

Report on Examination
of
American Fidelity
Life Insurance Company
Pensacola, Florida
as of
December 31, 2004

By The
State of Florida
Office of Insurance Regulation

CONTENTS

SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION.....	2
INFORMATION SYSTEMS CONTROLS.....	2
HISTORY	3
GENERAL	3
CAPITAL STOCK.....	3
PROFITABILITY.....	4
DIVIDENDS.....	4
MANAGEMENT.....	4
CONFLICT OF INTEREST PROCEDURE	5
CORPORATE RECORDS.....	5
AFFILIATED COMPANIES	6
SERVICES AGREEMENT	6
TAX ALLOCATION AGREEMENT.....	6
LEASE AGREEMENTS.....	6
ORGANIZATIONAL CHART	8
FIDELITY BOND AND OTHER INSURANCE	9
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS	9
STATUTORY DEPOSITS	9
INSURANCE PRODUCTS AND RELATED PRACTICES.....	10
TERRITORY AND PLAN OF OPERATION	10
TREATMENT OF POLICYHOLDERS.....	10
REINSURANCE	11
ASSUMED.....	11
CEDED.....	12
ACCOUNTS AND RECORDS	13
RISK-BASED CAPITAL.....	13
CUSTODIAL AGREEMENT	13
EDP SERVICE AGREEMENT	13
INDEPENDENT AUDITOR AGREEMENT	14

FINANCIAL STATEMENTS PER EXAMINATION.....	15
ASSETS	16
LIABILITIES, SURPLUS AND OTHER FUNDS.....	17
SUMMARY OF OPERATIONS	18
CAPITAL & SURPLUS ACCOUNT	19
COMMENTS ON FINANCIAL STATEMENTS.....	20
COMPARATIVE ANALYSIS OF CHANGES IN CAPITAL & SURPLUS	21
SUMMARY OF FINDINGS.....	22
COMPLIANCE WITH PREVIOUS DIRECTIVES.....	22
CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION.....	22
CONCLUSION	23

Tallahassee, Florida

March 13, 2006

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0326

Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chair, NAIC Financial Condition (E) Committee
P.O. Box 1157
Richmond, Virginia 23218

Gentlemen:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2004, of the financial condition and corporate affairs of:

**AMERICAN FIDELITY LIFE INSURANCE COMPANY
4060 BARRANCAS AVE.
PENSACOLA, FLORIDA 32507**

hereinafter generally referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2002 through December 31, 2004. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2001.

Planning for the current examination began on August 1, 2005. The fieldwork commenced on August 8, 2005 and concluded on December 15, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was an association zone statutory financial condition examination conducted in accordance with the *NAIC Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual*, and *Annual Statement Instructions* as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (F.A.C.), with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value, and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC Insurance Regulatory Information System (IRIS) ratio results, the *A.M. Best Report*, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2004 annual statement. Transactions subsequent to December 31, 2004 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA in the area of contingent liabilities.

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The following is a summary of the significant adverse finding contained in the Office's prior examination report as of December 31, 2001, along with resulting action taken by the Company in connection therewith.

INFORMATION SYSTEMS CONTROLS

A review by a computer audit specialist of the Company's information systems general and application controls resulted in a finding that they were inadequate in the areas of authorization, disaster recovery, administration, plan maintenance, and acceptable use. Resolution: The Company corrected the deficiencies.

HISTORY

GENERAL

The Company was incorporated in Florida and commenced business on September 5, 1956.

As of December 31, 2004, the Company was authorized to transact the following insurance coverage in Florida, in accordance with Section 624.401(1), F.S.:

Life	Group Life & Annuities
Accident & Health	Credit Life & Health

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

CAPITAL STOCK

As of December 31, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	4,834,374
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

At December 31, 2004, the Company was wholly-owned and controlled by AMFI Corporation.

An abbreviated organizational chart appears on page 8.

