March 14, 2012

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. James Leland Martin, Jr., President
American Federated Insurance Company
406 Liberty Park Court
Flowood, MS 39232-1422

RE: Report of Examination as of December 31, 2010

Dear Mr. Martin:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

BY
Christina J. Kelsey
Senior Attorney

MC/CJK/bs
Encls. Order w/exhibit
BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI

IN RE: REPORT OF EXAMINATION OF
AMERICAN FEDERATED INSURANCE COMPANY

CAUSE NO. 12-6480

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of Examination, together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011).

II.

That American Federated Insurance Company is a Mississippi-domiciled company licensed to write Accident & Health; Casualty/Liability; Fidelity; Fire/Allied Lines; Inland Marine; Surety; and Workers' Compensation coverages.
FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of American Federated Insurance Company and appointed Lisa Warrum, Examiner-In-Charge, to conduct said examination.

IV.

That on or about February 2, 2012, the draft Report of Examination concerning American Federated Insurance Company for the period of January 1, 2008, through December 31, 2010, was submitted to the Department by the Examiner-In-Charge, Lisa Warrum.

V.

That on or about February 16, 2012, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. On or about February 21, 2012, the Company responded via email and in response thereto, minor revisions were made to draft report.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, and all relevant examiner work papers and the Company’s rebuttal, that the Report of Examination of American Federated Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.
IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage prepaid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential information for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, American Federated Insurance Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that American Federated Insurance Company shall take the necessary actions and implement the necessary procedures to properly and promptly comply with all recommendations contained in the Report of Examination.

SO ORDERED, this the 14th day of March 2012.

MARK HAIRE
DEPUTY COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI
CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the __ day of March 2012, to:

Mr. James Leland Martin, Jr., President
American Federated Insurance Company
406 Liberty Park Court
Flowood, MS 39232-1422

Christina J. Kelsey
Senior Attorney

Christina J. Kelsey
Senior Attorney
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS  39205-0079
(601) 359-3577
Miss. Bar No. 9853
Mississippi Insurance Department

Report of Examination

of

AMERICAN FEDERATED INSURANCE COMPANY

as of

December 31, 2010
# TABLE OF CONTENTS

EXAMINER AFFIDAVIT ...................................................................................................................... 1  
SALUTATION ........................................................................................................................................ 2  
INTRODUCTION ................................................................................................................................... 3  
SCOPE OF EXAMINATION.................................................................................................................. 3  
COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION ................................ 3  
HISTORY OF THE COMPANY ............................................................................................................ 4  
CORPORATE RECORDS ..................................................................................................................... 4  
MANAGEMENT AND CONTROL ....................................................................................................... 4  
   Board of Directors .......................................................................................................................... 4  
   Officers ......................................................................................................................................... 5  
   Conflict of Interest ....................................................................................................................... 5  
   Corporate Governance ............................................................................................................... 5  
HOLDING COMPANY STRUCTURE .................................................................................................. 6  
   Organizational Chart .................................................................................................................... 6  
   Affiliated and Related Party Transactions .................................................................................. 8  
FIDELITY BOND AND OTHER INSURANCE .................................................................................... 9  
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS ........................................................ 9  
TERRITORY AND PLAN OF OPERATION ........................................................................................ 9  
GROWTH OF COMPANY ................................................................................................................... 10  
ACCOUNTS AND RECORDS ............................................................................................................. 10  
STATUTORY DEPOSITS .................................................................................................................... 10  
FINANCIAL STATEMENTS ................................................................................................................. 11  
   Statement of Admitted Assets, Liabilities, Surplus and Other Funds ...................................... 12  
   Statement of Income .................................................................................................................... 13  
   Reconciliation of Capital and Surplus ......................................................................................... 14  
   Reconciliation of Examination Adjustments to Surplus ........................................................... 15  
MARKET CONDUCT ACTIVITIES ................................................................................................... 16  
   Policy Forms and Underwriting ................................................................................................. 16  
   Advertising and Sales Material .................................................................................................. 16  
   Treatment of Policyholders ....................................................................................................... 16  
   Privacy ....................................................................................................................................... 16  
COMMITMENTS AND CONTINGENT LIABILITIES ...................................................................... 16  
SUBSEQUENT EVENTS ..................................................................................................................... 17  
COMMENTS AND RECOMMENDATIONS ...................................................................................... 18  
ACKNOWLEDGMENT ........................................................................................................................ 19
State of Indiana,
County of Marion,

