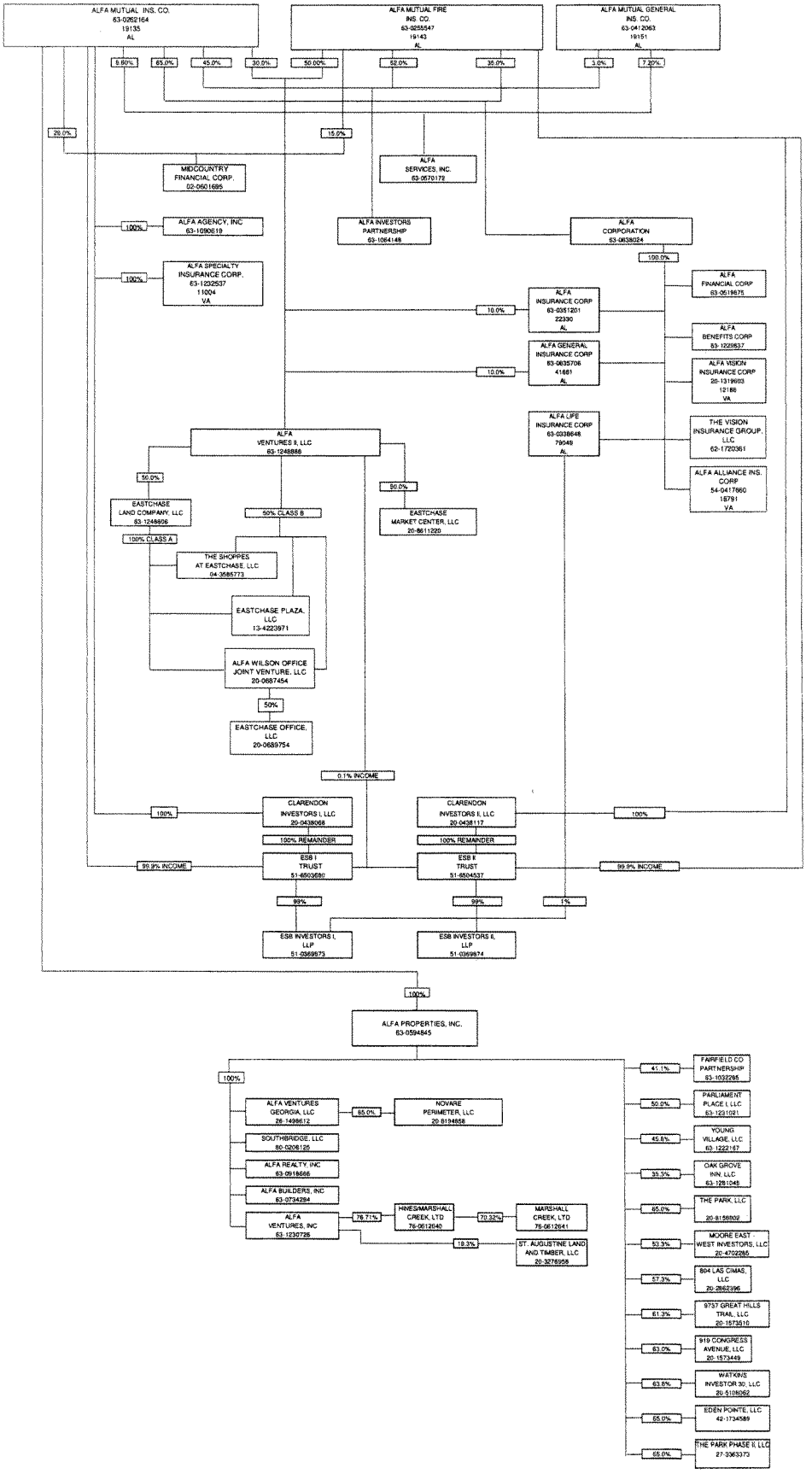
The Agreement included the following items:

- AFC agreed to grant a perpetual nontransferable license to use AFC's software in order to process transactions.

- Insurers will pay AFC a non-refundable processing fee for the right to use the software for processing monthly premium payment transactions.
- AFC will bear all credit losses.
- AFC shall be obligated to provide the software to Insurers without further charge or obligation and to provide Insurers any and all updates to said software.
- Insurers will remit to AFC the service fees no less frequently than on a monthly basis.
- The Agreement may be cancelled by any Party by giving to the other Parties notice of cancellation in writing thirty days prior to the date cancellation is to become effective.
- In the event of cancellation, Insurers have no further right to use AFC's software, and Insurers shall pay AFC through the date of cancellation.
- The Agreement will be governed by Alabama law.
- The Agreement can only be amended in writing signed by all Parties.

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System as of December 31, 2011.


