

REPORT OF EXAMINATION

OF

ALFA INSURANCE CORPORATION

MONTGOMERY, ALABAMA

as of
December 31, 2011

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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 Insurance Corporation.
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 Insurance Corporation 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 B. Gree
(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 Insurance Corporation
Montgomery, Alabama**

at the 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 "AIC" appears herein, without qualification, it will be understood to indicate Alfa Insurance Corporation.

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 the 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 Insurance Company, Alfa Mutual Fire Insurance Company, Alfa Mutual General Insurance Company, 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 25.

A market conduct examination was performed concurrently with the financial examination. The Company writes business in Georgia and Mississippi and not Alabama, although licensed to do so. The market conduct examination included a review of the Company's plan of operations, territory, marketing and sales, and privacy standards. Not included was a review of producers' licensing, claims processing, policy forms, underwriting and rating, and policyholder complaints because the Company did not write business in Alabama. See the caption "**MARKET CONDUCT ACTIVITIES**" - Page 16.

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 (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 March 11, 1955, as a mutual insurance company, under the name, American Service Mutual Insurance Company.

In December 1977, Alabama Farm Bureau Mutual Casualty Insurance Company (currently Alfa Mutual Insurance Company (AMI)) obtained control of the Company pursuant to an agreement whereby AMI acquired the Company's outstanding surplus notes, all directors of the Company resigned, and new directors designated by AMI were elected.

Effective August 31, 1982, the Company was converted to a stock insurance company. The initial capitalization was effected by the sale of 500,000 shares of its common stock to Federated Guaranty Life Insurance Company (currently Alfa Life Insurance Corporation (ALI)). The name of the Company was changed to Federated Guaranty Insurance Company.

On January 4, 1983, the holding company now named Alfa Corporation (AC) was incorporated in Delaware under the name, Federated Guaranty Corporation. At that time, the stock of the Company, as well as that of its parent, ALI, was contributed to AC.

Effective May 1, 1987, Alabama Farm Bureau Federation 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 Insurance Corporation.

During the interim from the Company's organization through 1987, the Company became affiliated with four other property and casualty insurers. They were Alfa Mutual Insurance Company (AMI), Alfa Mutual Fire Insurance Company (AMF), Alfa Mutual General Insurance Company (AMG) 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 all affiliates would cede its direct business, assumed reinsurance, and ceded reinsurance to AMI. 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 AMI. ASI became a participant in the intercompany 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 intercompany pooling agreement effective on that date.

On January 1, 2007, the intercompany 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 ORGANIZATION

Stockholders

The Company is a stock corporation with ownership vested in its stockholders. At December 31, 2011, 100% of the issued and outstanding common stock was owned by Alfa Corporation (AC). The controlling interest in AC is held by Alfa Mutual Insurance Company (65%) and Alfa Mutual Fire Insurance Company (35%).

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.

<u>Name and Residence</u>	<u>Principal Occupation</u>
Jerry Allen Newby* Athens, Alabama	Chairman of the Board, President and CEO Alfa Mutual Insurance Company
Clyde Lee Ellis, III* Montgomery, Alabama	Executive Vice President, Operations and Treasurer Alfa Mutual Insurance Company
Stephen Goddard Rutledge Montgomery, Alabama	Executive Vice President, Business Operations Alfa Mutual Insurance Company
Herman Alan Scott Montgomery, Alabama	Senior Vice President, General Counsel and Secretary Alfa Mutual Insurance Company

*Retired in 2012.

Officers

The Company's *Bylaws* provide that its principal officers shall be a Chairman of the Board, 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 following officers were elected by the Board of Directors and were serving as of December 31, 2011.

<u>Officer</u>	<u>Title</u>
Jerry Allen Newby*	Chairman of the Board, President and Chief Executive Officer
Clyde Lee Ellis, III*	Treasurer
Herman Alan Scott	Secretary

*Retired in 2012.

