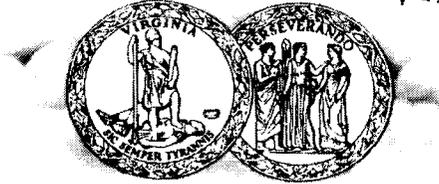


ASSOCIATION EXAMINATION
on
ALFA VISION INSURANCE CORPORATION
Glen Allen, Virginia
as of
December 31, 2011

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Alfa Vision Insurance Corporation as of December 31, 2011, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 26th day of April, 2013

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
January 11, 2013

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of § 38.2 - 1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

ALFA VISION INSURANCE CORPORATION

Glen Allen, Virginia

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation is a stock property and casualty insurer and was last examined by representatives of the Alabama Department of Insurance as of December 31, 2006. The current examination, which was called and conducted under the auspices of the NAIC, was made by Examiners from the State Corporation Commission's Bureau of Insurance in coordination with Examiners from the State of Alabama. This examination covers the period from January 1, 2007 through December 31, 2011.

HISTORY

On January 4, 1983, the holding company now named Alfa Corporation (AC) was incorporated in Delaware under the name, Federated Guaranty Corporation. AC, a SEC registrant, was affiliated with Alfa Mutual Insurance Company (AMI), Alfa Mutual Fire Insurance Company (AMF) and Alfa Mutual General Insurance Company (AMG) (collectively the Alfa Group). The Alfa Group owned 54.8% of AC's common stock, their largest single investment. In 2004, the Corporation was organized as a wholly-owned subsidiary of AC and commenced business on January 1, 2005.

The Company is affiliated with seven other property and casualty insurers in a reinsurance pooling agreement. The affiliates were AMI, AMF, AMG, Alfa Insurance Corporation (AIC), Alfa General Insurance Corporation (AGI), Alfa Specialty Insurance Corporation (ASI) and Alfa Alliance Insurance Corporation (AAI). The terms of the agreement provide that all direct business of the affiliates will be ceded to AMI. The pooled business would then retro ceded 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. The Corporation became a participant in the reinsurance pooling agreement effective on January 1, 2005. Effective April 16, 2008, the pooling agreement was amended to change the pool participation percentages.

On April 15, 2008, AMI completed a transaction in which it and AMF acquired the shares of AC not previously owned by them. As a result of the transaction, AC became a wholly-owned subsidiary of AMI, which currently owns 65% of AC and AMF, which owns the remaining 35%. Each share of outstanding common stock of AC (other than shares owned by members of the Alfa Insurance Group and holders of shares subject to certain company awards) was cancelled and converted to the right to receive \$22 in cash, without interest.

In October 2010, the Corporation redomesticated from the State of Alabama to the Commonwealth of Virginia. In connection with the redomestication, the Board of Directors approved an increase in the par value of the Corporation's shares of common stock, from \$0.20 to \$0.30 per share. The par value was changed in order to comply with the minimum capital requirements of the Commonwealth of Virginia. The increase was effective October 1, 2010.

During the period of this examination, the Company paid AC ordinary dividends of \$5,470,000 and \$5,000,000 in 2010 and 2011, respectively.

MANAGEMENT AND CONTROL

Management is vested in a board of directors consisting of between one and twenty members. A majority of the board members shall constitute a quorum for the transaction of business.

The bylaws provide that the board shall elect a president, an executive vice president, a secretary, a treasurer and a general manager. In addition, the board may appoint such other officers as may be deemed necessary. The president is the chief executive officer of the Corporation and has general charge and supervision of the business and affairs of the Corporation.

