# REPORT OF EXAMINATION

# OF

# ALFA MUTUAL GENERAL 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 General Insurance Company0.
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 General 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 B. Gree
(Signature of Notary Public)

My commission expires My Commission Expires August 1, 2013.

ROBERT BENTLEY
GOVERNOR

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

JIM L. RIDLING
COMMISSIONER

DEPUTY COMMISSIONER
CHARLES M. ANGELL

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
REYN NORMAN

RECEIVER
DENISE B. AZAR

LICENSING MANAGER
JIMMY W. GUNN

January 11, 2013

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

Dear Commissioner Ridling:

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

**Alfa Mutual General 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 "AMG" appears herein, without qualification, it will be understood to indicate Alfa Mutual General 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 Fire 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 26.

A market conduct examination was performed concurrently with the financial examination. The market conduct examination included a review of the Company's territory, plan of operation, producers' licensing, claims processing, marketing and sales, policy forms and underwriting, policyholder complaints and privacy standards. See the caption "**MARKET CONDUCT ACTIVITIES**" – Page 16.

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

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

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

## ORGANIZATION AND HISTORY

The Company was incorporated August 23, 1955, under the name, Federated Guaranty Mutual Insurance Company, Inc. It was organized as a mutual insurance company by the Alabama Farm Bureau Federation (AFBF), to provide property and casualty insurance to the members of the AFBF.

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

Effective May 1, 1987, AFBF withdrew, as a franchise member, from the national Farm Bureau Federation and changed its name to Alabama Farmers Federation. The name of the Company was changed to Alfa Mutual General 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 Fire Insurance Company (AMF), 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 applied to the affiliates' direct, reinsurance assumed and reinsurance ceded business which would be ceded to AMI. The pooled business was then retroceded according to percentages provided in the pooling agreement. In 1989, an intercompany reinsurance pooling committee, representing the boards of directors of the reinsurance pool participants, was established to review and approve any changes to the pooling agreement.

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

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

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

AC, a Securities and Exchange Commission (SEC) registrant, was affiliated with AMI, AMF and AMG (collectively the Mutual Group). The Mutual Group owned 54.8% of AC's common stock, their largest single investment. On April 15, 2008, the Mutual Group completed a merger transaction in which they acquired AC's common shares not previously owned by them. Each of these shares was cancelled and converted into the right to receive $22 in cash, without interest. As a result of the merger, AC became a wholly-owned subsidiary of AMI (65%) and AMF (35%). Also as a result of the merger, AC's common stock ceased to trade on the NASDAQ Global Select Market as of the close of trading on April 15, 2008, and the registration of AC's common stock under the Securities Exchange Act of 1934, as amended, was terminated.

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

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

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

*Retired in 2012.

**Committees**

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

*Executive*

The Executive Committee consisted of the following Directors:

Jerry Allen Newby, Chairman*
Stephen Leonard Dunn
Jacob Calhoun Harper
*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 procedure required the directors to sign written conflict of interest statements annually. These conflict of interest statements were maintained by the Company's legal department. The documents on file were complete and current.

## CORPORATE RECORDS

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

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

## HOLDING COMPANY AND AFFILIATES

### Holding Company

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as joint registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company as joint registrant. A review of the Company's filings during the period under review did not disclose any omissions in them.

### Dividends to Stockholders

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

### Management & Service Agreements

*Management and Operating Agreement*

The Agreement was amended and restated effective January 1, 2010, among and between Alfa Mutual Insurance Company (AMI) on one hand and with

Alfa Mutual Fire Insurance Company, Alfa Mutual General Insurance Company, Alfa Life Insurance Corporation, Alfa Insurance Corporation, Alfa General Insurance Corporation, Alfa Specialty Insurance Corporation, Alfa Alliance Insurance Corporation, Alfa Vision Insurance Corporation, Alfa Financial Corporation, Alfa Corporation, Alfa Builders, Inc., Alfa Realty, Inc., Alfa Properties, Inc., Alfa Agency, Inc., Alfa Benefits Corporation, East South Boulevard Investors I, LLP, East South Boulevard Investors II, LLP, The Vision Insurance Group, LLC, Alfa Ventures, Inc., Alfa Ventures, II, LLC and Alfa Investors Partnership (each a "company" and collectively "companies") on the other hand. AMI and the companies shall be referred herein, collectively as the "Parties" or each, individually, a "Party."