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

<u>Officer</u>	<u>Title</u>
Clyde Lee Ellis, III*	Executive Vice President, Operations
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
Alfred Edwin Schellhorn	Senior Vice President, Corporate Development
Herman Alan Scott	Senior Vice President, General Counsel and Assistant to the President
Douglas Wade Simpson	Regional Vice President, Claims
Jacob Daniel Black	Vice President, Property and Casualty Accounting
Jeffrey Joseph Bradwell	Vice President and Associate General Counsel
Christine Gnann Cantrell	Vice President, Marketing Communications
Elizabeth Vail Chancey	Vice President, Property & Casualty Underwriting
Angela Long Cooner	Vice President and Associate General Counsel

Patti Jo Everage	Vice President, Financial Reporting and Planning
Donald Eugene Manis	Vice President, Property & Casualty Actuary
Jeffrey Holland Nickles	Vice President, Tax Accounting
Harold Eugene Oakes	Vice President, Claims
Robert Wyatt Pace	Vice President, Georgia/Mississippi Marketing
Julie Meadows Parish	Vice President, Reinsurance
Linda Gail Pelt	Vice President, Auto Underwriting
Rhonda Welch Sikes	Vice President, Corporate Services and Reporting
Russell John Sinco	Vice President, Controller
Kenneth Everett Stephens	Vice President P&C System Implementation
Tammy Lynn Hackett	Assistant Vice President, Life and Investment Accounting

*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 Resources 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 (Articles) and *Bylaws*, as amended, were inspected and found to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations. During the period under examination, the Company did not amend the Articles; however, on April 24, 2008, the *Bylaws* Article 3, Section 1 was amended to reflect the change in the number of directors from eight to four.

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

The Company paid dividends to its immediate parent, Alfa Corporation, during the following years under examination:

2011	\$ 5,000,000
2010	\$ 5,410,000
2009	\$ 0
2008	\$174,000,000
2007	\$ 21,768,000

Management and 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 American 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 by 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

The Agreement between Alfa Corporation (“AC” or “Parent”) and its subsidiaries was effective January 1, 2007. The subsidiaries included Alfa Insurance Corporation, Alfa General Insurance Corporation, Alfa Life Insurance Corporation, Alfa Vision Insurance Corporation, Alfa Alliance Insurance Corporation, Alfa Financial Corporation, Alfa Agency Georgia, Inc., Alfa Agency Mississippi, Inc., Alfa Benefits Corporation and Alfa Vision Insurance Group, LLC (“Affiliated Group” or “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 is 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

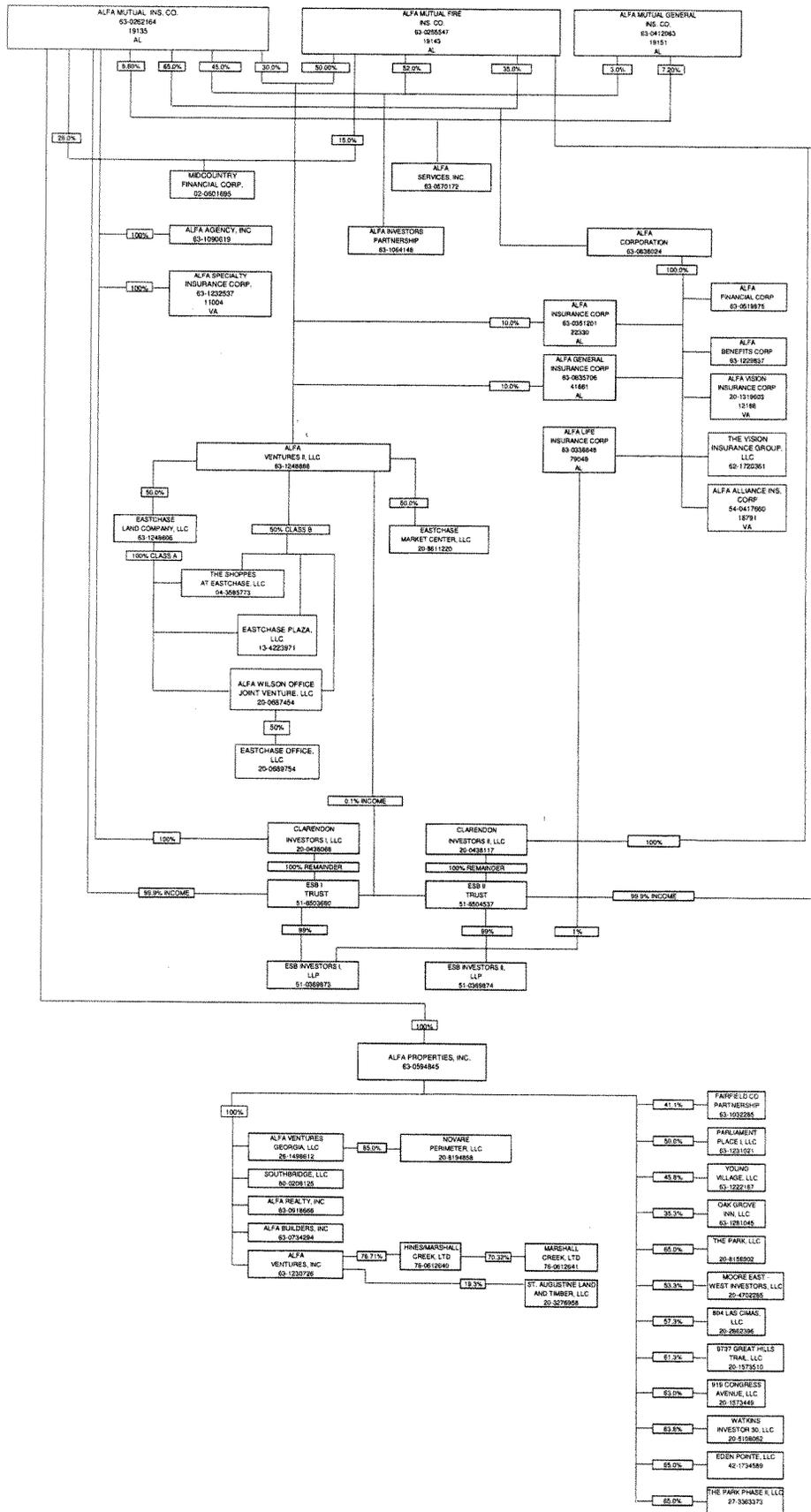
The Agreement was effective January 1, 2005 and was between Alfa Financial Corporation (AFC) on one hand and with Alfa Mutual Insurance Company, Alfa Mutual General Insurance Company, Alfa Mutual Fire Insurance Company, Alfa Insurance Corporation and Alfa General Insurance Corporation (“Insurers”) on the other hand. 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.



