



## MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001  
WOOLFOLK BUILDING  
JACKSON, MISSISSIPPI 39201  
www.doi.state.ms.us  
March 30, 2009

MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

MAILING ADDRESS  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
TELEPHONE: (601) 359-3569  
FAX: (601) 359-2474  
WATS: 1-800-562-2957 (Incoming - USA)

### CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. John William Roberts, President  
AmFed National Insurance Company  
576 Highland Colony Parkway, Suite 300  
Ridgeland, MS 39157

**RE: Report of Examination as of December 31, 2007**

Dear Mr. Roberts:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), 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. 1999), 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  
          NATIONAL INSURANCE COMPANY**

**CAUSE NO. 09-5892**

**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. 1999). 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. 1999).

**II.**

That AmFed National Insurance Company, is a Mississippi-domiciled Company licensed to write Automobile Physical Damage/Liability; Boiler and Machinery; Casualty/Liability; Fidelity; Fire/Allied Lines; Home/Farm Owners; Industrial Fire; Inland Marine; Plate Glass; 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. 1999), called for an examination of AmFed National Insurance Company and appointed Dale Miller, Examiner-In-Charge, to conduct said examination.

### **IV.**

That on or about February 20, 2009, the draft Report of Examination concerning AmFed National Insurance Company for the period of January 1, 2005 through December 31, 2007, was submitted to the Department by the Examiner-In-Charge, Dale Miller.

### **V.**

That on or about March 10, 2009, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), 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 25, 2009, the Department received correspondence from the Company stating they had no response or rebuttal to the draft report.

## **CONCLUSIONS OF LAW**

### **VI.**

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), 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 National 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. 1999).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, AmFed National 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 National 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.

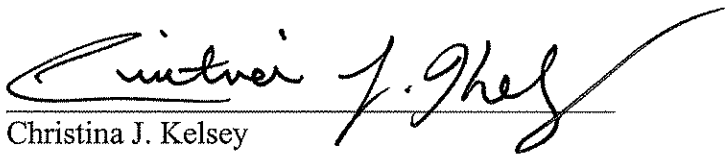
**SO ORDERED**, this the 30<sup>th</sup> day of March 2009.

  
\_\_\_\_\_  
MIKE CHANEY  
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 30<sup>th</sup> day of March 2009, to:

**Mr. John William Roberts, President  
AmFed National 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 National Insurance Company  
576 Highland Colony Parkway, Suite 300  
Ridgeland, Mississippi 39157**

**As of December 31, 2007**

**NAIC Group Code 3528  
NAIC Company Code 11208  
NAIC ETS No. MS029-C48**

# AmFed National Insurance Company

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December 31, 2007

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN THE EXAMINATION**


State of Mississippi,

County of Madison,

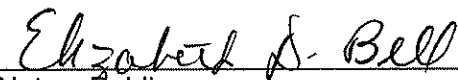
R. Dale Miller being duly sworn, states as follows:

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

  
\_\_\_\_\_  
R. Dale Miller, CFE, CPA, CFF  
Examiner-in-charge

Subscribed and sworn before me by R. Dale Miller on this 26 day of March, 2009.

  
\_\_\_\_\_  
Notary Public

My commission expires \_\_\_\_\_ [date].  
MISSISSIPPI STATEWIDE NOTARY PUBLIC  
MY COMMISSION EXPIRES NOV 23, 2010  
BONDED THRU STEGALL NOTARY SERVICE





## MISSISSIPPI INSURANCE DEPARTMENT

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December 1, 2008

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205

Commissioner Chaney:

Pursuant to the instructions and authorization from the Commissioner of Insurance for the State of Mississippi and in compliance with statutory provisions, an examination as of December 31, 2007, has been conducted of the affairs and financial condition of:

**AMFED NATIONAL INSURANCE COMPANY  
(NAIC COMPANY CODE 11208)**

Statutory Home Office:  
576 Highland Colony Parkway, Suite 300  
Ridgeland, Mississippi 39157

This examination was conducted in accordance with Miss. Code Ann. §83-5-205, et seq., and the report of examination is herewith submitted for your review.

