



MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

501 N. WEST STREET, SUITE 1001
WOOLFOLK BUILDING
JACKSON, MISSISSIPPI 39201
www.mid.state.ms.us

MAILING ADDRESS
Post Office Box 79
Jackson, Mississippi 39205-0079
TELEPHONE: (601) 359-3569
FAX: (601) 359-2474

MARK HAIRE
Deputy Commissioner of Insurance

March 14, 2012

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Mr. James L. Martin, Jr., President
American Federated Life 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.

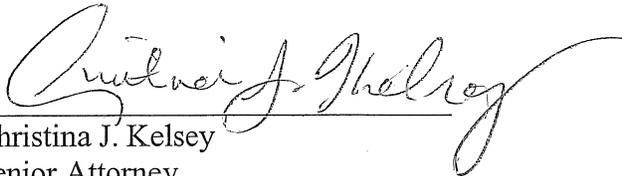
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department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

CAUSE NO. 12-6479

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 Life Insurance Company is a Mississippi-domiciled company licensed to write Accident and Health; Credit Life, Credit Accident and Health; and Life 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 Life 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 Life 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 Life 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 pre-paid, 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 Life 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 Life 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.

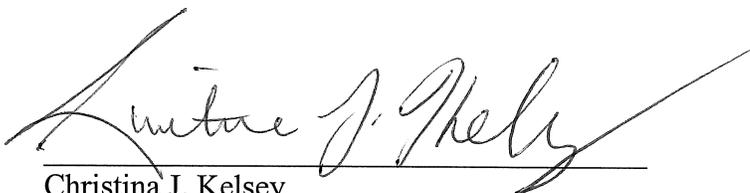


J. MARK HAIRE
DEPUTY COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI

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 14th day of March 2012, to:

**Mr. James L. Martin, Jr., President
American Federated Life 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 LIFE INSURANCE
COMPANY**

as of

December 31, 2010

TABLE OF CONTENTS

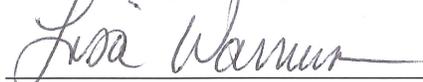
EXAMINER AFFIDAVIT	1
SALUTATION	2
INTRODUCTION	3
SCOPE OF EXAMINATION.....	3
COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION.....	3
HISTORY OF THE COMPANY	4
CORPORATE RECORDS	4
MANAGEMENT AND CONTROL	4
Board of Directors	4
Officers	5
Conflict of Interest.....	5
Corporate Governance.....	5
HOLDING 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 THE COMPANY	10
REINSURANCE.....	10
ACCOUNTS AND RECORDS	10
STATUTORY DEPOSITS	11
FINANCIAL STATEMENTS	11
Statement of Assets, Liabilities, Surplus and Other Funds	12
Summary of Operations.....	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.....	17
ACKNOWLEDGMENT.....	18

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 Life Insurance Company.
2. The Mississippi Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of American Federated Life Insurance Company 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 3 day of February, 2012.

(SEAL)




Notary Public

My commission expires July 4, 2019 [date].



MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of
Insurance

MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001
WOOLFOLK BUILDING
JACKSON, MISSISSIPPI 39201
www.mid.state.ms.us

MAILING ADDRESS
Post Office Box 79
Jackson, MS 39205-0079
TELEPHONE: (601) 359-3569
FAX: (601) 359-1951

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 LIFE INSURANCE COMPANY

406 Liberty Park Court
Flowood, Mississippi 39232

License #	NAIC Group #	NAIC #	ETS#
8200016	0641	98736	MS029-F12 & MS120-M9

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 Life Insurance Company (AFLIC 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 AFLIC. 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

The Company was licensed by the Mississippi Insurance Department (MID) in March, 1983, for life, accident and health lines. 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 June, 1994, the Board of Directors (Board) increased the Company's outstanding capital stock to 400,000 shares of \$1 par common stock. In April, 2006, the Company increased its outstanding capital stock to its current position of 600,000 of \$1 par common stock.

CORPORATE RECORDS

The minutes of the meetings of the stockholder and 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:

Name and Residence	Year Elected/Appointed	Principal Occupation
James Leland Martin Jackson, Mississippi	2000	President American Federated Life Insurance Co.
Cheryl Posey Taggart Birmingham, Alabama	2009	Vice President – Director of Accounting American Federated Life Insurance Co.
Francis Clark Lee Brandon, Mississippi	1995	Secretary/Treasurer American Federated Life Insurance Co.

