

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA**

REPORT ON EXAMINATION

OF

ALFA VISION INSURANCE CORPORATION

Montgomery, Alabama

AS OF

DECEMBER 31, 2006

Participation:

ALABAMA
Southeastern Zone, NAIC

TABLE OF CONTENTS

AFFIDAVIT	iii
SALUTATION.....	1
SCOPE OF EXAMINATION	2
ORGANIZATION AND HISTORY.....	3
MANAGEMENT AND CONTROL	5
Stockholders	5
Board of Directors.....	5
Officers.....	5
Committees.....	6
Conflict of Interest.....	6
CORPORATE RECORDS	7
HOLDING COMPANY AND AFFILIATES.....	8
Holding Company Registration and Reporting.....	8
Dividends to Stockholders.....	9
Organizational Chart.....	9
Transactions and Agreements with Affiliates.....	11
Management and Operating Agreement.....	11
Tax Allocation Agreement.....	12
Managing General Agent's Agreement.....	14
FIDELITY BOND AND OTHER INSURANCE	14
EMPLOYEES' AND AGENTS' WELFARE.....	15
Section 1033 of Title 18 of the U.S. CODE.....	15
MARKET CONDUCT ACTIVITIES	17
Territory	17
Policy Forms and Underwriting.....	17
Compliance with Agents' Licensing Requirements	17
Advertising and Marketing.....	18
Policyholders' Complaints.....	18
Privacy Policies and Practices.....	19
SPECIAL DEPOSITS.....	19
FINANCIAL CONDITION/GROWTH OF THE COMPANY.....	20
REINSURANCE	20
Intercompany Reinsurance Pooling Agreement.....	20
Reinsurance Assumed.....	22
Reinsurance Ceded.....	23
ACCOUNTS AND RECORDS	24
Internal Accounting Records.....	24
External Audit and Actuarial.....	25
Record Retention Policy.....	25
Disaster Recovery Plan.....	25
Consideration of Fraud.....	26
FINANCIAL STATEMENTS.....	27
NOTES TO FINANCIAL STATEMENTS	32

CONTINGENT LIABILITIES AND PENDING LITIGATION.....	35
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS.....	35
COMMENTS AND RECOMMENDATIONS	36
SUBSEQUENT EVENTS.....	39
CONCLUSION.....	41

AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF MONTGOMERY**

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

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

THAT an examination was made of the affairs and financial condition of *ALFA VISION INSURANCE CORPORATION*, for the period of July 1, 2004, through December 31, 2006;

THAT the following 41 pages constitute the report therein to the Commissioner of Insurance of the State of Alabama; and

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

Francis Blase Abreo

Blase Francis Abreo, CFE

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

Dianne B. Mills

(Signature of Notary Public)

Dianne B. Mills

Notary Public

(Print Name)

in and for the State of Alabama

My Commission expires 4-18-2009



BOB RILEY
GOVERNOR

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Montgomery, Alabama
May 23, 2008

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Dear Commissioners and Directors:

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

ALFA VISION INSURANCE CORPORATION

at its home office at 2108 East South Boulevard, Montgomery, Alabama, 36116. The report of examination is submitted herewith. Where the description "Company" appears herein, without qualification, it will be understood to indicate Alfa Vision Insurance Corporation.

SCOPE OF EXAMINATION

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

The organization examination of Alfa Vision Insurance Corporation was made as of September 23, 2004. The Company commenced business on January 1, 2005. The first full scope examination covers the period from July 1, 2004, through December 21, 2006, and was conducted by examiners from the Alabama Department of Insurance. Where deemed appropriate, transactions subsequent to December 31, 2006, were reviewed.

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

The Company's office copies of the filed Annual Statements for the years 2005 and 2006 were compared with or reconciled to account balances with respect to ledger items.

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

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2006. A signed letter of representation was also obtained at the conclusion of the examination whereby management represented that, through the date of this examination report, complete

disclosure was made to the examiners regarding asset and liability valuation, the financial position of the Company, and contingent liabilities.

ORGANIZATION AND HISTORY

Alfa Vision Insurance Corporation (AVI) was incorporated on July 1, 2004, pursuant to the Alabama Business Corporation Act. The Articles of Incorporation were filed in the office of Probate Judge Reese McKinney Jr. in Montgomery County, Alabama on July 1, 2004, at 4:09 P.M. Article IV (a) of said Articles of Incorporation provide that:

“The total number of shares of all classes of capital stock which the corporation shall have authority to issue is eleven million (11,000,000), of which ten million shares of the par value of \$0.10 per share are to be of a class of designated “Common Stock,” and one million (1,000,000) shares of the par value \$0.01 per share are to be of a class designated “Preferred Stock.”

The Company’s initial capitalization of \$2,000,000 was derived from the issue of 10,000,000 shares of \$0.10 par value common stock for a price of \$0.20 per share. The common capital stock was \$1,000,000, and the Gross paid and contributed surplus was \$1,000,000. The Company received the following additional paid in capital from Alfa Corporation:

2004

- September 1, 2004, contribution towards Gross paid in and contributed surplus for \$4,000,000
- November 3, 2004, contribution towards Gross paid in and contributed surplus for \$1,117,500
- December 7, 2004, contribution towards Gross paid in and contributed surplus for \$ 250,000
- December 23, 2004, contribution to Common capital stock for \$200,000
- December 28, 2004, contribution to Common capital stock \$800,000
- December 29, 2004, contribution towards Gross paid in and contributed surplus for \$50,000

The issued and paid-up capital reported by the Company in its December 31, 2004, through December 31, 2007, Annual Statements was \$2,000,000, which was in conflict with Article IV (a) of the Articles of Incorporation, which sets the authorized Common capital stock at \$1,000,000. See Note 4 – Common capital stock under the heading NOTES TO FINANCIAL STATEMENTS.