## **INTRODUCTION**

The examination period, for purposes of this report, is defined as January 1, 2005 through December 31, 2007, and the examination date is December 31, 2007. The examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered AmFed National Insurance Company's (Company or AFNIC) operations and financial condition through the examination period, including material transactions and/or events that occurred subsequent to the examination date and were noted during the course of the examination. The Company's previous examination was as of December 31, 2004, and the previous report of examination was dated December 9, 2005.

## **SCOPE OF EXAMINATION**

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with applicable laws. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

The affairs, transactions, accounts, records, assets and liabilities of the Company were reviewed and tested by acceptable methods to the extent deemed necessary to comply with Miss. Code Ann. § 83-5-205. The examination procedures, as recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, were followed in the conduct of this examination and in the preparation of this report. These procedures included a review of material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

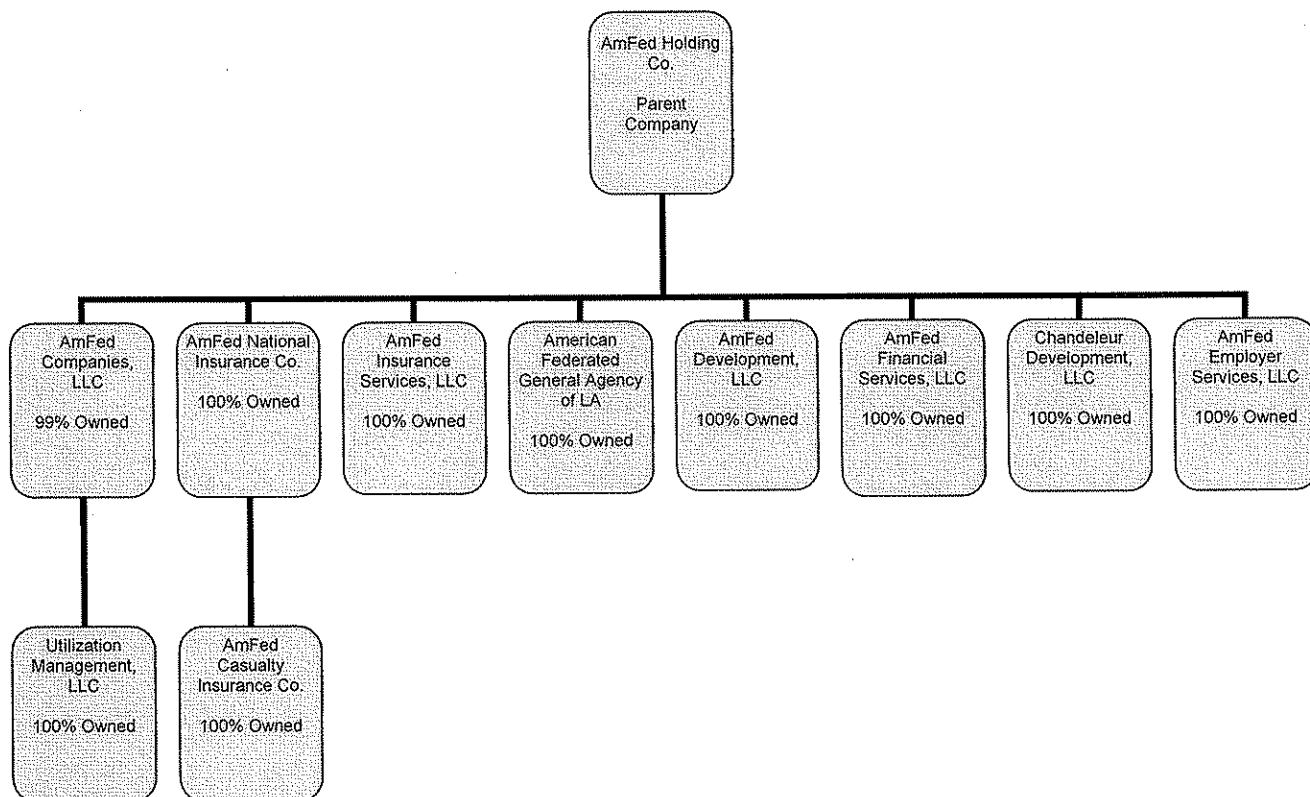
## **HISTORY OF THE COMPANY**

The Company was incorporated in November, 2001, under the laws of the State of Mississippi, and commenced business in January, 2002. The Company was originally organized to primarily provide coverage on the business commonly known as workers' compensation insurance provided for by Miss. Code Ann. §83-19-1(f). In February, 2003, the MID approved the Company's amended Articles of Association to include all forms of fire and casualty insurance contracts which an insurer can lawfully enter.

## **HOLDING COMPANY STRUCTURE**

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company appears to have completed and filed with the MID the necessary documentation to comply with Miss. Code Ann. §§ 83-6-5 and 83-6-9 for the years under examination. The statements and applicable amendments filed during the examination period were reviewed, and it appeared that any changes and/or material transactions by and between the Company and its affiliates were reported. The following organizational chart depicts the ownership and affiliated companies:

## Organizational Chart



### Related Party Transactions

**Service Agreement:** Effective January 1, 2005, the Company entered into a service agreement with AmFed Companies, LLC, Utilization Management, LLC, and AmFed Insurance Services, LLC, (collectively referred to as AmFed) which replaced the previous service agreement between the parties. Pursuant to this agreement, AmFed wrote and administered worker's compensation products and had the responsibility for premium collection, claims adjustment, claims payment and underwriting on behalf of the Company.

**Marketing and Accounting Agreement:** Effective January 1, 2004, the Company entered into a marketing and accounting agreement with AmFed Companies, LLC, Utilization Management, LLC, and AmFed Insurance Services, LLC, (collectively referred to as AmFed) which replaced the previous agreement between the parties. Pursuant to this agreement, AmFed performed all accounting, reporting, and marketing functions for the Company.

The Company incurred expenses of \$4,231,000, \$4,955,000, and \$3,762,000 for 2007, 2006 and 2005, respectively, for the services provided by various affiliates per the terms of the agreements discussed above.

**Notes Receivable from Parent:** In 2006, the Company sold certain unconsolidated partnership investments to its parent and as part of the consideration for the sale received two promissory notes with an original balance of \$600,000. These notes bear interest at 8% per annum and are payable in annual installments of \$125,000, plus interest, beginning December 31, 2006. As of December 31, 2007, the notes receivable from parent approximated \$350,000 and the interest earned on these notes receivables approximated \$38,000.

**MANAGEMENT AND CONTROL**

**Stockholder**

At December 31, 2007, the Company had 500,000 of its authorized shares of \$1.25 par value common stock issued and outstanding. The common stock of the Company was 100% owned by AmFed Holding Company, a Mississippi formed holding company that provided insurance related and non-insurance related services through its wholly-owned subsidiaries. The Company did not pay any dividends during the examination period.

**Board of Directors**

The Articles of Association and Bylaws vest the management and control of the Company's business affairs with the Board of Directors (Board). As of December 31, 2007, the members of the duly elected Board along with their place of residence and principal occupation were as follows:

| <b><u>Name and Place of Residence</u></b>        | <b><u>Principal Occupation</u></b>  |
|--|---|
| John Williams Roberts<br>Madison, Mississippi    | President and Chief Executive Officer,<br>AmFed Companies, LLC                |
| Michael Glenn Richardson<br>Madison, Mississippi | Executive Vice President and Chief<br>Operating Officer, AmFed Companies, LLC |
| Gregory Thomas McLemore<br>Brandon, Mississippi  | Executive Vice President and Chief<br>Financial Officer, AmFed Companies, LLC |