Officers

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

Name	Year Elected/Appointed	Title
James Leland Martin	2000	President
Cheryl Posey Taggart	2009	Vice President–Director of Accounting
Francis Clark Lee	1995	Secretary/Treasurer

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 exceptions to the Company's policy were 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 Director of Accounting. The CFO of the Parent, who also serves as the President of the Company, along with the Director of Accounting, are responsible for oversight of the control environment and compliance with regulations applicable to each state in which the Company conducts business.

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 Insurance Company (AFIC).

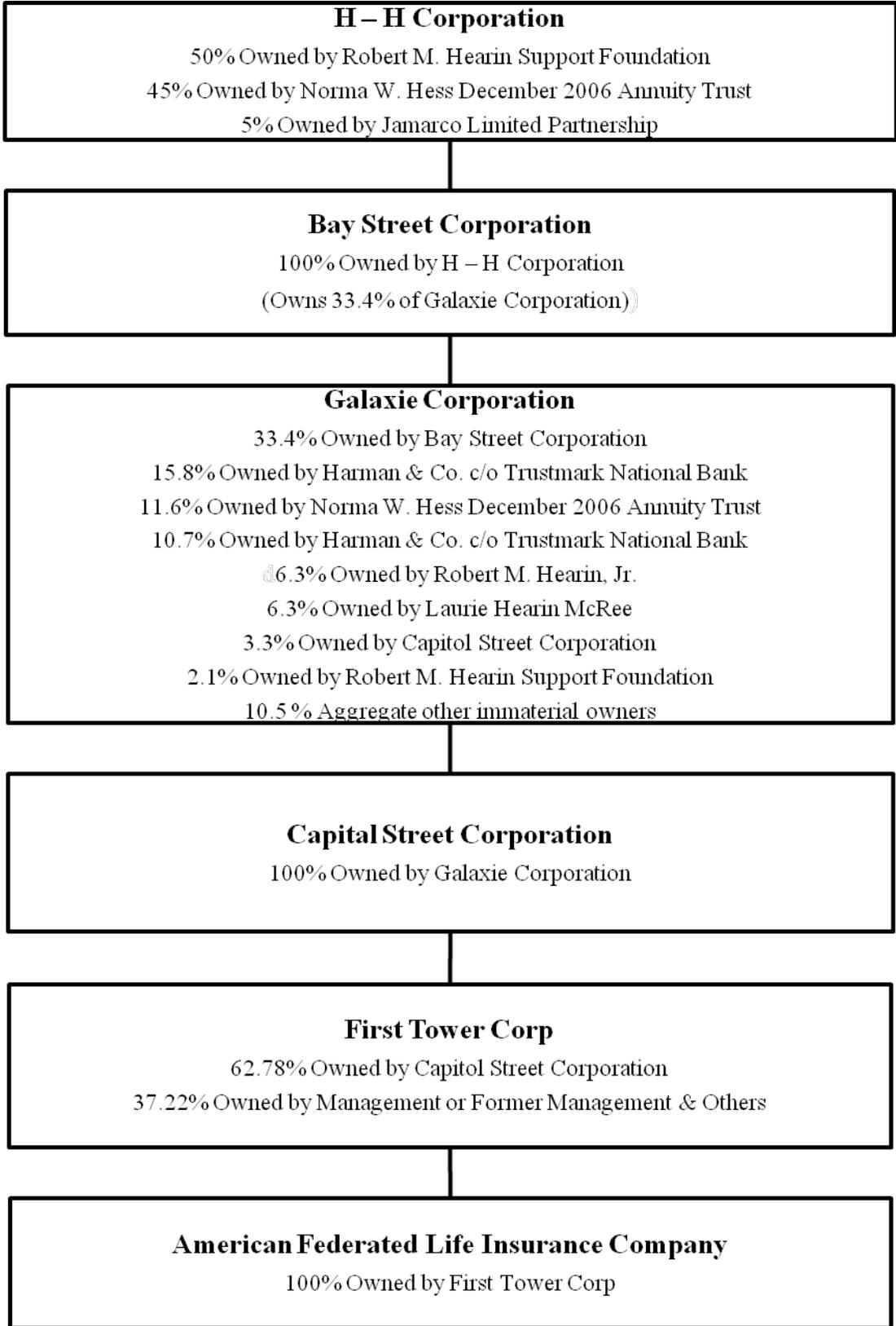
The Company's external auditor Carr, Riggs & Ingram, LLC, issues a letter annually on the effectiveness of internal controls for the Parent, including all subsidiaries and has consistently noted no material weakness in internal controls. Audit engagement decisions concerning independent auditors are 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 organizational chart displays the direct line of ownership along with a brief description of each member:



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 AFIC.