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
6.80%
65.0%
45.0%
30.0%
50.00%
62.0%
35.0%
3.0%
7.20%
28.0%
15.0%
MIDCOUNTRY FINANCIAL CORP.
22-0601695
ALFA SERVICES, INC.
63-0570172
100%
ALFA AGENCY, INC
63-1090619
ALFA INVESTORS PARTNERSHIP
63-1064148
ALFA CORPORATION
63-0638024
100%
ALFA SPECIALTY INSURANCE CORP.
63-1232537
11004
VA
100.0%
ALFA FINANCIAL CORP
63-0519675
10.0%
ALFA INSURANCE CORP
63-0351201
22330
AL
ALFA BENEFITS CORP
63-1229537
10.0%
ALFA GENERAL INSURANCE CORP
63-0635706
41661
AL
ALFA VISION INSURANCE CORP
20-1319603
19186
VA
ALFA LIFE INSURANCE CORP
63-0338648
79049
AL
THE VISION INSURANCE GROUP, LLC
62-1720361
ALFA ALLIANCE INS. CORP
54-0417660
18791
VA
ALFA VENTURES II, LLC
63-1248886
50.0%
50.0%
EASTCHASE LAND COMPANY, LLC
63-1248926
50% CLASS B
EASTCHASE MARKET CENTER, LLC
20-8611220
100% CLASS A
THE SHOPPES AT EASTCHASE, LLC
04-3585773
EASTCHASE PLAZA, LLC
13-4223971
ALFA WILSON OFFICE JOINT VENTURE, LLC
20-0687454
50%
EASTCHASE OFFICE, LLC
20-0689754
0.1% INCOME
100%
CLARENDON INVESTORS I, LLC
20-0438068
100% REMAINDER
CLARENDON INVESTORS II, LLC
20-0438117
100% REMAINDER
100%
99.9% INCOME
ESB I TRUST
51-6503680
ESB II TRUST
51-6504537
99.9% INCOME
99%
99%
1%
ESB INVESTORS I, LLP
51-0369973
ESB INVESTORS II, LLP
51-0369974
100%
ALFA PROPERTIES, INC.
63-0594845
100%
ALFA VENTURES GEORGIA, LLC
26-1498612
65.0%
NOVARE PERIMETER, LLC
20-8194858
SOUTHBRIDGE, LLC
80-0208125
ALFA REALTY, INC
63-0918666
ALFA BUILDERS, INC
63-0734284
ALFA VENTURES, INC
63-1230725
76.71%
HINES/MARSHALL CREEK, LTD
76-0612640
70.32%
MARSHALL CREEK, LTD
76-0612641
19.3%
ST. AUGUSTINE LAND AND TIMBER, LLC
20-3276958
41.1%
FAIRFIELD CO PARTNERSHIP
63-1032265
50.0%
PARLIAMENT PLACE I, LLC
63-1231021
45.8%
YOUNG VILLAGE, LLC
63-1222167
35.3%
OAK GROVE INN, LLC
63-1251045
65.0%
THE PARK, LLC
20-8156809
53.3%
MOORE EAST WEST INVESTORS, LLC
20-4702285
57.3%
804 LAS CIMAS, LLC
20-2662396
61.3%
9737 GREAT HILLS TRAIL, LLC
20-1573510
63.0%
919 CONGRESS AVENUE, LLC
20-1573449
63.8%
WATKINS INVESTOR 30, LLC
20-5108062
65.0%
EDEN POINTE, LLC
42-1734589
65.0%
THE PARK PHASE II, LLC
27-0963973

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2011, the Company was a named insured on a financial institution bond issued by National Union Fire Insurance Company of Pittsburgh, Pennsylvania. The coverage insured the Company from loss caused by dishonest or fraudulent acts committed by an employee acting alone or in collusion with others. The single loss limit of the bond met the NAIC suggested minimum requirements for fidelity insurance.

In addition to the financial institution bond, the Company maintained the following insurance policies to protect the Company from risks to which it could be exposed.

- Commercial General Liability
- Commercial Automobile
- Worker Compensation
- Excess Worker Compensation, Alabama Only
- Umbrella Coverage
- Property Coverage
- Aviation Coverage
- Directors & Officers Errors & Omissions
- Excess D&O Liability (1st Layer)
- Excess D&O Liability (2nd Layer)
- Cyber Risk Coverage

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company was the employing entity for its insurance company affiliates using a management and operating agreement. Benefits were provided by the Company and costs were allocated to the affiliates in accordance with the agreement. The following benefits were provided to employees and agents during the examination period.

- Alfa Flex Plan
  - Health Insurance
  - Dental Insurance
  - Supplemental Cancer Insurance
  - Vision Insurance
  - Group Life Insurance
  - Long Term Disability Insurance

    - Accidental Death and Dismemberment Insurance
    - Health Care Spending Account and Dependent Care Spending Account
- Employee Stock Purchase Plan – Company privatized and benefit terminated in April 2008
- Employee Savings Program
- College Savings Plan
- Defined Benefit Pension Plan – Closed to new participants hired after December 31, 2009
- Group Term Life Death Benefit – For employees that cannot participate in the defined benefit plan
- Death Benefit Only Plan
- Supplemental Life Plan - ALFA Federation Employees Only
- 401(K) Savings and Profit Sharing Plan
- Paid Holidays
- Paid Time Off (PTO)
- Short Term Disability
- Leave of Absence - PTO or unpaid
- Family Medical Leave Act - PTO or unpaid
- Jury Duty - PTO or unpaid
- Military Leave - PTO or unpaid
- Voting Time - PTO

Benefits provided by the Company appeared to be in accordance with usual and customary practices within the insurance industry.

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

Section 1033 of Title 18 of the U.S. Code, and ALA. ADMIN. CODE 482-1-146 (2009), require the Company to determine if prospective and current employees and agents are in conflict with Section 1033 of Title 18, which prohibits certain persons from participating in the business of insurance.

The Company performed pre-employment screening of full-time applicants to determine if they had been convicted of a felony or had a criminal history that would require Commissioner approval. The Company's "Principles of Business Conduct" policy required employees to report felony convictions, either personal or about another employee, to their supervisor or the Human Resources Department. Employees attested to Section 1033 compliance by

signing an attachment to the business conduct policy. Additionally, employees were required to recertify the attachment and reaffirm Section 1033 compliance every two years.

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company marketed its product through captive producers. At December 31, 2011, the Company had 235 service centers in Alabama, with 553 producers appointed to write business on the behalf of the Company. The Company did not write business outside of Alabama during the examination period, although the Company was licensed in eight other states. The majority of the Company's direct premiums was from private passenger automobile, homeowners, farm-owners, commercial lines and inland marine lines of business.

Territory

At December 31, 2011, the Company was licensed to transact property and casualty business in the following States: Alabama, Georgia, Indiana, Kentucky, New York, North Carolina, Ohio, Pennsylvania and Virginia. The Certificates of Authority from the respective jurisdictions were inspected and found to be in effect at December 31, 2011.