**Officers**

The officers duly elected by the Board of Directors and holding office at December 31, 2007 were as follows:

| <b><u>Name</u></b>            | <b><u>Position</u></b>                        |
|-------------------------------|---|
| John Williams Roberts         | President                                     |
| Gregory Thomas McLemore       | Executive Vice President, Secretary/Treasurer |
| Ronald Hodges Riggan          | Executive Vice President                      |
| Michael Glenn Richardson      | Executive Vice President                      |
| Brenda Denise Van Velkinburgh | Executive Vice President                      |

**Committees**

There were no active committees of the Board as of the examination date.

### Conflict of Interest

The Company maintained a policy whereby disclosure was made to the Board of Directors of any material interest or affiliation on the part of any officer or director that was a conflict, or would likely be a conflict, with the official duties of such persons. Written statements were signed annually by all officers and members of the Board of Directors.

## **CORPORATE RECORDS**

The Articles of Association, Bylaws and amendments thereto, were reviewed and duly applied in other sections of this report as deemed appropriate. Minutes of the meetings of the stockholders and Board taken during the period covered by this examination were reviewed and appeared to be complete with regard to recording the matters brought up at the meetings for deliberation.

## **FIDELITY BOND AND OTHER INSURANCE**

Insurance policies were in force at December 31, 2007 that appeared to be adequate to protect the Company's interest, and the fidelity insurance coverage exceeded the NAIC's suggested minimum amount.

## **DIRECTORS', OFFICERS', EMPLOYEES' AND AGENTS' WELFARE**

The Directors, Officers, Employees and Agents of the Company served in similar capacities for affiliated companies and did not receive any direct compensation or benefits from the Company.

## **REINSURANCE**

The Company utilized reinsurance to limit exposure to large and concentrations of risk. Its reinsurance program consisted of both assumed and ceded agreements for workers' compensation and employer's liability insurance business and its homeowners insurance program. A summary of the Company's reinsurance program and the agreements in force at the examination date follows:

### **Homeowners Program**

The Company began writing business in 2005 under a homeowners program which is reinsured with quota share and excess of loss reinsurance contracts. At the examination date the reinsurance agreements in place limited the Company's exposure to 65% of the first \$750,000 of losses per occurrence. Losses in excess of \$750,000 were reinsured 100% with a maximum reinsurable limit of \$10,000,000. Following is a description of the Homeowners reinsurance contracts in place at the examination date:

#### *Quota Share Agreement with Lloyd's Underwriters*

Effective July 1, 2007, the Company entered into a quota share agreement with syndicates of Underwriter's at Lloyd's, London through Benfield Limited, a reinsurance intermediary. Per the terms of this agreement the Company ceded 35% of its Homeowners losses up to a maximum per occurrence loss of \$750,000.

#### *Excess of Loss Agreement with Lloyd's Underwriters*

Effective July 1, 2007, the Company entered into an excess of loss catastrophe agreement with syndicates of Underwriter's at Lloyd's, London through Benfield Limited. Per the terms of this agreement any homeowner losses in excess of \$750,000 were reinsured 100% with a maximum reinsurable limit of \$10,000,000.

## Workers' Compensation Program

The Company wrote and assumed workers' compensation business in the voluntary market, and served as a servicing carrier for the Mississippi Workers' Compensation Assigned Risk Pool. As of the examination date, agreements were in place that limited the Company's exposure to \$500,000 of loss for each claim. Losses in excess of \$500,000 were reinsured 100% with a maximum reinsurable limit of \$20,000,000. Following is a description of the Workers' Compensation reinsurance contracts in place at the examination date:

### Assumed Reinsurance:

#### *Quota Share Agreement with AmFed Casualty Insurance Company*

Effective March 1, 2004, the Company entered into a 100% Quota Share Reinsurance Agreement with AmFed Casualty Insurance Company (AFCIC), its wholly owned subsidiary. Under the terms of this agreement, the Company assumed 100% of the workers' compensation and employers liability business written by AFCIC, net of a commission allowance percentage of 20%. The commission allowance percentage was changed, via endorsement, to 27% effective October 1, 2005.