Lisa Warrum, CFE, CPA, being duly sworn, states as follows:

1. I have authority to represent the Commissioner of Insurance of the State of Mississippi in the examination of American Federated Insurance Company.

2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation Standards.

3. I have reviewed the examination workpapers and examination report, and the examination of American Federated Insurance Company as of December 31, 2010, was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

The affiant says nothing further.

Lisa Warrum, CFE, CPA
Examiner-in-Charge

Subscribed and sworn before me on this 3rd day of February, 2012.

(SEAL)

Notary Public

My commission expires July 4, 2019 [date].
January 25, 2012

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2010, of the affairs and financial condition of:

**AMERICAN FEDERATED INSURANCE COMPANY**  
406 Liberty Park Court  
Flowood, Mississippi 39232

<table>
<thead>
<tr>
<th>License #</th>
<th>NAIC Group #</th>
<th>NAIC #</th>
<th>ETS#</th>
</tr>
</thead>
<tbody>
<tr>
<td>8200015</td>
<td>0641</td>
<td>10170</td>
<td>MS029-F11 &amp; MS120-M8</td>
</tr>
</tbody>
</table>

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Flowood, Mississippi, at the statutory home office of the Company. The report of examination is herewith submitted.
INTRODUCTION

This examination was performed by Noble Consulting Services, Inc., representing the Mississippi Insurance Department (MID) and covered American Federated Insurance Company (AFIC or Company) operations and financial condition from January 1, 2008 through December 31, 2010, including material transactions and/or events occurring subsequent to the examination date through January 25, 2012.

SCOPE OF EXAMINATION

We have performed a full scope financial examination of AFIC. For purposes of this examination report, the examination period is defined as January 1, 2008 through December 31, 2010, and the examination date is defined as December 31, 2010. The Company was previously examined by the MID as of December 31, 2007.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating 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. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by examiners without material change receive little or no comment.

COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

There were no comments and/or recommendations deemed necessary for purposes of the previous examination report.
HISTORY OF THE COMPANY

In February, 1983, with authorized capital of $1,000,000, the Company was incorporated as a property and casualty insurer under the laws of the State of Mississippi. The Company’s initial capitalization consisted of $500,000, which included the issuance of 200,000 shares of $1 par common stock and $300,000 of paid-in capital. In December, 1987, the Company increased its outstanding capital stock to 600,000 shares of $1 par common stock. In April, 2006, the Company increased its outstanding capital stock to its current position of 1,200,000 shares of $1 par common stock.

CORPORATE RECORDS

The minutes of the meetings of the stockholder and Board of Directors (Board), recorded during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording action on matters brought up at these meetings for deliberation, which included the approval and support of the Company’s transactions and events.

MANAGEMENT AND CONTROL

Board of Directors

The Articles of Association and Bylaws vest the management and control of the Company’s business affairs with the Board. The members of the duly elected Board, along with their place of residence, number of years as Director, and principal occupation, at December 31, 2010, are as follows:

<table>
<thead>
<tr>
<th>Name and Residence</th>
<th>Year Elected/Appointed</th>
<th>Principal Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>James Leland Martin</td>
<td>2000</td>
<td>President American Federated Insurance Company</td>
</tr>
<tr>
<td>Jackson, Mississippi</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cheryl Posey Taggart</td>
<td>2009</td>
<td>Vice President American Federated Insurance Company</td>
</tr>
<tr>
<td>Birmingham, Alabama</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Francis Clark Lee</td>
<td>1995</td>
<td>Secretary/Treasurer American Federated Insurance Company</td>
</tr>
<tr>
<td>Brandon, Mississippi</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Officers