Marketing and Sales

The Company's advertising materials were reviewed for the examination period. The examiners' review did not reveal 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 website (www.alfains.com) was reviewed and found to include the following links: Home, Products, My Alfa login, Claims, About Alfa (Alabama Farmers Federation, Newsroom, Affiliated Companies, Careers@Alfa, Customer Stories, and Contact Us).

Per Company management, producers are instructed not to create their own material, if they wish to receive co-op reimbursement. Any material created by the producer has to be reviewed by the Vice President of Integrated Marketing prior to dissemination.

Dividends to Policyholders

The Company paid the following dividends to policyholders during the period covered by the examination.

Year	Amount
2007	($5,249)
2008	$ 131
2009	$ 0
2010	$ 0
2011	$ 0

Claims Payment Practices

The examiners reviewed samples of Alabama claims that were paid and closed, litigated, and closed without payments during the examination period for Alfa Mutual Insurance Company (AMI), Alfa Mutual Fire Insurance Company (AMF) and Alfa Mutual General Insurance Company (AMG). Random samples were selected and reviewed from each of the entities' population of Alabama claims. The examiners reviewed the samples to make the determination whether the claims were settled in accordance with the policy provisions, applicable statutes and regulations. The review included a review of the claim documentation for completeness.

The examiners selected a random sample of 109 Alabama claims paid during 2011 from the population of 307,968 Alabama claims from AMI, AMF and AMG. AMI had 102 claims in the random sample of 109. One of the claim payments in the sample took 37 days to issue the payment. There were multiple claim payments within that one claim. The majority of the payments were paid within 30 days; however, the payment that took 37 days was a partial payment that was provided after the bulk of the claim was paid. It was determined that one Alabama claim out of a sample of 109 was not paid in accordance with ALA. ADMIN. CODE 482-1-125.-07(6)(2003), which states:

> The insurer shall tender payment within thirty (30) days or the time specified in the policy, after accepting liability, reaching an agreement on the amount of the claim and receipt of any documents necessary to consummate the settlement.

Claim Documentation

The examiners selected a sample of 109 Alabama claims closed without payment from a population of 54,659 Alabama claims from AMI, AMF and AMG. AMI had 107 claims in the random sample of 109. It was determined that the Company did not properly document the reason the claim was closed without payment for three files in the sample; therefore, the Company was not in compliance with ALA. CODE 27-27-29(a)(1975), which states:

> Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

Complaints

The examiners reviewed the Company's complaint register for completeness, its complaint procedures and a sample of 84 Alabama complaint files from a population of 256. The population of the claims included all Alabama complaints received during the examination period by Alfa Mutual Insurance Company, Alfa Mutual Fire Insurance Company and Alfa Mutual General Insurance Company. It was determined that the Company did not have written complaint handling procedures that were communicated to all of its employees. Also, the Company did not keep complete complaint file documentation for ten of its complaints out of the sample of 84; therefore, the company was not in compliance with ALA. CODE § 27-27-29 (a) (1975), which states:

> Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

The Company did not provide a response within ten working days for two Alabama Department of Insurance complaints in accordance with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

> The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or

cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

Statistical Reporting

The Company reports its statistical data through Property Casualty Insurers Association of America.

Underwriting and Rating

The examiner selected a sample of 117 Alabama applications that were rejected or declined during the examination period from a population of 4,928 declinations of the Company, Alfa Mutual Fire Insurance Company (AMF), and Alfa Mutual General Insurance Company (AMG). The Company was unable to produce one of the rejection letters that was to be sent to the insured in the sample. The Company indicated that the rejection letter was not imaged into the policy file; therefore, the Company was unable to produce the document. It was determined that Company did not properly document one of this policy file in accordance with ALA CODE § 27-27-29(a)(1975), which states:

> Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted.

The Company provided valid reasons for the rejections or declinations for the remaining applications reviewed.

Rates and Forms

The Company independently filed its rates and forms for its personal lines with the Alabama Department of Insurance. The examination indicated that all of the forms, endorsements and premium rates utilized in Alabama during the examination period had been properly filed and approved by the Alabama Department of Insurance. The Company files its loss cost for its commercial lines with the Insurance Services Office.

The examiners selected a sample of 116 premiums from the population of 2011 written premiums of the Company, AMF, and AMG. It was determined that the premiums were calculated in accordance with the Company's guidelines and its rates filed with the Alabama Department of Insurance.

Producer Licensing

Termination of Producers

The examiners selected a sample of 84 Alabama producer terminations from a population of 312. The examiners could not determine if the Alabama Department of Insurance was notified of the termination within thirty days following the effective date of the termination for 11 of the terminated producers in accordance with ALA. CODE § 27-7-30 (e) (1975), which states:

> Subject to the producer's contract rights, if any, an insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

Also, using the same sample, the examiners could not determine if the Company mailed the termination notices to the producers' last known address for 23 terminated producers in accordance with ALA. CODE § 27-7-30.1(1975)(a), which states:

> Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

Privacy Standards

The Company's Privacy Notice disclosed the types of information collected; the way the information is used; the manner in which information is collected; and how the information is protected. The Privacy Notice also specifically stated the customer's rights. The Company does not disclose any information

to any nonaffiliated third parties unless permitted to do so by law.

SCHEDULE OF SPECIAL DEPOSITS

The Company maintained the following special deposits at December 31, 2011.