PROFITABILITY

For the period of this examination, the Company reported the following:

(In \$ Millions)	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net premiums	\$17.2	\$17.6	\$18.3
Total revenues	\$37.8	\$38.6	\$40.5
Net income	\$3.0	\$4.2	\$2.0
Total capital & surplus	\$74.0	\$71.0	\$64.5

DIVIDENDS

The Company paid shareholder dividends in the amounts of \$950,000, \$1,000,000, and \$575,000, in years 2004, 2003, and 2002, respectively.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 628.231, F.S. Directors serving as of December 31, 2004 were:

Directors

Name and Location	Principal Occupation
Carolyn B. Harrison Pensacola, Florida	Treasurer of the Company
Marilyn W. Hess Pensacola, Florida	Chairman of the Board of the Company
Ruben E. Mauch Pensacola, Florida	President of the Company
Edward J. Parker Pensacola, Florida	Retired
Robert W. Richardson Pensacola, Florida	President- Century 21 Richardson Agency
Leonard B. Southerland Pensacola, Florida	Senior Vice President of the Company
Jack B. Yancey Pensacola, Florida	Senior Vice President & Secretary of the Company

At December 31, 2004, members of the principal committees of the Board were:

Executive and Finance Committee

Carolyn B. Harrison
Marilyn W. Hess
Ruben E. Mauch

Audit Committee

Marilyn W. Hess
Robert W. Richardson
Jack B. Yancey

The Company's senior officers as of December 31, 2004, as appointed by its board of directors in accordance with the Company's bylaws, were:

Senior Officers

Name	Title
Ruben E. Mauch	President
Leonard B. Southerland	Senior Vice President
Jack B. Yancey	Senior Vice President & Secretary
Carolyn B. Harrison	Treasurer

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors, and Executive and Finance and Audit Committee meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 625.304, F.S.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on April 25, 2005.

The following agreements were in force between the Company and its affiliates:

SERVICES AGREEMENT

The Company entered into a services agreement with Trans World Assurance Company (Trans World) on March 1, 1997. Pursuant to the agreement, the Company performs underwriting, policyholder, claims, and accounting services for Trans World in return for a fee in the amount of \$5.00 for each paying policy in force at the end of the calendar year. Fees amounted to \$222,645, \$231,090 and \$230,720, in years 2004, 2003, and 2002, respectively.

TAX ALLOCATION AGREEMENT

Pursuant to a tax allocation agreement dated April 20, 1987, the results of the Company's operations are included in the consolidated federal income tax return of AMFI Corporation. The agreement provides for the allocation of consolidated income tax liability among members of the group based on separate taxable income.