2005

- June 30, 2005, Alfa Corporation contributed \$15,000,000
- December 31, 2005, Alfa Corporation contributed \$118,255 (tax sharing agreement)

2006

- June 16, 2006, Alfa Corporation contributed \$20,000,000

AVI is a wholly-owned subsidiary of Alfa Corporation, an SEC registrant. Alfa Corporation is affiliated with Alfa Mutual Insurance Company, Alfa Mutual Fire Insurance Company, and Alfa Mutual General Insurance Company (collectively, the Mutual Group). The Mutual Group owns 54.8% of Alfa Corporation's common stock, their largest single investment. (See the heading SUBSEQUENT EVENTS for development on Alfa Corporation). AVI commenced business on January 1, 2005, and became a participant in the reinsurance pooling agreement effective January 1, 2005.

AVI writes non-standard automobile insurance in Arkansas, Florida, Indiana, Kentucky, Missouri, Ohio, Tennessee, Texas, and Virginia via a contract with The Vision Insurance Group, LLC (Vision Group), a managing general agent (MGA). Vision Group is a wholly owned subsidiary of Alfa Corporation and has been in existence since 1997, and supervises approximately 2,500 independent agents. Prior to the acquisition, Vision Group had been selling non-standard automobiles policies on behalf of third party carriers within the Company's target geographic areas previously mentioned. The Company plans to continue to use the expertise of the aforementioned carriers in determining its rates in the respective geographic areas until it has established sufficient experience of its own.

During the period covered by the examination, the Company amended Article III, Sections 1 and 6 of its *By-Laws*, effective September 28, 2004. No amendments were made to the Company's Articles of Incorporation during the period under examination.

The 2006 Annual Statement indicated the following:

- Net Admitted Assets: \$89,181,003
- Liabilities: \$41,138,471
- Total capital and surplus:
 - Common capital stock: \$2,000,000
 - Gross paid in and contributed surplus: \$41,535,755
 - Unassigned funds (surplus): \$4,506,777

MANAGEMENT AND CONTROL

Stockholders

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

Board of Directors

According to Article III of the *By-Laws*, the property and business of the Company shall be managed by a Board of Directors consisting of at least three directors but no more than twenty persons, one-third of which must be residents of Alabama. The following directors were serving at December 31, 2006:

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

Officers

The Company's *By-Laws* provide that its principal officers shall be a President, a Secretary, a Treasurer and any other officers as the Board of Directors may determine for such terms, authority and duties as maybe determined by the Board of Directors. Any one individual may serve in the capacity of more than one office. The President must be a member of the Board of Directors.

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

Officer	Title
Jerry Allen Newby	Chairman of the Board, President and CEO
Clyde Lee Ellis III	Executive Vice President, COO, and Treasurer
Herman Alan Scott	Senior Vice President, General Counsel, and Secretary
Stephen Goddard Rutledge	Senior Vice President, CFO, & Chief Investment Officer

Committees

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

<u>Pooling Committee</u>	
Jerry Allen Newby, Chairman	John Russell Thomas
Benjamin Phil Richardson	

The Pooling Committee had three members, two of which were not on the Board of Directors. This was in conflict with ALA. CODE § 10-2B-8.25 (1975), which requires that:

“... a board of directors may create one or more committees and appoint members of the board of directors to serve on them. Each committee may have one or more members, who serve at the pleasure of the board of directors.”

Conflict of Interest

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

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

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

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

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

As noted above, the Company had an established procedure for the disclosure of conflicts of interest to the Board of Directors; however, the Company could not provide evidence that all members of the Pooling Committee had signed the conflict of interest statements.

CORPORATE RECORDS

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

Minutes of the Annual Shareholders Meetings, Board of Directors and committee of the Company, from July 1, 2004, through the most recent meetings recorded at the time of examination, were reviewed. Other than the items noted under the heading MANAGEMENT AND CONTROL, the minutes appeared to be complete with regard to recording actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATES

Holding Company Registration and Reporting

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

Appropriate filings required under the Holding Company Act were made from time to time by the Company as registrant. The examination did not determine that any required disclosures were excluded from the Company's filings, other than those noted below that were not included in the FORM B filings:

- Capital contributions of \$2,117,500, made by Alfa Corporation to Alfa Vision Insurance Company during the year, 2004.
- Capital contributions of \$15,000,000, made by Alfa Corporation to Alfa Vision Insurance Company during the year, 2005.
- Capital contributions of \$20,000,000, made by Alfa Corporation to Alfa Vision Insurance Company during the year, 2006.

ALA. ADMIN. CODE 482-1-055-.15 (1) (1994), states:

“Form B – Item 5. Transactions and Agreements

Briefly describe the following agreements in force, and transactions currently outstanding or which have occurred during the last calendar year between the registrant and its affiliates . . . (a) Loans, other investments, or purchases, sales or exchanges of securities of the affiliates by the Registrant or of the Registrant by its affiliates. . . .”

Capital contributions made by Alfa Corporation to Alfa Vision Insurance Corporation are considered “other investments,” hence, the transaction should have been reported in the annual Form B filings and within 15 days from the end of the month in which the material change to the annual registration had taken place. Hence, the Company also did not comply with ALA. ADMIN. CODE 482-1-055-.15 (1) (1994), which states:

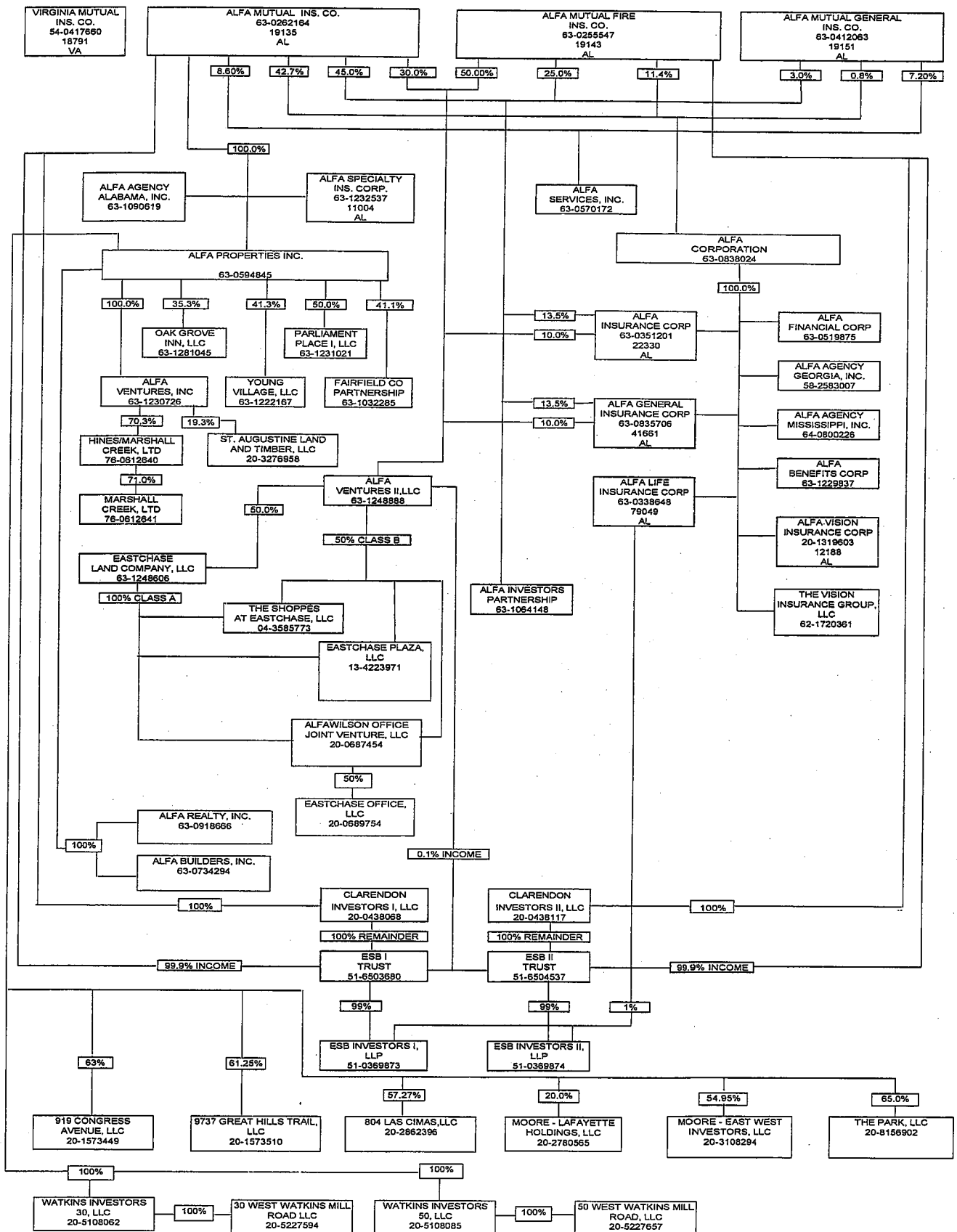
“An Amendment to Form B shall be filed within fifteen (15) days after the end of any month in which there is a material change to the information provided in the annual registration statement.”

Dividends to Stockholders

During the period under examination, the Company did not pay any dividends to its sole stockholder, Alfa Corporation.

Organizational Chart

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



Transactions and Agreements with Affiliates

Management and Operating Agreement

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

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

Pertinent terms of the agreement include the following:

- The affiliates appoint and engage AMI to take charge of, conduct, operate and manage the business operations of the affiliates, respective to each affiliate’s charter and Board of Directors, and in a proper and prudent fashion. AMI will provide all home office operating service to the affiliates, including accounting, disbursement and payroll services and will serve as a disbursing agent for the payment of all employees and agents of the affiliates.
- AMI agrees to employ, in its own name, all personnel necessary to perform the aforesaid, and reserves all rights and responsibilities of the employer of said personnel. All agents of the affiliates shall be appointed in the name of the respective affiliates and shall work on behalf of the respective affiliates. All personnel and agents of any affiliate employed outside Alabama are the sole responsibility of that affiliate. AMI agrees to indemnify and hold the affiliates harmless against any loss on account of the dishonesty or infidelity of any of AMI’s employees. Also, the affiliates agree to indemnify and hold harmless AMI for liabilities and obligations prior to the effective date of the agreement, failure or negligent failure of the affiliate to perform under the agreement, breach of

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

- AMI agrees that the business of each party to the agreement shall be conducted in the name of the respective party and that the records of each party shall be kept separately. AMI agrees to provide all required records, record-keeping services and data processing necessary to the efficient and economical operation of such business.
- The affiliates agree to reimburse AMI for expenses and additional charges in accordance with schedules which are attached to the agreement. These schedules are subject to periodic amendment. Expense allocations and other charges are determined by time, usage, and related special expense allocation studies conducted by AMI. Expenses entirely attributable to the affiliates such as printing and supplies are purchased and paid for directly by the respective affiliate.
- Arbitration: Disputes not resolved in 30 days are to be submitted for arbitration in the Birmingham, AL office of the American Arbitration Association in accordance with commercial arbitration rules.
- Confidentiality: Each party agrees to keep all Confidential Information strictly confidential.

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

Tax Allocation Agreement

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

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

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

- A U.S. consolidated income tax return shall be filed by the Parent for the taxable year ending December 31, 2006, and for each subsequent taxable period in respect of which this agreement is in effect and for which the affiliated group is required or permitted to file a consolidated tax return.
- The agreement stipulates that the tax liability of the group shall be apportioned among the members of the group on the basis of the percentage of the total tax which the tax of such member is computed on a separate return would bear to the total amount of the taxes for all members of the group so computed.
- The tax liability of the group shall be apportioned under the percentage method consistent with the provisions of Treasury Regulation §1.1502-33(d)(3). This percentage method allocates tax liability based upon the absorption of tax attributes, without taking into account the ability of any member to subsequently absorb its own tax attributes.
- Payment of the consolidated tax liability for a taxable period shall include the payment of estimated tax installments due for such taxable period, and each subsidiary shall pay to the Parent its share of each payment within ten days of receiving notice of such payment. Any amounts paid by a subsidiary on account of a separate return or separate estimated tax payments which are credited against the consolidated tax liability of the Affiliated Group, shall be included in determining the payments due from such subsidiary. Any overpayment of estimated tax should be returned to the subsidiary.
- If the consolidated tax liability is adjusted for any taxable period, whether by means of an amended return, claim for refund, or after a tax audit by the IRS, the liability of each member shall be recomputed to give effect to such adjustments, and in the case of a refund, the Parent shall make payment to each member for its share of the refund, within ten days after the refund is received by the Parent. In the case of an increase in tax liability, each member shall pay to the Parent its allocable share of such increased liability within ten days after receiving notice of the liability from the Parent.