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. As of December 31, 2010, the subsidiaries of the Parent owed the Company approximately \$1,502,969 for insurance premiums collected during the month of December, 2010. This receivable was reported as aggregate write-ins for other than invested assets 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 \$4,982,534 during 2008, \$4,814,423 during 2009, and \$5,037,146 in 2010.

Administrative Expense Allocation Agreement

An agreement between the Company and AFIC 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 AFIC and reimbursed by the Company. The expense allocations defined vary depending on the services provided and volume of use by the companies. The Company owed AFIC \$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. The fidelity bond meets the prescribed minimum coverage specified by the NAIC.

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 has no employees; therefore, there were no employee pension or insurance plans. All personnel necessary to conduct the business operation of the Company are provided to the Company by its affiliate AFIC, under the aforementioned Administrative Expense Allocation Agreement. AFIC provides benefits to its employees and charges the Company a share for the employee cost.

TERRITORY AND PLAN OF OPERATION

The Company provides credit life and credit accident and health products to customers of its Parent's subsidiaries. First Tower Corp has several subsidiaries which offer credit insurance products as a complement to the consumer loan operations.

Through its finance company subsidiaries, First Tower Corp acquires and services finance receivables, which include installment loans secured by personal property or real estate and sales finance contracts, written through approximately one hundred fifty (150) branches throughout Louisiana, Mississippi, and Missouri. Recent growth in branch locations has been focused primarily in Missouri.

GROWTH OF COMPANY

	2010	2009	2008
Total admitted assets, less separate accounts	\$ 20,369,271	\$ 18,964,488	\$ 17,700,729
Total liabilities, less separate accounts	14,262,188	12,907,035	11,858,075
Total capital and surplus	6,107,083	6,057,453	5,842,654
Net cash from operations	6,084,566	5,824,376	4,541,261
Total adjusted capital	6,166,000	6,103,000	5,883,000
Authorized control level risk-based capital	545,000	502,000	472,000
Premiums earned and annuity considerations	11,270,617	10,400,766	9,329,072
Net investment income	680,914	689,521	710,537
Net realized capital gains & losses	57,485	7,503	4,427
Net income	4,991,509	4,983,311	4,863,231
Net Income/capital and surplus (ROE)	82%	82%	83%
Net premiums earned/capital and surplus	184.5%	171.7%	159.7%
Total benefits, expenses/ premiums, & deposits	42.7%	39.1%	36.3%
Investment Yield	4.0%	4.3%	4.6%
Non-inv grade bonds/total bonds	2.5%	0.0%	0.0%

REINSURANCE

As of December 31, 2010, the Company was a party to a quota share reinsurance agreement with Munich American Reassurance Company (MARC). Under the terms of this agreement, the Company ceded 40% of its credit accident and health in force business to MARC. This agreement also contains an experience refund addendum that resulted in a favorable adjustment to the reinsurance premiums if certain underwriting results were achieved on the reinsured business during the experience period. The Company received experience refund adjustments of approximately, \$756,000, \$733,000, and \$714,000 for 2010, 2009, and 2008, respectively.

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 the 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:

<u>Type of Security</u>	<u>State Deposited</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>
FHLMC Bond	Mississippi	\$ 95,000	\$ 100,097	\$ 102,188
Fannie Mae	Mississippi	105,000	105,575	109,523
US Treasury Bond	Mississippi	100,000	108,061	128,547
US Treasury Bond	Mississippi	110,000	108,964	112,707
Freddie Mac	Mississippi	110,000	110,784	118,737
Freddie Mac	Mississippi	90,000	92,957	99,761
Total		<u>\$ 610,000</u>	<u>\$ 626,438</u>	<u>\$ 671,463</u>

FINANCIAL STATEMENTS

The following financial statements consist of a Statement of Admitted Assets, Liabilities, Surplus and Other Funds at December 31, 2010, a Summary of Operations 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 of Adjustments to Surplus.