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 had no employees; therefore, it had no formal employee or agent welfare program. Its operations were conducted by the personnel of Alfa Mutual Insurance Company under the terms of a management and operating agreement. See caption “*Management and Operating Agreement*” on page 8.

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 products through captive producers. At December 31, 2011, the Company had 151 service centers in Georgia and Mississippi. The Company did not write business in Alabama during the examination period. All of the Company's business was produced in Georgia and Mississippi. The majority of the Company's direct premiums were from private passenger automobile, homeowner, commercial lines and fire lines of business.

Territory

At December 31, 2011, the Company was licensed to transact property and casualty business in the following states: Alabama, Georgia and Mississippi. 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 did not pay dividends to its policyholders during the examination period.

Claims Payment Practices

The Company did not write business in Alabama during the examination period; therefore, no claims were reviewed for this Company.

Complaint Handling

The Company did not write business in Alabama during the examination period; therefore, no complaint handling procedures were performed for this Company.

Underwriting and Rating

The Company did not write business in Alabama during the examination period; therefore, no underwriting and rating procedures were performed for this Company.

Compliance with Producer Licensing

The Company did not write business in Alabama during the examination period; therefore, no review was conducted for compliance with Producer Licensing.

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 deposits with the respective statutory authorities at December 31, 2011, as required or permitted by law.

<u>States and Territories</u>	<u>Book Value</u>	<u>Fair Value</u>
Alabama	\$ 315,072	\$ 393,002
Florida	336,021	507,965
Georgia	87,882	132,852
New Mexico	212,546	223,312
TOTAL	\$ 951,521	\$ 1,257,131

FINANCIAL CONDITION/GROWTH OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>	<u>Premiums Earned</u>
2011*	\$ 93,947,931	\$ 39,534,675	\$ 54,413,255	\$ 31,012,413
2010	\$ 94,259,691	\$ 42,290,162	\$ 51,969,529	\$ 31,052,259
2009	\$ 106,133,042	\$ 51,958,192	\$ 54,174,850	\$ 29,333,684
2008	\$ 104,691,336	\$ 67,491,546	\$ 37,199,790	\$ 27,340,186
2007	\$ 445,191,361	\$ 227,995,228	\$ 217,196,134	\$ 279,256,561
2006*	\$ 449,894,006	\$ 250,166,662	\$ 199,727,345	\$ 278,876,630

*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.

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
9.9%	98.1%	(8.3)%	0.2%	(14.4)%

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

(\$000 Omitted)	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
One Year Loss	\$ (2,087)	\$ (5,389)	\$ (1,299)	\$ (1,122)	\$ (361)
Two Year Loss	\$ (7,744)	\$ (4,079)	\$ (6,361)	\$ (1,630)	\$ (2,272)

REINSURANCE

Intercompany Pooling Agreement

The amended and restated intercompany pooling agreement, effective January 1, 2009, was between Alfa Mutual Insurance Company (AMI) 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 the current year, all Associates ceded 100% of its books of business (premiums) and net liabilities to AMI. In turn, AMI:

- 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 AMI 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 of the Associates provided AMI with a monthly accounting report within thirty days after the close of each month. Likewise, AMI 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 mandatory pool: Mississippi Windstorm Underwriting Association.