AMI and the companies agreed to the following:

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

- Loss payment; and
- Reserves.

- **Employees**: AMI would employ, in its own name, all personnel necessary to perform 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 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*

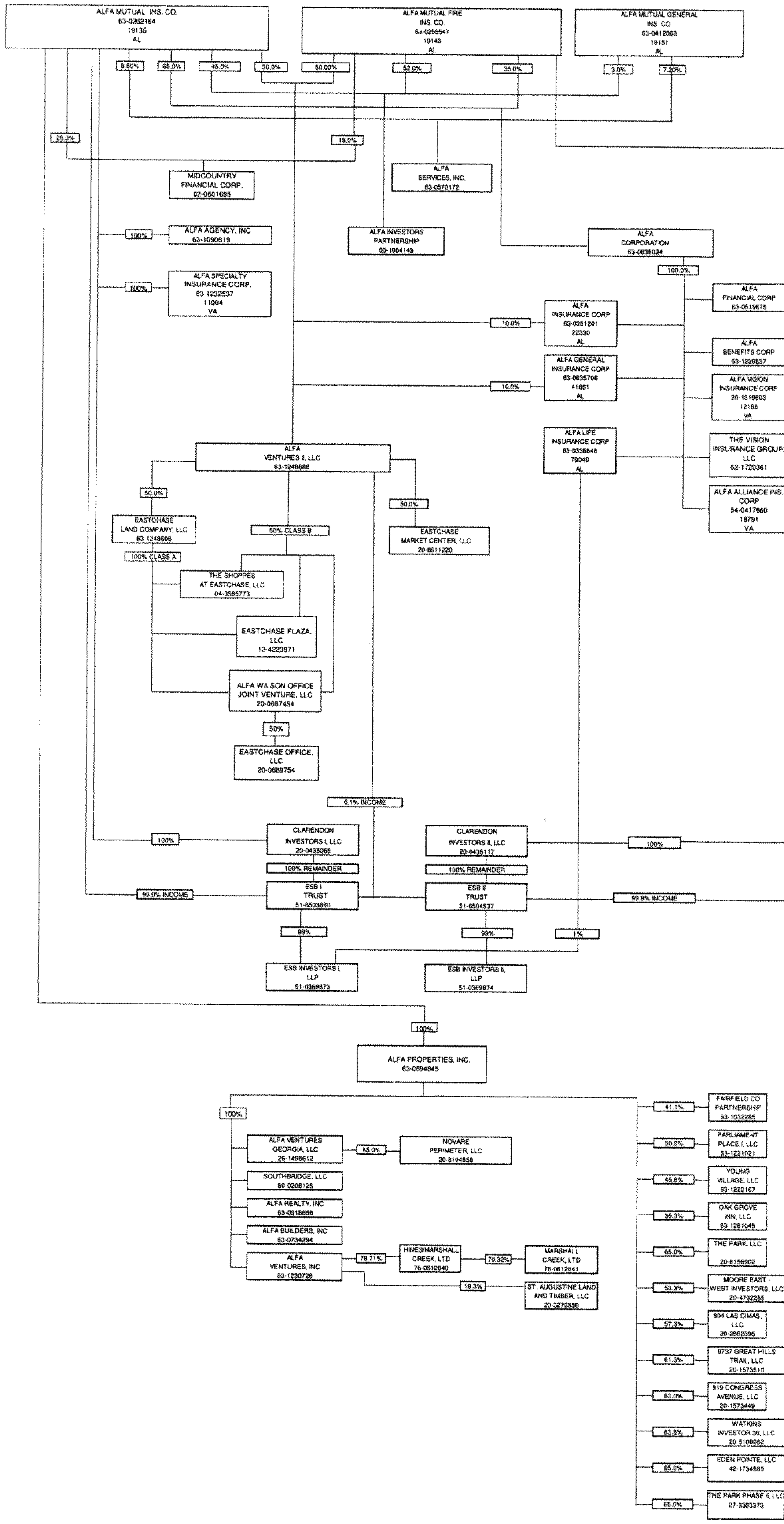
The Agreement was effective January 1, 2005 and was between Alfa Financial Corporation (AFC) on one hand and with Alfa Mutual Insurance Company, Alfa Mutual General Insurance Company, Alfa Mutual Fire Insurance Company, Alfa Insurance Corporation and Alfa General Insurance Corporation ("Insurers") on 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%
28.0%
15.0%
MIDCOUNTRY FINANCIAL CORP.
02-0601685
ALFA SERVICES, INC.
63-0570172
100%
ALFA AGENCY, INC
63-1090619
ALFA INVESTORS PARTNERSHIP
63-1064148
ALFA CORPORATION
63-0838024
100%
ALFA SPECIALTY INSURANCE CORP.
63-1232537
11004
VA
100.0%
ALFA FINANCIAL CORP
63-0519675
10.0%
ALFA INSURANCE CORP
63-0351201
22330
AL
ALFA BENEFITS CORP
63-1229837
ALFA GENERAL INSURANCE CORP
63-0635706
41661
AL
ALFA VISION INSURANCE CORP
20-1319603
12166
VA
ALFA LIFE INSURANCE CORP
63-0338848
79049
AL
THE VISION INSURANCE GROUP, LLC
62-1720361
ALFA ALLIANCE INS. CORP
54-0417660
18791
VA
ALFA VENTURES II, LLC
63-1248888
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
CLARENDON INVESTORS I, LLC
20-0438068
CLARENDON INVESTORS II, LLC
20-0435117
100% REMAINDER
ESB I TRUST
51-6503680
ESB II TRUST
51-6504537
99.9% INCOME
99%
1%
ESB INVESTORS I, LLP
51-0369873
ESB INVESTORS II, LLP
51-0369874
ALFA PROPERTIES, INC.
63-0594845
ALFA VENTURES GEORGIA, LLC
26-1498612
85.0%
NOVARE PERIMETER, LLC
20-8194858
SOUTHBRIDGE, LLC
80-0208125
ALFA REALTY, INC
63-0918666
ALFA BUILDERS, INC
63-0734294
ALFA VENTURES, INC
63-1230726
78.71%
HINES/MARSHALL CREEK, LTD
76-0612640
70.32%
MARSHALL CREEK, LTD
76-0612641
19.3%
ST. AUGUSTINE LAND AND TIMBER, LLC
20-3276958
41.1%
FAIRFIELD CO PARTNERSHIP
63-1032285
50.0%
PARLIAMENT PLACE I, LLC
63-1231021
45.8%
YOUNG VILLAGE, LLC
63-1222167
35.3%
OAK GROVE INN, LLC
63-1281045
65.0%
THE PARK, LLC
20-8156902
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
63.8%
WATKINS INVESTOR 30, LLC
20-5108062
65.0%
EDEN POINTE, LLC
42-1734589
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 marketed 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 behalf of the Company. The Company wrote the majority of its business in Alabama with a small amount produced in Georgia and Mississippi during the examination period. The Company's direct premiums were for private passenger auto and homeowner lines of business.

