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, Mississippi 39205-0079
TELEPHONE: (601) 359-3569
FAX: (601) 316-2474

April 17, 2013

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. George P. Reeth, President
AmFed Casualty Insurance Company
576 Highland Colony Parkway, Suite 300
Ridgeland, MS 39157

RE: Report of Examination as of December 31, 2011

Dear Mr. Reeth:

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 AMFED
CASUALTY INSURANCE COMPANY

CAUSE NO. 12-6635

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 AmFed Casualty Insurance Company, is a Mississippi-domiciled Company licensed to write Workers' Compensation coverage.
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 AmFed Casualty Insurance Company and appointed Sarah Lucibello, Examiner-In-Charge, to conduct said examination.

IV.

That on or about December 7, 2012, the draft Report of Examination concerning AmFed Casualty Insurance Company for the period of January 1, 2011 through December 31, 2011, was submitted to the Department by the Examiner-In-Charge, Sarah Lucibello.

V.

That on or about December 12, 2011, 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 March 28, 2013, the Department received a letter from the Company citing that the Company agreed to the two findings with the report. The Company stated that procedures have been implemented to ensure timely communication of termination of agents, and that the Company will comply with the filing requirements.

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, all relevant examiner work papers and the Company’s rebuttal, that the Report of Examination of AmFed Casualty 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 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, AmFed Casualty 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 AmFed Casualty Insurance Company take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

SO ORDERED, this the 17th day of April 2013.

J. MARK HAIRE
DEPUTY COMMISSIONER OF INSURANCE
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 April 2013, to:

Mr. George Reeth, President
AmFed Casualty Insurance Company
576 Highland Colony Parkway, Suite 300
Ridgeland, MS 39157

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

AMFED CASUALTY INSURANCE COMPANY

as of

December 31, 2011
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EXAMINER’S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Illinois,
County of DuPage,

Sarah Lucibello, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of AmFed Casualty Insurance Company.

2. The Mississippi Insurance Department 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 AmFed National 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.

[Signature]
Sarah Lucibello, CPA, CFE, CIA
Examiner-in-charge

Subscribed and sworn before me by Sarah Lucibello on this 15th day of April, 2013.

[Seal]
Notary Public

My commission expires 6-26-16 [date].
January 18, 2013

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, 2011, of the affairs and financial condition of:

**AMFED CASUALTY INSURANCE COMPANY**  
576 Highland Colony Parkway, Suite 300  
Ridgeland, MS 39157

**COMPANY LICENSE # 0300041**  
**NAIC COMPANY CODE 11963**

<table>
<thead>
<tr>
<th>License #</th>
<th>NAIC Group #</th>
<th>NAIC #</th>
<th>FEETS#</th>
</tr>
</thead>
<tbody>
<tr>
<td>0300041</td>
<td>661</td>
<td>11963</td>
<td>11963-MS-2011-15</td>
</tr>
</tbody>
</table>

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and the report of examination is herewith submitted.
INTRODUCTION

This examination was performed by examiners representing the Mississippi Insurance Department ("MID") and covered AmFed Casualty Insurance Company ("Company") operations and financial condition from January 1, 2011 through December 31, 2011, including material transactions and/or events occurring subsequent to the examination date through January 18, 2013.

SCOPE OF EXAMINATION

We have performed our examination of AmFed Casualty Insurance Company. The last exam was completed as of December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2011.

Concurrent with this examination, we conducted an examination of the Company’s parent, AmFed National Insurance Company ("AmFed National"). An examination report for AmFed National will be issued under separate cover.

We conducted our examination in accordance with the NAIC Financial Condition Examiners 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 the examiners without material change receive little or no comment.
COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

The following recommendations were included in the Report of Examination of the Company as of December 31, 2010. Following each of the recommendations is the status based upon this examination.

1. **Agent Record Keeping**

   It was recommended that the Company ensure proper record keeping regarding appointed and terminated agents, which should include the retention of appointment and termination information. The Company should ensure that accurate information regarding agents is communicated to the MID.

   The Company subsequently addressed this recommendation, with the exception that the Company had numerous instances of late communication of terminated agent status to the MID. A related recommendation is repeated in the Comments and Recommendations of this report.

2. **Commissions to Terminated Agents**

   It was recommended that the Company implement procedures to ensure that agents who are terminated cannot submit new business after their termination date. The Company should additionally implement procedures to ensure that commissions are not paid to agents for business that was submitted after termination.