The officers duly elected by the Board and holding office at December 31, 2010, are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Year Elected/Appointed</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>James Leland Martin</td>
<td>2000</td>
<td>President</td>
</tr>
<tr>
<td>Cheryl Posey Taggart</td>
<td>2009</td>
<td>Vice President</td>
</tr>
<tr>
<td>Francis Clark Lee</td>
<td>1995</td>
<td>Secretary/Treasurer</td>
</tr>
</tbody>
</table>

Conflict of Interest

The Company had a formal policy whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with the official duties of such persons. These procedures were reviewed and no exception to the Company’s policy was noted.

Corporate Governance

Upon review of the corporate governance structure, the overall corporate structure was determined to be reasonable based upon the Company’s size and structure. The Company has a Board consisting of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of First Tower Corp (Parent) and the Company’s Vice President. The CFO of the Parent, who also serves as the President of the Company, along with the Company’s consultant who oversees accounting operations, are responsible for the oversight of the control environment and compliance with regulations applicable to each state in which the Company conducts business. In addition, the Vice President plays a significant role in managing the Company’s control environment through claims reviews, managing licensing, investment accounting, systems design and project management.

The Board’s involvement and oversight along with its independence from management, was considered during the course of the examination without material concern. Due to the size of the Company, the Board does not have formal committees. The Company’s management is active in fostering an effective control environment from an operational and technological perspective. The Company shares staffing resources with its affiliate, American Federated Life Insurance Company (AFLIC).

The Company’s external auditor, Carr, Riggs & Ingram, LLC, issues a letter annually on the effectiveness of internal controls for the Parent, including all subsidiaries and has consistently noted no material weakness in internal controls. Audit engagement decisions concerning independent auditors are made by the Parent’s Board.
HOLDING COMPANY STRUCTURE

The Company is a member of an insurance holding company system as defined within Miss. Code Ann. § 83-6-1. Holding Company Registration Statements were filed during the examination period with the MID, in accordance with Miss. Code Ann. § 83-6-5 and § 83-6-9. The statements and applicable amendments were reviewed, and it appeared that any changes and material transactions by and between the Company and its affiliates were disclosed appropriately.

Organizational Chart

The following organization chart displays the direct line of ownership, along with a brief description of each member:
H – H Corporation
50% Owned by Robert M. Hearin Support Foundation
45% Owned by Norma W. Hess December 2006 Annuity Trust
5% Owned by Jamarco Limited Partnership

Bay Street Corporation
100% Owned by H – H Corporation
(Owns 33.4% of Galaxie Corporation)

Galaxie Corporation
33.4% Owned by Bay Street Corporation
15.8% Owned by Harman & Co. c/o Trustmark National Bank
11.6% Owned by Norma W. Hess December 2006 Annuity Trust
10.7% Owned by Harman & Co. c/o Trustmark National Bank
  6.3% Owned by Robert M. Hearin, Jr.
  6.3% Owned by Laurie Hearin McRee
  3.3% Owned by Capitol Street Corporation
  2.1% Owned by Robert M. Hearin Support Foundation
  10.5 % Aggregate other immaterial owners

Capital Street Corporation
100% Owned by Galaxie Corporation

First Tower Corp
62.78% Owned by Capitol Street Corporation
37.22% Owned by Management or Former Management & Others

American Federated Insurance Company
100% Owned by First Tower Corp
**H – H Corporation:** This company is a holding corporation which owns Bay Street Corporation, a Mississippi Corporation.

**Bay Street Corporation:** This company is engaged in the business of investments and owns Auto Electric & Carburetor, Inc. a distributor of automobile parts and accessories. Auto Electric & Carburetor, Inc. is not in the direct line of ownership for the Company.