States and Territories	Book Value	Fair Value
Alabama	$ 1,153,876	$ 1,729,500
Georgia	34,805	50,096
North Carolina	298,329	429,398
Virginia	283,492	432,375
Reinsurance w/ Admiral Insurance	20,614	21,412
Reinsurance w/ American Agriculture	72,150	74,941
TOTAL	**$ 1,863,266**	**$ 2,737,722**

FINANCIAL CONDITION/GROWTH OF THE COMPANY

	Admitted Assets	Liabilities	Policyholders' Surplus	Premiums Earned
2011*	$1,125,071,860	$642,682,450	$482,389,410	$537,162,527
2010	$1,208,259,133	$566,400,843	$641,858,290	$538,194,714
2009	$1,159,742,427	$507,506,164	$652,236,264	$508,476,399
2008	$1,088,755,138	$425,166,388	$663,588,750	$475,756,685
2007	$1,339,809,936	$365,661,376	$974,148,561	$151,370,935
2006*	$1,338,597,654	$410,199,212	$928,398,442	$147,265,654

***Per Examination**

LOSS EXPERIENCE

The following were the net underwriting gains/(losses) for the years under examination stated as a percentage of premiums earned for the respective year.

2007	2008	2009	2010	2011
(17.3)%	(8.8)%	(12.9)%	(6.8)%	(22.5)%

In addition, the following are the One Year Loss Development and the Two Year Loss Development for each year under examination.

($000 Omitted)	2007	2008	2009	2010	2011
One Year Loss	$ (4,948)	$ (4,186)	$ (5,842)	$ 2,349	$ 12,740
Two Year Loss	$ (11,606)	$ (5,862)	$ (4,351)	$ (7,082)	$ 1,421

REINSURANCE

Intercompany Pooling Agreement

The amended and restated intercompany pooling agreement, effective January 1, 2009, was between the Company and the following entities (hereinafter referred to as the Associates).

- Alfa Mutual Fire Insurance Company (AMF)
- Alfa Mutual General Insurance Company (AMG)
- Alfa Insurance Corporation (AIC)
- Alfa General Insurance Corporation (AGI)
- Alfa Specialty Insurance Corporation (ASI)
- Alfa Vision Insurance Corporation (AVI)
- Alfa Alliance Insurance Corporation (AAI)

On January 1 of current year, all Associates ceded 100% of its books of business (the premiums) and net liabilities to the Company. In turn, the Company:

- Ceded and each Associate accepted its proportionate share of unearned premiums on AMI's book of business in-force as of the close of business.
- Ceded and each Associate accepted its proportionate share of the net liability on all insurance written by AMI, including the net liability of business assumed.
- Paid each Associate its proportionate share of the combined net unearned premium reserves less commissions at a rate equal to its pooled underwriting expense ratio for the most recently filed financial statements.
- Paid each Associate its respective participation of all premiums written after first deducting premiums for all working cover reinsurance ceded to reinsurers.

The following pooling percentages were in effect at December 31, 2011:

	Pool 4	Pool 5	Pool 6	Pool 7
Name of Insurer	Loss Dates 1/1/01 - 12/13/04	Loss Dates 1/1/05 - 12/31/06	Loss Dates 1/1/07 - 12/31/07	Loss Dates 1/1/08 - current
AMI (Lead Company)	18%	18%	18%	52%
AMF	13%	13%	13%	30%
AMG	3%	3%	3%	4%
AIC	32.5%	30%	29%	3%
AGI	32.5%	30%	29%	4%
ASI	1%	1%	1%	2%
AVI	0%	5%	5%	4%
AAI	0%	0%	2%	1%

The Associates agreed that all net premiums, losses and expenses on all insurance written by the Company and assumed under this agreement would be prorated between the Associates based on each participant's proportionate share specified in the agreement. Each Associate would retain and be liable for outstanding net losses (including IBNR), for outstanding net expenses, and salvage and subrogation related to losses incurred.

Each Associate provided the Company with a monthly accounting report within thirty days after the close of each month. Likewise, the Company provided each Associate with a monthly accounting report as well. The agreement was continuous and could only be terminated in writing by mutual agreement of all Associates.

Reinsurance Assumed

In addition to the business assumed through the intercompany pooling agreement, the Company assumed reinsurance from the following reinsurance pools:

- National Workers Compensation Reinsurance Pool (in run-off)
- Excess & Casualty Reinsurance Association (terminated at December 31, 2011)
- Maerp Reinsurance Association (terminated at December 31, 2011)

Reinsurance Ceded

Intercompany Traditional Excess Catastrophe Reinsurance Contract

Effective June 1, 2011, this contract included the following participants.

- Alfa General Insurance Corporation (AGI)
- Alfa Insurance Corporation (AIC)
- Alfa Mutual Insurance Company (AMI)
- Alfa Mutual General Insurance Company (AMG)
- Alfa Alliance Insurance Corporation (AAI)
- Alfa Mutual Fire Insurance Company (AMF)

This agreement, subject to the terms of the intercompany pooling agreement, reinsured the excess layers on policies, contracts and binders or insurance or reinsurance in-force at the effective date and issued or renewed on or after the effective date. The agreement covered business classified as: Fire and Allied Lines, Inland Marine and the property perils of Homeowners, Mobile Homeowners, Farm-owners and Commercial Multiple Peril. The Company's participation rate for each excess layer was as follows:

	First Excess	Second Excess	Third Excess	Fourth Excess	Fifth Excess
Company's Retention	$75,000,000	$100,000,000	$150,000,000	$250,000,000	$400,000,000
Intercompany Placement %	100%	100%	100%	100%	100%
Participation Rate	78.90%	78.90%	78.90%	78.90%	78.90%
Reinsurer's Per Occurrence Limit	$25,000,000	$50,000,000	$100,000,000	$150,000,000	$200,000,000
Reinsurer's Term Limits	$50,000,000	$100,000,000	$200,000,000	$300,000,000	$400,000,000

Per Company management, the terminology and format of this agreement was designed to mirror the Traditional Excess Catastrophe Reinsurance Contract issued to AMF. Specifically, both agreements were:

- Subject to the terms of the intercompany pooling agreement, and
- Reinsured the excess liability accrued under in-force policies or policies issued or renewed as of the agreement's effective date.

