Statutory Financial Examination of

ALASKA NATIONAL INSURANCE COMPANY

FE 08-01

as of December 31, 2007

Issued by

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE

NAIC Company Code: 38733

FINAL REPORT:
May 13, 2009

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
550 WEST 7TH AVENUE, SUITE 1560
ANCHORAGE, AK 99501-3567

Order FE 08-01)
In the Matter of Examination of)
Alaska National Insurance Company)
)

FINDINGS OF FACT

1. A report of examination of Alaska National Insurance Company, domiciled in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Alaska National Insurance Company.

2. The Report of Examination of Alaska National Insurance Company (FE 08-01) has been transmitted to Mr. Craig L. Nodtvedt, President, Alaska National Insurance Company (Examinee), and Examinee has been accorded at least 30 days opportunity to review and comment on this Report of Examination. A response from the examinee was received on June 8, 2009.

3. The Director of the Division of Insurance has fully considered and reviewed the report, the examinee response and any relevant portions of the examiner's work papers to the extent she considered necessary.

CONCLUSIONS OF LAW

1. The written Report of Examination referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).

2. The actions set forth in finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).

3. The Director of the Division of Insurance has reviewed the Report of Examination, the examinee response and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent she considered necessary in accordance with AS 21.06.150(b).

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
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ORDER

IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Alaska National Insurance Company (FE 08-01) is approved as amended.

2. Pursuant to AS 21.06.060, the Report of Examination shall be kept in the Office of the Director of the Division of Insurance and be open to public inspection.

3. The Examinee will implement all recommendations within a reasonable amount of time but no later than one year from the issue date of this examination report, unless otherwise recommended in the Report of Examination. Failure to implement compliance recommendations may result in action against the Examinee for violation of this order.

This order is effective June 18, 2009.

Dated this 18th day of June, 2009 at Anchorage, Alaska.

Linda S Hall

Linda S. Hall, Director
State of Alaska
Division of Insurance

Alaska National Insurance Company
As of December 31, 2007
FE 08-01

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Ms. Linda S. Hall, Director
Division of Insurance
Department of Commerce, Community
and Economic Development
State of Alaska
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Alfred W. Gross, Chair
Financial Condition (E) Committee
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2662

Dear Director Hall:

In accordance with your instructions and authorizations, and in accordance with statutory requirements, an examination has been made of the financial condition and business affairs of:

Alaska National Insurance Company
7001 Jewel Lake Road
Anchorage, Alaska 99502

(NAIC CoCode 38733)

SCOPE OF EXAMINATION

This examination covered the three-year period from January 1, 2005 to December 31, 2007. Transactions subsequent to this period were reviewed where deemed appropriate. The most recent prior examination of the Company covered the period from January 1, 2002 through December 31, 2004.

The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires that the examination be planned and performed 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.

The examination was also conducted in accordance with the guidelines and procedures recommended by the Financial Condition (E) Committee of the NAIC and the rules, regulations, and directives of the Division of Insurance, State of Alaska. The work papers of the independent certified public accountants, KPMG LLP (KPMG), were reviewed and used where it was determined to be appropriate. The appropriate KPMG work papers have been incorporated into the exam work paper file.

The Company's assets were evaluated and verified, and liabilities were analyzed to determine the Company's financial condition as of December 31, 2007. Also, an actuarial evaluation of the reserves as of December 31, 2007, was performed by Sarah K. McNair-Grove, ACAS, MAAA, Actuary for the Division of Insurance, State of Alaska, as a part of this examination.

SUMMARY OF EXAMINATION FINDINGS

Significant Findings

During the course of the examination the following significant findings were documented and included in this report with recommendations:

The Company has developed portions of a Business Continuity Plan and a Disaster Recovery Plan. The Business Continuity Plan does not address all significant business activities and contingencies, is not based on a business impact analysis, and is not periodically reviewed and tested to determine the appropriateness of the anticipated maximum recovery times and recovery points. While some components of the Disaster Recovery Plan are being reviewed and updated regularly, there is no comprehensive and formalized Disaster Recovery Plan that includes periodic testing and training.

The Company did not record in the general ledger and report in the annual statement cash held for self insurance. The amount in the account was immaterial to the Company financial statements, however, it should be reported as an asset.