Reinsurance Ceded

Intercompany Traditional Excess Catastrophe Reinsurance Contract

Effective June 1, 2011, this contract had 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	7.87%	7.87%	7.87%	7.87%	7.87%
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, AMI, AMF, AMG, 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 7.87%.

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 had 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, AIM, AMG, AMF, 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 7.87%.

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. These 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 examiners 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.

Alfa Mutual Insurance Company provided management and operating services to the Company and the other 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 8.

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).....	28
Statement of Assets, Liabilities, Surplus and Other Funds (Liabilities)	29
Statement of Income and Reconciliation of Capital and Surplus Account	30

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

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

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 56,388,921	\$ -	\$ 56,388,921
Stocks:			
Perferred	967,290		967,290
Common	3,398,261	-	3,398,261
Cash, cash equivalents and short-term investments	6,989,463	-	6,989,463
Other invested assets	10,449,285	1,665,440	8,783,845
Subtotal, cash and invested assets	\$ 78,193,220	\$ 1,665,440	\$ 76,527,780
Investment income due and accrued	719,787	-	719,787
Premium considerations:			
Uncollected premiums and agents' balances in the course of collection	2,911,407	6,147	2,905,260
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,703,677	389	4,703,288
Reinsurance:			
Amounts recoverable from reinsurers	6,356,757	-	6,356,757
Net deferred tax asset	5,303,146	2,733,824	2,569,322
Electronic data processing equipment and software	63,184	63,184	-
Furniture and equipment, including health care	119	119	-
Receivable from parent, subsidiaries and affiliates	172,101	6,360	165,741
Health care (\$ 0) and other amounts receivable	1,096	1,096	-
Prepaid Expenses	299,100	299,100	-
Prepaid LAE	3,509	3,509	-
Rounding	(4)	-	(4)
TOTAL	\$ 98,727,099	\$ 4,779,168	\$ 93,947,931

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

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

<u>LIABILITIES</u>	<u>2011</u>
Losses	\$ 11,567,254
Reinsurance payable on paid losses and loss adjustment expenses	2,866,937
Loss adjustment expenses	3,074,100
Commissions payable, contingent commissions and other similar charges	44,786
Other expenses	208,713
Taxes, licenses and fees	1,471,816
Current federal and foreign income taxes	96,149
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$35,092,216)	11,576,713
Advance premiums	616,253
Ceded reinsurance premiums payable	(12,625,595)
Funds held by company under reinsurance treaties	2,059
Amounts withheld or retained by company for account of others	9,169,018
Remittances and items not allocated	558,988
Drafts outstanding	3,551,727
Payable to parent, subsidiaries and affiliates	2,375,207
Payable for tax credits	4,972,549
Reserve for guarantor liability	8,000
TOTAL LIABILITIES	\$ 39,534,675
<u>CAPITAL AND SURPLUS</u>	
Common capital stock	\$ 1,500,000
Additional admitted deferred tax assets	1,322,828
Gross paid in and contributed surplus	32,447,957
Unassigned funds (surplus) (Note 1)	19,142,470
Surplus as regards policyholders	\$ 54,413,256
TOTAL LIABILITIES, CAPITAL AND SURPLUS	\$ 93,947,931