### Ceded Reinsurance:

#### *Excess of Loss Agreements through Benfield Limited*

Effective April 1, 2007, the Company entered into excess of loss agreement through Benfield Limited. Per the terms of this agreement, losses in excess of \$500,000 were reinsured 100% through various reinsurers with a maximum reinsurable limit of \$5,000,000.

#### *Excess of Loss Agreement through Benfield Limited*

Effective April 1, 2007, the Company entered into excess of loss agreement through Benfield Limited. Per the terms of this agreement, losses in excess of \$5,000,000 were reinsured 100% through various reinsurers with a maximum reinsurable limit of \$5,000,000.

#### *Excess of Loss Agreement with General Reinsurance Company (Gen Re)*

Effective January 1, 2005, the Company entered into an excess of loss reinsurance agreement with Gen Re. Per the terms of this agreement, losses in excess of \$10,000,000 were reinsured 100% with a maximum reinsurable limit of \$10,000,000.

#### *Quota Share Agreement with the MS Workers' Compensation Assigned Risk Pool*

Effective January 3, 2003, the Company began writing workers' compensation coverage as a servicing carrier for the MS Workers' Compensation Assigned Risk Pool (Assigned Risk Pool). Pursuant to a quota share reinsurance agreement, 100% of the assigned risk workers' compensation premiums and all loss exposures were ceded to the Assigned Risk Pool.

The amounts reported (rounded) at December 31, 2007 for ceded and assumed reinsurance follow:

**Reinsurance ceded**

|   |               |
|---|---------------|
| Reinsurance premiums ceded                        | \$ 13,883,133 |
| Reinsurance recoverable on paid on losses and LAE | 7,946,884     |
| Reserve credits taken                             | 37,200,000    |
| Unearned premium ceded                            | 5,118,166     |
| Ceded premiums payable                            | 1,695,097     |

**Reinsurance assumed**

|  |              |
|--|--------------|
| Premiums assumed                             | \$ 4,637,945 |
| Assumed losses and LAE payable               | 290,318      |
| Assumed reserves for losses and LAE reported | 4,074,702    |
| Assumed unearned premium                     | 1,729,474    |

**ACCOUNTS AND RECORDS**

The Company's 2007 trial balance was tied to the financial statements within the statutory annual statement filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm and the Company's unpaid loss estimates were calculated by a consulting actuarial firm.

**STATUTORY DEPOSITS**

The Company's statutory deposit with the state of Mississippi complied with Miss. Code Ann. § 83-19-31(2). The following chart displays the Company's deposits at December 31, 2007,

| <u>Description</u>                  | <u>Par Value</u> | <u>Fair Value</u> | <u>Maturity Date</u> |
|-------------------------------------|------------------|-------------------|----------------------|
| VA State Public<br>School Authority | \$500,000        | \$506,595         | 4/15/2009            |
| Total                               | <u>\$500,000</u> | <u>\$506,595</u>  |                      |

**AMFED NATIONAL INSURANCE COMPANY  
FINANCIAL STATEMENTS  
EXAMINATION AS OF DECEMBER 31, 2007**

**Introduction**

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2007, a Statement of Income for year ended December 31, 2007, a Reconciliation Surplus as Regards Policyholders for the examination period ended December 31, 2007, and a Reconciliation of Examination Changes to Surplus at December 31, 2007.