This agreement contained an allocation schedule regarding the ceded reinsurance premium under the Traditional Excess Catastrophe Reinsurance

Contract (issued to AMF). Company management determined that AMF should not be solely liable for the ceded reinsurance premium under the Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). Instead, the ceded reinsurance premium should be allocated between the Company, AMF, AMG, AIC, AGI, and AAI. As a result, this agreement was executed to document each company's individual participation rate in the ceded reinsurance premium under the Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). The Company's allocation or participation rate in the ceded reinsurance premium was 78.90%.

Company management represented that this contract was a reinsurance contract with an allocation component. However, the examiners noted that the agreement did not contain the following:

- Reinsurer
- Insolvency clause
- Termination clause

This was not in accordance with ALA. ADMIN. CODE 482-1-105-.13 (1994) which states:

> The reinsurance agreement includes both of the following:
>
> (a) A proper insolvency clause pursuant to Sections 27-5-12 and 27-32-39, Code of Alabama 1975.
>
> (b) A provision pursuant to the Act whereby the assuming insurer, if an unauthorized assuming insurer, has submitted to the jurisdiction of an alternative dispute resolution panel or court of competent jurisdiction within the United States, has agreed to comply with all requirements necessary to give such court or panel jurisdiction, has designated an agent upon whom service of process may be effected, and has agreed to abide by the final decision of such court or panel.

Additionally, this agreement was not approved by the Alabama Department of Insurance (ALDOI) which was not in accordance with ALA. CODE § 27-29-5 (1975), which states:

> The following transactions involving a domestic insurer and any person in its holding company system may not be entered into

unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period:

(3) Reinsurance agreements or modifications thereto in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent of the insurer's surplus as regards policyholders, as of the 31st day of December next preceding, including those agreements which may require as consideration the transfer of assets from an insurer to a nonaffiliate, if an agreement or understanding exists between the insurer and nonaffiliate that any portion of such assets will be transferred to one or more affiliates of the insurer.

On January 4, 2013, Company management provided the examiners with addendums executed by the Company on December 27, 2012 which added Articles to the agreements regarding Insolvency and Arbitration clauses and listed Alfa Mutual Fire Insurance Company as the reinsurer. These addendums and agreements must be filed and approved by the ALDOI in accordance with ALA. CODE § 27-29-5 (1975) as noted above.

Intercompany Top Layer Traditional Excess Catastrophe Reinsurance Contract

Effective, June 15, 2011, this contract included the following participants.

- Alfa General Insurance Corporation (AGI)
- Alfa Insurance Corporation (AIC)
- Alfa Mutual Insurance Company (AMI)
- Alfa Mutual General Insurance Company (AMG)
- Alfa Alliance Insurance Corporation (AAI)
- Alfa Mutual Fire Insurance Company (AMF)

This agreement, subject to the terms of the intercompany pooling agreement, reinsured the excess layers on policies, contracts and binders of insurance or reinsurance in-force at the effective date, or issued and renewed after the effective date. The agreement covered business classified as: Fire and Allied Lines, Inland Marine and the property perils of Homeowners, Mobile Homeowners, Farm-owners and Commercial Multiple Peril. The reinsurers were liable for the amount in excess of the companies' retention limit of $600 million, not to exceed $50 million for any one loss occurrence.

Per Company management, the terminology and format of this agreement was designed to mirror the Top Layer Traditional Excess Catastrophe Reinsurance Contract issued to AMF. Specifically, both agreements were:

- Subject to the terms of the intercompany pooling agreement, and
- Reinsured the excess liability accrued under in-force policies or policies issued or renewed as of the agreement's effective date.

This agreement contained an allocation schedule regarding the ceded reinsurance premium under the Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). Company Management determined that AMF would not be solely liable for the ceded reinsurance premium payable due under the Top Layer Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). Instead, the ceded reinsurance premium payable would be allocated between the Company, AMG, AMF, AIC, AGI, and AAI. As a result, this agreement was executed to document each company's individual participation rate in the ceded reinsurance premium under the Top Layer Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). The Company's allocation or participation rate of the ceded reinsurance premium payable was 78.90%.

Company management represented that this contract was a reinsurance contract with an allocation component. However, the examiners noted that the agreement did not contain the following:

- Reinsurer
- Insolvency clause
- Termination clause

This was not in accordance with ALA. ADMIN. CODE 482-1-105-.13 (1994) which states:

> The reinsurance agreement includes both of the following:
>
> (a) A proper insolvency clause pursuant to Sections 27-5-12 and 27-32-39, Code of Alabama 1975.
>
> (b) A provision pursuant to the Act whereby the assuming insurer, if an unauthorized assuming insurer, has submitted to the jurisdiction of an alternative dispute resolution panel or court of competent jurisdiction within the United States, has agreed to comply with all requirements necessary to give such court or panel jurisdiction, has designated an agent upon whom service of process may be effected, and

has agreed to abide by the final decision of such court or panel.

Additionally, this agreement was not approved by the Alabama Department of Insurance (ALDOI) which was not in accordance with ALA. CODE § 27-29-5 (1975), which states:

> The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period:
>
> (3) Reinsurance agreements or modifications thereto in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent of the insurer's surplus as regards policyholders, as of the 31st day of December next preceding, including those agreements which may require as consideration the transfer of assets from an insurer to a nonaffiliate, if an agreement or understanding exists between the insurer and nonaffiliate that any portion of such assets will be transferred to one or more affiliates of the insurer.

On January 4, 2013, Company management provided the examiners with addendums executed by the Company on December 27, 2012 which added Articles to the agreements regarding Insolvency and Arbitration clauses and listed Alfa Mutual Fire Insurance Company as the reinsurer. These addendums and agreements must be filed and approved by the ALDOI in accordance with ALA. CODE § 27-29-5 (1975) as noted above.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained in a centralized processing environment which was highly complex. The Company maintained a mix of mainframe, midrange, and server architectures along with business intelligence/data storage which supported daily business activity, policy processing, and financial reporting requirements. There was considerable variation in the age and support requirements among the systems in use.