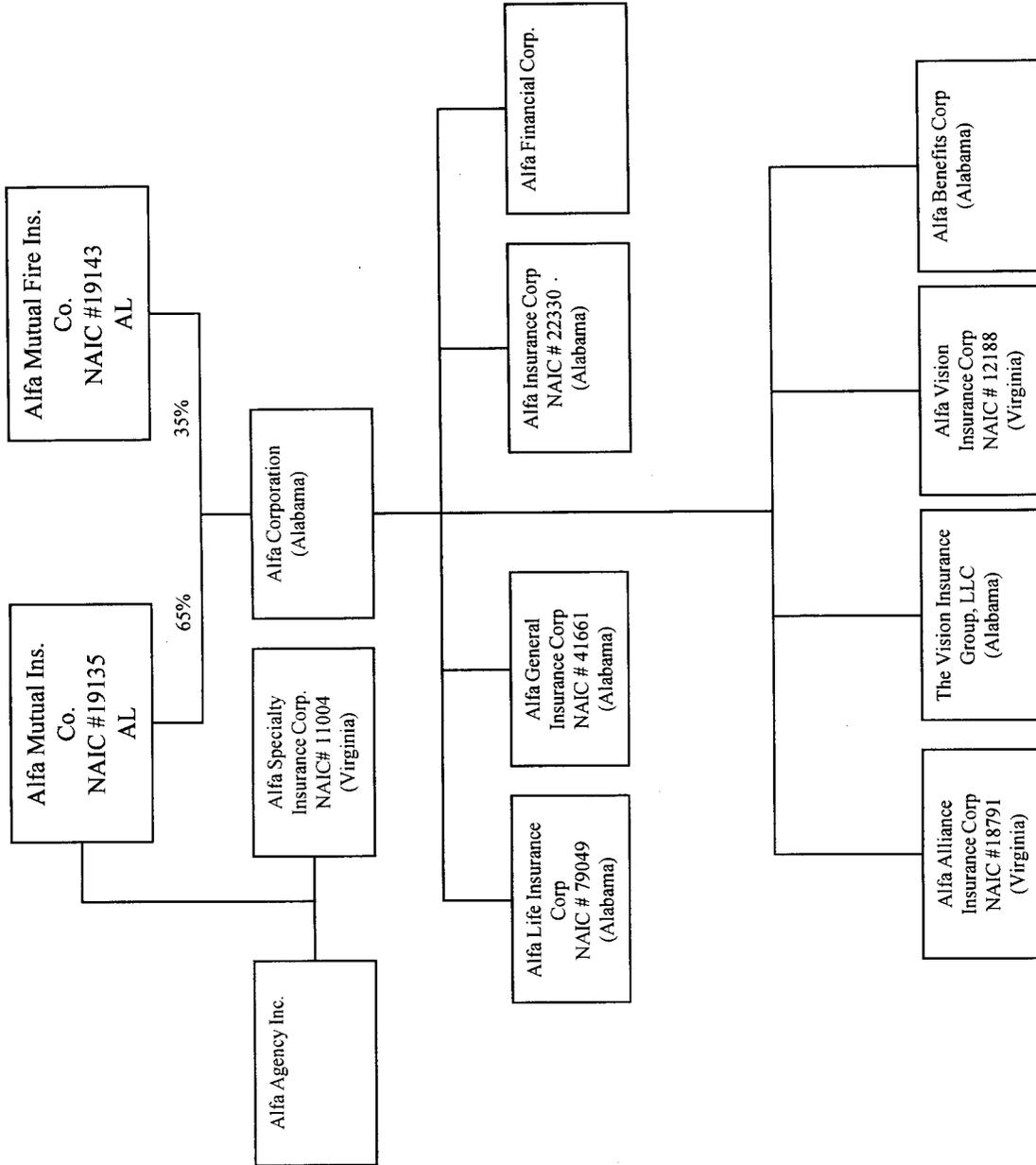
At December 31, 2011, the directors and officers of the Corporation were as follows:

<u>Directors</u>	<u>Principal Business Affiliation</u>
Jerry A. Newby	Chairman of the Board, President and Chief Executive Officer Alfa Mutual Insurance Company Montgomery, Alabama
C. Lee Ellis, III	Executive Vice President – Operations and Treasurer Alfa Mutual Insurance Company Montgomery, Alabama
Stephen G. Rutledge	Executive Vice President – Business Operations Alfa Mutual Insurance Company Montgomery, Alabama
Herman A. Scott	Senior Vice President, General Counsel and Secretary Alfa Mutual Insurance Company Montgomery, Alabama
<u>Officers</u>	<u>Title</u>
Jerry A. Newby	Chairman of the Board and Chief Executive Officer
John C. Pace	President
C. Lee Ellis, III	Treasurer and Executive Vice President, Operations
Herman A. Scott	Secretary

Officers (continued)

Stephen G. Rutledge	Executive Vice President, Business Development
Thomas E. Bryant	Senior Vice President, Human Resources
Ralph C. Forsythe	Senior Vice President, Chief Financial Officer
John D. Hemmings, Jr.	Senior Vice President, Investments
Alfred E. Schellhorn	Senior Vice President, Corporate Development
Herman A. Scott	Senior Vice President, General Counsel and Assistant to the President
Anetra P. Ball	Regional Vice President, Marketing
Patti J. Babcock	Vice President, Underwriting
Jacob D. Black	Vice President, Property and Casualty Accounting
Jeffrey J. Bradwell	Vice President and Associate General Counsel
Angela L. Cooner	Vice President and Associate General Counsel
Patti J. Everage	Vice President, Financial Reporting and Planning
Ronald D. Hinton	Vice President, Information Systems
Lawrence A. Johnson	Vice President, Claims
Julius L. Kempf	Vice President, Product Development
Jeffrey H. Nickles	Vice President, Tax Accounting
Julie M. Parish	Vice President, Reinsurance
Russell J. Sinco	Vice President, Controller
David L. Tetzlaff	Vice President, Non-Standard Auto Operations
Joel F. Witt	Vice President, Actuarial
Steven L. Grizzle	Assistant Vice President, Compliance and Risk Management

The Corporation is part of the Alfa Insurance Group. The following chart illustrates this insurance holding company system at December 31, 2011:



RELATED PARTY TRANSACTIONS

Management, Service Contracts, Cost Sharing Agreements

Pursuant to a Management and Operating Agreement between AMI and the Corporation, AMF, AMG, AAI, ASI and AC and their subsidiaries, AMI provides management and operational services to the participating companies. The participating companies reimburse AMI for their services.

Tax Allocation Agreement

The Corporation is a participant in a tax sharing agreement between AC and its subsidiaries. The method of allocation is subject to a written agreement. The tax liability of the group shall be allocated to the members of the group based on the percentage of the tax for each member if determined on a separate return compared to the total amount of taxes for all members of the group. 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.

Loan Agreement

On September 30, 2010, the Corporation entered into a loan agreement with their affiliate, Alfa Financial Corporation (AFC), a wholly owned subsidiary of AC. According to the agreement, the Corporation agrees to lend to AFC up to the maximum principal sum stipulated by the agreement. The maximum principal amount is subject to change based on limitations set forth by Virginia law. Interest shall accrue at a variable annual rate equal to AC's primary bank credit facility rate. AFC will pay interest on the last day of each month and on the maturity date, September 30, 2015. As of December 31, 2011, there was no outstanding balance on this note.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2011, the Corporation had fidelity coverage of \$3,000,000 in force, subject to a single loss deductible of \$75,000. The Corporation also had the following coverages in place at December 31, 2011: insurance company errors and omissions and directors and officers liability and company indemnification.

TERRITORY AND PLAN OF OPERATION

At December 31, 2011, the Corporation was licensed to transact the business of insurance in the following jurisdictions:

Alabama	Kentucky	Tennessee
Arkansas	Missouri	Texas
Indiana	Ohio	Virginia

The Corporation writes business in these jurisdictions as follows: Arkansas (20%), Kentucky (18%), Virginia (18%), Ohio (15%), Tennessee (14%) and Indiana (11%).