The Company has regular lending and borrowing transactions with its parent, Alaska National Corporation, primarily for dividends and stock purchases and sales. Additionally, the Company has funded the purchase of real estate and artwork owned by the Parent. There was no written agreement providing for timely settlement of the amounts owed to and from the Parent with a specified due date as required by SSAP 25 and SSAP 96. No cash settlements were made on these transactions during 2008.

The Company acquired a $30 million short position of SPDR's (S&P 500 Index exchange traded funds) during 2007. Alaska Administrative Code regulaton 3 AAC 21.340(d) prohibits short selling equity investments except in very narrow circumstances where the insurer covers the short sale by owning the equity that is being sold short or has an agreemet to purchase the equity. The company reduced its short sale position in 2008 and ended it in 2009.

DESCRIPTION OF COMPANY

Company History

Alaska National Insurance Company (ANIC) is an Alaska-domiciled stock insurance company organized pursuant to Title 21, Chapter 69 of the Alaska Statutes. ANIC was incorporated on April 30, 1979, and received a Certificate of Authority (license #1285) from the State of Alaska effective September 30, 1980, authorizing them to transact the business of property, casualty, surety, health, marine, wet marine, and transportation policies. ANIC currently has the same authorities. As of December 31, 2007, ANIC was licensed in 26 states.

Corporate Records

The Articles of Incorporation, bylaws and minutes of the Board of Directors of ANIC and of the parent company, Alaska National Corporation, were reviewed during this examination.. Annual shareholder meetings were held each year covered by the examination and Board of Directors' meetings were called and held according to the Articles and bylaws. All actions requiring board approval were taken by resolution at a meeting or by resolution without a meeting as provided by the bylaws. All elections were held in accordance with bylaws and statute. The corporate bylaws were last amended in 1998.

The stockholders' meetings are held within six months of the end of each year followed by the Board of Directors' meetings. The Board of Directors holds an additional meeting in December of each year. Attendance at all meetings was 100 percent. All investment transactions of ANIC were approved by the Board and all salaries are approved by the Board-appointed Compensation Committee.

Management and Control

ANIC is a member of a holding company system and is wholly owned by Alaska National Corporation. No significant ownership or management control changes have occurred since the previous examination. Alaska National Corporation, the Company's parent, is closely owned by the Directors of Alaska National Corporation and management and employees of ANIC. The shares are not actively traded.

No significant management control changes have occurred since the previous examination. There have been no significant changes in executive management of ANIC during the period covered by this examination. The prior president, David P. Jones, resigned at the beginning of the examination period and Craig L. Nodtvedt was appointed president. Mr. Jones remained a director and assumed the position of vice chairman in 2005.

The Company's corporate governance structure was determined to be "effective" and includes the following aspects:

- Appropriate "tone from the top," commitment of senior management to integrity and "doing the right thing;"
- Strong process in place to identify risks, including self-identification by management;
- Frequent and effective flow of information between the Board of Directors and management; and
- Extensive knowledge of the business by management as well as the Board.

ANIC is party to an inter-company tax allocation agreement with the Alaska National Corporation whereby the federal income tax return is filed on a consolidated basis.

Fidelity Bonds and Other Insurance

ANIC has fidelity bonding of $1.5 million issued by Travelers through Alaska USA Insurance Brokers of Anchorage. The policy provision for forgery or alteration is for $1.5 million single loss limit of liability, $1.5 million aggregate limit of liability, and $100,000 single loss deductible and was effective to January 1, 2008. Bonding covers all offices of ANIC and all employees and officers of the Company. Coverage exceeds the minimum amount recommended by the NAIC.

The Company's other insurance coverage, placed by Erven Suddock & Bong, includes general liability ($2 million aggregate, $1 million each occurrence); property (blanket limit of $7 million for buildings); fine arts ($5.6 million limit); difference in conditions/flood and earthquake ($15 million limit); auto ($1 million limit); umbrella liability ($25 million limit); and worker's compensation/employer's liability/stop-gap ($1 million each occurrence). ANIC is also covered for boiler and machinery. Coverage is deemed adequate.

