

REPORT ON EXAMINATION
OF
SECURITY FIRST INSURANCE
COMPANY

ORMOND BEACH, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

June 1, 2007

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2006, of the financial condition and corporate affairs of:

**SECURITY FIRST INSURANCE COMPANY
140 SOUTH ATLANTIC AVENUE
ORMOND BEACH, FLORIDA 32176**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2006 through December 31, 2006. This examination commenced, with planning at the Florida Office of Insurance Regulation (Office), on March 19, 2007, to March 23, 2007. The fieldwork commenced on March 26, 2007, and was concluded as of June 1, 2007. 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 a first year examination performed by the Office.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory 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 of assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of Company's assets and liabilities as reported in its annual statement as of December 31, 2006, as those balances affect the financial solvency of the Company. Transactions subsequent to year-end 2006 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 are deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

This was a first year examination by representatives of the Office.

HISTORY

General

The Company was incorporated in Florida on February 8, 2005 and commenced business on May 25, 2005 as Security First Insurance Company.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact fire and homeowners multiple peril insurance coverage in Florida on December 31, 2006.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	6,300
Number of shares issued and outstanding	6,300
Total common capital stock	\$6,300
Par value per share	\$1.00

Control of the Company was maintained by its owner, Security First Insurance Holdings, LLC, who owned 100% of the stock issued by the Company. Security First Insurance Holding, LLC also owned the Company's affiliate, Security First Managers, LLC.

Licensing Consent Orders

The Company was in compliance with the licensing consent orders.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statement.

	2006	2005
Premiums Earned	8,510,524	1,741,915
Net Underwriting Gain/(Loss)	(1,556,545)	(1,081,924)
Net Income	(1,135,565)	(914,779)
Total Assets	12,870,544	10,917,208
Total Liabilities	8,313,684	5,424,465
Surplus As Regards Policyholders	4,556,860	5,492,743

Dividends to Stockholders

There was no dividend declared or paid to its stockholders during the year covered by this examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2006, were:

Directors

Name and Location

Principal Occupation

Harry R. Bleiwise
Boca Raton, Florida

Chairman, Rider Insurance Company

Charles D. Bleiwise
Boca Raton, Florida

Restaurant Owner

Susan Bleiwise-Greenfield
Boca Raton, Florida

Restaurant Owner

Donald G. Brocksmith
Daytona Beach, Florida

Secretary and Treasurer,
Security First Insurance Company

Wallace L. Burt
Ormond Beach, Florida

President, Security First Insurance Company
Security First Managers, Security First
Holdings, Royal Palm Insurance Company
and Ormond Re Group

Anthony L. DiPardo
Ormond Beach, Florida

Vice President, Claims
Security First Insurance Company

Charles E. Lally
Ormond Beach, Florida

President, Rider Insurance Company

Roseann M. Bradley
Palm Coast, Florida

Vice President, Underwriting
Security First Insurance Company

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Wallace L. Burt	President
Donald G. Brocksmith	Secretary/Treasurer
Roseann M. Bradley	Vice President
Anthony L. DiPardo	Vice President
Walt Zehnder	Vice President

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

Executive Committee	Audit Committee	Investment Committee
W. Lockwood Burt Harry R. Bleiwise	Charles E. Lally Charles Bleiwise Susan Bleiwise-Greenfield	Harry R. Bleiwise Charles E. Lally

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committee were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 28, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

