

REPORT ON EXAMINATION

OF

SECURITY NATIONAL INSURANCE

COMPANY

DAVIE, FLORIDA

AS OF

DECEMBER 31, 2006

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 15, 2008

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 as of December 31, 2006, of the financial condition and corporate affairs of:

**SECURITY NATIONAL INSURANCE COMPANY
5701 STIRLING ROAD
DAVIE, FLORIDA 33314**

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, 2004 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced, with planning at the Office, on November 14, 2007 to November 16, 2007. The fieldwork commenced on November 27, 2007, and was concluded as of February 15, 2008.

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 as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

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 reports, 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) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was 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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

Other expenses
Net deferred tax asset

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Company in connection therewith.

Management

The Company's Schedule Y, Organizational Chart was not completed in accordance with the NAIC Annual Statement Instructions.

Resolution: The Company completed the Schedule Y, Organizational Chart in the 2006 Annual Statement in accordance with the NAIC Annual Statement Instructions.

Reinsurance

The Company did not supply the Office with reinsurance summary statements for the years 2002 and 2003 in accordance with the required filings of the State of Florida.

Resolution: The Company supplied the Office with reinsurance summary statements during this examination period in accordance with the required filings of the State of Florida.

Expected Cancellations

The adjustment to account for expected cancellations was not appropriate statutory treatment.

Resolution: The Company did not record an adjustment for expected cancellations in the 2006 Annual Statement.

Corporate Records

There were no available minutes for stockholder's meetings for the year 2002 as required by the Company's bylaws. There were also no available minutes for the Audit Committee and the Investment Committee for 2001.

Resolution: The Company did not provide minutes for the years 2001 and 2002. However the Company provided stockholders, Audit Committee, and Investment Committee minutes for the period under examination.

Custodian Agreement

There were no Board minutes approving the Bank of New York custody agreement as required by Rule 69O-143.042(2), Florida Administrative Code.

Resolution: The Board of Directors approved the Bank of New York custody agreement as required by Rule 69O-143.042(2), Florida Administrative Code.

HISTORY

General

The Company was incorporated in Florida on March 1, 1989, and commenced business on April 6, 1989, as a stock property and casualty insurer.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Private passenger auto physical damage
Private passenger auto liability
Commercial automobile liability
Commercial auto physical damage

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 Class A voting common capital shares	375,000
Number of authorized Class B voting common capital shares	375,000
Number of authorized non-voting common capital shares	250,000
Number of Class A voting shares issued and outstanding	375,000
Number of Class B voting shares issued and outstanding	375,000
Number of non-voting shares issued and outstanding	250,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Bristol West Holdings, Inc., a publicly traded company, which owned 100% of the voting stock issued by the Company. At December

31, 2006, approximately 41.5% of Bristol West Holdings, Inc. was held by Bristol West Associates, LLC, which was controlled by the KKR Group.

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 statements.

	2006	2005	2004
Premiums Earned	19,675,270	20,330,608	5,932,274
Net Underwriting Gain/(Loss)	(279,483)	553,441	(1,081,126)
Net Income	757,603	3,780,514	857,294
Total Assets	52,831,030	44,477,638	41,324,674
Total Liabilities	36,205,267	28,490,770	28,775,972
Surplus As Regards Policyholders	16,625,763	15,986,868	12,548,702

Dividends to Stockholders

There were no dividends paid to the stockholder during this examination period.

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

Jeffrey John Dailey
Davie, Florida

President and Chief Executive Officer
Bristol West Holdings, Inc.

Gregory Jerome Hammond
Davie, Florida

Assistant Vice President and Corporate
Counsel
Bristol West Holdings, Inc.

Simon John Noonan
Davie, Florida

Executive Vice President and Chief
Operating Officer
Bristol West Holdings, Inc.

John Louis Ondeck
Davie, Florida

Senior Vice President and Chief
Information Officer
Bristol West Holdings, Inc.