Employees' and Agents' Pensions, Stock Ownership, and Other Insurance

ANIC provides a comprehensive package of employee benefit programs for its employees. The Company makes available and pays the cost of a comprehensive medical, life insurance, and short and long term disability programs for regular, full-time employees.

All employees are covered by the Federal Social Security Act. ANIC carries insurance to cover the cost of work-related injury or illness. ANIC offers eligible employees a profit-sharing plan to assist in providing for future welfare and financial security. The Company also has a voluntary employee-elected cash or deferred profit-sharing plan. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The Company offers a financial incentive to employees to advance their education under specific guidelines. Regular, full-time employees accrue vacation and sick leave at various rates depending on length of service.

There has been no significant change in employee welfare and benefit plans since the last examination.

Territory and Plan of Operation

ANIC is authorized to transact the following kinds of business: property, casualty, surety, disability, marine, wet marine, and transportation policies. As of December 31, 2007, ANIC was licensed in 26 states. Per inquiry of management, ANIC does not maintain a written plan for the acquisition of business and does not employ an agency system. Also, per inquiry of management, ANIC does not employ a budgeting and forecasting system but rather relies on expense reviews and comparisons of current to prior year actual totals to identify significant variances for investigation.

Growth of Company

The following schedule shows the annual results of the Company's operations for the years ended December 31, 2005 through December 31, 2007. The figures are as reported in the Company's annual statements for the years 2005 through 2007.

Year	Admitted Assets	Liabilities	Surplus	Net Premiums Earned	Losses Incurred
2005	594,447,112	407,309,086	187,138,026	187,499,264	84,568,611
2006	645,190,825	420,154,551	225,036,274	190,218,426	69,044,520
2007	708,244,500	463,219,383	245,025,117	183,712,277	80,661,408

Loss Experience

The following schedule shows the loss experience of the Company during the period of examination:

Year	Premiums Earned	Losses Incurred	Ratio	Loss Expense Incurred	Ratio
2005	187,499,264	84,568,611	45.1%	$31,651,692	16.9%
2006	190,218,426	69,044,520	36.3%	$29,276,902	15.4%
2007	183,712,277	80,661,408	43.9%	$29,850,016	16.2%

Reinsurance

As of December 31, 2007, ANIC has a maximum retention of $1,000,000 on property, $2,000,000 on liability, and $5,000,000 on workers compensation lines of business. The Company has excess of loss reinsurance on lines as follows: workers' compensation reinsurance of $170 million, liability reinsurance of $8 million, and property reinsurance of $4 million. Additionally, ANIC maintains catastrophic property coverage in the amount of 97.5% of $33 million in excess of $2 million. At December 31, 2007, 52% of ceded reinsurance went to the mandatory workers' compensation pool administered by the National Council on Compensation Insurance (NCCI) due to ANIC's role as a servicing carrier for the Alaska pool. Twenty-nine percent of ceded reinsurance went to two reinsurers, rated 'A++' and another 13% to a single reinsurer rated A+, by A.M. Best Company. All reinsurance contracts provided by the Company contained appropriate arbitration and insolvency clauses. ANIC assumes the majority of its reinsurance from the Alaska workers' compensation pool and from the Alaska Automobile Insurance Plan administered by the Auto Insurance Provider Service Organization (AIPSO). Small amounts are assumed under fronting arrangements with Fairfield Insurance Company and Old Republic Insurance Company.

Accounts and Records

Alaska National Insurance Company is headquartered in Anchorage, Alaska, with branch offices in San Francisco and Seattle. As of year-end 2007, ANIC's data center in Anchorage housed an IBM RS6000 server that supported the Anchorage operation locally and the Seattle and San

Francisco offices remotely. During 2008, the production data was removed from the legacy RS/6000 hardware to a Windows file server running AcuServer & AcuShare services.

Review of the Information Systems (IS) organization chart and subsequent discussions with the Company disclosed that the organizational structure is not unusual for a company of this size. The chief information officer reports to the Company's president, which gives the IS function independence from the operating groups in the Company. In addition to the staff in Anchorage, there is one IS employee in San Francisco and one in Seattle. These branch personnel provide personal computer support to the organization.