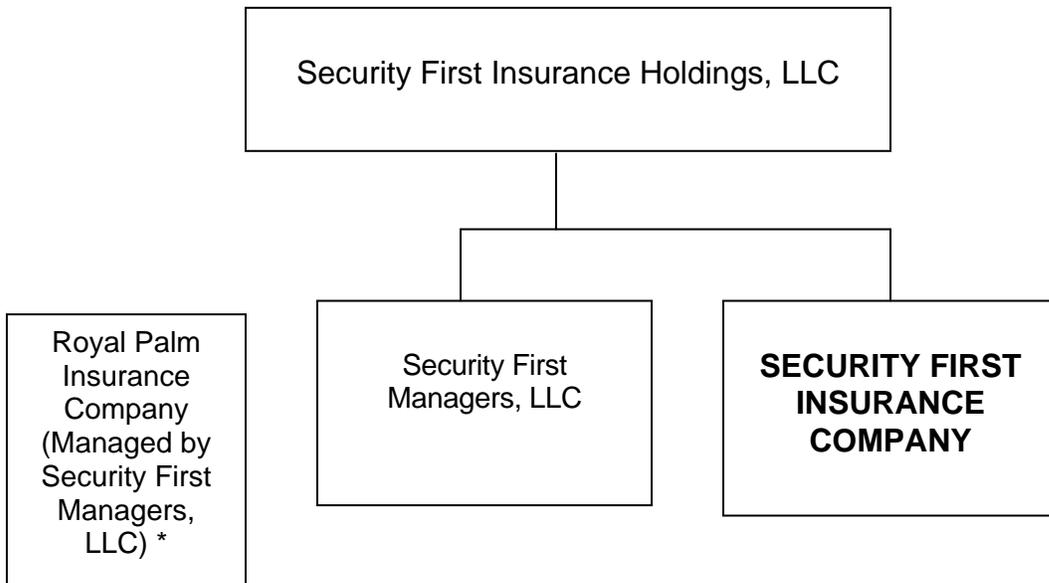
Managing General Agent (MGA) Agreement

The Company entered into a MGA agreement with its affiliate Security First Managers, LLC, dated January 1, 2005. The agreement indicated that Security First Managers, LLC, shall act as the MGA for the insurance policies issued in the State of Florida. The agreement further indicated that Security First Managers, LLC had the authority to produce, administer and manage the policies and to adjust claims and provide other services in connection with such policies, including but not limited to marketing, claims analysis, general ledger accounting, information services, product and underwriting development and management, and catastrophe risk management on behalf of the Company.

An organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**SECURITY FIRST INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



*Royal Palm Insurance Company was owned independently from Security First Insurance Company. There is no connecting line on this organization chart because of the independence; however both use the same MGA.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$3,000,000 which adequately covered the suggested minimum amount of coverage of \$250,000 for the Company as recommended by the NAIC. The Company had other property and liability insurance coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, no pension plans, stock ownership or insurance plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL	Cash Deposit	n/a	n/a	\$ 300,000	\$ 300,000
TOTAL FL DEPOSITS				<u>\$ 300,000</u>	<u>\$ 300,000</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance business in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(i)3,a, Florida Statutes.

REINSURANCE

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

The reviewed contracts complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed business from Citizens Property Insurance Corporation in the amount of \$1,745,000. The Company was authorized to remove up to 16,000 policies from Citizens Property Insurance Corporation pursuant to a depopulation plan approved by the Office on April 22, 2005. The Company had contemplated assuming all 16,000 policies in the initial assumption. The Company assumed approximately 14,900 policies in the period of this examination.

Ceded

The Company ceded risk on an excess of loss basis. The Company ceded its written business to various authorized and unauthorized, US and non-US reinsurers. All unauthorized reinsurers were utilizing a trust agreement or letter of credit. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The Company utilized the reinsurance intermediary services of Guy Carpenter to assist in negotiating and preparing reinsurance treaties.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005 and 2006, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code. The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the amended annual statement submitted to the Office.

The Company maintained its principal operational offices in Ormond Beach, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Morgan Stanley Trust in Jersey City, New Jersey.

Independent Auditor Agreement

The Company had an agreement with Amper, Politziner, & Mattia to perform an audit of its statutory financial statements for the years 2005 and 2006.