   The Company subsequently addressed this recommendation.

HISTORY OF THE COMPANY

The Company was incorporated and commenced business under the laws of the State of Mississippi on March 6, 2004. The Company is licensed as a single-line property and casualty company and its operations to date have consisted of writing workers’ compensation and employers’ liability insurance contracts in the State of Mississippi.

Prior to October 1, 2008, the Company was a wholly owned subsidiary of AmFed National Insurance Company ("ANIC"), which was a wholly owned subsidiary of AmFed Holding Company ("AFHC"). Effective October 1, 2008, AmFed Holding Company sold its 100% interest in AmFed National, the Company’s parent, to Companion Property and Casualty Insurance Company ("Companion"). Companion is a subsidiary of Blue Cross Blue Shield of South Carolina ("BCBSSC").
CORPORATE RECORDS

The minutes of the meetings of Stockholders and Board of Directors (“Board”), regarding the Company’s business affairs as 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 the meetings for deliberation.

MANAGEMENT AND CONTROL

Board of Directors

The Articles of Incorporation 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, year elected/appointed, and principal occupation, at December 31, 2011, were as follows:

<table>
<thead>
<tr>
<th>Name and Residence</th>
<th>Year Elected/Appointed</th>
<th>Principal Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. David S. Pankau Columbia, South Carolina</td>
<td>2010</td>
<td>Chairman, President and CEO of BCBSSC</td>
</tr>
<tr>
<td>Ms. Judith M. Davis Columbia, South Carolina</td>
<td>2008</td>
<td>EVP, Chief Legal Officer and Corporate Secretary of BCBSSC</td>
</tr>
<tr>
<td>Christopher I. Hudson (1) Columbia, South Carolina</td>
<td>2011</td>
<td>SVP of BCBSSC</td>
</tr>
<tr>
<td>Mr. Michael J. Mizeur Columbia, South Carolina</td>
<td>2011</td>
<td>EVP, Chief Financial Officer and Treasurer of BCBSSC</td>
</tr>
<tr>
<td>Mr. George P. Reeth Columbia, South Carolina</td>
<td>2011</td>
<td>President, Companion Property and Casualty Insurance Company</td>
</tr>
<tr>
<td>Mr. M. Edward Sellers Columbia, South Carolina</td>
<td>2011</td>
<td>Chairman of the Board of BCBSSC</td>
</tr>
<tr>
<td>Mr. William R. Shrader Columbia, South Carolina</td>
<td>2008</td>
<td>SVP, Actuarial &amp; Health Regulation of BCBSSC</td>
</tr>
<tr>
<td>Mr. Joseph F. Sullivan Camden, South Carolina</td>
<td>2011</td>
<td>Chairman Emeritus of the Board of BCBSSC</td>
</tr>
<tr>
<td>Mr. Stephen K. Wiggins Lexington, South Carolina</td>
<td>2008</td>
<td>EVP and Chief Information Officer of BCBSSC</td>
</tr>
</tbody>
</table>

(1) Christopher I. Hudson was removed as member of the Board on May 31, 2012.
Committee

The Company utilized the BCBSSC Audit Committee as elected by BCBSSC pursuant to the procedure described in Miss. Code Ann. § 83-5-119 paragraph (e) to designate the BCBSSC Audit Committee as the Audit Committee for the Company. The following directors served on the Audit Committee at December 31, 2011:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>John G. Foos, Chair</td>
<td>Board Member, BCBSSC</td>
</tr>
<tr>
<td>John M. Trask, Jr.</td>
<td>Board Member, BCBSSC</td>
</tr>
<tr>
<td>Minor M. Shaw</td>
<td>Board Member, BCBSSC</td>
</tr>
<tr>
<td>Merl F. Code</td>
<td>Board Member, BCBSSC</td>
</tr>
<tr>
<td>Helen E. Clawson</td>
<td>Board Member, BCBSSC</td>
</tr>
<tr>
<td>Joseph F. Sullivan</td>
<td>Chairman Emeritus, BCBSSC</td>
</tr>
</tbody>
</table>

Officers

The following are the officers that were duly elected by the Board and holding office at December 31, 2011.