### Territory

At December 31, 2011, the Company was licensed to transact property and casualty business in the following States: Alabama, Georgia and Mississippi. The Certificates of Authority from the respective jurisdictions were inspected and found to be in effect at December 31, 2011.

### Marketing and Sales

The Company's advertising materials were reviewed for the examination period. The examiners' review did not reveal any advertisements that misrepresented policy benefits, made unfair or incomplete comparisons with other policies, or made false, deceptive or misleading statements or representations.

The Company's website (www.alfains.com) was reviewed and found to include the following links: Home, Products, My Alfa login, Claims, About Alfa (Alabama Farmers Federation, Newsroom, Affiliated Companies, Careers@Alfa, Customer Stories, and Contact Us).

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

### Dividends to Policyholders

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

| Year | Amount |
|---|---|
| 2007 | ($ 384) |
| 2008 | $ 0 |
| 2009 | $ 0 |
| 2010 | $ 0 |
| 2011 | $ 0 |

### Complaint Handling

The examiners reviewed the Company's complaint procedures and its complaint register for completeness. The examiners reviewed a sample of 84 Alabama complaints files from a population of 256. The population of 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 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 Payment Practices

The examiners reviewed samples of Alabama claims that were paid and closed, litigated, and closed without payments during the examination period for AMI, AMF and AMG. 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 and applicable statutes and regulations. The review of the sample items included a review of the claim documentation for completeness. There were no discrepancies noted related to AMG claims payment practices.

