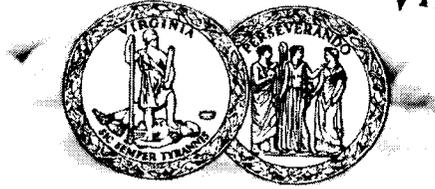


ASSOCIATION EXAMINATION
on
ALFA ALLIANCE INSURANCE CORPORATION
Glen Allen, Virginia
as of
December 31, 2011

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/boi>

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 Alliance 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

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

Description 1

History 1

Management and Control..... 3

Related Party Transactions..... 6

Fidelity Bond and Other Insurance 6

Territory and Plan of Operation 7

Growth of the Corporation..... 8

Reinsurance 9

Scope 13

Financial Statements 14

Subsequent Events 20

Conclusion 21

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 ALLIANCE 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 Commonwealth of Virginia State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2008. The current examination, which was called and conducted under the auspices of the NAIC, was made by Examiners from the Bureau in coordination with Examiners from the State of Alabama. This examination covers the period from January 1, 2009 through December 31, 2011.

HISTORY

The Corporation was incorporated under the laws of the Commonwealth of Virginia on September 5, 1935, under the name of "Virginia Auto Mutual Insurance Company." On June 10, 1949, the Corporation's name was changed to Virginia Mutual Insurance Company.

On August 9, 2001, the Corporation entered into a strategic affiliation agreement with Alfa Mutual Insurance Company (AMI) of Montgomery, Alabama. Under this agreement, AMI assumed managerial and operational control of the Corporation. This affiliation was made possible by changes in the articles of incorporation and bylaws of the

Corporation, which were approved by the Corporation's policyholders. On August 9, 2001, the employees of the Corporation became employees of AMI. Operational services are provided to the Corporation through a management and operational agreement with AMI. Effective August 10, 2001, the Corporation also entered into a quota share reinsurance agreement with, an affiliate, Alfa Mutual Fire Insurance Company (AMF).

On March 26, 2002, AMF provided capital of \$2,500,000 to the Corporation in exchange for a surplus note. The surplus note was increased to \$5,000,000 when an additional \$2,500,000 was provided to the Corporation on October 16, 2003. The surplus note was scheduled to mature on March 26, 2012; however, the repayment of this and other surplus notes was completed February 5, 2007 as a result of the conversion described below.

On January 1, 2007, the Corporation merged with a stock corporation and survived the merger. The Corporation redeemed all outstanding surplus notes and converted to a stock corporation which was wholly-owned by Alfa Corporation (AC), a holding company with approximately 55% of its outstanding shares held by AMI, AMF, and Alfa Mutual General Insurance Company (AMG) and the remaining shares publicly held. In addition, the Corporation made payment to policyholders to satisfy their interests, changed its name to Alfa Alliance Insurance Corporation, commuted its quota share reinsurance agreement with AMF, and became a member of the intercompany pooling agreement between AMI and its affiliates in the Alfa Insurance Group. The conversion plan was approved by the Commission on October 2, 2006 and by the policyholders of the Virginia Mutual Insurance Company on November 29, 2006.

The initial par value of the outstanding stock after the conversion was \$1 per share. On August 28, 2007, the Corporation amended its Articles of Incorporation to change the par value of the outstanding shares to \$2 per share in order to meet the minimum capital requirements of North Carolina.

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.

During the period of this examination, the Corporation paid AC an ordinary dividend of \$1,740,000 on October 21, 2010. No dividends were paid in 2009 and 2011.

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.