- If, during a consolidated return period, the Parent or any subsidiary acquires or organizes another corporation that is required to be included in the consolidated return, then such corporation shall join in and be bound by the agreement.
- The agreement shall be binding upon and inure to the benefit of any successor, whether by statutory merger, acquisition of assets or otherwise, to any of the parties, to the same extent as if the successor had been an original party to the agreement.

Managing General Agent's Agreement

The Company entered into a Managing General Agent's Agreement with The Vision Insurance Group, LLC (VIG), effective January 1, 2005. The Company and VIG are wholly-owned by Alfa Corporation. VIG manages the Company's private passenger automobile business in the states of Arkansas, Indiana, Kentucky, Missouri, Ohio, Tennessee, Virginia, Texas, and Florida. According to the terms of the agreement, the Company agreed to pay VIG a fee of 8% of the net premium earned each month and commissions of 20.5% of net written premium.

FIDELITY BOND AND OTHER INSURANCE

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

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

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

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

EMPLOYEES' AND AGENTS' WELFARE

The Company had no employees; therefore, it had no formal employees' or agents' welfare program. Its operations were conducted by the personnel of Alfa Mutual Insurance Company, an ultimate parent of the Company, under the terms of a Management and Operating Agreement. The Company's officers, elected and appointed, for the Company were also employees of Alfa Mutual Insurance Company. For further comment, see the caption *Management and Operating Agreement* under the heading HOLDING COMPANY AND AFFILIATES.

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

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

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

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

any felony convictions, either personal or about another employee immediately to Human Resources.

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

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

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

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

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

MARKET CONDUCT ACTIVITIES

Territory

At December 31, 2006, the Company was licensed to transact business in the following states:

Alabama	Indiana	Ohio	Texas
Arkansas	Kentucky	Tennessee	Virginia
Florida	Missouri		

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

Plan of Operation

The Company markets its non-standard automobile products through the use of a Managing General Agent, The Vision Insurance Group (VIG). VIG managed the private passenger business written in the following states during the examination period: Arkansas, Florida, Indiana, Kentucky, Missouri, Ohio, Tennessee and Virginia.

For the year 2006, direct premiums written for private passenger automobile insurance comprised 100% of the Company's total business.

Policy Forms and Underwriting

The Company did not write any business in Alabama during the years 2005 and 2006.

Compliance with Agents' Licensing Requirements

In order to verify compliance with agents' licensing requirements of the Alabama Department of Insurance (ALDOI), a sample of fifty agents licensed in Alabama was taken from the listing maintained by the Company. The agents' names were compared with the listing maintained on the ALDOI website. No discrepancies were found within the sample.

A sample of 100 policies written by the Alfa P & C companies in the State of Alabama was checked against the ALDOI's licensing records, to verify if the agents

were appropriately licensed for the P & C companies. No discrepancies were found within the sample.

Advertising and Marketing

The Company's advertising materials were reviewed for the period covered by the examination. The advertisements consisted of signs, billboards, newspaper advertisements, and spot advertisements on radio and television.

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

The Company's advertising was planned and coordinated by Integrated Marketing Communication, a subdivision of the Alfa Mutual Insurance Company's marketing division. The cost of advertisement was shared on a proportionate basis with other participating affiliates of the Company and the Alabama Farmers Federation. Company management indicated that the producers were not allowed to create their own advertising and sales material, including internet sites. Producers were required to use Company approved advertising material.

Policyholders' Complaints

The Company's complaint register was reviewed in order to verify if all written complaints were logged on the register. Company management indicated that complaints from insurance departments and written complaints received at the home office that allege violation of state or federal laws or of any regulations, directives, or bulletins of the insurance departments are logged on the register. There was one register for the seven Alfa P&C Companies combined, which included: 1) The Company, 2) Alfa Mutual Insurance Company, 3) Alfa Mutual Fire Insurance Company, 4) Alfa Mutual General Insurance Company, 5) Alfa Insurance Corporation, 6) Alfa General Insurance Corporation, and 7) Alfa Specialty Insurance Corporation.

During the period covered by the examination, 233 complaints were logged on the register against the Alfa P & C companies. The complaint register did not specify which company was the subject of the complaint. Fifty complaint files were requested to determine if the files contained adequate documentation. The examiners determined that the Alfa P & C companies maintained adequate documentation.

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

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

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

Privacy Policies and Practices

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

SPECIAL DEPOSITS

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

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Alabama	\$1,205,119	\$1,163,724
Florida	298,319	289,722
Virginia	298,781	289,722
Total	\$1,802,219	\$1,743,168

FINANCIAL CONDITION/GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Gross Premiums Written</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>
2004	\$ 0	\$ 8,480,847	\$ 24,102	\$ 8,456,745
2005	109,677,507	58,850,665	34,902,798	23,947,867
2006*	141,830,334	89,181,003	41,138,471	48,042,532

*Per examination.

