REPORT OF EXAMINATION

OF

ALFA MUTUAL FIRE INSURANCE COMPANY

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 Mutual Fire 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 Fire 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. 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 Mutual Fire 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 "AMF" appears herein, without qualification, it will be understood to indicate Alfa Mutual Fire 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 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 27.

A market conduct examination was performed concurrently with the financial examination. The market conduct examination included a review of the Company's plan of operation, territory, producers' licensing, claims processing, marketing and sales, rates and forms, underwriting and rating, policyholder complaints, dividends to policyholders and privacy standards. See the caption "**MARKET CONDUCT ACTIVITIES**" – Page 15.

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 May 1, 1945, under the name, Alabama Farm Bureau Mutual Insurance Services, Inc. It was organized as a mutual insurance company by the Alabama Farm Bureau Federation (AFBF), to provide fire and allied lines 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 Fire Insurance Company.

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 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 cede all their direct business, reinsurance assumed business and reinsurance cede business to AMI. The pooled business was then retroceded according to percentages provided in the pooling agreement. In 1989, an intercompany 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 AMI. 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 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 Committee

The Executive Committee consisted of the following Directors:

Jerry Allen Newby, Chairman*
Stephen Leonard Dunn
Jacob Calhoun Harper
*Retired in 2012.

Hal Franklin Lee
Russell Riley Wiggins
Curtis Dean Wysner

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

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
Stephen Leonard Dunn	Treasurer
Herman Alan Scott	Secretary
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

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
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, P&C Actuary
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
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
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 procedures 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 statues and regulations. On February 22, 2010, the Company amended the *Bylaws*, Section II - Membership Meeting to reflect the change in the definition of a quorum from one-third of the members to fifty members in person or by proxy. The Articles were not amended during the years under examination.

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
    - 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 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.

Monthly Billing Service Agreement

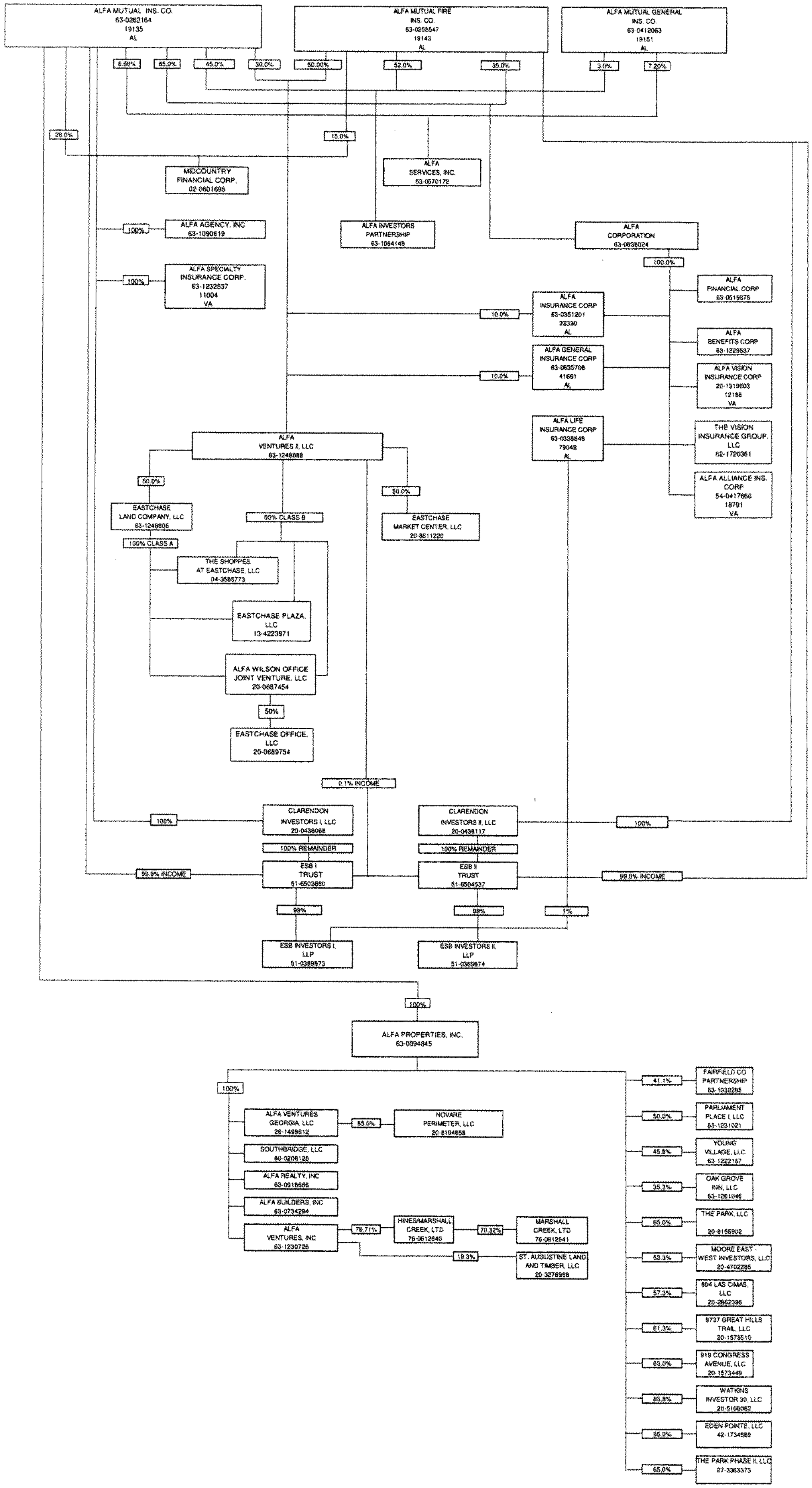
The Agreement was effective January 1, 2005 and was between Alfa Financial Corporation (AFC) on one hand and with Alfa Mutual Insurance Company, Alfa Mutual General Insurance Company, Alfa Mutual Fire Insurance Company, Alfa Insurance Corporation and Alfa General Insurance Corporation ("Insurers") on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