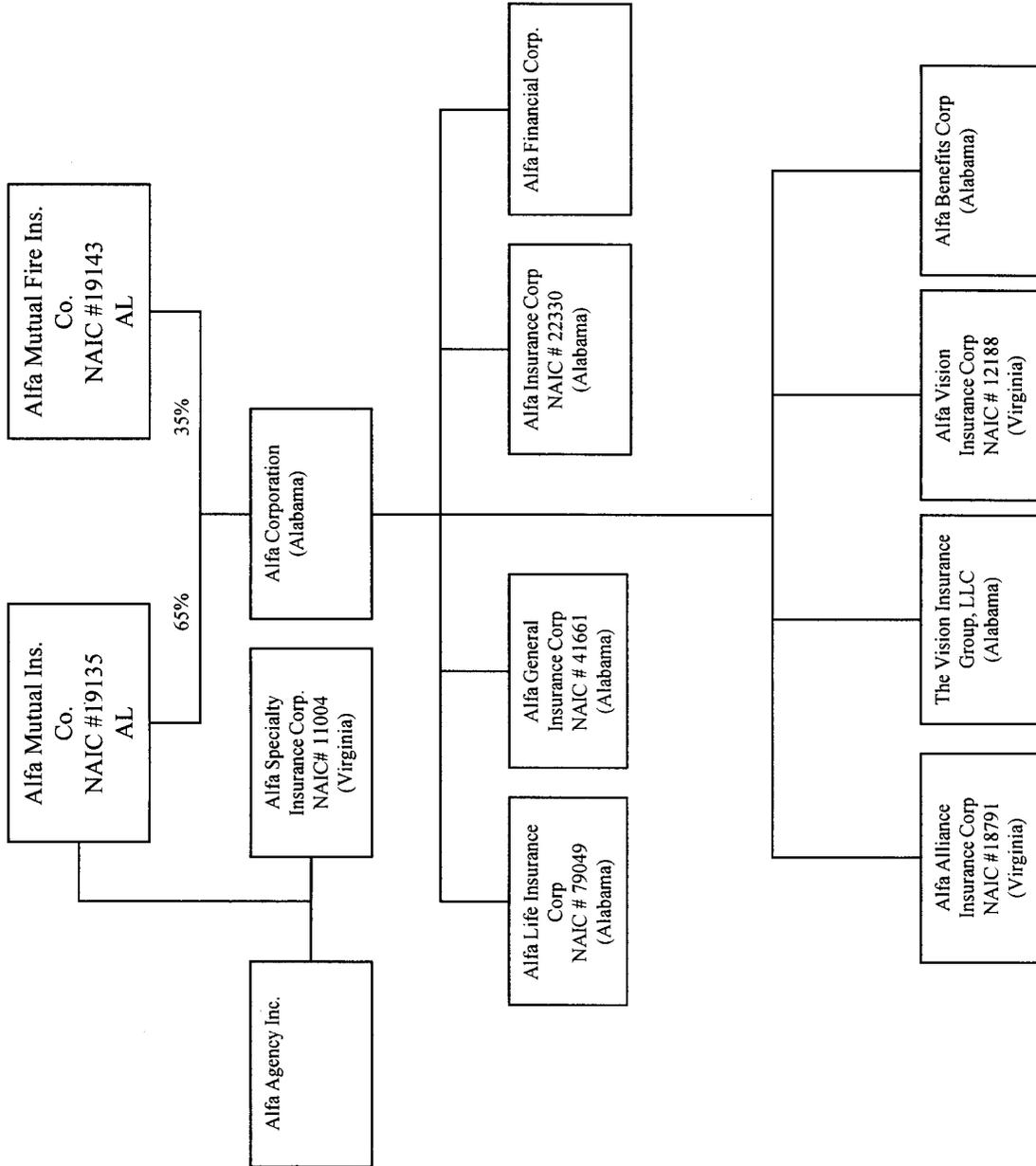
At December 31, 2011, the directors and officers of the Corporation were as follows:

<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

Officers

Jerry A. Newby	Chairman of the Board
Douglas S. Joyce	President and General Manager
C. Lee Ellis, III	Executive Vice President, Operations and Treasurer
Stephen G. Rutledge	Senior Vice President, Chief Financial Officer and Chief Investment Officer
Ralph C. Forsythe	Senior Vice President and 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 Secretary
Scott A. Beller	Vice President, Product Development
J. Daniel 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
Kenneth T. Gee	Vice President, Claims
Jeff Huff	Vice President, Sales and Marketing
Donald E. Manis	Vice President, Property and Casualty Actuary
Jeffrey H. Nickles	Vice President, Tax Accounting
Julie M. Parish	Vice President, Reinsurance
Russell J. Sinco	Vice President, Controller
George W. Fox, III	Assistant Vice President, Information Systems

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, Alfa Specialty Insurance Corporation (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:

Georgia	South Carolina
Maryland	Tennessee
North Carolina	Virginia

The Corporation, however, writes business only in Virginia (61%), North Carolina (23%) and Tennessee (16%). In Virginia, the Corporation was authorized to write the following lines of business as of December 31, 2011:

Fire, miscellaneous property, farm multiple-peril, home-owners multiple-peril, commercial multi-peril, ocean marine, inland marine, workers' compensation and employers liability, liability other than automobile, automobile liability, automobile physical damage, aircraft liability, aircraft physical damage, fidelity, glass, burglary and theft, boiler and machinery and water damage.

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

Leases:

On August 25, 2000, the Corporation entered into a ten-year noncancellable operating lease for its home office facility. This lease was extended by five years on November 30, 2004. The lease was extended by an additional five years on December 21, 2010.

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 for the ten year period ending December 31, 2011:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus Note Certificates</u>	<u>Unassigned Funds</u>
2002	\$33,727,208	\$27,568,282	\$2,849,843	\$3,309,083
2003	28,433,828	20,999,935	5,349,843	2,084,050
2004	28,705,043	19,463,936	5,328,543	3,912,564
2005	27,350,419	18,744,234	5,327,543	3,278,642
2006	26,741,488	19,697,161	5,190,046	1,854,281

<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>
2007*	\$45,171,981	\$29,992,527		\$2,000,000	\$6,760,000	\$6,419,454
2008	34,514,381	16,937,549		2,000,000	6,760,000	8,816,832
2009	34,563,621	17,133,880		2,000,000	6,760,000	8,669,741
2010	30,528,574	14,720,781		2,000,000	6,760,000	7,047,793
2011	28,091,946	13,358,384	478,473	2,000,000	6,760,000	5,495,089

*Effective January 1, 2007, the Corporation converted from a mutual insurer to a stock insurer.

<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>
2002	\$7,603,108	\$6,767,626	\$3,509,478	(\$2,673,996)
2003	8,400,017	7,870,464	2,675,042	(2,145,489)
2004	8,654,508	6,468,801	1,469,239	716,468
2005	8,889,470	6,789,015	3,075,516	(975,061)
2006	10,575,953	8,030,353	5,614,303	(3,068,703)
2007	19,300,180	10,104,138	3,464,947	5,731,095
2008	9,151,827	5,016,548	5,104,579	(969,300)
2009	9,593,416	6,886,159	3,592,927	(885,670)
2010	10,351,025	7,819,622	3,146,854	(615,451)
2011	10,336,991	9,520,216	3,327,688	(2,510,913)

REINSURANCE

The Corporation had the following reinsurance program in force at December 31, 2011:

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 (current year), all Participating Companies ceded 100% of their books of business (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 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%

Reinsurance Assumed

In addition to the business assumed through the intercompany pooling agreement, the Corporation assumed reinsurance from the following mandatory pools:

- National Workers Compensation Reinsurance Pool
- North Carolina Reinsurance Facility
- Virginia Commercial Automobile Insurance Procedure Plan