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

REINSURANCE

Intercompany Reinsurance Pooling Agreement

This agreement was originally effective August 1, 1987, between the Alfa P&C affiliates: Alfa Mutual Insurance Company (AMI); Alfa Mutual General Insurance Company (AMG); Alfa General Insurance Company (AGI); and Alfa Insurance Corporation (AIC). Alfa Specialty Insurance Corporation (ASI) was added to the pool in 2001. The Company was added to the pool in 2005. These participants in the pooling agreement will be referred to as "the affiliates" for the remainder of this discussion. This reinsurance pooling agreement was filed with the Alabama Department of Insurance on July 29, 1987, and was subsequently approved. Pertinent terms of the agreement are as follows:

Initially, the affiliates ceded 100% of their book of business then in force to the Alfa Mutual Insurance Company (AMI), and paid AMI their proportionate share of the net unearned premium less commissions at the provisional rate of 20%.

Currently, the affiliates cede 100% of the net liabilities for net premiums written to AMI. AMI retains or retrocedes the pooled business in accordance with the following percentages:

Company	In Effect	Effective
	Effective January 1, 2001	Effective January 1, 2005
AMI	18	18
AMF	13	13
AMG	3	3
ASI	1	1
AIC	32.5	30
AGI	32.5	30
AVI	<u>N/A</u>	<u>5</u>
TOTAL	<u>100</u>	<u>100</u>

The following percentages are shown below for the Coinsurance Allocations for Catastrophe Losses and Related Expenses for the related years:

Effective January 1, 2002			Effective January 1, 2003		
Cumulative Calendar Year Catastrophe Losses and Related Expenses (Million)	Coinsurance Allocation		Cumulative Calendar Year Catastrophe Losses and Related Expenses (Million)	Coinsurance Allocation	
	AGI AIC	AMI, AMF AMG, ASI		AGI AIC	AMI, AMF AMG, ASI
11.6	65%	35%	12.125	65%	35%
19	0%	100%	19	0%	100%
32	0%	100%	32	0%	100%
43	0%	100%	43	0%	100%
77	0%	100%	77	0%	100%
146	0%	100%	146	0%	100%
198	0%	100%	198	0%	100%
289+	16%	84%	301.5 +	18%	82%

- Cumulative calendar year catastrophe losses and related expenses are in millions.
- AIC and AGI to be allocated equally.
- AMI, AMF, AMG, and ASI to be allocated according to this group's relative pool percentages in effect.
- Catastrophe losses are to be accumulated during each annual calendar period.
- AMI, AMF, AMG, ASI, AIC and AGI to be allocated according to this group's relative surplus.

Effective January 1, 2004		
Cumulative Calendar Year Catastrophe Losses and Related Expenses (Million)	Coinsurance Allocation	
	AGI AIC	AMI, AMF AMG, ASI
Less than or = 14.2	65%	35%
Between 14.2 – 352	0%	100%
Greater than or = 352	18%	82%

- AIC and AGI to be allocated equally.
- AMI, AMF, AMG, and ASI to be allocated according to this group's relative pool percentages in effect.
- Catastrophe losses are to be accumulated during each annual calendar period.
- AMI, AMF, AMG, ASI, AIC, and AGI to be allocated according to this group's relative surplus.

Effective January 1, 2005			Effective January 1, 2006		
Cumulative Calendar Year Catastrophe Losses and Related Expenses (Million)	Coinsurance Allocation		Cumulative Calendar Year Catastrophe Losses and Related Expenses (Million)	Coinsurance Allocation	
	AGI, AVI AIC	AMI, AMF AMG, ASI		AGI AVI AIC	AMI, AMF AMG, ASI
Less than or = 17.9	65%	35%	Less than or = 21.2	65%	35%
Between 17.9 – 443.7	0%	100%	Between 21.2 – 525.5	0%	100%
Greater than or = 443.7	19%	81%	Greater than or = 525.5	21%	79%

- AMI, AMF, AMG, ASI, AIC, AGI, and AVI to be allocated according to this group's relative pool percentages in effect.
- Catastrophe losses are to be accumulated during each annual calendar period.
- AMI, AMF, AMG, ASI, AIC, AGI, and AVI to be allocated according to this group's relative surplus as reported in the preceding year-end annual statement.
- Effective January 1, 2006 - Coinsurance Allocation of AMI to include any coinsurance allocation for ASI (AMI's wholly owned subsidiary).

Reinsurance Assumed

The only reinsurance assumed by the Company during the examination period, other than through the intercompany reinsurance pool, was reinsurance assumed from Home State County Mutual Insurance Company. The Quota Share reinsurance agreement was effective January 28, 2005, and assumed 100% of the following covered risks situated in the state of Texas: auto liability, medical payments, personal injury protection, and uninsured/underinsured motorists.

Reinsurance Ceded

As of December 31, 2006, the Company ceded reinsurance to an affiliate, Alfa Mutual Fire Insurance Company (AMF) via three Intercompany Traditional Excess Catastrophe Reinsurance contracts:

- 1) Intercompany Traditional Excess Catastrophe Reinsurance Contract, effective January 1, 2006, whereby the Company cedes 100% of the First and Second Excess Catastrophe Reinsurance as follows:

	First Excess	Second Excess
Company's Retention	\$75,000,000	\$125,000,000
Participation Rate:	0%	0%
Reinsurer's Per Occurrence Limit (100% of)	\$50,000,000	\$75,000,000
Reinsurer's Term Limit (100% of)	\$100,000,000	\$150,000,000

- 2) Intercompany Traditional Excess Catastrophe Reinsurance Contract, effective June 1, 2006, whereby the Company cedes 100% of the Third, Fourth, Fifth, Sixth A and Sixth B Excess Catastrophe Reinsurance, subject to the following:

	Third Excess	Fourth Excess	Fifth Excess	Sixth A Excess	Sixth B Excess
Company's Retention	\$200,000,000	\$300,000,000	\$400,000,000	\$500,000,000	\$525,500,000
Intercompany Placement %	72.25%	96.3%	85.925%	79.555%	79.555%
Participant Rate:	0%	0%	0%	0%	1.2%
Reinsurer's Per Occurrence Limit (100% of)	\$100,000,000	\$100,000,000	\$100,000,000	\$25,500,000	\$174,500,000
Reinsurer's Term Limit (100% of)	\$200,000,000	\$200,000,000	\$200,000,000	\$51,000,000	\$349,000,000

- 3) Intercompany Traditional Excess Catastrophe Reinsurance Contract, effective June 15, 2006, whereby the Company ceded 100% of the Seventh Excess Catastrophe Reinsurance. The Company's pool participation rate for this layer is 1.2%. The Reinsurer's retention is the first \$700,000,000 of ultimate net loss per occurrence, with a term limit of 80.5% of \$100,000,000.