ALFA MUTUAL INS. CO.
63-0262164
19135
AL
ALFA MUTUAL FIRE INS. CO.
63-0255547
19143
AL
ALFA MUTUAL GENERAL INS. CO.
63-0412063
19151
AL
8.60%
65.0%
45.0%
30.0%
50.00%
52.0%
35.0%
3.0%
7.20%
26.0%
15.0%
MIDCOUNTRY FINANCIAL CORP.
02-0601695
ALFA SERVICES, INC.
63-0570172
100%
ALFA AGENCY, INC
63-1090619
ALFA INVESTORS PARTNERSHIP
63-1064148
ALFA CORPORATION
63-0638024
100.0%
100%
ALFA SPECIALTY INSURANCE CORP.
63-1232537
11004
VA
ALFA FINANCIAL CORP
63-0519875
10.0%
ALFA INSURANCE CORP
63-0351201
22330
AL
ALFA BENEFITS CORP
63-1229837
ALFA GENERAL INSURANCE CORP
63-0635706
41661
AL
10.0%
ALFA VISION INSURANCE CORP
20-1319603
12186
VA
ALFA LIFE INSURANCE CORP
63-0338648
79049
AL
ALFA VENTURES II, LLC
63-1248888
THE VISION INSURANCE GROUP, LLC
62-1720361
ALFA ALLIANCE INS. CORP
54-0417660
18791
VA
50.0%
50.0%
EASTCHASE LAND COMPANY, LLC
63-1248606
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
CLARENDON INVESTORS II, LLC
20-0438117
100%
100% REMAINDER
100% REMAINDER
99.9% INCOME
ESB I TRUST
51-6503660
ESB II TRUST
51-6504537
99.9% INCOME
99%
99%
1%
ESB INVESTORS I, LLP
51-0369673
ESB INVESTORS II, LLP
51-0369674
100%
ALFA PROPERTIES, INC.
63-0594845
100%
41.1%
FAIRFIELD CO PARTNERSHIP
63-1032265
ALFA VENTURES GEORGIA, LLC
26-1498612
85.0%
NOVARE PERIMETER, LLC
20-8194858
50.0%
PARLIAMENT PLACE I, LLC
63-1231021
SOUTHBRIDGE, LLC
80-0208125
45.8%
YOUNG VILLAGE, LLC
63-1222167
ALFA REALTY, INC
63-0916666
35.3%
OAK GROVE INN, LLC
63-1261045
ALFA BUILDERS, INC
63-0734294
65.0%
THE PARK, LLC
20-8156902
ALFA VENTURES, INC
63-1230726
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
53.3%
MOORE EAST - WEST INVESTORS, LLC
20-4702285
57.3%
804 LAS CIMAS, LLC
20-2862396
61.3%
9737 GREAT HILLS TRAIL, LLC
20-1573510
63.0%
919 CONGRESS AVENUE, LLC
20-1573449
83.8%
WATKINS INVESTOR 30, LLC
20-5108062
85.0%
EDEN POINTE, LLC
42-1734589
65.0%
THE PARK PHASE II, LLC
27-3363373