**Galaxie Corporation:** This company is a holding company with significant investments in debt and equity securities.

**Capital Street Corporation:** This company is a holding company with significant investments in debt and equity securities.

**First Tower Corp:** This company is engaged in consumer lending and related insurance activities through its wholly owned finance subsidiaries, Tower Loan of Mississippi, First Tower Loan, Inc., Gulfco of Mississippi, Inc., Gulfco of Louisiana, Inc., Gulfco Alabama, Inc., Tower Loan of Missouri, Inc., Tower Auto Loan, Inc. and its wholly owned insurance subsidiaries, the Company and AFLIC.

**Affiliated and Related Party Transactions**

The Parent provided certain corporate level administrative services at no cost to the Company. Certain officers of the Company are paid directly by a subsidiary of the Parent. The subsidiaries of the Parent owed the Company approximately $1,860,809 for insurance premiums collected during the month of December, 2010. This receivable was reported as uncollected premiums and agents’ balances in the course of collection in the Annual Statement and was reclassified as a receivable from parent, subsidiaries and affiliates in this Report of Examination. See the Comments and Recommendations section of this Report of Examination.

Dividends are paid to the Parent based on premium income in lieu of commissions. The Company paid dividends to its stockholder in the amounts of $5,671,670 during 2008, $6,224,792 during 2009, and $6,982,806 in 2010.

**Administrative Expense Allocation Agreement**

An agreement between the Company and AFLIC was established on January 1, 2002. The agreement defines the procedures for allocating administrative expenses common to the affiliated companies. The expenses are to be initially paid by the Company and reimbursed by AFLIC. The expense allocations defined vary depending on the services provided and volume of use by the companies. AFIC was owed $35,194 as of December 31, 2010.
FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Fidelity and Deposit Company of Maryland. The bond has blanket coverage of $250,000, with a deductible of $10,000. As a result of growth of the Company, the amount of the fidelity bond is below the prescribed minimum coverage specified by the NAIC. See the Comments and Recommendations section of this Report of Examination for further commentary.

The Company had additional types of coverage in-force at December 31, 2010, including, but not limited to, directors and officers, excess liability, and excess financial products insurance.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company’s employees have the opportunity to participate in a qualified defined contribution plan that is sponsored by an affiliate. In addition to pension benefits, an affiliate provides certain health and dental benefits.

TERRITORY AND PLAN OF OPERATION

The Company provides collateral protection insurance on personal loans issued by consumer finance subsidiaries of the Parent. First Tower Corp owns several consumer finance companies with approximately one hundred fifty (150) branches throughout Louisiana, Mississippi, and Missouri.

The Company markets its products exclusively through the Parent’s consumer finance subsidiaries branch network. The geographical distribution of product exposes the Company to a significant risk of natural catastrophic losses given the concentration of its business in the hurricane prone coastal areas of Mississippi and Louisiana although this has been mitigated to a degree with the maturation of it’s Missouri market which commenced in 2006.
### GROWTH OF COMPANY