There are two financially significant in-house developed applications -- the claims and the underwriting systems; all others are purchased packages. The Company uses Sungard/EAS software for its general ledger and accounts payable applications. It uses a Great Plains payroll application, SDIM for investment accounting, and BNA Fixed Asset for fixed assets software. Agent balances receivable are on an internally developed application.

The Company has been retaining more and more records electronically over the years covered by this examination. Data processing for all offices is centralized in Anchorage.

Statutory Deposits

STATUTORY DEPOSITS
As of December 31, 2007

	Deposits with the State of Domicile For the Benefit of All Policyholders		All Other Special Deposits	
State	Book Value	Fair Value	Book Value	Fair Value
Alaska	$ 4,135,256	$ 4,139,050	$ -	$ -
Arizona	0	0	500,060	500,605
California	0	0	69,588,639	70,388,354
Idaho	0	0	507,093	507,040
Louisiana	0	0	105,715	106,703
Nevada	0	0	90,787	91,130
New Mexico	0	0	590,597	596,217
Oklahoma	0	0	508,099	507,375
Oregon	0	0	1,868,791	1,900,808
Aggregate Alien and Other – U.S. Dept. of Labor	0	0	4,278,369	4,510,313
Total	4,135,256	4,139,050	78,038,150	79,108,545

SUMMARY OF ACTUARIAL REVIEW

Sarah K. McNair-Grove, FCAS, MAAA, Actuary with the Division of Insurance, State of Alaska, reviewed the adequacy of the Company's December 31, 2007 loss and loss adjustment expense reserves. As of December 31, 2007, ANIC carried $473,754,000 in gross loss and expense reserves and $368,398,000 in net loss and expense reserves.

The Company provided loss and expense data by accident-year by line of business. Using this information, along with information obtained by interviewing company staff, the division actuary reviewed the reserves held by ANIC as well as the Milliman, Inc. actuarial report in support of the 2007 Statement of Actuarial Opinion. The reserve analysis was performed on both a gross and net of reinsurance basis. Based on this review, the Company's overall reserve position is within a reasonable range of reserve estimates and is accepted as stated.

FINANCIAL STATEMENTS

The following pages contain the statutory financial statements of Alaska National Insurance Company as of December 31, 2007, as reported to the Division and as determined by the examiners.

FINANCIAL STATEMENTS

STATEMENT OF ASSETS, LIABILITIES AND SURPLUS

As of December 31, 2007

	As Reported 12/31/2007	Adjustments	As Adjusted 12/31/2007
Assets			
Bonds	$ 535,558,626		$ 535,558,626
Preferred stock	2,052,000		2,052,000
Common stock	21,287,449		21,287,449
Properties occupied by the company	1,793,253		1,793,253
Properties held for the production of income	297,133		297,133
Cash, cash equivalents & short-term investments	14,036,435		14,036,435
Other invested assets	45,445,650		45,445,650
Aggregate write-ins for invested assets	27,212,862		27,212,862
Investment income due and accrued	6,759,252		6,759,252
Premiums and agents' balances in course of collection	20,635,781		20,635,781
Accrued retrospective premiums	10,857,903		10,857,903
Amounts recoverable from reinsurers	1,779,087		1,779,087
Net deferred tax asset	7,731,875		7,731,875
Guaranty funds receivable or on deposit	8,719,842		8,719,842
Electronic data processing equipment and software	130,867		130,867
Restricted cash from short sale	3,946,485		3,946,485
Total Admitted Assets	$ 708,244,500		$ 708,244,500
Liabilities, Surplus and Other Funds			
Liabilities			
Losses	$ 290,824,886		$ 290,824,886
Loss adjustment expenses	77,571,021		77,571,021
Commissions payable and contingent commissions	2,597,461		2,597,461
Other expenses (excluding taxes, licenses and fees)	6,093,623		6,093,623
Taxes, licenses and fees	1,328,753		1,328,753
Current federal and foreign income taxes	39,156		39,156
Unearned premiums (net of ceded reinsurance of $12,803,000)	34,542,335		34,542,335
Ceded reinsurance premiums payable	3,910,920		3,910,920
Amounts withheld or retained for others	3,516,824		3,516,824
Payable to parent, subsidiaries and affiliates	1,716,807		1,716,807
Payable for securities	31,695,223		31,695,223
Guarantee Association Payable	9,005,459		9,005,459
Other Liabilities	376,915		376,915
Total Liabilities	$ 463,219,383		$ 463,219,383
Surplus			
Common capital stock	$ 25,000,000		$ 25,000,000
Gross paid-in and contributed surplus	25,000,000		25,000,000
Unassigned funds (surplus)	195,025,117		195,025,117
Surplus as regards policyholders	$ 245,025,117		$ 245,025,117
Total Liabilities and Surplus	$ 708,244,500		$ 708,244,500