Program Management Agreement

The Company had a program management agreement between the Company, Security First Managers, LLC (MGA) and MacNeill Group, Inc. (Program Manager), dated January 1, 2005, effective May 1, 2005. The Program Manager was authorized to handle all general coverages and underwriting guidelines and risks for the Company; to receive and accept proposals for insurance coverage and issue contracts of insurance, cancel or non-renew Company policies and to maintain Company policies, notices, statements and other related documents. The Program Manager was also responsible for the billing and collection of all premiums. The MGA was responsible for compensating the Program Manager for the services provided.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

Subsequent event: The Company submitted an amended Annual Statement for the year 2006 on May 15, 2007 due to adjustments made in the annual audit performed by the Company's CPAs, Amper, Politziner & Mattia, CPA. The CPA made various adjustments to the following accounts: premiums receivable, advance premiums, reinsurance recoverable and reinsurance payable, paid losses ceded and fees. The net adjustment made to the surplus as regards policyholders account of \$(1,226,271) was the result of the above adjustments. The CPA adjustments were carried forward to the amended annual statement.

**SECURITY FIRST INSURANCE COMPANY
Assets**

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$5,507,945		\$5,507,945
Cash and Short-term investments	6,648,549		6,648,549
Interest and dividend income due & accrued	122,755		122,755
Agents' Balances:			
Uncollected premium	462,220		462,220
Reinsurance:			
Amounts recoverable from reinsurers	129,075		129,075
Totals:	\$12,870,544	\$0	\$12,870,544

SECURITY FIRST INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$841,466		\$841,466
Loss adjustment expenses	180,716		180,716
Other expenses	193,367		193,367
Taxes, licenses and fees	133,130		133,130
Unearned premiums	4,625,357		4,625,357
Advance premiums	433,560		433,560
Ceded reinsurance premiums payable	1,844,523		1,844,523
Payable to parent and affiliate	61,564		61,564
Total Liabilities	<u>\$8,313,683</u>	\$0	<u>\$8,313,683</u>
Common capital stock	\$6,300		\$6,300
Gross paid in and contributed surplus	6,293,700		6,293,700
Unassigned funds (surplus)	<u>(1,743,139)</u>		<u>(1,743,139)</u>
Surplus as regards policyholders	<u>\$4,556,861</u>	\$0	<u>\$4,556,861</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$12,870,544</u></u>	<u>\$0</u>	<u><u>\$12,870,544</u></u>

SECURITY FIRST INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income	
Premiums earned	\$8,510,524
DEDUCTIONS:	
Losses incurred	3,000,553
Loss expenses incurred	1,109,455
Other underwriting expenses incurred	5,957,061
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$10,067,069</u>
Net underwriting gain or (loss)	(\$1,556,545)
Investment Income	
Net investment income earned	\$465,697
Net realized capital gains or (losses)	<u>(44,717)</u>
Net investment gain or (loss)	\$420,980
Other Income	
Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	(\$1,135,565)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$1,135,565)
Federal & foreign income taxes incurred	<u>0</u>
Net Income	(\$1,135,565)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$5,492,744
Gains and (Losses) in Surplus	
Net Income	(\$1,135,565)
Net unrealized capital gains or losses	5,025
Change in non-admitted assets	(391,472)
Change in net deferred income tax	280,784
Aggregate write-ins for gains and losses in surplus	305,344
Change in surplus notes	0
Change in surplus as regards policyholders for the year	<u>(\$935,884)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$4,556,860</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$1,022,182

The Office actuary reviewed work papers provided by the Company and was in concurrence with the opinion rendered by Mr. Jerome F. Vogel, ACAS, MAAA with Vogel Consulting, the Company's independent actuary.

**SECURITY FIRST INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2006, Annual Statement, amended 5/15/07	\$	4,556,860
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment needed.			
LIABILITIES:			
No adjustment needed.			
Net Change in Surplus:			
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$ 4,556,860

SUMMARY OF FINDINGS

Compliance with previous directives

There were no previous directives since this was the first year examination of the Company.

Current examination comments and corrective action

There were no items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Security First Insurance Company** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$4,556,860, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned; John Berry, Financial Examiner/Analyst Supervisor and Joseph Boor, Office Actuary, participated in the examination.

Respectfully submitted,

Jerry T. Golden
Financial Examiner/Analyst II
Florida Office of Insurance Regulation