The Company provided the completed NAIC *Information Technology Planning Questionnaire* (ITPQ) and the NAIC *Evaluation of Controls and Information Technology Work Program* to the IT examiner which was used to determine the scope of the testing of the Company's General and Application Controls. The Company's internal controls appeared to be sufficient to safeguard the Company's assets and to generate adequate records of its business.

The Company provided a copy of its Disaster Recovery Plan and documentation supporting its testing. The IT examiner reviewed this documentation and the Company's ITPQ responses and determined that the Company had an adequate and up-to-date plan in place. The plan is reviewed quarterly and tested annually at an alternate site.

The Company provided management and operating services to its insurance affiliates under a Management and Operating Agreement. For further review of the agreement, see the caption "Management and Operating Agreement" under the **"HOLDING COMPANY AND AFFILIATES"** section on Page 10.

The Company was audited annually by the independent certified public accounting firm of PriceWaterhouseCoopers LLP (PwC), Birmingham, Alabama. PwC conducted all of the Company's audits for the five-year period under examination.

PwC, Atlanta, Georgia was retained by the Company to prepare the Statutory Loss Reserve Opinions and the Statement of Actuarial Opinions for all years under examination. In 2011, Mr. R. Scott Cederburg, FCAS, MAAA was the opining actuary.

FINANCIAL STATEMENTS INDEX

The Financial Statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2011. Amounts shown in the comparative statements for the years 2007, 2008, 2009, and 2010 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

Statement of Assets, Liabilities, Surplus and Other Funds (Assets) 34

Statement of Assets, Liabilities, Surplus and Other Funds (Liabilities) 35

Statement of Income 36

Reconciliation of the Capital and Surplus Account 37

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

Alfa Mutual Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 107,860,277	$ -	$ 107,860,277
Stocks: Perferred	23,582,490		23,582,490
Stocks: Common	370,893,044	71,902,286	298,990,758
Real estate: Properties occupied by the company **(Note 1)**	48,878,045	-	48,878,045
Cash, cash equivalents and short-term investments	42,057,929	-	42,057,929
Other invested assets	129,491,450	850,159	128,641,291
Receivables for securities	12,380	-	12,380
Subtotal, cash and invested assets	$ 722,775,616	$ 72,752,445	$ 650,023,171
Investment income due and accrued	1,629,960	-	1,629,960
Premium considerations:			
Uncollected premiums and agents' balances in the course of collection	25,499,023	106,551	25,392,472
Deferred premiums, agents' balances and installments booked but deferred and not yet due	81,530,401	6,751	81,523,650
Reinsurance:			
Amounts recoverable from reinsurers	35,380,467	-	35,380,467
Funds held by or deposited with reinsured companies	-	-	-
Funds held by or deposited with reinsured companies	18,214		18,214
Current federal and foreign income tax recoverable and interest thereon	12,964,204		12,964,204
Net deferred tax asset	36,488,904	-	36,488,904
Guaranty funds receivable or on deposit	-	-	-
Electronic data processing equipment and software	36,916,542	36,916,542	-
Furniture and equipment, including health care delivery assets	-	-	-
Furniture and equipment, including health care	996,368	996,368	-
Receivable from parent, subsidiaries and affiliates	47,039,741	9,243	47,030,498
Health care ($ 0) and other amounts receivable	446,594	41,249	405,345
Cash surremder value - COLI plan	233,481,147		233,481,147
Equity and deposits in pools and associations	733,828	-	733,828
Prepaid Expenses	20,548,852	20,548,852	-
Prepaid LAE	58,554	58,554	-
TOTAL	**$ 1,256,508,415**	**$ 131,436,555**	**$ 1,125,071,860**

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

Alfa Mutual Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
For the Year Ended December 31, 2011

LIABILITIES	2011
Losses	$ 172,693,323
Reinsurance payable on paid losses and loss adjustment expenses	37,834,614
Loss adjustment expenses	26,952,482
Commissions payable, contingent commissions and other similar charges	5,560,946
Other expenses	32,273,957
Taxes, licenses and fees	298,996
Unearned premiums (after deducting unearned premiums for ceded reinsurance of $185,967,654)	200,663,044
Advance premiums	10,681,712
Ceded reinsurance premiums payable	9,797,316
Funds held by company under reinsurance treaties	50,365
Amounts withheld or retained by company for account of others	32,184,099
Remittances and items not allocated	341,662
Drafts outstanding	28,450,815
Payable to parent, subsidiaries and affiliates	640,085
Additional pension liability	83,748,032
Reserve for guarantor liability	511,000
Rounding	1
TOTAL LIABILITIES	**$ 642,682,450**
CAPITAL AND SURPLUS	
Partnership capital contribution	$ 2,386,247
Additional admitted deferred tax assets	24,468,138
Contractual commitments	10,039,531
Unassigned funds (surplus) **(Note 2)**	445,495,494
Surplus as regards policyholders	$ 482,389,410
TOTAL LIABILITIES, CAPITAL AND SURPLUS	**$ 1,125,071,860**

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

Alfa Mutual Insurance Company
Statement of Income
For the Years Ended December 31, 2011, 2010, 2009, 2008 and 2007