In Virginia, the Corporation was authorized to write the following lines of business as of December 31, 2011:

Auto Liability
Auto Physical Damage

Business is produced by independent agents. Control over underwriting and settlement of claims is maintained in the Brentwood, Tennessee office. The Corporation issues non-assessable policies only. All policies are issued annually. Insureds may elect to pay on an installment basis.

GROWTH OF THE CORPORATION

The following statistics, obtained from Annual Statements filed with the Bureau and from examination reports, indicate the growth of the Corporation from commencement of business through December 31, 2011:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Aggregate Write ins For Special Surplus Funds</u>	<u>Common Capital Stock</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds</u>
2005	\$58,850,665	\$34,902,798		\$2,000,000	\$21,535,755	\$412,112
2006	89,181,003	41,138,471		2,000,000	41,535,755	4,506,777
2007	94,522,483	40,856,204		2,000,000	41,535,755	10,130,524
2008	90,415,832	34,802,159		1,000,000	42,535,755	12,077,918
2009	96,693,177	41,958,744		2,000,000	41,535,755	11,198,678
2010	92,571,727	42,489,015		3,000,000	40,535,755	6,546,957
2011	84,533,769	43,711,653	1,049,634	3,000,000	40,535,755	(3,763,273)

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Loss)</u>
2005	\$42,797,848	\$27,835,354	\$15,295,218	(\$332,724)
2006	46,508,231	30,050,409	13,431,875	3,025,947
2007	48,144,886	30,900,205	13,133,165	4,111,516
2008	36,582,379	26,896,575	9,248,425	437,379
2009	39,112,608	32,081,248	11,663,420	(4,632,060)
2010	41,403,019	31,278,134	12,391,717	(2,266,832)
2011	41,349,890	37,696,924	12,231,231	(8,578,265)

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 Participating Companies):

- 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 Participating Companies ceded 100% of its books of business (the premiums) and net liabilities to AMI. In turn, AMI:

- Ceded and each Participating Company accepted its proportionate share of unearned premiums on AMI's book of business in-force as of the close of business.
- Ceded and each Participating Company accepted its proportionate share of the net liability on all insurance written by AMI, including the net liability of business assumed.
- Paid each Participating Company 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 Participating Company its respective participation of all premiums written after first deducting premiums for all working cover reinsurance ceded to reinsurers.

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

	Pool 4	Pool 5	Pool 6	Pool 7
Name of Insurer	Loss Dates 1/1/01- 12/13/04	Loss Dates 1/1/05 - 12/31/06	Loss Dates 1/1/07 - 12/31/07	Loss Date 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 Participating Companies agreed that all net premiums, losses and expenses on all insurance written by AMI and assumed under this agreement would be prorated between the Participating Companies based on each participant's proportionate share specified in the agreement. Each Participating Company 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 Participating Companies provides AMI with a monthly accounting report within thirty days after the close of each month. Likewise, AMI provides each Participating Company 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

Home State County Mutual Insurance Company

Effective, January 28, 2005, the Corporation entered into a reinsurance agreement with Home State County Mutual Insurance Company (Home State). The Corporation reinsured 100% of all liabilities, including but not limited to, losses and loss adjusted expenses under policies covering risks in the state of Texas only. Home State paid the Corporation 100% of the net premium collected and remitted on policies reinsured less the ceding commission allowed, commissions and/or any policy fees paid to the general agent and premium taxes on policies.