As of December 31, 2006, the Company did not cede any business to any non-affiliated companies.

ACCOUNTS AND RECORDS

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

The examiners reviewed the accounts and records maintained by the Company for its cash disbursements of \$25.00 or more. The review indicated the Company's documentation for intercompany balance transfers was not in compliance with ALA. CODE § 27-27-30 (1975). The Company provided copies of the cancelled checks, and vouchers which included the amount of transfer, the payor, and payee. The documentation did not include a description of the consideration for the payment, a description of the services provided, itemization of the expenditures, or a receipt. The documentation is required by ALA. CODE § 27-27-30 (1975), which states:

“(a) No insurer shall make any disbursement of \$25.00 or more unless evidenced by a voucher or other document correctly describing the consideration for the payment and support by a check or receipt endorsed or signed by, or on behalf of, the person receiving the money.

(b) If the disbursement is for services and reimbursement, the voucher or other document, or some other writing referred to therein, shall describe the services and itemize the expenditures. . . .”

Internal Accounting Records

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

External Audit and Actuarial

The Company and its affiliates were audited annually, on a statutory basis. The Company was audited by the certified public accounting (CPA) firm of PriceWaterhouseCoopers (PwC), Birmingham, AL during 2006. The Company was audited by the CPA firm of KPMG, Birmingham, AL during 2004 and 2005.

The reserve calculation for the years 2004 and 2005 was certified by Mr. Scott Weinstein, FCAS, MAAA of KPMG. The reserve calculation for the year 2006 was certified by Mr. Anthony Kellner, FCAS, MAAA of PwC. The audit reports and workpapers of the external auditors were obtained and utilized as deemed appropriate.

Record Retention Policy

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

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

Disaster Recovery Plan

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

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

Consideration of Fraud

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

FINANCIAL STATEMENTS

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

Statement of Assets, Liabilities, Surplus	28 and 29
Summary of Operations	30
Capital and Surplus	31

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

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

For the Year Ended December 31, 2006

	Assets	Non- admitted Assets	Net Admitted Assets
Bonds	\$29,135,097	\$ 0	\$29,135,097
Stocks:			
Preferred Stock	669,306	0	669,306
Cash, cash equivalents, and short-term investments (Note 1)	43,639,265	12,141,247	31,498,018
Receivables for securities	<u>22,077</u>	<u>0</u>	<u>22,077</u>
Subtotals, cash and invested assets	73,465,745	12,141,247	61,324,498
Investment income due and accrued	211,518	0	211,518
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection (Note 2)	2,903,007	9,330	2,893,677
Deferred premiums, agents' balances and installments booked but deferred and not yet due (Note 2)	6,232,006	1,934	6,230,072
Reinsurance:			
Amounts recoverable from reinsurers	4,110,030	0	4,110,030
Current federal and foreign income tax recoverable and interest thereon	258,590	0	258,590
Net deferred tax asset	1,834,098	401,697	1,432,401
Receivables from parent, subsidiaries and affiliates	578,970	0	578,970
Aggregate write-ins for other than invested assets	<u>63,544</u>	<u>63,544</u>	<u>0</u>
Total Assets	<u>\$89,657,508</u>	<u>\$12,617,752</u>	<u>\$77,039,756</u>

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

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

For the Year Ended December 31, 2006

Liabilities:	
Losses	\$10,322,973
Reinsurance payable on paid losses and loss adjustment expenses	2,359,680
Loss adjustment expenses	1,398,084
Commissions payable, contingent commissions and other similar charges	957,234
Other expenses (excluding taxes, licenses, and fees)	10,000
Taxes, licenses, and fees (excluding federal and foreign income taxes)	1,539,156
Unearned premiums	15,381,141
Advance premium (Note 3)	2,702,358
Ceded reinsurance premiums payable (net of ceding commissions)	5,010,808
Amounts withheld or retained by the Company for the account of others	23,266
Payable to parent, subsidiaries, and affiliates	<u>1,433,771</u>
Total Liabilities	<u>\$41,138,471</u>
Capital and Surplus:	
Common capital stock (Note 4)	1,000,000
Gross paid in and contributed and surplus (Note 4)	42,535,755
Unassigned funds (Note 5)	<u>(7,634,470)</u>
Total Capital and Surplus	<u>\$35,901,285</u>
Difference	
Total Liabilities and Stockholders' Equity	<u>\$77,039,756</u>

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

ALFA VISION INSURANCE CORPORATION
SUMMARY OF OPERATIONS

For the Years Ended December 31, 2006, 2005, 2004,

	2006	2005	2004
Underwriting Income			
Premiums earned	\$46,508,231	\$42,797,848	0
Losses incurred	27,715,026	25,858,474	0
Loss expenses incurred	2,335,383	1,976,880	0
Other underwriting expenses incurred	13,431,976	15,296,156	1,825
Aggregate write-ins for underwriting deductions	(100)	(938)	0
Total underwriting deductions	<u>\$43,482,285</u>	<u>\$43,130,572</u>	<u>1,825</u>
Net underwriting gain / (loss)	\$3,025,946	\$(332,724)	(1,825)
Investment Income			
Net investment income earned	2,614,351	603,499	60,172
Net realized capital gains / (loss)	(9,004)	(22,892)	0
Net investment gain / (loss)	2,605,347	580,607	60,172
Other Income			
Net gain / (loss) from agents' or premium balances charged off	(102,583)	(17,899)	0
Finance and service charges not included in Premiums	1,090,658	777,342	0
Aggregate write-ins for miscellaneous income	125	0	0
Total other income	988,200	759,443	0
Net income after dividends to policyholders, after capital gains tax and before all federal and foreign income tax	6,619,493	1,007,326	58,347
Federal and foreign income taxes incurred	<u>2,606,437</u>	<u>1,921,136</u>	<u>19,102</u>
Net Income	\$4,013,056	\$(913,810)	39,245