	2011	2010	2009	2008	2007
Underwriting income					
Premiums earned	$ 537,162,527	$ 538,194,714	$ 508,476,399	$ 475,756,685	$ 151,370,935
Deductions:					
Losses incurred	464,128,560	379,922,531	391,623,539	329,468,407	117,602,183
Loss adjustment expenses incurred	26,994,675	28,174,001	27,119,884	25,862,659	6,817,098
Other underwriting expenses incurred	167,163,664	166,575,808	155,148,465	162,511,990	53,084,772
Change in premium deficiency	(192,102)	192,102		-	
Miscellaneous income	(5,909)	(4,380)	(7,243)	(118,932)	77,405
Rounding	(3)	-	1	-	-
Total underwriting deductions	$ 658,088,885	$ 574,860,062	$ 573,884,646	$ 517,724,125	$ 177,581,458
Net underwriting gain (loss)	**$ (120,926,358)**	**$ (36,665,348)**	**$ (65,408,247)**	**$ (41,967,440)**	**$ (26,210,523)**
Investment income					
Net investment income earned	$ 23,514,881	$ 34,597,775	$ 8,639,358	$ 19,869,192	$ 38,622,782
Net realized capital gains (losses)	876,451	4,744,934	(6,150,115)	(18,832,894)	27,619,662
Net investment gain (loss)	**$ 24,391,332**	**$ 39,342,709**	**$ 2,489,243**	**$ 1,036,298**	**$ 66,242,444**
Other income					
Net gain (loss) from agents' or premium balances charged off	$ (2,050,285)	$ (1,915,336)	$ (1,358,780)	$ (1,638,852)	$ (532,873)
Finance and service charges not included in premiums	12,345,509	11,472,885	10,027,638	9,267,711	3,815,109
COLI CSV-premium	3,890,514	3,756,659	4,844,815	4,933,061	3,085,918
Policy fees reimbursed	(300,754)	(260,472)	(4,615,217)	(4,268,069)	(1,811,036)
Motorist protection plan expense	(11,653)	(10,787)	(1,661)		
Gain or loss from disposal of fixed assets	(2,221,730)			107,315	36
Guarantor expense per SSAP 5R	(511,000)				
Other fee income	94,019	195,878	69,029	3,730	45,608
Total other income	**$ 11,234,620**	**$ 13,238,827**	**$ 8,965,824**	**$ 8,404,896**	**$ 4,602,763**
Net income before dividends and all other federal and foreign income taxes	$ (85,300,406)	$ 15,916,188	$ (53,953,180)	$ (32,526,246)	$ 44,634,684
Federal and foreign income taxes incurred	(374,196)	(2,015,003)	(9,051,988)	10,363,063	(6,133,790)
Dividends to policyholders	-	-	-	131	(5,249)
NET INCOME	$ (84,926,210)	$ 17,931,191	$ (44,901,192)	$ (42,889,441)	$ 50,773,722

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

Alfa Mutual Insurance Company
Capital and Surplus Account
For the Years Ended December 31, 2011, 2010, 2009, 2008 and 2007

	2011	2010	2009	2008	2007
Capital and Surplus Account					
Surplus as regards policyholders, December 31, prior year	$ 641,858,290	$ 652,236,264	$ 663,588,752	$ 974,148,561	$ 928,398,443
Net income	(84,926,210)	17,931,191	(44,901,192)	(42,889,441)	50,773,722
Change in net unrealized capital gains (losses)	(13,363,336)	(12,603,052)	16,101,374	(178,693,373)	(6,691,875)
Change in net deferred income tax	(51,118,667)	(1,154,229)	(32,767,666)	89,257,020	(5,449,604)
Change in nonadmitted assets	11,922,546	(3,894,064)	70,919,432	(179,088,169)	3,377,216
Net life insurance proceeds	865,765	882,758	488,209	854,152	1,152,053
Change in additional pension liability	(22,848,977)	(10,394,598)	(21,192,645)		
Additional admitted deferred tax asset	24,468,138	33,034,580	18,383,258		
Cumulative effect of change in accounting principles					- 2,588,604
Reclassification of additional admitted deferred tax asset to special surplus funds	(24,468,138)	(33,034,580)	(18,383,258)		
Charge off of agency goodwill	-	(1,145,980)	-	-	-
Change in surplus as regards policyholders	$ (159,468,880)	$ (10,377,974)	$ (11,352,488)	$ (310,559,810)	$ 45,750,118
Surplus as regards policyholders, December 31, current year	**$ 482,389,410**	**$ 641,858,290**	**$ 652,236,264**	**$ 663,588,752**	**$ 974,148,561**

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

NOTES TO FINANCIAL STATEMENTS

Note 1 - Real Estate: Property occupied by the Company **$48,878,045**

The captioned amount is the same as reported in the Company's 2011 Annual Statement.

When completing the 2007 Annual Statement, the Company reported the date of last appraisal for their Home Office -Building, Business Processing Center, Alfa Daycare Center and five Service Centers, as December 31, 2007 and the Home Office Building- Land and Land Improvements as December 31, 1993. For all other years of this examination, 2008, 2009, 1010 and 2011, the Date of Last Appraisal was blank.

The reporting practice does not comply with the NAIC *Annual Statement Instructions* for completing Schedule A-Part 1, Column 6 for reporting Date of Last Appraisal which stipulates, "State date of last appraisal."

Note 2 – Unassigned funds (surplus) **$445,495,494**

The above captioned amount is the same as reported in the 2011 Annual Statement.

There were no material adjustments made, and the immaterial items were not material in the aggregate.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included:

- an inspection of representations made by management to the Company's independent certified public accountants regarding the Company and its affiliates,
- a review of the report on litigation and claims made by the Company's counsel to the Company's independent certified public accountants,
- a review of the report to the examiners on pending litigation made by the Company's General Counsel, and
- a general review of the Company's records and files conducted during the course of the examination, including a review of claims.

These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with prior recommendations except for the following:

Real Estate: Properties occupied by the Company

In the prior examination report, it was recommended that the Company comply with the NAIC *Annual Statement Instructions* for completing Schedule A-Part 1 with regards to column 6 - Date of Last Appraisal which stipulates, "State date of last appraisal."

SUBSEQUENT EVENTS

A review of events subsequent to the examination date of December 31, 2011 was completed. The following items were noted.