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total admitted assets, less separate accounts</td>
<td>$26,694,546</td>
<td>$24,173,772</td>
<td>$21,947,440</td>
</tr>
<tr>
<td>Total liabilities, less separate accounts</td>
<td>19,351,916</td>
<td>17,108,574</td>
<td>15,206,281</td>
</tr>
<tr>
<td>Total capital and surplus</td>
<td>7,342,630</td>
<td>7,065,198</td>
<td>6,741,159</td>
</tr>
<tr>
<td>Net cash from operations</td>
<td>9,584,746</td>
<td>8,254,675</td>
<td>6,205,264</td>
</tr>
<tr>
<td>Total adjusted capital</td>
<td>7,343,000</td>
<td>7,065,000</td>
<td>6,741,000</td>
</tr>
<tr>
<td>Authorized control level risk-based capital</td>
<td>180,000</td>
<td>167,000</td>
<td>153,000</td>
</tr>
<tr>
<td>Premiums earned and annuity considerations</td>
<td>12,552,324</td>
<td>11,355,582</td>
<td>10,476,910</td>
</tr>
<tr>
<td>Net investment income</td>
<td>645,009</td>
<td>664,733</td>
<td>668,875</td>
</tr>
<tr>
<td>Net realized capital gains &amp; losses</td>
<td>1,178</td>
<td>0</td>
<td>(6,144)</td>
</tr>
<tr>
<td>Net income</td>
<td>7,209,160</td>
<td>6,493,342</td>
<td>5,698,332</td>
</tr>
<tr>
<td>Net Income/capital and surplus (ROE)</td>
<td>98%</td>
<td>92%</td>
<td>85%</td>
</tr>
<tr>
<td>Net premiums earned/capital and surplus</td>
<td>170.9%</td>
<td>160.7%</td>
<td>155.4%</td>
</tr>
<tr>
<td>Total benefits, expenses, premiums, &amp; deposits</td>
<td>8.7%</td>
<td>10.1%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Investment Yield</td>
<td>2.8%</td>
<td>3.2%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Non-inv grade bonds/total bonds</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

### ACCOUNTS AND RECORDS

The 2010 trial balance of the Company’s accounts was traced to the balance sheet on the Company’s statutory annual statement filed with MID, with no exceptions noted. The Company was audited annually by an independent CPA firm.

### STATUTORY DEPOSITS

The Company’s statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31 (2). The following chart displays the Company’s deposits as of December 31, 2010:

<table>
<thead>
<tr>
<th>Type of Security</th>
<th>State</th>
<th>Par Value</th>
<th>Book Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Treasury Note</td>
<td>Mississippi</td>
<td>$100,000</td>
<td>$100,596</td>
<td>$103,461</td>
</tr>
<tr>
<td>FHLMC Bond</td>
<td>Mississippi</td>
<td>290,000</td>
<td>305,559</td>
<td>311,941</td>
</tr>
<tr>
<td>Fannie Mae Bond</td>
<td>Mississippi</td>
<td>310,000</td>
<td>311,004</td>
<td>323,355</td>
</tr>
<tr>
<td>US Treasury Note</td>
<td>Mississippi</td>
<td>325,000</td>
<td>321,940</td>
<td>332,998</td>
</tr>
<tr>
<td>Freddie Mac Bond</td>
<td>Mississippi</td>
<td>100,000</td>
<td>102,339</td>
<td>110,845</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>$1,125,000</td>
<td>$1,141,438</td>
<td>$1,182,600</td>
</tr>
</tbody>
</table>
INTRODUCTION TO THE FINANCIAL STATEMENTS

The following financial statements consist of a Statement of Admitted Assets, Liabilities, Surplus and Other Funds at December 31, 2010, a Statement of Income for the year ended December 31, 2010, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2010, and a Reconciliation of Examination Adjustments to Surplus.
AMERICAN FEDERATED INSURANCE COMPANY  
STATEMENT OF ADMITTED ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2010

<table>
<thead>
<tr>
<th>ADMITTED ASSETS</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$18,584,437</td>
</tr>
<tr>
<td>Common stock</td>
<td>950,175</td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>4,359,062</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>233,485</td>
</tr>
<tr>
<td>Net deferred tax asset</td>
<td>671,383</td>
</tr>
<tr>
<td>Receivables from parent, subsidiaries and affiliates</td>
<td>1,896,003</td>
</tr>
<tr>
<td><strong>Total admitted assets</strong></td>
<td><strong>$26,694,546</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES, SURPLUS AND OTHER FUNDS</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses</td>
<td>$380,965</td>
</tr>
<tr>
<td>Loss adjustment expense</td>
<td>11,195</td>
</tr>
<tr>
<td>Commissions payable, contingent commissions and other similar charges</td>
<td>13,084</td>
</tr>
<tr>
<td>Other expenses</td>
<td>10,079</td>
</tr>
<tr>
<td>Taxes, licenses and fees</td>
<td>201,266</td>
</tr>
<tr>
<td>Current federal and foreign income taxes</td>
<td>130,519</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>18,589,808</td>
</tr>
<tr>
<td>Aggregate write-ins for liabilities</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$19,351,916</strong></td>
</tr>
</tbody>
</table>