The agreement contained the standard contract provisions regarding insolvency, errors and omissions, reports and remittances, and exclusions. The agreement was automatically renewable for a term of one year, unless terminated by either party. The agreement could be terminated provided a written notice was given 180 days in advance.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2007 through December 31, 2011. Assets were verified and liabilities were established at December 31, 2011.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

The Examination was conducted by the State of Alabama Department of Insurance on the Association Zone Plan with Alabama acting as the lead state. The examination of the Company was conducted concurrently with the examination of the following insurers:

<u>Insurer</u>	<u>Domiciliary State</u>
Alfa Mutual Insurance Company	Alabama
Alfa Mutual Fire Insurance Company	Alabama
Alfa Mutual General Insurance Company	Alabama
Alfa Insurance Corporation	Alabama
Alfa General Insurance Corporation	Alabama
Alfa Life Insurance Corporation	Alabama
Alfa Alliance Insurance Corporation	Virginia
Alfa Specialty Insurance Corporation	Virginia

The services of Merlinos & Associates, Inc. were employed to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2011.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2011, a statement of income for the period ending December 31, 2011, a reconciliation of surplus for the period under review and a statement of cash flow for the period ending December 31, 2011. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$45,055,445		\$45,055,445
Common stocks	5,370,795		5,370,795
Cash and short-term investments	15,753,239		15,753,239
Investment income due and accrued	435,641		435,641
Uncollected premiums and agents' balances in course of collection	2,612,848	8,196	2,604,652
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,271,569	519	6,271,050
Amounts recoverable from reinsurers	5,973,547		5,973,547
Net deferred tax asset	3,554,881	511,491	3,043,390
Electronic data processing equipment	14,173	14,173	
Receivables from parent, subsidiaries, and affiliates	23,668		23,668
Health care and other amounts receivable	2,342		2,342
Aggregate write-ins for other than invested assets	247,319	247,319	
Totals	<u>\$85,315,467</u>	<u>\$781,698</u>	<u>\$84,533,769</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$12,215,440
Reinsurance payable on paid losses and loss adjustment expenses		3,197,796
Loss adjustment expenses		2,068,063
Commissions payable, contingent commissions and other similar charges		4,519,912
Other expenses		329,905
Taxes, licenses and fees		722,913
Current federal income taxes		64,085
Unearned premiums		15,435,617
Advance premium		821,672
Ceded reinsurance premiums payable		1,956,627
Funds held by company under reinsurance treaties		2,746
Amounts withheld or retained by company for account of others		247,076
Payable to parent, subsidiaries, and affiliates		<u>2,129,801</u>
Total liabilities		\$43,711,653
Aggregate write-ins for special surplus funds	\$1,049,634	
Common capital stock	3,000,000	
Gross paid in and contributed surplus	40,535,755	
Unassigned funds (surplus)	<u>(3,763,273)</u>	
Surplus as regards policyholders		<u>40,822,116</u>
Totals		<u><u>\$84,533,769</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$41,349,890
Deductions:	
Losses incurred	\$35,607,587
Loss adjustment expenses incurred	2,089,337
Other underwriting expenses incurred	12,246,461
Aggregate write-ins for underwriting deductions	(15,230)
Total underwriting deductions	<u>\$49,928,155</u>
Net underwriting gain	<u>(\$8,578,265)</u>

INVESTMENT INCOME

Net investment income earned	\$1,961,761
Net realized capital gains	<u>66,585</u>
Net investment gain	<u>\$2,028,346</u>