Reinsurance Ceded

1. Intercompany Traditional Excess Catastrophe Reinsurance Agreement

Effective June 1, 2011, an Intercompany Traditional Excess Catastrophe Reinsurance Agreement was issued to AGI, AIC, AMI, AMG, the Corporation, and AMF. This agreement, subject to the terms of the intercompany pooling agreement, reinsured the excess liability accrued under 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 Corporation's participation rate for each excess layer was as follows:

	First Excess	Second Excess	Third Excess	Fourth Excess	Fifth Excess
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	2.26%	2.26%	2.26%	2.26%	2.26%
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

2. Intercompany Top Layer Traditional Excess Catastrophe Reinsurance Agreement

Effective June 15, 2011, an Intercompany Top Layer Traditional Excess Catastrophe Reinsurance Agreement was issued to AGI, AIC, AMI, AMG, the Corporation, and AMF. This agreement, subject to the terms of the intercompany pooling agreement, reinsured the excess liability accrued under policies, contracts and binders of insurance or reinsurance in-force at the effective date, or issued and renewed 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 reinsurer is liable for the amount in excess of the retention limit of \$600 million not to exceed \$50 million for any one loss occurrence. The Corporation's allocation or participation rate in the ceded reinsurance premium due was 2.26%.

3. The Hartford Steam Boiler Inspection and Insurance Company – Identity Recovery Coverage

Effective, February 1, 2006, the Corporation entered into an Identity Recovery Coverage Agreement with The Hartford Steam Boiler Inspection and Insurance Company (Hartford). Under the agreement, the Corporation cedes 100% of its losses covered under four different identity recovery coverage endorsement forms attached to new and renewed home-owners, business-owners, and contractor special policies. Hartford's liability was \$15 million annually, in the aggregate.

The agreement contains the standard arbitration, errors and omissions, insolvency, and report and remittances clauses. The agreement is of unlimited duration but could be

terminated by either party provided a ninety day written notice was given.

4. The Hartford Steam Boiler Inspection and Insurance Company – Equipment Breakdown Coverage

Effective, March 1, 2007, the Corporation entered into an Equipment Breakdown Coverage Agreement with Hartford. The Corporation cedes 100% of its equipment breakdown liability under its business-owners policies to Hartford. The agreement applies to accidents occurring during the term of this agreement for policies in-force as of the effective date and new or renewal policies effective after the effective date of this agreement. The reinsurance premium paid by the Corporation was 6.19% of the net premiums written for policies attaching on or after March 1, 2007. Hartford's liability was \$25 million for any one accident, any one policy.

The agreement contained the standard arbitration, errors and omissions, insolvency, and report and remittances clauses. The agreement was continuous until terminated by either party. The agreement could be terminated by either party provided a six month written notice was given.

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, 2009 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 Corporation's financial condition and identify prospective risks of the Corporation, assess corporate governance, identify and assess inherent risks within the Corporation 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 Corporation 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 Vision 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 Corporation's loss and loss adjustment expense reserves as of December 31, 2011.