FINANCIAL STATEMENTS
STATEMENT OF UNDERWRITING AND INVESTMENT
As of December 31, 2007

	As Reported 12/31/2007	Examination Adjustments	As Adjusted
Underwriting Income			
Revenue			
Premiums earned	$ 183,712,277		$ 183,712,277
Total Revenue	$ 183,712,277		$ 183,712,277
Deductions			
Losses incurred	$ 80,661,408		$ 80,661,408
Loss expenses incurred	29,850,016		29,850,016
Other underwriting expenses	46,856,397		46,856,397
Total underwriting deductions	$ 157,367,821		$ 157,367,821
Net underwriting gain or (loss)	$ 26,344,456		$ 26,344,456
Investment Income			
Net investment income earned	$ 21,147,968		$ 21,147,968
Net realized capital gains or (losses)	10,486,913		10,486,913
Net investment gain or (loss)	$ 31,634,881		$ 31,634,881
Other Income			
Net gain (loss) from agents' or premium balances charged off	($ 94,543)		($ 94,543)
Aggregate write-ins for miscellaneous income	844,776		844,776
Total other income	$ 750,233		$ 750,233
Net income before federal income tax	$ 58,729,570		$ 58,729,570
Federal income tax incurred	10,938,528		10,938,528
Net income (Loss)	$ 47,791,042		$ 47,791,042
Capital and Surplus Account			
Surplus, December 31, prior year	$ 225,036,274		$ 225,036,274
Gains and (Losses) in Surplus			
Net Income (Loss)	$ 47,791,042		$ 47,791,042
Net unrealized capital gains or (losses)	(14,544,454)		(14,544,454)
Change in net deferred income tax asset	4,832,105		4,832,105
Change in non-admitted assets	(3,155,850)		(3,155,850)
Change in provision for reinsurance	66,000		66,000
Dividends to stockholders	(15,000,000)		(15,000,000)
Change in surplus as regards policyholders	$ 19,988,843		$ 19,988,843
Surplus for the period ended, December 31, 2007	$ 245,025,117		$ 245,025,117

FINANCIAL STATEMENTS
STATEMENT OF CAPITAL AND SURPLUS ACCOUNT
As of December 31, 2007

	Common	SURPLUS		
	Stock [1]	Paid-In	Unassigned	TOTAL
Balance at December 31, 2004	$ 25,000,000	$ 25,000,000	$ 114,427,812	$ 164,427,812
Net income – 2005			29,965,111	29,965,111
Net unrealized capital gain			4,590,099	4,590,099
Change in net deferred income tax			1,507,064	1,507,064
Change in non-admitted assets			(752,060)	(752,060)
Dividends to shareholder			(12,600,000)	(12,600,000)
Balance at December 31, 2005	$ 25,000,000	$ 25,000,000	$ 137,138,026	$ 187,138,026
Net income – 2006			55,552,239	55,552,239
Net unrealized capital gain			475,338	475,338
Change in net deferred income tax			(1,661,040)	(1,661,040)
Change in non-admitted assets			(1,502,289)	(1,502,289)
Change in provision for reinsurance			(66,000)	(66,000)
Dividends to shareholder			(14,900,000)	(14,900,000)
Balance at December 31, 2006	$ 25,000,000	$ 25,000,000	$ 175,036,274	$ 225,036,274
Net income – 2007			47,791,042	47,791,042
Net unrealized capital loss			(14,544,454)	(14,544,454)
Change in net deferred income tax			4,832,105	4,832,105
Change in non-admitted assets			(3,155,850)	(3,155,850)
Change in provision for reinsurance			66,000	66,000
Dividends to shareholder			(15,000,000)	(15,000,000)
Balance at December 31, 2007	$ 25,000,000	$ 25,000,000	$ 195,025,117	$ 245,025,117

[1] Total authorized shares of Common Stock -- 1,000,000 @ $100 par value per share
Total Shares Outstanding -- 250,000 shares

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

No changes have been made to the financial statements as a result of this examination.