Officer Retirements

Jerry Allen Newby, President and Chief Executive Officer, announced his retirement, effective December 4, 2012. His replacement, James Louis Parnell, was elected at the Company's December 4, 2012 Board Meeting.

Clyde Lee Ellis, Executive Vice President – Operations, retired on February 1, 2012. Stephen Goddard Rutledge was elected as the Assistant Treasurer and appointed as Executive Vice President and Chief Operating Officer of the Company.

Wyman Worley Cabaniss, Senior Vice President, Underwriting, retired on June 30, 2012. Alfred Edwin Schellhorn, was promoted to Senior Vice President, Underwriting and Development Officer.

John Jung, Chief Information Officer, announced his retirement at the July 19, 2012 Executive Committee meeting, effective October 31, 2012. Mr. Rutledge announced a national search would be conducted for Mr. Jung's successor at

that same meeting. Mr. Jung extended his retirement date to March 31, 2013, so he could assist in training of his replacement who has yet to be hired.

Ralph Clayton Forsythe, Chief Financial Officer, retired effective December 31, 2012.

Debt Agreement

On August 2, 2012, Alfa Corporation (AC) terminated the Sixth Amended and Restated Credit Agreement and entered into a Credit Agreement with certain of its affiliates, Alfa General Insurance Corporation AGI), Alfa Financial Corporation (AFC), Alfa Life Insurance Corporation (ALI), Alfa Insurance Corporation (AIC), and Alfa Vision Insurance Corporation (AVI), in favor of Regions Bank, as Administrative Agent and a syndicate of lenders that provides for a four year revolving credit facility in the amount of $150,000,000. The Credit Agreement is guaranteed by the parent companies of AC, Alfa Mutual Insurance Company (AMI) and Alfa Mutual Fire Insurance Company (AMF). The interest rate is to be determined by adding the LIBO Rate plus a margin of 225 basis points . At September 30, 2012, interest on the Revolving Credit Facility accrued at the applicable LIBO Rate of .2213 plus the margin of 225 basis points or 2.47%. The Company and the other AC affiliates are jointly and severally liable for any and all obligations incurred pursuant to the agreement.

Borrowings under the Credit Agreement are to be used for general corporate purposes. As of September 30, 2012, AC has drawn down $150,000,000 on this Credit Agreement. The Credit Agreement remains in effect until August 1, 2016.

Also on August 2, 2012, the parties to the Credit Agreement entered into a Subrogation and Contribution Agreement. Under the Agreement, each party's Payment Obligation, as said term is defined in the Subrogation Agreement, is limited to the amount of the loan, if any, that was received by and used by or for the benefit of that party.

COMMENTS AND RECOMMENDATIONS

Claims Payment Practices – Page 20

It is recommended that the Company tender payment within thirty days after the Company has the necessary documentation to consummate the settlement

in accordance with ALA. ADMIN. CODE 482-1-126.07(6)(2003), which states:

> The insurer shall tender payment within thirty (30) days or the time specified in the policy, after accepting liability, reaching an agreement on the amount of the claim and receipt of any documents necessary to consummate the settlement.

Claim Documentation – Page 21

It is recommended that the Company maintain proper documentation of the reason the claims were not paid in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

> Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

Complaints – Page 21

It is recommended that the Company implement written complaint handling procedures that are communicated to all of its employees, and keep complete complaint file documentation in accordance with ALA. CODE 27-27-29 (a) (1975), which states:

> Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

It is further recommended that the Company respond to Alabama Department of Insurance complaints within ten working days as required by ALA. ADMIN. CODE 482-1-118-.06(1999), which states:

> The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable

justification for the delay.

Underwriting and Rating – Page 22

It is recommended that the Company keep complete documentation of its rejections/declinations documentation in accordance with ALA. CODE § 27-27-29 (a) (1975) which states:

> Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted.

Producer Licensing Requirements – Page 23

It is recommended that the Company notify the Alabama Department of Insurance of the termination of the producers within thirty days in accordance with ALA. CODE § 27-7-30 (e) (1975), which states:

> Subject to the producer's contract rights, if any, any insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

It is further recommended that the Company notify the producer at his or her last known address within fifteen days in accordance with ALA. CODE § 27-7-30.1(1975) (a), which states:

> Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a national recognized carrier.

Intercompany Traditional Excess Catastrophe Reinsurance – Page 27
Intercompany Top Layer Traditional Excess Catastrophe Reinsurance - Page 29

It is recommended that all agreements between the Company and any person in its holding Company system be appropriately filed and approved by the Alabama Department of Insurance in accordance with ALA. CODE § 27-29-5 (1975), which states:

> The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period:
>
> (3) Reinsurance agreements or modifications thereto in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent of the insurer's surplus as regards policyholders, as of the 31st day of December next preceding, including those agreements which may require as consideration the transfer of assets from an insurer to a nonaffiliate, if an agreement or understanding exists between the insurer and nonaffiliate that any portion of such assets will be transferred to one or more affiliates of the insurer.

Real Estate: Properties occupied by the company – Page 38

It is again recommended that the Company comply with the NAIC *Annual Statement Instructions* when completing Schedule A - Part 1 with regards to column 6, Date of Last Appraisal, which stipulates, "State date of last appraisal."

CONCLUSION

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

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

In addition to the undersigned, Rhonda Ball, CFE; Toni Bean, CFE; Theo Goodin, MCM; Jerry Hyche, AIE, MCM, FLMI; Mary B. Packard, CPA, CFE; Charles Turner, CISA; and Greg Fanoe, FCAS, MAAA and Suejeudi (Sue) Buehler, FCAS, MAAA, consulting actuaries with Merlinos & Associates, Inc. represented the Alabama Department of Insurance and participated in the examination of the Company.

Respectfully submitted,

Palmer Nelson, CFE
Examiner-in-Charge
State of Alabama
Department of Insurance