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.

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 markets its products 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. All of the Company's direct premiums were for fire, allied lines and inland marine lines of business.

Territory

At December 31, 2011, the Company was licensed to transact property and casualty business in the State of Alabama. The Certificate of Authority was 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 wished to receive co-op reimbursement. Any material created by the producer has to be reviewed by the Vice President of Intergrated Marketing prior to dissemination.

Dividends to Policyholders

The Company did not pay dividends to its policyholders during the examination period.

Complaint Handling

The examiners reviewed the Company's complaint procedures and the complaint register was reviewed for completeness. A sample of 84 Alabama complaint files was selected from a population of 256. The population of the claims included all Alabama complaints received during the examination period by Alfa Mutual Insurance Company (AMI), Alfa Mutual Fire Insurance Company (AMF) and Alfa Mutual General Insurance Company (AMG). 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.

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 the Company, Alfa Mutual Insurance Company and Alfa Mutual General Insurance Company. The samples selected and reviewed contained business from each of the entities that wrote business in Alabama. Random samples were selected from the total population of claims by Alabama policyholders. 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 of the sample items included a review of the claim documentation for completeness.

Claim Documentation

The examiners selected a sample of 109 Alabama claims that were closed without payment during the examination period from a population of 54,659. AMF had one claim in the random sample 109. It was determined that the Company did not properly document the reason the claim was closed without payment for the one claim file 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.

Statistical Reporting

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

Underwriting and Rating

The examiners selected a sample of 117 rejections/declinations from a population of 4,928 declined applications for Alfa Mutual Insurance Company (AMI), Alfa Mutual Fire Insurance Company (AMF), and Alfa Mutual General Insurance Company (AMG). The Company provided valid reasons for the declined applications for the Company's declinations in the sample.

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 filed its commercial lines rates with the Alabama Department of Insurance base on Insurance Services Office (ISO) loss costs.

The examiners selected a sample of 116 premiums that were selected from the population of 2011 written premiums of the Company, Alfa Mutual Insurance Company, and Alfa Mutual General Insurance Company. 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 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 as required by 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.

In addition, the examiners could not determine if the Company provided the termination notices to the producers last known address for 23 terminated producers from the same sample 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 and that 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.

States and Territories	Book Value	Fair Value
Alabama	$ 132,841	$ 139,570
TOTAL	**$ 132,841**	**$ 139,570**

FINANCIAL CONDITION/GROWTH OF THE COMPANY

	Admitted Assets	Liabilities	Policyholders' Surplus	Premiums Earned
2011*	$604,803,148	$265,771,842	$339,031,306	$310,074,609
2010	$614,449,234	$251,788,083	$362,661,151	$310,523,704
2009	$574,865,910	$235,820,082	$339,045,828	$293,338,777
2008	$571,984,945	$234,887,305	$337,097,640	$326,763,004
2007	$800,376,569	$142,475,945	$657,900,621	$163,815,562
2006*	$773,902,701	$155,319,476	$618,583,225	$152,504,773

***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
2.0%	(2.9)%	(10.1)%	(4.7)%	(20.3)%

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	$ 1,728	$ (6,498)	$ (11,823)	$ (2,310)	$ 4,680
Two Year Loss	$ 5,171	$ (2,158)	$ (10,339)	$ (16,213)	$ (5,515)

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 (the 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 parties.