# AmFed National Insurance Company

## Statement of Assets, Liabilities, Surplus and Other Funds

| <i>December 31,</i>   | <b>2007</b>          |
|---|----------------------|
| <b>Assets</b>   |                      |
| Bonds   | \$ 11,435,007        |
| Common stocks   | 6,042,139            |
| Mortgage loans  | 2,590,000            |
| Cash, cash equivalents and short-term investments   | 4,937,960            |
| Other invested assets   | 425,000              |
| Investment income due and accrued   | 195,975              |
| Uncollected premiums in course of collection  | 1,729,946            |
| Deferred premiums booked but deferred and not yet due   | 766,154              |
| Amounts recoverable from reinsurers   | 2,454,990            |
| Other amounts receivable under reinsurance contracts  | 5,491,894            |
| Net deferred tax asset  | 859,177              |
| Electronic data processing equipment and software   | 13,112               |
| Receivables from parent, subsidiaries and affiliates  | 1,943,357            |
| Other assets  | 3,010                |
| <b>Total assets</b>   |                      |
|   | <b>\$ 38,887,721</b> |
| <b>Liabilities, Surplus and Other Funds</b>   |                      |
| Losses  | \$ 20,377,841        |
| Reinsurance payable on paid loss and loss adjustment expenses   | 290,318              |
| Loss adjustment expenses  | 2,869,570            |
| Commissions payable   | 476,897              |
| Other expenses  | 143,321              |
| Taxes, licenses and fees  | 299,355              |
| Current federal and foreign in zone taxes   | 513,417              |
| Unearned premiums   | 5,590,239            |
| Advance premiums  | 48,663               |
| Ceded reinsurance premiums payable  | 1,695,097            |
| Payable to parent, subsidiaries and affiliates  | 232,366              |
| Payable for securities  | 57,850               |
| Other amounts owed to reinsurer   | 232,894              |
| Retroactive reinsurance ceded   | (505,790)            |
| <b>Total liabilities</b>  |                      |
|   | <b>32,322,038</b>    |
| Common stock, \$1.25 par value; 1,000,000 shares authorized;<br>500,000 shares issued and outstanding | 625,000              |
| Gross paid in and contributed surplus   | 4,545,976            |
| Unassigned funds (surplus)  | 1,394,707            |
| <b>Surplus as regards policyholders</b>   |                      |
|   | <b>6,565,683</b>     |
| <b>Total liabilities, surplus and other funds</b>   |                      |
|   | <b>\$ 38,887,721</b> |

# AmFed National Insurance Company

## Statement of Income

| <i>For the Year Ended December 31,</i> | <b>2007</b>         |
|--|---------------------|
| <b>Revenues</b>                        |                     |
| Premiums earned                        | \$ 17,264,540       |
| Net investment income                  | 1,048,874           |
| Realized capital gains                 | 346,556             |
| Other income                           | 127,964             |
| <hr/>                                  |                     |
| Total revenues                         | 18,787,934          |
| <b>Benefits and expenses</b>           |                     |
| Losses incurred                        | 8,887,767           |
| Loss expenses incurred                 | 2,517,444           |
| Other underwriting expenses            | 5,357,614           |
| <hr/>                                  |                     |
| Total benefits and expenses            | 16,762,825          |
| <hr/>                                  |                     |
| Income before federal income taxes     | 2,025,109           |
| <hr/>                                  |                     |
| Federal income tax expense             | 879,615             |
| <hr/>                                  |                     |
| <b>Net income</b>                      | <b>\$ 1,145,494</b> |

# AmFed National Insurance Company

## Reconciliation of Surplus as Regards Policyholders

*For the examination period ended December 31, 2007*

|   | 2005         | 2006         | 2007         |
|---|--------------|--------------|--------------|
| Surplus as regards policyholders, beginning of the year | \$ 5,333,018 | \$ 4,473,629 | \$ 5,422,369 |
| Net income (loss)                                       | (757,087)    | 622,887      | 1,145,494    |
| Change in net unrealized capital gains / (losses)       | (159,458)    | 234,334      | (141,310)    |
| Change in net deferred income tax                       | 148,109      | (11,057)     | 213,469      |
| Change in non-admitted assets                           | (90,953)     | 102,576      | (74,339)     |
| Surplus as regards policyholders, end of the year       | \$ 4,473,629 | \$ 5,422,369 | \$ 6,565,683 |