<table>
<thead>
<tr>
<th>Name</th>
<th>Year Elected/Appointed</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>George P. Reeth</td>
<td>2011</td>
<td>President</td>
</tr>
<tr>
<td>Michael G. Richardson</td>
<td>2001</td>
<td>Vice President</td>
</tr>
<tr>
<td>Richard C. Camp</td>
<td>2011</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>Brenda D. Van Velkinburgh</td>
<td>2001</td>
<td>Vice President</td>
</tr>
<tr>
<td>Vivian B. Monistere</td>
<td>2009</td>
<td>Vice President</td>
</tr>
<tr>
<td>Jerelyn S. Boysia</td>
<td>2011</td>
<td>Vice President and Actuary</td>
</tr>
<tr>
<td>Duncan S. McIntosh</td>
<td>2011</td>
<td>Secretary</td>
</tr>
<tr>
<td>Gregory J. Hoeg</td>
<td>2011</td>
<td>Vice President and Chief Administrative Officer</td>
</tr>
<tr>
<td>Robert C. Rhodes</td>
<td>2011</td>
<td>Vice President and Chief Operating Officer</td>
</tr>
<tr>
<td>Michael J. Mizeur</td>
<td>2011</td>
<td>Treasurer</td>
</tr>
<tr>
<td>David A. Cote</td>
<td>2010</td>
<td>Assistant Treasurer</td>
</tr>
<tr>
<td>Jamie I. Early</td>
<td>2010</td>
<td>Assistant Secretary</td>
</tr>
</tbody>
</table>
Conflict of Interest

The Company has formal procedures whereby disclosure is made to the Board of any material interest or affiliation on the part of any officer or director that is, or would likely be, a conflict with their official duties. These procedures were reviewed, and no conflicts or exceptions to the Company’s policies were noted.

Corporate Governance

Upon review of the corporate governance structure, the overall corporate structure was determined to be adequate based upon the Company’s size and structure. The Company is 100% owned by AmFed National. AmFed National is 100% owned by Companion effective October 1, 2008, whose parent is BCBSSC. As was discussed in the prior examination report, the Company experienced turnover in management positions, which were filled during the current examination period, both at the Company and Companion levels. Management records, such as Board minutes, were reviewed with no exceptions.

The Board’s involvement and oversight along with its independence from management was considered during the course of our examination without material concern. Other key variables in our consideration of the Board’s involvement included, but were not limited to factors such as: (1) the frequency of Board Meetings, (2) the type of information communicated to the Board prior to meetings and the topics discussed along with the depth and quality of discussions, (3) key communication channels to and from management with the Board, along with overall “tone at the top”. Information regarding the Board members, committees and other related information can be found in the Management and Control section of this report.

The appropriateness of the Company’s organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining our understanding of its organizational structure. This includes consideration of the entity’s centralized structure and its ability to communicate information upstream, downstream and across all business activities. Our consideration also encompassed understanding the assignment of authority and responsibility. There were no material concerns regarding the Company’s organizational structure, its ability to provide for necessary information flow to manage its activities or assignment of authority and responsibility.

Our consideration of corporate governance encompassed the risk management function through discussions with senior management and a member of the Board, as well as through gaining an understanding of the risk management function through inspection of relevant risk management documentation. Upon our review and consideration of these components and functions, there was no material concerns noted.

Management competence was a consideration in overall assessment of corporate governance. In our review of this area, we considered factors such as (1) experience level within the Company of key management, (2) management/employee turnover and (3) previous experience of key
management. There was no material concerns noted upon our consideration of this area. While two key management positions experienced turnover, management has significant experience with the Company.

During our consideration of corporate governance, it was noted that the Company did not have an internal audit department. The Company’s ultimate parent, BCBSSC, did have an internal audit department; however, the Company’s business was out of scope due its relative immateriality to BCBSSC. Additionally, the Company utilizes different systems and processes from BCBSSC, therefore the BCBSSC internal audit department was not taken into account in our review of the Company’s corporate governance.

**HOLDING COMPANY STRUCTURE**

The Company was a member of an insurance holding company system as defined in 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 that were filed with the MID during the examination period were reviewed and it appeared that any changes and material transactions by and between the Company and its affiliates were appropriately disclosed.
Organizational Chart

A simplified organizational chart as of December 31, 2011, reflecting the holding company system, is shown below. Schedule Y of the Company’s 2011 annual statement provided a list of all related companies of the holding company group.