All accounts and activities of the Corporation 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	\$12,351,752		\$12,351,752
Common stocks	1,909,458		1,909,458
Cash and short-term investments	4,835,774		4,835,774
Investment income due and accrued	102,396		102,396
Uncollected premiums and agents' balances in course of collection	704,055	2,049	702,006
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,567,892	131	1,567,761
Amounts recoverable from reinsurers	4,262,224		4,262,224
Current federal income tax recoverable and interest thereon	36,907		36,907
Net deferred tax asset	1,507,666	449,632	1,058,034
Electronic data processing equipment	787,962	787,962	
Furniture and equipment	48,442	48,442	
Receivables from parent, subsidiaries, and affiliates	18,367		18,367
Health care and other amounts receivable	101,441	5,481	95,960
Aggregate write-ins for other than invested assets	1,256,916	105,609	1,151,307
Totals	<u>\$29,491,252</u>	<u>\$1,399,306</u>	<u>\$28,091,946</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$3,781,900
Reinsurance payable on paid losses and loss adjustment expenses		\$806,497
Loss adjustment expenses		857,944
Commissions payable, contingent commissions and other similar charges		674,214
Other expenses		935,621
Taxes, licenses and fees		197,644
Unearned premiums		3,858,906
Advance premium		205,418
Ceded reinsurance premiums payable		1,098,096
Funds held by company under reinsurance treaties		685
Amounts withheld or retained by company for account of others		133,267
Remittances and items not allocated		2,188
Payable to parent, subsidiaries, and affiliates		<u>806,004</u>
Total liabilities		\$13,358,384
Aggregate write-ins for special surplus funds	\$478,473	
Common capital stock	2,000,000	
Gross paid in and contributed surplus	6,760,000	
Unassigned funds	<u>5,495,089</u>	
Surplus as regards policyholders		<u>14,733,562</u>
Totals		<u><u>\$28,091,946</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$10,336,991</u>
Deductions:	
Losses incurred	\$9,013,212
Loss adjustment expenses incurred	507,004
Other underwriting expenses incurred	3,331,623
Aggregate write-ins for underwriting deductions	<u>(3,935)</u>
Total underwriting deductions	<u>\$12,847,904</u>
Net underwriting gain	<u>(\$2,510,913)</u>

INVESTMENT INCOME

Net investment income earned	\$533,473
Net realized capital gains	<u>163,728</u>
Net investment gain	<u>\$697,201</u>

OTHER INCOME

Net loss from agents' or premium balances charged off	(\$39,427)
Finance and service charges not included in premiums	237,412
Aggregate write-ins for miscellaneous income	<u>(46,945)</u>
Total other income	<u>\$151,040</u>
Net income before federal income taxes	(\$1,662,672)
Federal income taxes incurred	<u>(295,517)</u>
Net income	<u><u>(\$1,367,155)</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Surplus as regards policyholders, December 31, previous year	<u>\$17,576,832</u>	<u>\$17,429,741</u>	<u>\$15,807,793</u>
Net income	(\$136,568)	\$195,226	(\$1,367,155)
Change in net unrealized capital gains or (losses)	3,609	8,659	(37,356)
Change in net deferred income tax	(41,117)	(77,105)	357,946
Change in nonadmitted assets	26,985	(8,728)	(27,666)
Dividends to stockholders		<u>(1,740,000)</u>	
Change in surplus as regards policyholders for the year	<u>(\$147,091)</u>	<u>(\$1,621,948)</u>	<u>(\$1,074,231)</u>
Surplus as regards policyholders, December 31, current year	<u>\$17,429,741</u>	<u>\$15,807,793</u>	<u>\$14,733,562</u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$9,664,655
Net investment income	584,586
Miscellaneous income	193,785
Total	<u>\$10,443,026</u>
Benefit and loss related payments	\$10,230,623
Commissions, expenses paid and aggregate write-ins for deductions	4,463,432
Federal income taxes paid	(322,000)
Total	<u>\$14,372,055</u>
Net cash from operations	<u>(\$3,929,029)</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$6,583,492
Stocks	299,195
Other invested assets	1,000,000
Net gains or (losses) on cash and short-term investments	2,195
Miscellaneous Proceeds	3,220
Total investment proceeds	<u>\$7,888,102</u>
Cost of investments acquired (long-term only):	
Bonds	\$1,758,460
Stocks	2,258,286
Total investments acquired	<u>\$4,016,746</u>
Net cash from investments	<u>\$3,871,356</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided (applied)	<u>(\$312,545)</u>
Net change from financing and miscellaneous sources	<u>(\$312,545)</u>
Net change in cash and short-term investments	<u>(\$370,218)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$5,205,992
End of year	<u>4,835,774</u>
Net change in cash and short-term investments	<u>(\$370,218)</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 hereby 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 OF ALABAMA
COMMISSION
BUREAU OF INSURANCE
13 APR 23 AM 8:35

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 Alliance 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