COMPLIANCE WITH RECOMMENDATIONS IN PRIOR REPORT OF EXAMINATION

During the examination, the following recommendations in the prior report of examination were found to have been implemented or the issue was no longer present:

Prior Finding 2 – Open and Paid Claim Documentation
Prior Finding 3 – Structured Settlement Disclosures
Prior Finding 5 – No Formal Policies and Procedures Related to Derivative Transactions
Prior Finding 7 – Insufficient Fidelity Bond Coverage
Prior Finding 8 – Reporting of Reinsurance Recoverable
Prior Finding 9 – Required Reinsurance Clause
Prior Finding 10 – Unsecured Reinsurance Recoverable Disclosure
Prior Finding 11 – FORM D for Notice of Proposed Transactions
Prior Finding 12 – Record Retention Period
Prior Finding 13 – Premium Deficiency Reserve

The following prior findings were not found to be resolved during the current examination:

Prior Finding 1 – Duplicate Claim Payment

During review of paid claim files, a duplicate payment of one invoice was noted. This payment was processed on the day subsequent to the original payment. Further review of this claim file noted no additional duplicate payments. Similar findings regarding the processing of claims were noted in the prior examination report.

Prior Recommendation: It was recommended that the Company mark processed invoices as paid and verify that any duplicate/second request invoices were not previously processed and paid. The Company should continue their effort in collection of the duplicate payment.

Current Status: No duplicate payments were observed by examiners during this examination. However, the external auditor's claim testing documented a related control deficiency. One instance was observed where documentation supporting a claim payment was not stamped as "paid." An exception was noted during the current examination as this control deficiency still exists. (See current Finding 5.)

Prior Finding 4 – Jumpstart Report Exceptions

The NAIC Annual Statement Instructions require insurance companies to use the NAIC Valuations of Securities Manual (VOS Manual) to determine the values for certain owned investments. For investments not listed, companies are required to follow the instructions in the Manual. These instructions generally require companies to submit any unlisted securities to the NAIC Securities Valuation Office (SVO) for valuation, or bonds rated by a Nationally Recognized Statistical Rating Organization (NRSRO) be rated with an "FE" suffix. However, our examination disclosed that the Company owned numerous investments in bonds that were not listed in the VOS Manual as of December 31, 2004, not properly submitted to the Securities Valuation Office for valuation on a timely basis in accordance with the instructions in the Manual, or rated by at least one NRSRO. For the securities with no rating, the Company has indicated that they are rated in Schedule D per prior SVO ratings (previous quarterly ratings) or per an underlying guarantee of the investment.

Bonds not rated by the SVO indicate that no information has been received or an information deficiency has not been rectified by the end of the first quarter. These securities should be filed with the SVO. The Company has indicated that some Minnesota bonds are guaranteed by Minnesota School District Credit Enhancement Program. As this may be correct, the bonds are still not rated by the SVO or an NRSRO and, therefore, should have been filed. Four FE bonds are not properly rated as there are no NRSRO ratings available. Based on the SVO manual, at least one NRSRO rating that is equivalent to a "1" is needed to rate a security as 1FE.

Prior Recommendation: It was recommend that the Company comply with the aforementioned provisions of the Procedures Manual of the Securities Valuation Office.

Current Status: During the current examination, one security was identified that had not been properly rated or filed with the SVO as required in the NAIC SVO manual, Section 3 - Reporting Conventions, (b) Municipal Issues, (ii) unrated; and/or Section 5 - Municipal Bonds, (c) unrated securities. (See current Finding 3.)

Prior Finding 6 – Real Estate Tax and Schedule A Discrepancies

A review of the real estate tax expense disclosed that the company paid real estate taxes on two condominiums that are not owned by ANIC. This real estate is owned by an affiliated company. The amount of the expense adjustment for the real estate tax expense on these condominiums is an immaterial amount for purposes of this examination and no adjustment has been made to the financial statements.