Reinsurance Assumed

In addition to the business assumed through the intercompany pooling agreement, the Company assumed reinsurance from the following non-U.S. insurers: Faraday and Renaissance Reinsurance Ltd. At December 31, 2011, the assumed premiums for the aforementioned were $13.8 and $30.0 million, respectively.

Reinsurance Ceded

Traditional Excess Catastrophe Reinsurance Contract

Effective, June 1, 2011, this agreement was between the Company and various authorized, unauthorized and alien reinsurers. The agreement, subject to the terms of the pooling agreement, reinsured the excess liability accrued under policies, contracts, and binders of insurance or reinsurance in-force at the effective date or issued and renewed on or after the effective date. The lines of business covered included: Fire and Allied Lines, Inland Marine and the property perils of Homeowners, Mobile Homeowners, Farm-owners and Commercial Multiple Peril. The Company retained and was liable for the first amount of ultimate net loss per layer, as shown below. Likewise, the reinsurer was liable, per layer, for the amount in excess of the ultimate net loss, not to exceed the per occurrence limit, per layer as shown below.

	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
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

The agreement contained the standard provisions with respects to monthly accounting reports, insolvency, errors and omissions, arbitration, access to records, and salvage and subrogation.

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, was designed to mirror the Traditional Excess Catastrophe Reinsurance Contract discussed on page 22 with respect to terminology and format. Under the agreement, the Company retained and was liable for the first amount of ultimate net loss for each excess layer based on the participation rate below:

	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	3.69%	3.69%	3.69%	3.69%	3.69%
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

Company management determined that the Company should not be solely liable for the ceded reinsurance premium under the Traditional Excess Catastrophe Reinsurance Contract. Instead, the ceded reinsurance premium should be allocated between the Company, AMG, AMI, AIC, AGI, and AAI. As a result, this agreement was executed to document each company's individual participation rate of the ceded reinsurance premium under the Traditional Excess Catastrophe 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.

Top Layer Traditional Excess Catastrophe Reinsurance Contract

Effective, June 15, 2011, this agreement was between the Company and various authorized, unauthorized and alien reinsurers. The agreement, subject to the terms of the pooling agreement, reinsured the excess liability accrued under policies, contracts, and binders of insurance or reinsurance in-force at the effective date or issued and renewed on or after the effective date. The lines of business covered included: 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 of $600 million, not to exceed $50 million, per loss occurrence.

The agreement contained the standard provisions with respects to monthly accounting reports, insolvency, errors and omissions, arbitration, access to records, and salvage and subrogation.

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, was designed to mirror the Top Layer Traditional Excess Catastrophe Reinsurance Contract discussed on page 25, with respect to terminology and format. Company management determined that the Company should not be solely liable for the ceded reinsurance premium under the Top Layer Traditional Excess Catastrophe Reinsurance Contract. Instead, the ceded reinsurance premium should be allocated between the Company, AMG, AMI, 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. The Company's allocation or participation rate in the ceded reinsurance premium was 3.69%.

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 testing of the Company's General Controls 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 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 9.

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:

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

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

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 182,785,653	$ -	$ 182,785,653
Stocks: Preferred	6,662,280		6,662,280
Stocks: Common	304,655,684	141,915,623	162,740,062
Real estate: Properties held for the production of income **(Note 1)**	8,393,882	-	8,393,882
Cash, cash equivalents and short-term investments	97,088,928	-	97,088,928
Other invested assets	43,659,809	2,116,931	41,542,879
Subtotal, cash and invested assets	$ 643,246,237	$ 144,032,553	$ 499,213,684
Investment income due and accrued	1,814,411	2,967	1,811,444
Premium considerations:			
Uncollected premiums and agents' balances in the course of collection	19,602,198	61,471	19,540,727
Deferred premiums, agents' balances and installments booked but deferred and not yet due	47,036,770	3,895	47,032,875
Reinsurance:			
Amounts recoverable from reinsurers	7,702,826	-	7,702,826
Current federal and foreign income tax recoverable and interest thereon	1,955,543		1,955,543
Net deferred tax asset	33,920,355	6,662,899	27,257,456
Electronic data processing equipment and software	1,265	1,265	-
Receivable from parent, subsidiaries and affiliates	174,363	92	174,271
Health care ($ 0) and other amounts receivable	68,197	143	68,054
Equity and Deposits in Pools and Associations	46,251	-	46,251
Prepaid Expenses	88,538	88,538	-
Prepaid LAE	33,793	33,793	-
Rounding	17	-	17
TOTAL	**$ 755,690,764**	**$ 150,887,616**	**$ 604,803,148**