**AMFED NATIONAL INSURANCE COMPANY  
RECONCILIATION OF EXAMINATION CHANGES TO SURPLUS  
DECEMBER 31, 2007**

There were no changes made to the admitted assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2007. The surplus as regards policyholders, which totaled \$6,565,683 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.

## **MARKET CONDUCT ACTIVITIES**

A full market conduct examination was not conducted; however, specific areas of the market conduct activities were reviewed. The specific areas reviewed included those items as indicated below.

### **Policy Forms and Underwriting**

Based upon procedures performed during the course of the examination, the Company appeared to have the appropriate licensure to issue its products, and the applicable policy forms appeared to be appropriately approved by the MID. As a component of the liability testing associated with the related sample items selected, and in conjunction with both the controls and substantive testing, the information on the face of the application was reviewed in order to ensure that all pertinent information on the applications appeared complete and accurate. No material concerns were noted.

### **Territory and Plan of Operation**

The Company was licensed as a multi-line property and casualty company to transact business only in the State of Mississippi. During the examination period, the Company's primary operations consisted of writing workers' compensation and employers' liability coverage. On February 1, 2005, the Company began issuing homeowners insurance in the State of Mississippi.

### **Advertising and Sales Material**

The Company's advertising and sales materials that were utilized during the time period covered by this examination were reviewed with no exceptions or material concerns noted.

### **Treatment of Policyholders**

The Company maintained a complaint log during the period under examination and all complaints appeared to have been appropriately resolved amicably and no policyholder abuse was noted. As a component of the liability testing associated with the related sample items selected, and in conjunction with both the controls and substantive testing, the claim files were reviewed for general indicators of policyholder treatment concerns without material exception.

### **Privacy**

The Company had a privacy policy in place for the protection of its policyholders, and based upon the procedures performed during the course of the examination, the policy appeared to be in compliance with applicable laws and standards.

## **COMMITMENTS AND CONTINGENCIES**

At December 31, 2007, 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 and its legal representatives, the resolution of any currently pending or threatened actions should not have a material adverse effect on the surplus position of the Company.

The Company is subject to periodic guaranty fund and other assessments by the State of Mississippi. Amounts assessed to each company are generally related to its proportion of business written. The Company's policy is to accrue assessments as the related written premium upon which the assessment is based is written. As of December 31, 2007, the Company had prepaid approximately \$80,000 in assessments that were estimated to be refundable based upon the maximum annual assessments.

## **SUBSEQUENT EVENTS**

Effective October 2008, AmFed Holding Company, the Company's parent, sold all of its insurance and insurance related subsidiaries to Companion Property and Casualty Insurance Company, (Companion) a multi-line insurance company licensed in 47 states and headquartered in Columbia, South Carolina. Also, the Company entered into a multiple line quota share reinsurance agreement with Companion through which the Company ceded 100% of its gross losses not already covered by existing reinsurance agreements.

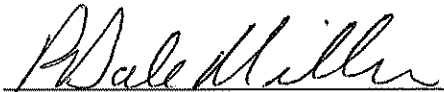
**ACKNOWLEDGMENT**

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

|                         |  |
|-------------------------|--|
| Administrative Examiner | Mitch Rayborn, CFE, FLMI                                   |
| Examiner-in-charge      | R. Dale Miller, CPA, CFE, CFF                              |
| Actuary                 | Robert P. Daniel, ACAS, MAAA<br>Merlino & Associates, Inc. |

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

Respectfully submitted,



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R. Dale Miller, CPA, CFE, CFF  
Examiner-in-charge