| Common capital stock                | 1,200,000  |
| Gross paid in and contributed surplus | 300,000   |
| Unassigned funds (surplus)          | 5,842,630  |
| **Total capital and surplus**       | **7,342,630** |

**Total liabilities, surplus and other funds**  
$26,694,546
### AMERICAN FEDERATED INSURANCE COMPANY
### STATEMENT OF INCOME
### FOR YEAR ENDED DECEMBER 31, 2010

**Underwriting income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums earned</td>
<td>$12,552,324</td>
</tr>
<tr>
<td>Deductions</td>
<td></td>
</tr>
<tr>
<td>Losses incurred</td>
<td>1,089,371</td>
</tr>
<tr>
<td>Loss adjustment expenses</td>
<td>(1,225)</td>
</tr>
<tr>
<td>Other underwriting expenses incurred</td>
<td>1,120,618</td>
</tr>
<tr>
<td>Net underwriting gain (loss)</td>
<td>10,343,560</td>
</tr>
</tbody>
</table>

**Investment income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment income earned</td>
<td>645,009</td>
</tr>
<tr>
<td>Net realized capital gains</td>
<td>1,178</td>
</tr>
<tr>
<td>Net investment gain (loss)</td>
<td>646,186</td>
</tr>
</tbody>
</table>

**Other income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate write-ins for miscellaneous income</td>
<td>25,933</td>
</tr>
</tbody>
</table>

Net income before dividends to policyholders and before federal income taxes: 11,015,679

Federal income taxes incurred: 3,806,519

**Net income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$7,209,160</td>
</tr>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Capital and surplus, beginning of the year</td>
<td>$7,377,799</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>5,698,332</td>
</tr>
<tr>
<td>Change in net unrealized capital gains</td>
<td>(405,705)</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td>(257,597)</td>
</tr>
<tr>
<td>Dividends to stockholders</td>
<td>(5,671,670)</td>
</tr>
<tr>
<td>Capital and surplus, end of the year</td>
<td>$6,741,159</td>
</tr>
</tbody>
</table>
RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2010

As a result of this examination, there have been no adjustments affecting surplus reported by the Company in the December 31, 2010 annual statement. The surplus reported by the Company of $7,342,630 is accepted as reasonably stated for the purposes of the Balance Sheet per the examination.
MARKET CONDUCT ACTIVITIES

A full market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company’s market conduct. The areas in which limited procedures were performed included policy forms and underwriting, advertising and sales materials, treatment of policyholders, and privacy compliance. No significant exceptions with regard to the limited procedures performed were noted.

Policy Forms and Underwriting
The Company had appropriate licensure to issue its products, and the applicable policy forms were approved by the MID. In addition, a review of premium charges and refunds indicated that the Company was in compliance with approved policies and applicable laws.

Advertising and Sales Material
During the examination period, the Company did not do any direct advertising or provide any sales material to policyholders.

Treatment of Policyholders
The Company maintained a complaint log during the examination period, and all complaints appeared to have been resolved amicably and no policyholder abuse or undesirable patterns were noted.

Privacy
The Company had a privacy policy in place for the protection of its policyholders, and this policy appeared to be in compliance with applicable law and standards.