## 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 reviewed 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 AMI, AMF, and AMG. It was determined that the premiums were calculated in accordance with the Company's guidelines and its rates filed with the Alabama Department of Insurance.

## Producer Licensing

*Termination of Producers*

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

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

The Company did not provide the termination notification 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 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 | $ 248,723 | $ 280,313 |
| Georgia | 34,821 | 39,244 |
| **TOTAL** | **$ 283,544** | **$ 319,557** |

## FINANCIAL CONDITION/GROWTH OF THE COMPANY

| | Admitted Assets | Liabilities | Policyholders' Surplus | Premiums Earned |
|---|---|---|---|---|
| 2011* | $81,765,105 | $38,379,642 | $43,385,464 | $41,349,840 |
| 2010 | $86,304,768 | $36,221,357 | $50,083,441 | $41,402,984 |
| 2009 | $82,861,447 | $35,775,913 | $47,085,534 | $39,111,728 |
| 2008 | $77,337,446 | $30,834,434 | $46,503,012 | $36,587,392 |
| 2007 | $65,048,231 | $24,277,064 | $40,771,167 | $25,853,930 |
| 2006* | $66,549,605 | $27,112,347 | $39,437,258 | $25,063,357 |

*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 |
|---|---|---|---|---|
| (13.2)% | (3.7)% | (12.1)% | (5.3)% | (20.9)% |

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 | $ (415) | $ (736) | $ (607) | $ (23) | $ 903 |
| Two Year Loss | $ (1,169) | $ (617) | $ (906) | $ (906) | $ (171) |

## 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 – 12/31/04 | 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 of the Associates 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 a mandatory reinsurance pool, Alabama Commercial Automobile Insurance Procedure Plan.

### Reinsurance Ceded

*Intercompany Traditional Excess Catastrophe Reinsurance Contract*

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

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

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

| | First Excess | Second Excess | Third Excess | Fourth Excess | Fifth Excess |
|---|---|---|---|---|---|
| Company's Retention | $75,000,000 | $100,000,000 | $150,000,000 | $250,000,000 | $400,000,000 |
| Intercompany Placement % | 100% | 100% | 100% | 100% | 100% |
| Participation Rate | 5.78% | 5.78% | 5.78% | 5.78% | 5.78% |
| Reinsurer's Per Occurrence Limit | $25,000,000 | $50,000,000 | $100,000,000 | $150,000,000 | $200,000,000 |
| Reinsurer's Term Limits | $50,000,000 | $100,000,000 | $200,000,000 | $300,000,000 | $400,000,000 |

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

- Subject to the terms of the intercompany pooling agreement, and

- Reinsured the excess liability accrued under in-force policies or policies issued or renewed as of the agreement's effective date.

This agreement contained an allocation schedule regarding the ceded reinsurance premium under the Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). Company management determined that AMF should not be solely liable for the ceded reinsurance premium under the Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). Instead, the ceded reinsurance premium should be allocated between the Company, AMI, AMF, AIC, AGI, and AAI. As a result, this agreement was executed to document each company's individual participation rate in the ceded reinsurance premium under the Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). The Company's allocation or participation rate in the ceded reinsurance premium was 5.78%.

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

- Reinsurer
- Insolvency clause
- Termination clause

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

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

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

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

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

*Intercompany Top Layer Traditional Excess Catastrophe Reinsurance Contract*

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

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

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

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

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

This agreement contained an allocation schedule regarding the ceded reinsurance premium under the Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). Company Management determined that AMF would not be solely liable for the ceded reinsurance premium payable due under the Top Layer Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). Instead, the ceded reinsurance premium payable would be allocated between the Company, AMI, AMF, AIC, AGI and AAI. As a result, this agreement was executed to document each company's individual participation rate in the ceded reinsurance premium under the Top Layer Traditional Excess Catastrophe Reinsurance Contract (issued to AMF). The Company's allocation or participation rate of the ceded reinsurance premium payable was 5.78%.