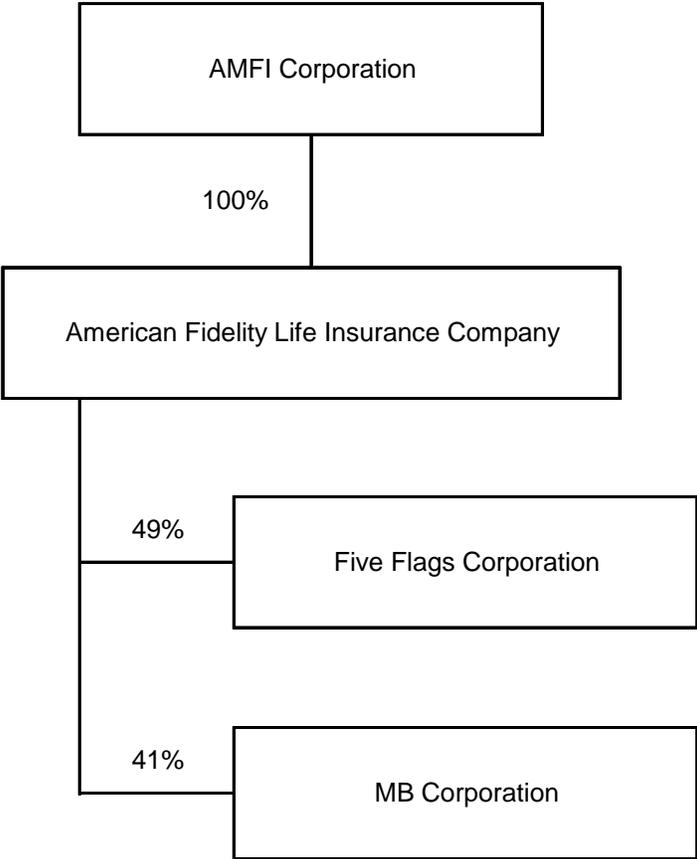
LEASE AGREEMENTS

The company leases its home office facilities from Universal Realty Investments, Inc. pursuant to a November 7, 1988 lease agreement. Lease expense was \$192,642 in each of years 2004, 2003, and 2002.

The Company leases a warehouse and a parking lot from AMFI Investments Corp. pursuant to a January 2, 2001 lease agreement. Lease expense was \$12,288 in each of years 2004, 2003, and 2002.

An abbreviated organizational chart as of December 31, 2004 reflecting the holding company system is shown below. Schedule Y of the Company's 2004 annual statement provided the names of all related companies in the holding company group.

**American Fidelity Life Insurance Company
Organizational Chart
December 31, 2004**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of \$1,250,000 with a deductible of \$10,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1 million.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company offers to eligible employees life insurance, vacation and sick leave, and a contributory hospitalization plan.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with various other governments as required or permitted by law:

Holder	Description	Rate	Due	Par	Market
Florida	U.S. Treasury Note	6.00%	8/15/2009	\$895,000	\$987,086
Florida	U.S. Treasury Note	5.00%	8/15/2011	405,000	431,151
Florida	U.S. Treasury Note	5.00%	8/15/2011	<u>200,000</u>	<u>212,914</u>
Total Florida Deposits				1,500,000	1,631,151
Arkansas	U.S. Treasury Note	5.00%	8/15/2011	150,000	159,686
Georgia	U.S. Treasury Note	6.00%	8/15/2009	60,000	66,173
New Mexico	U.S. Treasury Note	5.00%	8/15/2011	100,000	106,457
North Carolina	U.S. Treasury Note	6.00%	8/16/2009	500,000	551,445
Virginia	U.S. Treasury Note	5.00%	8/15/2011	80,000	85,166
Guam	Certificate of Deposit	0.88%	6/20/2005	50,000	50,000
Japan	U.S. \$ equivalent amount of Yen			100,000	100,000
Korea	U.S. \$ equivalent amount of Won			<u>20,000</u>	<u>20,000</u>
Total Special Deposits				<u>2,560,000</u>	<u>2,770,078</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company markets ordinary life, annuities, group life, and credit life through licensed agents and brokers.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was authorized to transact insurance in all U.S. states with the exceptions of New Jersey, New York and Vermont. It was also authorized in the District of Columbia, Guam, Japan, South Korea, and the Philippine Islands. In addition, the Company was approved by the U.S. Department of Defense to solicit business within various military installations in the U.S., Europe, and the Far East.

TREATMENT OF POLICYHOLDERS

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The reinsurance agreements reviewed were found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

ASSUMED

The Company entered into a coinsurance agreement with Trans World, an affiliate, on December 4, 1963. Under the terms of the agreement, reinsurance is assumed on a fifty-fifty basis and covers ordinary life, limited payment life, and endowment policies issued by Trans World. The limit of insurance accepted under the agreement is \$75,000.

On August 1, 1986, the Company entered into a yearly renewable term reinsurance agreement with Trans World. Under the terms of this agreement, the Company assumes on a fifty-fifty basis annual renewable term and guaranteed insurability option rider coverage. The limit of insurance accepted under this agreement is \$75,000.

The Company also participates in the Servicemember's Group Life Insurance program administered by Prudential Insurance Company of America. The Company is assessed a percentage of the risks assumed under the group policy.