![Organizational Chart Diagram]

The following is information concerning the Company’s affiliates and subsidiary with which agreements were in place:

**Blue Cross Blue Shield of South Carolina:** BCBSSC is the ultimate controlling entity and was incorporated in 1946 under the laws of the State of South Carolina and was formed by merger in its current form in 1971. BCBSSC is licensed as a mutual insurance company that writes accident and health insurance and provides hospitalization and other health care benefits for its members. BCBSSC also performs administrative services for other self-funded plans and for certain other programs, such as Medicare.

**Companion Property and Casualty Insurance:** Companion, a wholly owned subsidiary of BCBSSC, was incorporated on February 13, 1984 under the laws of the State of South Carolina.
Companion offers workers' compensation insurance, a variety of commercial package policies, commercial auto, commercial umbrella and property insurance for residential condominiums.

**AmFed Companies, LLC:** This company is a wholly owned subsidiary of Companion Third Party Administrators, LLC and was incorporated in 1998 under the laws of the State of Mississippi. AmFed Companies, LLC acts as a third party administrator for self-insured funds.

**AmFed Insurance Services, LLC:** This company is a wholly owned subsidiary of Companion Third Party Administrators, LLC and was incorporated in 2000 under the laws of the State of Mississippi. AmFed Insurance Services, LLC operates as a Managing General Agent for excess and surplus lines.

**AmFed Casualty Insurance Company:** This company was formed on March 16, 2004 as a wholly owned subsidiary of the Company and is licensed to write workers’ compensation and employers’ liability insurance contracts in Mississippi. All premiums and losses are ceded to the Company.

**Affiliated and Related Party Transactions**

**Service Agreement**
Effective January 1, 2005, the Company entered into a service agreement with AmFed Companies, LLC, Utilization Management, LLC (assumed by AmFed Insurance Services, LLC in 2009), and AmFed Insurance Services, LLC (collectively referred to as AmFed). Pursuant to this agreement, AmFed wrote and administered workers’ compensation products and had the responsibility for premium collection, claims adjustment, claims payment and underwriting on behalf of the Company. During 2011, the Company paid $80,000 as a result of this agreement.

**Tax Allocation Agreement**
Upon its acquisition by Companion on October 1, 2008, the Company became party to the tax allocation agreement between BCBSSC and each of its subsidiaries effective January 1, 2002. Pursuant to this agreement, BCBSSC and its eligible subsidiaries, including the Company filed a consolidated federal income tax return. Under this agreement, BCBSSC collects from or refunds to the subsidiaries the amount of taxes or benefits based on the Company’s proportionate share of the consolidated federal income tax liability computed as if the companies filed separate returns, multiplied by the consolidated federal income tax return liability.

**Reinsurance Agreement**
As described below under the “Reinsurance” section of this Report, the Company ceded 100% of the business written to AmFed National pursuant to a quota share agreement.

**FIDELITY BOND AND OTHER INSURANCE**
The Company was a named insured under a fidelity bond issued to its ultimate parent, BCBSSC
and its affiliates, in the amount of $10 million. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the NAIC for these companies on a consolidated basis. The Company also maintained other business property and liability coverage through BCBSSC. Based on our review, the Company’s insurance coverage appeared adequate.

**PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

Benefits provided to officers were provided through AmFed National, which transferred employees to BCBSSC in 2011. The Company did not have any direct employees.

**TERRITORY AND PLAN OF OPERATION**

The Company was authorized to write workers’ compensation business in the state of Mississippi. The Company wrote multi-line workers’ compensation through independent agents in Mississippi.
GROWTH OF COMPANY

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total admitted assets</td>
<td>$ 1,476,897</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$ 363,609</td>
</tr>
<tr>
<td>Total capital and surplus</td>
<td>$ 1,113,288</td>
</tr>
<tr>
<td>Net cash from operations</td>
<td>$(1,081,186)</td>
</tr>
<tr>
<td>Total adjusted risk-based capital</td>
<td>$ 1,113,288</td>
</tr>
<tr>
<td>Authorized control level risk-based capital</td>
<td>$ 1,673</td>
</tr>
<tr>
<td>Premiums earned</td>
<td>-</td>
</tr>
<tr>
<td>Net underwriting gain (loss)</td>
<td>$ 12,871</td>
</tr>
<tr>
<td>Net investment income earned</td>
<td>$ 5,829</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 9,305</td>
</tr>
<tr>
<td>Net underwriting gain to PHS</td>
<td>1.2%</td>
</tr>
<tr>
<td>Return on surplus</td>
<td>0.8%</td>
</tr>
<tr>
<td>Yield on invested assets</td>
<td>0.4%</td>
</tr>
<tr>
<td>Non-investment grade bonds to total bonds</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