Robert Davis Sadler
Davie, Florida

Senior Vice President and Chief
Financial Officer
Bristol West Holdings, Inc.

James Joseph Sclafani
Davie, Florida

Senior Vice President of Claims
Bristol West Holdings, Inc.

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

Senior Officers

Name

Title

Jeffrey John Dailey

President

Robert Davis Sadler

Treasurer

Gregory Jerome Hammond

Secretary

The Company's Board appointed several internal committees in accordance with Section 607.0825 and Section 624.424 (8), Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

Audit Committee

Simon John Noonan
Gregory Jerome Hammond
Robert Davis Sadler

Investment Committee

Simon John Noonan
Gregory Jerome Hammond
Robert Davis Sadler

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 committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events 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

At December 31, 2006, the Company had no outstanding 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 holding company registration statements were filed with the State of Florida, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

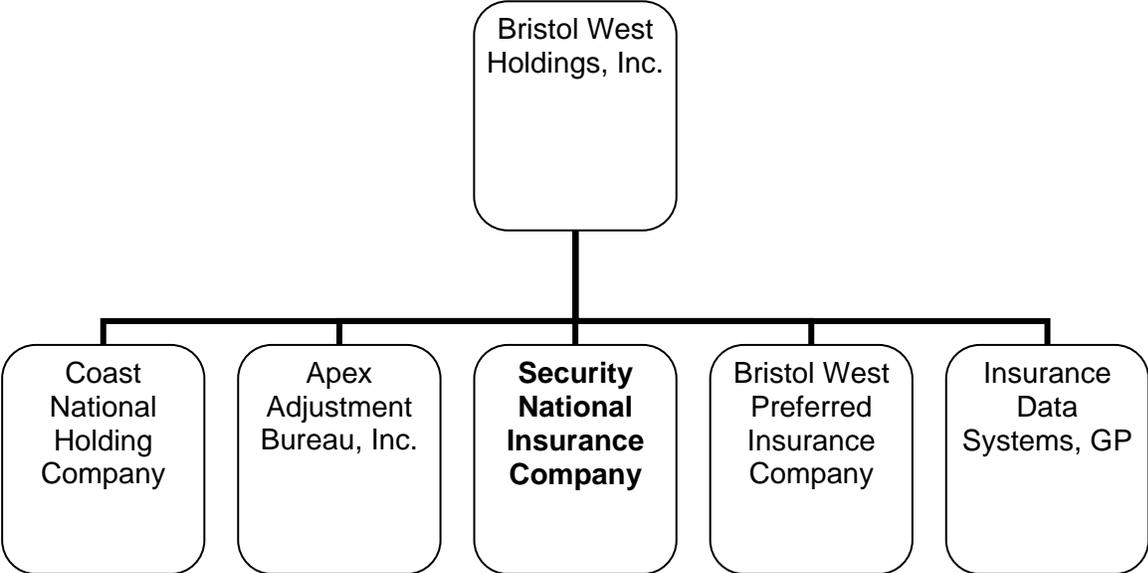
FIDELITY BOND

The Company was covered, as an addition in a rider, under a standard financial institution bond (Form 25) with the named insured being Bristol West Holdings, Inc. Although the coverage under that bond is sufficient for the Company on an individual basis, the coverage did not meet the minimum amount suggested by the NAIC Financial Condition Examiners' Handbook for the entire group of companies that comprised Bristol West Holdings, Inc.

A simplified 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 NATIONAL INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. The tax allocation agreement provided that each subsidiary shall pay to the parent an amount equal to the subsidiary's separate company federal income tax liability as though the subsidiary had never been a member of the consolidated group.

Claims Services Agreement

The Company had a memorandum of agreement, effective April 6, 1989, with Apex Adjustment Bureau, Inc. (Apex). Under the terms of this agreement, Apex provided claims processing and settlement services with costs on a pass-through basis.