CEDED

The Company entered into a coinsurance agreement with Trans World on December 4, 1963. Under the terms of the agreement, the Company cedes coverage to Trans World on a fifty-fifty basis. The types of policies that may be reinsured under this agreement are ordinary life, limited payment life, and endowment policies. The Company's retention limit under the agreement is \$75,000.

On August 1, 1986, the Company entered into a yearly renewable term agreement with Trans World. Under the terms of this agreement, the Company cedes on a fifty-fifty basis coverage on the annual renewable term and the guaranteed insurability option rider coverage. The Company's retention limit under the agreement is \$75,000.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2002, 2003, and 2004, pursuant to Section 624.424(8), F.S. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, F.A.C.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office is located in Pensacola, Florida, where this examination was conducted.

RISK-BASED CAPITAL

The Company reported its risk-based capital at an adequate level.

The following agreements were in effect between the Company and non-affiliates:

CUSTODIAL AGREEMENT

On May 13, 2003, the Company entered into an agreement with Wachovia Bank for the holding and safekeeping of the Company's stocks, money certificates, bonds and other securities.

EDP SERVICE AGREEMENT

Effective October 1, 1992, the Company entered into an agreement with Bank Data, Inc. Under the terms of the agreement, Bank Data, Inc. provides electronic data processing services to the Company and affiliates Trans World and TransAm Assurance Company. Fees paid to Bank Data, Inc. were \$718,500 in each of years 2004, 2003 and 2002.

INDEPENDENT AUDITOR AGREEMENT

Pursuant to Section 624.424(8)(a), F.S., the Company contracted with an independent CPA firm, Allen J. Lambert, CPA, P.A., for conducting annual audits of its statutory-basis financial statements. Fees related to this agreement were \$38,500 in each of years 2004, 2003, and 2002.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages include statements of the Company's financial position at December 31, 2004, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

American Fidelity Life Insurance Company
Assets
December 31, 2004

	Per Company	Examination Adjustments	Per Examination
Bonds	\$382,594,565	\$0	\$382,594,565
Common stocks	15,734,657	0	15,734,657
First liens - mortgage loans on real estate	24,498,339	0	24,498,339
Properties held for the production of income	3,055,724	0	3,055,724
Properties held for sale	151,450	0	151,450
Cash	7,741,440	0	7,741,440
Contract loans	7,815,895	0	7,815,895
Other invested assets	610,000	0	610,000
	<u>442,202,070</u>	<u>0</u>	<u>442,202,070</u>
Investment income due and accrued	6,582,441	0	6,582,441
Uncollected premiums and agents' balances	107,682	0	107,682
Deferred premiums, agents' balances and installments	3,564,255	0	3,564,255
Amounts recoverable from reinsurers	5,000	0	5,000
Net deferred tax asset	391,020	0	391,020
Electronic data processing equipment and software	60,083	0	60,083
Aggregate write-ins for other than invested assets	15,027	0	15,027
	<u>15,027</u>	<u>0</u>	<u>15,027</u>
Total assets	<u><u>\$452,927,578</u></u>	<u><u>\$0</u></u>	<u><u>\$452,927,578</u></u>

American Fidelity Life Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$109,984,494	\$0	\$109,984,494
Liability for deposit-type contracts	259,547,996	0	259,547,996
Contract claims - life	1,018,433	0	1,018,433
Dividends not yet apportioned	88,960	0	88,960
Premiums and annuity considerations received in advance	9,896	0	9,896
Commissions to agents due or accrued	39,655	0	39,655
General expenses due or accrued	183,975	0	183,975
Taxes, licenses and fees due or accrued	24,710	0	24,710
Amounts withheld by company as agent or trustee	1,241,221	0	1,241,221
Remittances and items not allocated	3,783,641	0	3,783,641
Asset valuation reserve	2,994,074	0	2,994,074
Aggregate write-ins for liabilities	112	0	112
Total liabilities	<u>378,917,167</u>	<u>0</u>	<u>378,917,167</u>
Surplus and Other Funds			
Gross paid in and contributed surplus	2,489,370	0	2,489,370
Unassigned funds (surplus)	<u>69,021,041</u>	<u>0</u>	<u>69,021,041</u>
Surplus	71,510,411	0	71,510,411
Common capital stock	<u>2,500,000</u>	<u>0</u>	<u>2,500,000</u>
Total surplus and other funds	<u>74,010,411</u>	<u>0</u>	<u>74,010,411</u>
Total liabilities, surplus and other funds	<u><u>\$452,927,578</u></u>	<u><u>\$0</u></u>	<u><u>\$452,927,578</u></u>