REINSURANCE

In accordance with the Risk Surveillance Approach contained within the NAIC Examiners’ Handbook, the reinsurance program of the Company was considered and no material concerns were noted. Further, no treaties were noted that contained unusual provisions, transfer of risk issues or other relevant concerns. A general description and listing of the reinsurance agreements are presented below.

Ceded
The Company ceded 100% of the voluntary workers’ compensation and employees’ liability insurance written to its parent, AmFed National. Under the provisions of the quota share reinsurance agreement, AmFed National pays the Company a commission allowance which approximates policy acquisition costs.
ACCOUNTS AND RECORDS

The 2011 trial balance of the Company’s accounts was traced to the balance sheet of the Company’s statutory annual statement filed with the MID, with no exceptions noted. The Company was audited annually by an independent CPA firm.

The Company’s accounting and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains supporting documentation that was reviewed during the examination as applicable.

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 total statutory deposits as held at December 31, 2011 in Mississippi.

<table>
<thead>
<tr>
<th>Description</th>
<th>Par Value</th>
<th>Book/Adjusted Carrying Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>IA Emergency GO Bond</td>
<td>$ 200,000</td>
<td>$ 201,972</td>
<td>$ 210,408</td>
</tr>
<tr>
<td>200,000</td>
<td>$ 201,972</td>
<td>$ 210,408</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 200,000</td>
<td>$ 201,972</td>
<td>$ 210,408</td>
</tr>
</tbody>
</table>
Introduction

The following financial statements reflect the same amounts reported by the Company and consist of a Statement of Assets, Liabilities, Surplus and Other Funds – Statutory at December 31, 2011, as Statement of Income – Statutory for the year ended December 31, 2011, and a Reconciliation of Surplus as Regards Policyholders – Statutory for the examination period ended December 31, 2011.
### AmFed Casualty Insurance Company

*Statement of Assets, Liabilities, Surplus and Other Funds – Statutory*

<table>
<thead>
<tr>
<th>December 31,</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>$201,972</td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>610,469</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>525</td>
</tr>
<tr>
<td>Uncollected premiums and agents’ balances in course of collection</td>
<td>(1,246)</td>
</tr>
<tr>
<td>Amounts recoverable from reinsurers</td>
<td>665,177</td>
</tr>
<tr>
<td><strong>Total admitted assets</strong></td>
<td>$1,476,897</td>
</tr>
<tr>
<td><strong>Liabilities, Surplus and Other Funds</strong></td>
<td></td>
</tr>
<tr>
<td>Commissions payable, contingent commissions and other similar charges</td>
<td>$38,629</td>
</tr>
<tr>
<td>Taxes, licenses and fees</td>
<td>64,329</td>
</tr>
<tr>
<td>Ceded reinsurance premiums payable</td>
<td>252,191</td>
</tr>
<tr>
<td>Payable to parent, subsidiary and affiliates</td>
<td>8,460</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>363,609</strong></td>
</tr>
<tr>
<td>Common capital stock</td>
<td>400,000</td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>800,000</td>
</tr>
<tr>
<td>Unassigned funds</td>
<td>(86,712)</td>
</tr>
<tr>
<td><strong>Total surplus and other funds</strong></td>
<td><strong>1,113,288</strong></td>
</tr>
<tr>
<td><strong>Total liabilities, surplus and other funds</strong></td>
<td><strong>$1,476,897</strong></td>
</tr>
</tbody>
</table>
### Statement of Income – Statutory