Computer Services Agreement

The Company had an agreement with Insurance Data Systems, GP (IDS) effective June 1, 1990. Under the terms of this agreement, IDS provided data processing services and reports for a fee.

Managing General Agent Agreement

The Company entered into an agency agreement with its affiliate, Bristol West Insurance Services, Inc. of Florida (Bristol West), effective July 10, 1998. Under the provisions of Section 626.015(14)(a), Florida Statutes, Bristol West was deemed to be a managing general agent (MGA). Under the terms of the agreement, Bristol West provided services including the production, servicing, underwriting, and issuance of policies, and premium collection. In addition, Bristol West negotiated reinsurance on behalf of the Company. As compensation for these services, Bristol West was paid a 25% commission and a \$25 per policy fee.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's employees were covered under a qualified defined contribution benefit plan sponsored by Bristol West Holdings, Inc., the parent company. The Company had no obligation for post-employment benefits.

STATUTORY DEPOSITS

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

Description	Par Value	Market Value
Cash	\$250,000	\$250,000
Bond - Clark County, Nevada, 4.75%, 11/01/15	500,000	511,100
Bond - Commonwealth of Massachusetts, 5.5%, 05/01/29	50,000	56,640
Total Special Deposits	<u>\$800,000</u>	<u>\$817,740</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in the State of Florida, as provided in 624.401 (2), Florida Statutes. The Company was also authorized to transact business in Texas, but has not yet written any business in Texas.

The largest net aggregate amount insured under any one risk was \$414,000.

Treatment of Policyholders

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

REINSURANCE

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

Assumed

The Company did not assume risk under any reinsurance agreements during 2006.

Ceded

A quota share treaty with Coast National Insurance Company, an affiliated company was in effect at December 31, 2006. Under that agreement, the Company ceded, net of any other reinsurance, 80% of all private passenger automobile business written by the Company with an effective date of January 1, 2004, or later.

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 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 annual statement submitted to the Office.

The Company and non-affiliates had the following agreement:

Custodial Agreement

The review of the Bank of New York custodial agreement revealed that the Company was not in compliance with Rule 69O-143.042 Paragraph (2), Subsections (h) and (i) because it did not contain the following language: (h) The custodian and its agents shall be required to send to the insurance company all reports which they receive from a clearing corporation or the Federal Reserve book-entry system on their respective systems of internal accounting control and reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonable request. (i) The custodian shall maintain records sufficient to determine and verify information relating to custodied securities that may be reported in the insurance company's Annual Statement and supporting Schedules and information required in any audit of the financial statements of the insurance company.

Subsequent Event

A new custodial agreement was signed in October 2007 which was in compliance with Rule 69O-143.042, Florida Administrative Code.

Authorized Lines of Business

Section 624.430, Florida Statutes states that any insurer who does not write any premiums in a kind or line of insurance within a calendar year shall have that kind or line of insurance removed from its certificate of authority. Security National Insurance Company has not written any Commercial auto business during 2006 or 2007. The Company was in violation of Section 624.430, Florida Statutes.

Information Technology Report

INS Services, Inc. performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology (IT) report provided to the Company.

Policy Files

During the course of the examination, the examiners requested three samples of policy files. The Company does not maintain policy files at the main administrative office; policy files are maintained at agents' offices. The Company was unable to locate all of the policy files for the three samples requested.

Section 624.318(2), Florida Statutes requires that every person being examined or investigated, and its officers, attorneys, employees, agents, and representatives, shall make freely available to the department or office or its examiners or investigators the accounts, records, documents, files, information, assets, and matters in their possession or control relating to the subject of the

examination or investigation. An agent who provides other products or services or maintains customer information not related to insurance must maintain records relating to insurance products and transactions separately if necessary to give the department or office access to such records. If records relating to the insurance transactions are maintained by an agent on premises owned or operated by a third party, the agent and the third party must provide access to the records by the department or office.