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

**ALFA VISION INSURANCE CORPORATION
CAPITAL AND SURPLUS ACCOUNT**

For the Years Ended December 31, 2006, 2005, 2004

	2006	2005	2004
Surplus as regards policyholders, December 31 prior year	\$23,947,867	\$8,456,745	0
Net income	4,013,056	(913,810)	39,245
Change in net deferred income tax	275,047	1,559,051	0
Change in non-admitted assets	(12,345,378)	(272,374)	0
Capital changes: Paid in	0	0	2,000,000
Surplus adjustments: Paid in	20,000,000	15,000,000	6,417,500
Aggregate write-ins for gains and losses in surplus	10,693	118,255	0
Change in surplus as regards policyholders for the year	<u>\$11,953,418</u>	<u>\$15,491,122</u>	<u>\$8,456,745</u>
Surplus as regards policyholders, December 31 current year	<u>\$35,901,285</u>	<u>\$23,947,867</u>	<u>\$8,456,745</u>

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

NOTES TO FINANCIAL STATEMENTS

Note 1 – Cash, cash equivalents and short-term investments

\$31,498,018

The captioned amount is \$12,141,247 less than the \$43,639,265 reported by the Company in its 2006 Annual Statement.

The examination determined that the Company's short-term investment made in the Fidelity Funds Money Market account was subject to the investment limitations of ALA. CODE § 27-41-6 (1975), which states that:

“An insurer shall not have at any one time any single investment or combination of investments in or loans upon the security of the obligations, property or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer's assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of section 27-3-26 of the Alabama Insurance Code, less the minimum capital and surplus required of said insurer for authority to transact insurance. . . .”

Utilizing the guidelines, the examiners determined that the *Surplus as regards policyholders* of \$23,947,867, less the minimum \$1,250,000 in capital and surplus or \$22,697,867 was the greater amount. The short-term investment in the Fidelity Funds money market account at December 31, 2006, was \$34,839,114; therefore \$12,141,247 was not admitted in accordance with the previously mentioned section of the *Alabama Insurance Code*.

Note 2 – Uncollected premiums and agents' balances in the course of collection

\$2,893,677

Deferred premiums, agents' balances and installments booked but deferred and not yet due

\$6,230,072

The captioned \$2,893,677 is the same as reported by the Company in its 2006 Annual Statement, but \$932,844 less than that determined by the examination. The captioned \$6,230,072 is the same as reported by the Company in its 2006 annual Statement, but \$932,844 more than that determined by the examination.

The examination determined that the Company recorded certain premiums due under *Deferred premiums, agents' balances and installments booked but deferred and not yet due*.

Premiums due are recorded under *Uncollected premiums and agents' balances in the course of collection*, in accordance with the guidance provided by the NAIC Annual Statement Instructions, which state:

“Line 13.1 – Uncollected premiums and Agents’ Balances in Course of Collection.

Include: Direct and group billed uncollected premiums. Amounts collected but not yet remitted to home office.”

Note 3 – Advance Premiums

\$2,702,358

The captioned amount is the same as reported by the Company in its 2006 Annual Statement, but \$7,395 less than that determined by the examination. Due to immateriality, no changes have been made to the financial statements.

The examiners determined that the Company inappropriately netted \$147,911 in advance premium liability against policyholders’ receivable instead of reporting the same under Advance Premiums. When the allocation of advance premiums is done between the seven companies covered by the pooling agreement, the Company’s portion of the allocated advance premium is \$7,395. Advance premiums must be reported as a liability instead of netting the same against policyholders’ receivable. The Company must comply with the guidance provided by the SSAP No. 53, paragraph 13, of the NAIC Accounting Practices and Procedures Manual, which states:

“Advance premiums result when the policies have been processed, and the premium has been paid prior to the effective date. These advance premiums are reported as a liability in the statutory financial statements and not considered income until due. . . .”

Note 4 – Common capital stock

\$1,000,000

Gross paid in and contributed surplus

\$42,535,755

The captioned \$1,000,000 is \$1,000,000 less than that reported by the Company in its 2006 Annual Statement. The captioned \$42,535,755 is \$1,000,000 more than that reported by the Company in its 2006 Annual Statement.

The examiners reviewed the Company’s Articles of Incorporation and found the Company was authorized a maximum of \$1,000,000 in common capital stock. Article IV (a) of said Articles of Incorporation provide that:

“The total number of shares of all classes of capital stock which the corporation shall have authority to issue is eleven million (11,000,000), of which ten million shares of the par value of \$0.10 per share are to be of a class of designated “Common Stock,” and one million (1,000,000) shares of the par value \$0.01 per share are to be of a class designated “Preferred Stock.”

However, from 2004 through the Company’s most recent 2007 Annual Statement, the Company has reported \$2,000,000 in common capital stock. The Company did not comply with the NAIC Annual Statement Instructions, which state:

“Common capital stock should equal the par value per share multiplied by the number of issued shares. . . .”

The \$2,000,000 of common capital stock was reported in error and should have been \$1,000,000, with the remaining \$1,000,000 included as Gross paid in and contributed surplus. The Company has indicated that a correction will be made in its first 2008 Quarterly Statement.

In the 2004 and 2005 Annual Statements, Note 13 stated, “The Company has 10,000,000 shares of \$.10 par value common stock authorized, issued and outstanding.” This statement was found to comply with the NAIC Annual Statement Instructions. However, beginning with the Company’s 2006 Annual Statement, the note stated, “The Company has 10,000,000 shares of \$.20 par value common stock authorized, issued and outstanding.” The Company, however, did not change the par value of its stock as evidenced by both the Articles of Incorporation and minutes of meetings of the Board. The Note was not in compliance with the NAIC Annual Statement Instructions, which state, the Company should disclose, “The number of shares of each class of capital stock authorized, issued and outstanding as of the balance sheet date and the par value or stated value of each class.” Again, the Company has indicated that a correction will be made in its first 2008 Quarterly Statement.