For the Year Ended December 31, 2011

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underwriting Income</strong></td>
<td></td>
</tr>
<tr>
<td>Premiums Earned</td>
<td>$</td>
</tr>
<tr>
<td>Deductions</td>
<td>(12,871)</td>
</tr>
<tr>
<td>Other underwriting expenses incurred</td>
<td></td>
</tr>
<tr>
<td>Total underwriting deductions</td>
<td>(12,871)</td>
</tr>
<tr>
<td>Net underwriting gain</td>
<td>12,871</td>
</tr>
<tr>
<td><strong>Investment Income</strong></td>
<td></td>
</tr>
<tr>
<td>Net investment income earned</td>
<td>5,829</td>
</tr>
<tr>
<td>Net investment gain</td>
<td>5,829</td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td></td>
</tr>
<tr>
<td>Net loss from agents’ or premium balances charged off</td>
<td>(12,871)</td>
</tr>
<tr>
<td>Finance and service charges not included in premiums</td>
<td>8,541</td>
</tr>
<tr>
<td>Total other income</td>
<td>(4,330)</td>
</tr>
<tr>
<td>Net income before dividends to policyholders and before federal income taxes</td>
<td>14,370</td>
</tr>
<tr>
<td>Less: Federal income taxes incurred</td>
<td>5,065</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 9,305</td>
</tr>
</tbody>
</table>
Reconciliation of Surplus as Regards Policyholders – Statutory

For the examination period ended December 31, 2011

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus as regards policyholders, beginning of the year</td>
<td>$ 1,178,395</td>
</tr>
<tr>
<td>Net income</td>
<td>9,305</td>
</tr>
<tr>
<td>Change in non-admitted assets</td>
<td>(74,412)</td>
</tr>
<tr>
<td>Surplus as regards policyholders, end of the year</td>
<td>$ 1,113,288</td>
</tr>
</tbody>
</table>
AmFed Casualty Insurance Company
Reconciliation of Examination Adjustments to Surplus – Statutory

For the year ended December 31, 2011

As a result of this examination, there have been no changes affecting surplus, as regards to policyholders, made to the admitted assets, liabilities, and surplus balance reported by the Company in the December 31, 2011 annual statement as filed with the MID. The capital and surplus reported by the Company of $1,113,288 is accepted as reasonably stated for purposes of the balance sheet per the examination and was in compliance with Miss. Code Ann. §83-19-31.
MARKET CONDUCT ACTIVITIES

A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company’s market conduct where issues were noted during the prior examination. The areas in which limited procedures were performed included privacy compliance and producer licensing.

Privacy

The Company had a privacy policy in place for the protection of its policyholders. No material concerns were noted during the course of our testing regarding the Company’s privacy policy.

Producer Licensing

Appointed Agents for the Company in the state of Mississippi, as well as those agents terminated during the examination period, were compared to agents records maintained by the MID. Termination notices were reviewed for selected agents and agents terminated during the examination period were compared to commission payments. A recommendation related to the recommendation made in the previous examination report is included below in Comments and Recommendations.
COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 2011, the Company was involved as a defendant in various litigation matters. Although the outcome of such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions should not have a material adverse effect on the surplus of the Company.

SUBSEQUENT EVENTS

No subsequent events were noted.

COMMENTS AND RECOMMENDATIONS

There were no recommended adjustments to surplus as of December 31, 2011 based on the results of this examination.

1. Agent Termination Communication Delay

Finding:

The Company had numerous instances where timely communication of the termination of agents was not reported to the Mississippi Insurance Department. Per Mississippi Code §83-17-77, an insurer or authorized representative of the insurer that terminates the appointment, employment, contract or other insurance business relationship with a producer shall notify the Commissioner within thirty (30) days following the effective date of the termination.

Recommendation:

We recommend that the Company implement a process to communicate the termination of agents to the Commissioner within 30 days.
2. **Untimely Holding Company Filings**

   **Finding:**

   The Company did not timely file their Form B and C Holding Company filings during the examination period (holding company registration statements were marked received by MID on July 9, 2012) in accordance with Miss. Code Ann. §83-6-5 and §83-6-9.

   **Recommendation:**

   It is recommended that the Companies adhere to the June 1 filing deadline for Holding Company filings.
ACKNOWLEDGMENT

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

Examiner-in-charge                Sarah Lucibello, CPA, CFE, CIA
Examiner:                           Amy Carter, CPA
Supervising Examiner:              David Palmer, CFE
Automation Examiner:               Scott Langstein, CISA
Actuary:                           Robert P. Daniel, ACAS, MAAA
                                    Merlinos & Associates, Inc.

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

Respectfully submitted,

[Signature]
Examiner-in-charge