American Fidelity Life Insurance Company
Summary of Operations
For the Year Ended December 31, 2004

Premiums and annuity considerations		\$17,150,044
Net investment income		20,577,733
Commissions and expense allowances on reinsurance ceded		15,306
Aggregate write-ins for miscellaneous income		<u>101,321</u>
		37,844,404
Death benefits	\$4,347,989	
Annuity benefits	1,488,596	
Surrender benefits and withdrawals for life contracts	2,472,969	
Group conversions	483	
Interest and adjustments on contracts or deposit-type contract funds	15,508,969	
Increase in aggregate reserves for life and A&H contracts	<u>1,037,169</u>	
	24,856,175	
Commissions on premiums	4,696,503	
Commissions and expense allowances on reinsurance assumed	3,848	
General insurance expenses	4,597,792	
Insurance taxes, licenses and fees	507,160	
Increase in loading on deferred and uncollected premiums	<u>(364,573)</u>	<u>34,296,905</u>
		3,547,499
Dividends to policyholders		<u>80,223</u>
		3,467,276
Federal and foreign income taxes incurred		<u>488,000</u>
		2,979,276
Net realized capital gains or (losses)		<u>56,810</u>
Net income		<u><u>\$3,036,086</u></u>

**American Fidelity Life Insurance Company
Capital & Surplus Account
For the Year Ended December 31, 2004**

Capital and surplus, December 31, 2003		\$71,044,460
Net income	\$3,036,086	
Change in net unrealized capital gains or (losses)	896,798	
Change in net deferred income tax	216,295	
Change in nonadmitted assets and related items	(149,913)	
Change in asset valuation reserve	(235,655)	
Dividends to stockholders	(950,000)	
Aggregate write-ins for gains and losses in surplus	152,340	
Examination adjustments	<u>0</u>	<u>2,965,951</u>
Capital and surplus, December 31, 2004		<u><u>\$74,010,411</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Aggregate reserve for life contracts	\$109,984,494
Liability for deposit-type contracts	\$259,547,996

The consulting actuary appointed by the Board of Directors rendered an opinion that amounts carried in the Company's balance sheet as of December 31, 2004 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate liability was not materially misstated.

**American Fidelity Life Insurance Company
Comparative Analysis of Changes in Capital & Surplus
December 31, 2004**

The following is a reconciliation of total capital and surplus between that reported by the Company and as determined by the examination.

Capital & Surplus - December 31, 2004, per annual statement				\$74,010,411
	Per Company	Per Exam	Increase (Decrease) in Surplus	
Assets	\$452,927,578	\$452,927,578	\$0	
Liabilities	\$378,917,167	\$378,917,167	\$0	
Net change in capital & surplus				0
Capital & Surplus - December 31, 2004, per examination				\$74,010,411

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the 2001 examination report issued by the Office.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The current financial condition examination did not result in any material findings of non-compliance by the Company with statutes, rules, or other requirements.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Fidelity Life Insurance Company** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$74,010,411, which was in compliance with Section 624.408, F.S. Its minimum capital and surplus requirement at December 31, 2004 was \$14,943,773.

In addition to the undersigned, Kenneth V. Carroll, Financial Examiner/Analyst, Kerry A. Krantz, Actuary, and David C. Schleit, CPA, Financial Examiner/Analyst Supervisor, participated in this examination.

Respectfully submitted,

Walter F. Banas, CIE
Financial Specialist
Florida Office of Insurance Regulation