Section 628.271(1), Florida Statutes requires that every domestic insurer shall have an office in this state and shall keep therein complete records of its assets, transactions, and affairs, specifically including (a) Financial records; (b) Corporate records; (c) Reinsurance documents; (d) Access to all accounting transactions and access in this state, upon demand by the office, to all original accounting documents.

The Company was in violation of Section 624.318(2) and Section 628.271(1), Florida Statutes.

Deferred Premium Data Files

The Company provided a detail data file to the examiners to support the Deferred premiums, agents' balances and installments booked but deferred and not yet due asset.

The policyholder system utilized by the Company maintained policyholder balances that were comprised of both premium and non-premium components, such as fees, that were billed together. Premium installments were collected by the Company, and then the Company remitted the commissions and transaction fees to the appropriate party. The commissions were generally paid on a written basis and the premiums were collected on a deferred or installment basis.

Policyholder balances more than 60 days old were sent to a collection agency and, if remaining uncollected, the policyholders were ultimately reported to the credit bureau. As a result, payments on old policyholder balances were frequently made by policyholders attempting to correct credit issues. The Company chose to have those older balances remain on the active system to ensure that each payment was properly posted and to avoid having collected payments inadvertently returned to the former insured if the policy balance could not be located in the system.

Therefore, the deferred premiums receivable balance was not directly reconcilable to the detail data file listing of policyholder accounts.

Section 624.443, Florida Statutes requires that each arrangement shall have and maintain its principal place of business in this state and shall therein make available to the office complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary for, or suitable to, the kind or kinds of business transacted.

The Florida Administrative Code, 69O-138.024(2) requires that agents' balances shall be aged on a separate policy by policy basis.

The Company was in violation of Section 624.443, Florida Statutes and the Florida Administrative Code, 69O-138.024(2).

Subsequent Event:

Subsequent to the acquisition by Farmers Group, Inc. on July 3, 2007, the Company changed the method of accounting for policyholder balances due. The amount recorded as premiums receivable was reconciled to the detail listing of policyholder account balances.

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.

SECURITY NATIONAL INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$21,124,777		\$21,124,777
Cash, cash equivalents and short term investments	2,395,502		2,395,502
Investment income due and accrued	256,273		256,273
Deferred premiums, agents' balances and installments booked but deferred and not yet due	24,753,628		24,753,628
Amounts recoverable from reinsurers	3,592,313		3,592,313
Current federal and foreign income tax recoverable and interest thereon	37,301		37,301
Net deferred tax asset	670,244		670,244
Aggregate write-in for other than invested assets	992		992
Totals	<u>\$52,831,030</u>	<u>\$0</u>	<u>\$52,831,030</u>

SECURITY NATIONAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$4,633,555		\$4,633,555
Loss adjustment expenses	2,198,578		2,198,578
Other expenses	451,579		451,579
Taxes, licenses and fees	591,944		591,944
Unearned premiums	5,952,825		5,952,825
Ceded reinsurance premiums payable	21,057,932		21,057,932
Payable to parent, subsidiaries and affiliates	820,747		820,747
Payable for securities	498,107		498,107
Total Liabilities	\$36,205,267		\$36,205,267
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	17,961,833		17,961,833
Unassigned funds (surplus)	(2,336,070)		(2,336,070)
Surplus as regards policyholders	\$16,625,763		\$16,625,763
Total liabilities, capital and surplus	\$52,831,030		\$52,831,030

SECURITY NATIONAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income

Premiums earned	\$19,675,270
DEDUCTIONS:	
Losses incurred	9,330,102
Loss expenses incurred	3,965,547
Other underwriting expenses incurred	6,659,104
Total underwriting deductions	<u>\$19,954,753</u>
Net underwriting gain or (loss)	(\$279,483)

Investment Income

Net investment income earned	\$1,002,758
Net realized capital gains or (losses)	<u>(10,805)</u>
Net investment gain (loss)	\$991,953