Prior Recommendation: It was recommended that the Company record an inter-company expense charge and inter-company receivable for real estate tax expense on properties owned by related parties but paid by ANIC.

Current Status: The Company has not recorded an inter-company receivable for real estate tax payments and other loans made to its parent, Alaska National Corporation. It is recommended that transactions between related parties be in the form of a written agreement that provides for timely settlement of amounts owed and a specified due date. (See current Finding 4.)

Prior Finding 14 – Information Systems Disaster Recovery & Contingency Plan

ANIC's existing Disaster Recovery and Contingency Plan is out of date. Recovery of significant financial applications could be accomplished with off-site backups, however, delays may be encountered or errors may occur without a current written plan and specific guidance. Further, ANIC's servers in its Seattle office are insufficient to act as an alternate processing site in case of a disaster andANIC does not have arrangements with a hot-site vendor for alternate processing facilities. Recovery of financially significant applications would be delayed significantly while alternate hot-site arrangements and equipment configuration take place prior to recovery of applications functionality in a disaster.

Prior Recommendation: It was recommended that management provide a comprehensive disaster recovery and contingency plan for financially significant applications according to ANIC's business needs. The plan should include procedures on:

- Declaration of a disaster,
- Notification of employees, staff and media representatives,
- Recovery operations and communication,
- Identification of key department users and contact information,
- Identification of key business partner and contact information,
- Retrieval and authorization of off-site tape vault access and third-party vendor contacts,
- Procedures for recovering functions,
- Priority and recovery time objectives for critical functions,
- Security over the recovery environment, and
- Plans for communication with customers on service changes.

It was further recommended that management arrange for alternate processing facilities for use in a disaster and the facilities should be available with capacity to meet the recovery time objectives and priorities for critial financial and statutory applications established in the contingency plan.

Current Status: ANIC has not developed a comprehensive disaster recovery and contingency plan. The current Business Continuity Program was not created based on a business impact analysis. (See current Finding 1.)

EXAMINATION FINDINGS AND RECOMMENDATIONS

Finding 1 – Information Systems Business Continuity Plan / Disaster Recovery Plan

The Company's Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) does not address all significant business activities and contingencies. A BCP should be based on a business impact analysis which is periodically reviewed to determine the appropriateness of the anticipated maximum recovery times and recovery points. The Company's BCP was not created based on a business impact analysis and the plan has not been formally tested in more than a year. Further, while some components of a DRP have been developed and are being reviewed and updated regularly, there is no comprehensive and formalized plan. There was a similar finding in the prior examination which recommended that a disaster recovery and contingency plan be developed. (See prior Finding 14.)

Recommendation: It is recommended that the Business Continuity Plan be further developed and be based on a business impact analysis that is regularly reviewed to ensure that it continually reflects actual business requirements. The business impact analysis should include periodic reviews of maximum recovery times and recovery points, and the resulting BCP should be updated based on the assessment results. It is also recommended that the Company create a comprehensive and formalized Disaster Recovery Plan including periodic training and testing to ensure that key systems can be recovered timely, and that test results are documented and retained.

Finding 2 – Unrecorded Cash Investment

The Company did not record cash held by Risk & Benefit Management Services (RBMS) in the general ledger or annual statement. Although the account balance was immaterial to the Company's financial statements, it represents funds held by RBMS for self insurance and should have been reported as assets owned by the Company.

Recommendation: It is recommended that the Company record the balance for the RBMS account in the general ledger and include the balance in "Cash" in the annual statement.

Finding 3 – SVO Exception

A Company security was identified that had not been filed for rating with the Securities Valuation Office (SVO) of the NAIC. Securities that do not meet the requirements for waiver from filing must be submitted to the SVO for rating. The security matured and was redeemed in June 2008. Therefore, no modification of the annual statement was required.

Recommendation: It is recommended the Company follow the guidelines of the Purposes and Procedures Manual of the NAIC SVO and properly file unrated securities with the SVO.