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	(\$157,714)
Finance and service charges not included in premiums	949,654
Aggregate write-ins for miscellaneous income	<u>(187,780)</u>
Total other income	<u>\$604,160</u>
Net income before federal income taxes	(\$5,945,759)
Federal income taxes incurred	<u>(634,926)</u>
Net income	<u><u>(\$5,310,833)</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2,007</u>	<u>2,008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Surplus as regards policyholders, December 31, previous year	<u>\$35,901,285</u>	<u>\$53,666,279</u>	<u>\$55,613,673</u>	<u>\$54,734,433</u>	<u>\$50,082,712</u>
Adjustment for previous examination change	\$12,141,247				
Common stocks					
Net income	4,921,780	2,190,677	(512,856)	419,404	(5,310,833)
Change in net unrealized capital gains or (losses)			(167,738)	227,147	(424,890)
Change in net deferred income tax	131,031	20	(228,737)	201,660	1,660,847
Change in nonadmitted assets	123,671	(243,303)	30,091	(29,932)	(185,720)
Cumulative effect of changes in accounting principles	447,265				
Paid in capital		(1,000,000)	1,000,000	1,000,000	
Paid in surplus		1,000,000	(1,000,000)	(1,000,000)	
Dividends to stockholders				(5,470,000)	(5,000,000)
Change in surplus as regards policyholders for the year	<u>\$17,764,994</u>	<u>\$1,947,394</u>	<u>(\$879,240)</u>	<u>(\$4,651,721)</u>	<u>(\$9,260,596)</u>
Surplus as regards policyholders, December 31, current year	<u>\$53,666,279</u>	<u>\$55,613,673</u>	<u>\$54,734,433</u>	<u>\$50,082,712</u>	<u>\$40,822,116</u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$39,835,707
Net investment income	1,990,207
Miscellaneous income	775,141
Total	<u>\$42,601,055</u>
Benefit and loss related payments	\$35,109,496
Commissions, expenses paid and aggregate write-ins for deductions	13,915,169
Federal income taxes paid	(1,713,000)
Total	<u>\$47,311,665</u>
Net cash from operations	<u>(\$4,710,610)</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$20,371,288
Stocks	1,276,928
Other invested assets	2,000,000
Miscellaneous Proceeds	12,575
Total investment proceeds	<u>\$23,660,791</u>
Cost of investments acquired (long-term only):	
Bonds	\$23,163,242
Stocks	4,407,660
Miscellaneous applications	5,882
Total investments acquired	<u>\$27,576,784</u>
Net cash from investments	<u>(\$3,915,993)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	(\$5,000,000)
Other cash provided	673,981
Net change from financing and miscellaneous sources	<u>(\$4,326,019)</u>
Net change in cash and short-term investments	<u>(\$12,952,622)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$28,705,861
End of year	<u>15,753,239</u>
Net change in cash and short-term investments	<u>(\$12,952,622)</u>

SUBSEQUENT EVENTS

A review of events subsequent to the examination date, December 31, 2011 was performed. The following changes in AMI's corporate officers were noted:

- Jerry Allen Newby, President and Chief Executive Officer, announced his retirement, effective December 4, 2012. His replacement, James Louis Parnell of Chilton County, Alabama was elected at the Company's December 4, 2012 Board Meeting.
- Clyde Lee Ellis, Executive Vice President of Operations retired on February 1, 2012. Ralph Clayton Forsythe was elected as a director to fill the director position. Stephen Goddard Rutledge was elected as the Treasurer and appointed as Executive Vice President and Chief Operating Officer of the Corporation.
- 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, to be effective October 31, 2012. Mr. Jung extended his retirement date to March 31, 2013 so he could assist in training of his replacement, who has yet to be hired.
- Ralph Clayton Forsythe, Chief Financial Officer, retired as of December 31, 2012.

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Crawley, CFE, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,



T. Bradford Earley, Jr., CFE, CPCU, AIAF
Insurance Principal Financial Analyst
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC



STATE BUREAU OF INSURANCE
13 APR 2013 8:35 AM

2108 EAST SOUTH BOULEVARD ■ POST OFFICE BOX 11000
MONTGOMERY, ALABAMA 36191-0001
334/288-3900

April 2, 2013

David H. Smith, CFE, CPA, CPCU
Chief Examiner
Commonwealth of Virginia
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

**Re: Alfa Vision Insurance Corporation
Examination Report as of December 31, 2011**

Dear Mr. Smith:

As requested, this will acknowledge receipt of the Examination Report for the above-referenced company.

If you have any questions, please let me know.

Sincerely,

H. Al Scott
Senior Vice President and General Counsel

JB