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

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Underwriting income</u>					
Premiums earned	\$ 31,012,413	\$ 31,052,259	\$ 29,333,684	\$ 27,340,186	\$ 279,256,561
<u>Deductions:</u>					
Losses incurred	25,772,726	20,867,965	21,625,125	14,117,901	163,898,177
Loss adjustment expenses incurred	1,329,105	1,505,750	1,782,399	463,224	14,119,991
Other underwriting expenses incurred	8,396,408	8,611,682	8,372,427	(14,069,077)	73,776,450
Change in premium deficiency	(11,083)	11,083		-	-
Miscellaneous income	(341)	(253)	(416)	-	(66,469)
Total underwriting deductions	<u>\$ 35,486,815</u>	<u>\$ 30,996,227</u>	<u>\$ 31,779,535</u>	<u>\$ 512,048</u>	<u>\$ 251,728,149</u>
Net underwriting gain (loss)	<u>\$ (4,474,402)</u>	<u>\$ 56,032</u>	<u>\$ (2,445,851)</u>	<u>\$ 26,828,138</u>	<u>\$ 27,528,412</u>
<u>Investment income</u>					
Net investment income earned	\$ 955,070	\$ 1,016,598	\$ 1,621,043	\$ 3,780,699	\$ 15,184,268
Net realized capital gains (losses)	(27,901)	20,313	314,863	(1,937,388)	2,264,907
Net investment gain (loss)	<u>\$ 927,169</u>	<u>\$ 1,036,911</u>	<u>\$ 1,935,906</u>	<u>\$ 1,843,311</u>	<u>\$ 17,449,175</u>
<u>Other income</u>					
Net gain (loss) from agents' or premium balances charged off	\$ (118,286)	\$ (110,501)	\$ (78,391)	\$ (94,530)	\$ (838,083)
Finance and service charges not included in premiums	712,241	661,897	578,517	534,675	6,146,563
Gain or loss from disposal of fixed assets	(128,236)			-	0
Guarantor expense per SSAP 5R	(8,000)				
Policy fee reimbursed	(17,351)	(15,027)	(266,263)	(246,235)	
Other fee income	4,748	10,562	3,888	(6,492)	(2,844,297)
Total other income	<u>\$ 445,116</u>	<u>\$ 546,931</u>	<u>\$ 237,752</u>	<u>\$ 187,418</u>	<u>\$ 2,464,184</u>
Net income before dividends and all other federal and foreign income taxes	\$ (3,102,117)	\$ 1,639,874	\$ (272,194)	\$ 28,858,865	\$ 47,441,771
Federal and foreign income taxes incurred	(2,226,316)	137,685	(1,983,564)	351,119	10,390,872
NET INCOME	<u>\$ (875,801)</u>	<u>\$ 1,502,189</u>	<u>\$ 1,711,370</u>	<u>\$ 28,507,746</u>	<u>\$ 37,050,899</u>
<u>Capital and Surplus Account</u>					
Surplus as regards policyholders, prior year	\$ 51,969,529	\$ 54,174,850	\$ 37,199,791	\$ 217,196,134	\$ 199,727,344
Net income	(875,801)	1,502,189	1,711,370	28,507,746	37,050,899
Change in net unrealized capital gains (losses)	233,106	188,096	(251,540)	(1,462,781)	(1,786,725)
Change in net deferred income tax	(5,228,827)	514,040	(6,371,132)	2,696,198	1,096,126
Change in nonadmitted assets	13,315,248	1,000,355	21,886,361	(35,737,506)	(701,498)
Cumulative changes in accounting principles					3,577,988
Dividend to stockholders	(5,000,000)	(5,410,000)	-	(174,000,000)	(21,768,000)
Additional admitted deferred tax assets	-	-	939,219		
Reclass additional admitted tax assets to special surplus funds	-	-	(939,219)	-	-
Change in surplus as regards policyholders	<u>\$ 2,443,726</u>	<u>\$ (2,205,320)</u>	<u>\$ 16,975,059</u>	<u>\$ (179,996,343)</u>	<u>\$ 17,468,790</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 54,413,255</u>	<u>\$ 51,969,530</u>	<u>\$ 54,174,850</u>	<u>\$ 37,199,791</u>	<u>\$ 217,196,134</u>

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

NOTES TO FINANCIAL STATEMENTS

Note 1 – Unassigned funds (surplus)

\$ 19,142,470

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 the following:

- 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 complied with the prior recommendations.

SUBSEQUENT EVENTS

A review of events subsequent to the examination date, December 31, 2011 was performed. 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 Lewis Parnell, was elected at the Company's December 4, 2012 Board Meeting.

Clyde Lee Ellis, Executive Vice President – Operations, retired on February 1, 2012. Ralph Clayton Forsythe was elected as a director to fill the director position. Stephen Goddard Rutledge was elected as the Treasurer and was 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. Mr. Jung extended his retirement date to March 31, 2013, so he could assist in training his replacement.

Ralph Clayton Forsythe, Chief Financial Officer, retired as of 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

Intercompany Traditional Excess Catastrophe Reinsurance – Page 20
Intercompany Top Layer Traditional Excess Catastrophe Reinsurance – Page 23

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.

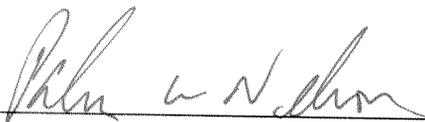
CONCLUSION

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 Fanoie, 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