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

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

LIABILITIES	2011
Losses	$ 90,099,996
Reinsurance payable on paid losses and loss adjustment expenses	23,576,046
Loss adjustment expenses	14,715,904
Commissions payable, contingent commissions and other similar charges	447,851
Other expenses	251,556
Taxes, licenses and fees	16,821
Unearned premiums (after deducting unearned premiums for ceded reinsurance of $11,312,591)	115,767,141
Advance premiums	6,162,527
Ceded reinsurance premiums payable	10,435,429
Funds held by company under reinsurance treaties	21,596
Amounts withheld or retained by company for account of others	19,710
Remittances and items not allocated	5,786
Drafts outstanding	981,654
Payable to parent, subsidiaries and affiliates	2,966,823
Guarantor liability per SSAP 5R	303,000
TOTAL LIABILITIES	**$ 265,771,842**
CAPITAL AND SURPLUS	
Partnership capital contribution	$ 2,757,441
Additional admitted deferred tax assets	12,179,790
Unassigned funds (surplus) **(Note 2)**	324,094,075
Surplus as regards policyholders	$ 339,031,306
TOTAL LIABILITIES, CAPITAL AND SURPLUS	**$ 604,803,148**

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

Alfa Mutual Fire 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	$ 310,074,609	$ 310,523,704	$ 293,338,777	$ 326,763,004	$ 163,815,562
Deductions:					
Losses incurred	264,978,706	215,410,739	217,577,361	216,420,716	100,405,985
Loss asdjustment expenses incurred	15,631,697	16,298,497	15,471,000	15,347,343	6,300,164
Other underwriting expenses incurred	92,596,912	93,238,570	89,819,689	104,478,785	53,726,070
Change in premium deficiency	(110,828)	110,828		(81,087)	51,309
Miscellaneous income	(3,409)	(2,526)	(4,076)	(582)	(1,198)
Rounding	(1)	(2)	(5)	1	4
Total underwriting deductions	$ 373,093,076	$ 325,056,105	$ 322,863,969	$ 336,165,176	$ 160,482,334
Net underwriting gain (loss)	**$ (63,018,467)**	**$ (14,532,401)**	**$ (29,525,192)**	**$ (9,402,172)**	**$ 3,333,228**
Investment income					
Net investment income earned	$ 16,945,730	$ 27,932,516	$ 13,519,785	$ 23,005,939	$ 37,171,733
Net realized capital gains (losses)	7,524,710	(90,116)	(10,204,167)	(33,676,795)	10,073,960
Net investment gain (loss)	**$ 24,470,440**	**$ 27,842,400**	**$ 3,315,618**	**$ (10,670,856)**	**$ 47,245,693**
Other income					
Net gain (loss) from agents' or premium balances charged off	$ (1,182,855)	$ (1,105,001)	$ (783,911)	$ (945,306)	$ (384,852)
Finance and service charges not included in premiums	7,122,408	6,618,972	5,785,175	5,346,755	2,755,356
Gain or loss from disposal of fixed assets	(1,282,359)				
Policy fees reimbursed	(173,512)	(150,272)	(2,662,625)	(2,462,348)	
Other income	47,519	106,783	38,866	(64,919)	(1,275,031)
Guarantor expense per SSAP 5R	(303,000)	-	-	-	-
Total other income	**$ 4,228,201**	**$ 5,470,482**	**$ 2,377,505**	**$ 1,874,182**	**$ 1,095,473**
Net income before dividends and all other federal and foreign income taxes	$ (34,319,826)	$ 18,780,481	$ (23,832,069)	$ (18,198,846)	$ 51,674,394
Federal and foreign income taxes incurred	(4,183,219)	(744,521)	(2,984,813)	17,530,649	8,544,982
Dividends to policyholders	-	-	-	-	-
NET INCOME	**$ (30,136,607)**	**$ 19,525,002**	**$ (20,847,256)**	**$ (35,729,495)**	**$ 43,129,412**