Other Income

Finance and service charges not included in premiums	\$2,816,514
Aggregate write-ins for miscellaneous income	<u>(2,746,338)</u>
Total other income	\$70,176

Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$782,646
Dividends to policyholders	<u>0</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$782,646
Federal and foreign income taxes incurred	<u>25,043</u>
Net Income	<u><u>\$757,603</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005	\$15,986,868
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Gains and (Losses) in Surplus

Net Income	\$757,603
Change in net deferred income tax	(100,615)
Change in non-admitted assets	<u>(18,093)</u>
Change in surplus as regards policyholders for the year	\$638,895
Surplus as regards policyholders, December 31, 2006	<u><u>\$16,625,763</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses	<u>\$4,633,555</u>
Loss Adjustment Expenses	<u>\$2,198,578</u>

An in-house actuary appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

A consulting actuarial firm, INS Consultants, Inc., reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$16,625,763, exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

Premium Ratios

Section 624.4095(1), Florida Statutes requires that when an insurer's ratio of actual or projected adjusted annual written premiums to current or projected adjusted surplus as to policyholders exceeds 10 to 1 for gross written premiums or exceeds 4 to 1 for net written premiums, the Office shall suspend the insurer's certificate of authority or establish by order maximum gross or net annual premiums to be written by the insurer consistent with maintaining the ratios specified herein unless the insurer demonstrates to the Office's satisfaction that exceeding the ratios does not endanger the financial condition of the insurer or endanger the interests of the insurer's policyholders.

For 2007, the Company's ratio of gross written premiums (as adjusted) to policyholders' surplus were not at the level required by Florida Statutes.

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

Fidelity Bond

The Company was covered under a financial institution bond under the parent Bristol West Holdings, Inc. The bond was sufficient on an individual basis but did not meet the minimum amount suggested by the NAIC Financial Condition Examiners Handbook for the entire group of companies that comprised Bristol West Holdings, Inc. **We recommend that the Company obtain additional fidelity coverage in the minimum amount suggested by the NAIC Financial Condition Examiners Handbook for all companies in the group comprising Bristol West Holdings, Inc.**

Accounts and Records

The Company was unable to locate all of the policy files in any of the three samples selected for testing. **We recommend that the Company maintain complete records of policies as required in Section 624.318(2) and 628.271 (1), Florida Statutes.**

The Company had not written Commercial auto business during 2006 or 2007. **We recommend that the Company comply with the provisions of Section 624.430, Florida Statutes, and request that the Office remove this line of business from its certificate of authority.**

In 2007 the Company's ratio of gross written premiums (as adjusted) to policyholders' surplus was not at the level required by Section 624.4095(1), Florida Statutes. **We recommend that the Company maintain the ratios specified in Section 624.4095(1), Florida Statutes.**

SUBSEQUENT EVENTS

Effective January 1, 2007, the 80% quota share treaty with Coast National Insurance Company was commuted.

Effective January 1, 2007, the Company entered into a 90% quota share agreement with Farmers Insurance Exchange.

On July 3, 2007, Bristol West Holdings, Inc., the ultimate parent of this Company, entered into a merger with Farmers Group, Inc. (Farmers). Farmers, a Nevada corporation, provided insurance management services to the Farmers Insurance Exchange, Truck Insurance

Exchange, and Fire Insurance Exchange. The ultimate parent of Farmers, Zurich Financial Group, became the ultimate parent of this Company as a result of the merger.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Security National 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 \$16,625,763, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Casey Davis, CFE, Examiner in Charge, and James Russo, CFE, Participating Examiner, both from INS Regulatory Insurance Services, Inc., and INS Consultants, Inc., the consulting actuaries, participated in the examination.

Respectfully submitted,

John Berry
Financial Examiner/Analyst Supervisor
Office of Insurance Regulation