COMMITMENTS AND CONTINGENT LIABILITIES

The Company was a named defendant in a class action suit brought by Tower Loan borrowers, Claudia Smith and Wilbert Walker, in the United States District Court for the Southern District of Mississippi, South Division. The Company, AFLIC, Tower Loan, and other affiliates of the Parent are named defendants in similar actions brought by hundreds of borrowers in other courts. The class action and the actions in other courts, which assert many of the same claims brought in the class action, challenge virtually every material aspect of the loan/insurance practices of the Tower Loan companies and allege violations of state and federal laws. The insurance companies and the loan companies have denied the allegations in all of these cases.

In 2001, the parties to the class action entered into a proposed class wide settlement. Objectors to the Class Settlement exhausted their rights to appeal when, on January 18, 2005, the United States Supreme Court denied the objectors’ petition for writ of certiorari. Under the supervision of the District Court, implementation of the Class Action Settlement Agreement commenced in March 2005. Distributions to Class Members appearing to have been accomplished, the District Court entered an order on September 22, 2006, directing the disbursement to a number of charitable organizations of approximately sixty-seven percent (67%) of the funds remaining in the Settlement Fund.
On December 16, 2009, the District Court entered an order directing disbursement of the funds remaining in the Settlement Fund. The Settlement Administrator disbursed such funds by letters dated December 21, 2009. The injunctive relief ordered pursuant to the Settlement Agreement expired February 15, 2010. As of December 31, 2010, the balance of the Settlement Fund was $0.

In 2008, The Company was named as a defendant in the “State of Louisiana, Et al. v. AAA Insurance Company, Et. Al.” The basis of the suit results from Hurricane Katrina and Rita whereby residents of Louisiana who suffered damages and who were recipients of funds through the states’ Road Home Program” subrogated their rights under their respective property insurance policies, to the state. The Attorney General of Louisiana brought a class action suit to recoup funds expended in the program, on the basis of breach of contract, lack of good faith and fair dealing, and fiduciary duty by the named defendants. Currently, litigants are completing jurisdictional hearings and are entering into a motion to dismiss phase.

The state has provided the Company with names of alleged insured’s that the state alleges it is the subrogee for Road Home Funds on their behalf. The Company records indicate that only one of the alleged insured’s named by the state were ever insured’s of the Company. This insured does not appear to have been covered by the type of coverage targeted in the Road Home litigation.

Unless and until the state is able to identify the Company’s insured’s that received Road Home benefits, the Company is not exposed to liability. The records of the state make it somewhat difficult to determine whether the state may later find the Company’s insured’s that might be covered by Road Home payments. If any of these individuals are ultimately identified as Road Home Payees, some or all of those funds may be the basis for the Road Home claims. Based on the information available from the Company, one of the Company claimants who received funds from Hurricane Katrina and/or Rita damages are possible sources of Road Home Claims. The Company’s contingent liability for a single existing claim and its’ exposure including defense costs are considered minor.

**SUBSEQUENT EVENTS**

The Company paid cash dividends in the amount of $7,554,063 for 2011. These payments were made to the Parent in lieu of commissions and were approved by the MID.
COMMENTS AND RECOMMENDATIONS

As of December 31, 2010, the Company had fidelity bond coverage in the amount of $250,000 through Fidelity and Deposit Company of Maryland. As a result of growth of the Company, the amount of the fidelity bond is below the prescribed minimum coverage specified by NAIC. The Company plans to increase its fidelity bond coverage to $500,000 in 2012 at the bond’s policy renewal date to meet the prescribed minimum coverage amount specified by the NAIC.

The Company has reported in the Annual Statement amounts due from its Parent as uncollected premiums and agents’ balances in the course of collection. This amount has been reclassified as receivables from parent, subsidiaries and affiliates in this Report of Examination. The Company should report such amounts accordingly in the Annual Statement going forward to be in compliance with SSAP 25, Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties.
ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner:                          David McCauley
Supervising Examiner:            Lisa Warrum, CFE, CPA
Actuary:                          Brett E. Miller, FCAS, MAAA, ARM

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,

[Signature]
Lisa Warrum, CFE, CPA
Examiner-in-Charge