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

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $ 25,382,291 | $ - | $ 25,382,291 |
| Stocks: Common | 19,859,323 | - | 19,859,323 |
| Real estate: Properties held for the production of income **(Note 1)** | 291,916 | - | 291,916 |
| Cash, cash equivalents and short-term investments | 15,896,906 | - | 15,896,906 |
| Other invested assets | 1,910,622 | - | 1,910,622 |
| Subtotal, cash and invested assets | $ 63,341,058 | $ - | $ 63,341,058 |
| Investment income due and accrued | 298,829 | - | 298,829 |
| Premium considerations: | | | |
| Uncollected premiums and agents' balances in the course of collection | 2,639,637 | 8,196 | 2,631,441 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 6,271,569 | 519 | 6,271,050 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 4,057,035 | - | 4,057,035 |
| Funds held by or deposited with reinsured companies | - | - | - |
| Current federal and foreign income tax recoverable and interest thereon | 47,860 | | 47,860 |
| Net deferred tax asset | 4,972,061 | 275,255 | 4,696,806 |
| Guaranty funds receivable or on deposit | - | - | - |
| Electronic data processing equipment and software | 1,265 | 1,265 | - |
| Furniture and equipment, including health care delivery assets | - | - | - |
| Receivable from parent, subsidiaries and affiliates | 326,281 | - | 326,281 |
| Health care ($ 0) and other amounts receivable | 1,169 | 7 | 1,162 |
| Equity and Deposits | 93,585 | - | 93,585 |
| Prepaid Expenses | 10,645 | 10,645 | (0) |
| Prepaid LAE | 4,512 | 4,512 | - |
| TOTAL | **$ 82,065,504** | **$ 300,399** | **$ 81,765,105** |

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

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

| LIABILITIES | 2011 |
|---|---|
| Losses | $ 12,050,549 |
| Reinsurance payable on paid losses and loss adjustment expenses | 3,166,331 |
| Loss adjustment expenses | 2,037,648 |
| Commissions payable, contingent commissions and other similar charges | 59,714 |
| Other expenses | 46,203 |
| Taxes, licenses and fees | 205,973 |
| Unearned premiums (after deducting unearned premiums for ceded reinsurance of $21,587,210) | 15,435,619 |
| Advance premiums | 821,670 |
| Ceded reinsurance premiums payable | (377,805) |
| Funds held by company under reinsurance treaties | 2,745 |
| Amounts withheld or retained by company for account of others | 15,501 |
| Remittances and items not allocated | 147,128 |
| Drafts outstanding | 2,764,828 |
| Payable to parent, subsidiaries and affiliates | 2,003,537 |
| **TOTAL LIABILITIES** | **$ 38,379,642** |
| | |
| CAPITAL AND SURPLUS | |
| Partnership capital contribution | $ 159,083 |
| Additional admitted deferred tax assets | 2,749,553 |
| Gross paid in and contributed surplus | - |
| Unassigned funds (surplus) **(Note 2)** | 40,476,828 |
| Surplus as regards policyholders | $ 43,385,464 |
| **TOTAL LIABILITIES, CAPITAL AND SURPLUS** | **$ 81,765,105** |