AMERICAN FEDERATED LIFE INSURANCE COMPANY
STATEMENT OF ADMITTED ASSETS, LIABILITIES, SURPLUS AND
OTHER FUNDS
DECEMBER 31, 2010

ADMITTED ASSETS

Bonds	\$ 16,483,010
Cash, cash equivalents and short-term investments	1,085,535
Investment income due and accrued	227,103
Funds held by or deposited with reinsured companies	250,000
Other amounts receivable under reinsurance contracts	816,689
Electronic data processing equipment and software	3,965
Receivables from parent, subsidiaries and affiliates	1,502,969
	<hr/>
Total admitted assets	\$ 20,369,271

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$ 7,047,438
Aggregate reserve for accident and health contracts	5,010,286
Contract claims: Life	296,143
Contract claims: Accident and health	144,149
Other amounts payable on reinsurance ceded	210,065
General expenses due and accrued	20,966
Taxes, licenses and fees due or accrued	172,684
Current federal and foreign income taxes	436,955
Asset valuation reserve	58,875
Payable to parent, subsidiaries and affiliates	35,194
Funds held under coinsurance	829,433
	<hr/>
Total liabilities	14,262,188
	<hr/>
Common capital stock	600,000
Gross paid in and contributed support	300,000
Unassigned funds (surplus)	5,207,083
	<hr/>
Total capital and surplus	6,107,083
	<hr/>
Total liabilities, surplus and other funds	\$ 20,369,271

AMERICAN FEDERATED LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
FOR YEAR ENDED DECEMBER 31, 2010

Operating income

Premiums and annuity considerations for life and accident and health contracts	\$ 11,270,617
Net investment income	680,914
Amortization of interest maintenance reserve	652
Aggregate write-ins for miscellaneous income	12,373
Total income	11,964,556
Death benefits	1,969,063
Disability benefits and benefits under accident and health contracts	965,209
Increase in aggregate reserves for life and accident and health contracts	1,124,801
Total policy benefits	4,059,073
General insurance expenses	274,396
Insurance taxes, licenses, and fees	407,586
Aggregate write-ins for deductions	76,521
Total expenses	4,817,576
Net gain from operations before federal income taxes	7,146,980
Federal and foreign income taxes incurred	2,212,956
Net gain from operations after federal income taxes	4,934,024
Net realized capital gains	57,485
Net income	\$ 4,991,509

**AMERICAN FEDERATED LIFE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE EXAMINATION PERIOD ENDED DECEMBER 31, 2010**

	2008	2009	2010
Capital and surplus, beginning of the year	\$ 5,966,735	\$ 5,842,654	\$ 6,057,453
Net income	4,863,231	4,983,311	4,991,509
Change in non-admitted assets	1,770	51,369	108,096
Change in asset valuation reserve	(6,548)	(5,458)	(12,829)
Dividends to stockholders	(4,982,534)	(4,814,423)	(5,037,146)
Capital and surplus, end of the year	<u>\$ 5,842,654</u>	<u>\$ 6,057,453</u>	<u>\$ 6,107,083</u>

AMERICAN FEDERATED LIFE INSURANCE COMPANY
RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2010

As a result of this examination, there have been no changes affecting surplus to policyholders, made to the admitted assets, liabilities, and surplus balances reported by the Company in the December 31, 2010, annual statement, as filed with the MID. The capital and surplus reported by the Company of \$6,107,083 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, AFIC, Tower Loan, and other affiliates of the Parent were 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 on February 15, 2010. As of December 31, 2010, the balance of the Settlement Fund was \$0.

SUBSEQUENT EVENTS

The Company paid cash dividends in the amount of \$5,019,964 for 2011. These payments were made to the Company's parent in lieu of commissions and were approved by the MID.

COMMENTS AND RECOMMENDATIONS

The Company has reported in the Annual Statement amounts due from its Parent as aggregate write-ins for other than invested assets. 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:	Jeff Beckley, FSA, MAAA

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

Respectfully submitted,



Lisa Warrum, CFE, CPA
Examiner-in-Charge