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

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

Capital and Surplus Account	2011	2010	2009	2008	2007
Surplus as regards policyholders, prior year	$ 362,661,151	$ 339,045,828	$ 337,097,641	$ 657,900,620	$ 618,583,225
Net income	(30,136,607)	19,525,002.00	(20,847,256.00)	(35,726,495.00)	43,129,412.00
Change in net unrealized capital gains (losses)	(20,776,638.00)	(21,561,305.00)	(13,178,278.00)	(70,554,668.00)	(8,174,133.00)
Change in net deferred income tax	10,680,327.00	1,923,517.00	(87,147,665.00)	98,204,316.00	(2,793,401.00)
Change in nonadmitted assets	15,960,282.00	24,318,065.00	122,990,984.00	(313,258,382.00)	2,687,160.00
Change in provision for reinsurance	642,792.00	(589,957.00)	130,403.00	535,248.00	2,961,681.00
					1,506,676.00
Change in surplus as regards policyholders	(23,629,844.00)	23,615,323.00	1,948,187.00	(320,799,980.00)	39,317,395.00
Surplus as regards policyholders, December 31, current year	$ 339,031,307	$ 362,661,151	$ 339,045,828	$ 337,100,641	$ 657,900,620

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Real estate held for the production of income $ 8,393,882

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

During the prior examination the Company provided an appraisal dated December 31, 2004 for property held for the production of income and reported in Schedule A-Part 1. Review of the appraisal indicated that the appraisal did not certify that the appraisal conformed to ALA. ADMIN. CODE 482-1-059 (2005) which states: "The appraiser shall certify that he is familiar with the provisions of this chapter and that the appraisal is made in conformity with the chapter. He shall also certify that he is willing to testify under oath on request concerning the appraisal."

The Company representative stated the Company had reviewed the appraisals for properties held for the production of income. The review indicated that the appraisals did not certify that the appraisal conformed to ALA. ADMIN. CODE 482-1-059 (2005). The Company has been unsuccessful in securing a modified appraisal that would meet all requirements under the Code.

Note 2 – Unassigned funds (surplus) $324,094,075

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 recommendation made in the previous examination report. This review indicated that the Company had satisfactorily complied with prior examination recommendations except for the following:

Real Estate: Properties Held for the Production of Income

In the prior examination report, it was recommended that the Company comply with ALA. ADMIN. CODE 482-1-059 (2005, which states:

> The appraiser shall certify that he is familiar with the provisions of this chapter and that the appraisal is made in conformity with this chapter. He shall also certify that he is willing to testify under oath on request concerning the appraisal.

SUBSEQUENT EVENTS

A review of events subsequent to the examination date, 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 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 Fire Mutual Insurance Company (AMF). The interest rate is to be determined quarterly 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

Complaint Handling – Page 17

It is recommended that the Company implement written complaint handling procedures that are communicated to all of its employees 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."

Claims Documentation – Page 17

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.

Producer Licensing Requirements – Page 18

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, 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.

It is recommended that the Company send notification to the producers' 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 nationally recognized carrier.

Intercompany Traditional Excess Catastrophe Reinsurance – Page 23
Intercompany Top Layer Traditional Excess Catastrophe Reinsurance – Page 25

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 Held for the Production of Income – Page 34

It is again recommended that the Company comply with ALA. ADMIN. CODE 482-1-059-.04 (2005) which states:

> The appraiser shall certify that he is familiar with the provisions of this chapter and that the appraisal is made in conformity with this chapter. He shall also certify that he is willing to testify under oath on request concerning the 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