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

## Alfa Mutual General 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 | $ 41,349,840 | $ 41,402,984 | $ 39,111,728 | $ 36,587,392 | $ 25,853,931 |
| Deductions: | | | | | |
| Losses incurred | 35,622,597 | 29,114,382 | 29,959,971 | 24,832,688 | 19,574,222 |
| Loss adjustment expenses incurred | 2,064,974 | 2,066,479 | 2,086,466 | 2,054,397 | 1,415,492 |
| Other underwriting expenses incurred | 12,323,522 | 12,411,375 | 11,792,267 | 11,081,662 | 8,259,024 |
| Change in premium deficiency | (14,777) | 14,777 | | (18,796) | |
| Miscellaneous income | (455) | (337) | (762) | (432) | 11,925 |
| Rounding | - | 1 | 6 | (2) | (2) |
| Total underwriting deductions | $ 49,995,861 | $ 43,606,677 | $ 43,837,949 | $ 37,949,517 | $ 29,260,661 |
| **Net underwriting gain (loss)** | **$ (8,646,021)** | **$ (2,203,693)** | **$ (4,726,221)** | **$ (1,362,125)** | **$ (3,406,730)** |
| Investment income | | | | | |
| Net investment income earned | $ 1,402,511 | $ 1,976,933 | $ 1,432,405 | $ 2,465,677 | $ 3,270,456 |
| Net realized capital gains (losses) | 744,752 | 2,502,642 | (121,269) | 2,443,622 | (426,432) |
| **Net investment gain (loss)** | **$ 2,147,263** | **$ 4,479,575** | **$ 1,311,136** | **$ 4,909,299** | **$ 2,844,024** |
| Other income | | | | | |
| Net gain (loss) from agents' or premium balances charged off | $ (157,714) | $ (147,333) | $ (104,521) | $ (126,296) | $ (88,813) |
| Finance and service charges not included in premiums | 949,654 | 882,529 | 771,357 | 712,901 | 635,851 |
| Gain or loss from disposal of fixed assets | (170,981) | | | | |
| Policy fees reimbursed | (23,135) | | | | |
| Other income | 6,336 | (5,799) | (349,834) | (336,969) | (294,238) |
| **Total other income** | **$ 604,160** | **$ 729,397** | **$ 317,001** | **$ 249,636** | **$ 252,800** |
| Net income before dividends and all other federal and foreign income taxes | $ (5,894,598) | $ 3,005,279 | $ (3,098,084) | $ 3,796,810 | $ (309,906) |
| Federal and foreign income taxes incurred | (1,983) | 39,313 | (3,285) | (1,165,748) | 245,316 |
| Dividends to policyholders | - | - | - | - | (384) |
| NET INCOME | **$ (5,892,615)** | **$ 2,965,966** | **$ (3,094,799)** | **$ 4,962,558** | **$ (554,838)** |

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

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

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Capital and Surplus Account | | | | | |
| Surplus as regards policyholders | | | | | |
| December 31, prior year | $ 50,083,411 | $ 47,085,534 | $ 46,503,012 | $ 40,771,167 | $ 39,437,258 |
| Net income | (5,892,615) | 2,954,966 | (3,094,799) | 4,962,558 | (554,838) |
| Change in net unrealized capital gains (losses) | (1,210,620) | 185,329 | 1,225,769 | (1,131,193) | 52,426 |
| Change in net deferred income tax | 353,482 | (823,614) | 1,125,525 | (2,525,710) | 482,338 |
| Change in nonadmitted assets | 51,807 | 670,196 | 1,326,027 | 4,426,191 | 982,377 |
| Cumulative effect of changes in accounting principles | - | - | - | - | 371,605 |
| Change in surplus as regards policyholders | $ (6,697,947) | $ 2,986,877 | $ 582,521 | $ 5,731,846 | $ 1,333,909 |
| Surplus as regards policyholders, | | | | | |
| December 31, current year | **$ 43,385,464** | **$ 50,072,411** | **$ 47,085,533** | **$ 46,503,012** | **$ 40,771,167** |

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

## NOTES TO FINANCIAL STATEMENTS

**<u>NOTE 1 - Real estate held for the production of income</u>** **<u>$291,916</u>**

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.

**<u>Note 2 – Unassigned funds (surplus)</u>** **<u>$40,476,828</u>**

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 General Counsel to the Company's independent certified public accountants,
- A review of the report to the examiners on pending litigation made by Company's 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-.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.

## SUBSEQUENT EVENTS

A review of events subsequent to the examination date, December 31, 2011, was performed. It was noted the following officers announced their retirements.

### Officer Retirements

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

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

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

John Jung, Chief Information Officer, announced his retirement at the July 19, 2012 Executive Committee meeting, effective October 31, 2012. Mr. Rutledge announced a national search would be conducted for Mr. Jung's successor at that same meeting. Mr. Jung extended his retirement date to March 31, 2013 so he could assist in training of his replacement who has yet to be hired.

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

## 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.

### Producer Licensing Requirements – Page 18

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

> Subject to the producer's contract rights, if any, any insurer or authorized representative of the insurer may terminate a producer's appointment at any time. An insurer or authorized representative of the insurer that terminates the appointment,

employment, or contract with a producer for any reason shall within 30 days following the effective date of the termination, using a format prescribed by the commissioner, give notice of the termination to the commissioner.

**It is further recommended** that the Company notify the producer at his or her last known address within 15 days in accordance with ALA. CODE § 27-7-30.1(1975) (a), which states:

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

**Intercompany Traditional Excess Catastrophe Reinsurance – Page 22**
**Intercompany Top Layer Traditional Excess Catastrophe Reinsurance – Page 24**

**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**

**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