Note 5 – Unassigned funds

\$(7,634,470)

The unassigned fund (surplus), as determined by this examination is \$12,141,247 less than the \$4,506,777 reported by the Company in its 2006 Annual Statement.

The following schedule presents a reconciliation of the unassigned funds per the Company’s filed statement to that developed by this examination:

Unassigned funds per Company		\$4,506,777
Examination increase / (decrease) to assets:		
• Cash, cash equivalents and short-term Investments	\$(12,141,247)	
Examination (increase) / decrease to liabilities:		
• Common capital stock	\$(1,000,000)	
• Gross paid and contributed surplus	1,000,000	
Net increase / (decrease)		<u>\$(12,141,247)</u>
Unassigned funds (surplus) per examination		<u>\$ (7,634,470)</u>

CONTINGENT LIABILITIES AND PENDING LITIGATION

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

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

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

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

COMMENTS AND RECOMMENDATIONS

Committees – Page 6

It is recommended that the Company's Board of Directors only appoint Board members to serve on committees of the Board of Directors in accordance with ALA. CODE § 10-2B-8.25 (a) (1975), which states:

“... a board of directors may create one or more committees and appoint members of the board of directors to serve on them. Each committee may have one or more members, who serve at the pleasure of the board of directors.”

Conflict of Interest – Page 6

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

Holding Company and Affiliates – Page 8

It is recommended that the Company include all required disclosures of transactions between affiliated companies in its holding Company registration statements and amendments as required by ALA. ADMIN. CODE 482-1-055 (1994), which states:

“Form B – Item 5. Transactions and Agreements

Briefly describe the following agreements in force, and transactions currently outstanding or which have occurred during the last calendar year between the registrant and its affiliates . . . (a) Loans, other investments, or purchases, sales or exchanges of securities of the affiliates by the Registrant or of the Registrant by its affiliates. . . .”

It is recommended that the Company file an Amendment to Form B when a material change to the information provided in the annual registration statement has taken place as required by ALA. ADMIN. CODE 482-1-055-.15 (1) (1994), which states:

“An Amendment to Form B shall be filed within fifteen (15) days after the end of any month in which there is a material change to the information provided in the annual registration statement.”

Section 1033 of Title 18 of the U.S. CODE – Page 15

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

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

Policyholders’ Complaints – Page 18

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

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

Record Retention Policy – Page 25

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

“Every insurer, which term shall include every domestic insurer . . . or any other legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer’s financial condition may be readily ascertained by the Department of Insurance, taking into consideration other

record retention requirements. All records must be maintained for not less than five (5) years.”

Cash and short-term investment- Page 32

It is recommended that the Company comply with the investment limitation requirements set forth in ALA. CODE § 27-41-6 (1975), which states:

“An insurer shall not have at any one time any single investment or combination of investments in or loans upon the security of the obligations, property or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer’s assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of section 27-3-26 of the Alabama Insurance Code, less the minimum capital and surplus required of said insurer for authority to transact insurance. . . .”

Uncollected premiums and agents’ balances in the course of collection – Page 32

Deferred Premiums, agents’ balances and installments booked but deferred and not yet due – Page 32

It is recommended that the Company record all due and uncollected premiums on *Uncollected premiums and agents’ balances in the course of collection* in accordance with the guidance provided by the NAIC Annual Statement Instructions, which state:

“Line 13.1 – Uncollected premiums and Agents’ Balances in Course of Collection.

Include: Direct and group billed uncollected premiums. Amounts collected but not yet remitted to home office.”

Advance Premiums – Page 33

It is recommended that the Company report advance premiums in accordance with the guidance provided by SSAP No. 53, paragraph 13, of the NAIC Accounting Practices and Procedures Manual, which state:

“Advance premiums result when the policies have been processed, and the premium has been paid prior to the effective date. These advance premiums

are reported as a liability in the statutory financial statements and not considered income until due. . . .”

Common capital stock – Page 33

Gross paid in and contributed surplus – Page 33

It is recommended that the Company accurately calculate and report its common capital stock and Gross paid in and contributed surplus in accordance with the NAIC Annual Statement Instructions, which state:

“Common capital stock should equal the par value per share multiplied by the number of issued shares. . . .”

It is recommended that the Company accurately complete the Notes to Financial Statements to include the disclosures related to capital and surplus as prescribed by the NAIC Annual Statement Instructions, which state:

“Disclose the following information related to capital and surplus . . .

The number of shares of each class of capital stock authorized, issued and outstanding as of the balance sheet date and the par value or stated value of each class. . . .”

SUBSEQUENT EVENTS

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

Privatization of Alfa Corporation

On April 15, 2008, Alfa Mutual Insurance Company (AMI) and Alfa Mutual Fire Insurance Company (AMF) completed a merger transaction (the Merger) in which they acquired the shares of Alfa Corporation (AC) not previously owned by them. As

a result of the transaction, AC became a wholly owned subsidiary of AMI (65%) and AMF (35%). Each share of common stock of AC (other than shares owned by AMI, AMF, AC, and its wholly owned subsidiaries, and holders of shares subject to certain company awards) was cancelled and converted into the right to receive \$22.00 in cash, without interest.

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

Contingencies

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

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

Pooling Agreement

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.

CONCLUSION

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

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

In addition to the undersigned, Charles Turner, Toni Bean, Jennifer Haskell, Mora Perkins, Theo Goodin, Jerry Hyche, Examiners, Frank Fricks, CFE, AIE, with Insurance Logic and Matthew Merlino, FCAS, MAAA, FCA and Suejeudi Buehler, FCAS, MAAA, Consulting Actuarial Examiners, both with Merlinos & Associates, Inc.; all representing the Alabama Department of Insurance, participated in this examination of Alfa Vision Insurance Corporation.

Respectfully submitted,



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