Finding 4 – Intercompany Loan

Regular transactions between the Company and its Parent, Alaska National Corporation (ANC) include dividends declared by the Company for its sole shareholder, ANC, purchases of stock processed by the Company, stock purchased from shareholders of ANC processed by the Company and tax settlements pursuant to the Tax Allocation Agreement. Additionally, the Company has funded the purchase of real estate and artwork owned by ANC during the years covered by this examination. The Company does not have a written agreement with its Parent covering these related-party transactions as required by SSAP 25, paragraph 6 (as revised in SSAP 96, paragraphs 7 to 8), that provides for timely settlement of amounts owned and a specified due date. The 2007 year-end balance between the related parties of $1,716,807 represented a net liability due by the Company to ANC. While there were both borrowing and lending transactions between the parties during the year, there were no specific cash settlements.

Addtionally, the Company was not in compliance with AS 21.22.060, which requires information regarding related party agreements to be reported in the annual holding company registration statement (Forms B and C).

Recommendation: It is recommended the Company establish an intercompany loan agreement that provides for timely settlement of amounts owed and a specified due date to comply with SSAP 96. It is also recommended that the Company include information about related-party agreements in the annual holding company registration statement, Forms B and C. Approval of the director must be obtained for any material related-party transactions.

Finding 5 – Claim Payment Controls

The prior examination paid-claim testing identified an instance where a duplicate payment was made on a claim where a single invoice had been submitted. The prior report of examination recommended that the Company mark processed invoices as paid to ensure that duplicate invoice payments are not made. (See prior Finding 1.)

Although no duplicate payments were observed by the examiners during this examination, the external auditors noted one instance in their paid-claim testing where documentation supporting a claim payment was not stamped as "paid." This marking of processed claims is an internal control practice that is necessary to reduce the risk of duplicate claim payments. An instance of failure to complete the internal control discovered in a statistical sample indicates that there are more failures of this internal control in the records.

> Recommendation: It is recommended that the Company perform required internal controls by marking all processed invoices as paid.

Finding 6 – Short Sale Transaction

The Company acquired a $30 million short position of SPDR's (S&P 500 Index exchange traded funds) during 2007. Alaska Administrative Code regulation 3 AAC 21.340(d) prohibits short selling equity investments except in very narrow circumstances where the insurer covers the short sale by owning the equity that is being sold short or has an agreement to purchase the equity. The regulation does not allow a short sale in which the insurer owns a similar performing equity. The regulation ensures that any short sale of equities is a covered hedge that provides protection against market losses.

In 2008, the Company reduced its short sale holdings and ended the position in first quarter 2009.

> Recommendation: It is recommended that the Company comply with 3 AAC 21.340(d), which only allows short sales of equities in narrow situations where the insurer also owns the security sold short.

CLOSING

This examination was conducted in accordance with practices and procedures promulgated by the NAIC. This examination also includes a compliance review of applicable Alaska Statutes.

Also participating in the examination from the Division of Insurance in addition to the undersigned was Sarah K. McNair-Grove, FCAS, MAAA, Richard Foster, CFE and Douglas Hartman, AFE, CPCU. Additionally, contract examiners from RSM McGladrey, Inc. assisted in the examination as follows: Margaret Spencer, CFE, CPCU, Cathie Stewart, CFE, Darin Benck, CFE, Susan Carroll, CFE, Mary Hartell, CIE, FLMI.

We wish to express our appreciation for the courteous cooperation and assistance extended to us by the management and staff of Alaska National Insurance Company during the course of this examination.

This report is respectfully submitted,

Maxine L. Froemling

Maxine L. Froemling, CFE
Examiner-in-Charge

Gloria G. Glover

Gloria G. Glover, CFE
Chief Financial Examiner

Alaska National Insurance Company
As of December 31, 2007
FE 08-01

AFFIDAVIT

Anchorage, Alaska)
May 27, 2009)
)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

We, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2007, of Alaska National Insurance Company, an Alaska domiciled company holding Certificate of Authority D-1285, is true to the best of our knowledge and belief.

Maxine L. Froemling

Maxine L. Froemling, CFE
Examiner-in-Charge

Gloria G. Glover

Gloria G. Glover, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 27 day of May, 2009.

STATE OF ALASKA
OFFICIAL SEAL
Carla J. Riley
NOTARY PUBLIC
My Commission Expires With Office

Carla J. Riley

Notary Public for the State of Alaska

My commission expires: with office