

Report on Examination
of
Southern Security
Life Insurance Company

Lake Mary, 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	5
CONFLICT OF INTEREST PROCEDURE	6
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, ETC.	6
SURPLUS DEBT	6
AFFILIATED COMPANIES	7
ADMINISTRATIVE SERVICES AGREEMENT	7
LOAN FUNDING AGREEMENT	7
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	11
MEGA LIFE AND HEALTH INSURANCE COMPANY	11
SECURITY NATIONAL LIFE INSURANCE COMPANY (SNLIC)	12

ACCOUNTS AND RECORDS	13
RISK-BASED CAPITAL	13
CUSTODIAL AGREEMENT	13
FINANCIAL STATEMENTS PER EXAMINATION	14
ASSETS	15
LIABILITIES, SURPLUS & OTHER FUNDS	16
STATEMENT OF OPERATIONS	17
CAPITAL & SURPLUS ACCOUNT.....	18
COMMENTS ON FINANCIAL STATEMENTS	19
ASSETS	19
LIABILITIES	20
CAPITAL & SURPLUS	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
BONDS	22
CONTRACT LOANS & FUNDS HELD UNDER COINSURANCE.....	23
CAPITAL & SURPLUS.....	23
SUBSEQUENT EVENTS	24
CONCLUSION.....	25

Tallahassee, Florida

November 14, 2005

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 (FS), 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:

**SOUTHERN SECURITY LIFE INSURANCE COMPANY
755 RINEHART ROAD
LAKE MARY, FLORIDA 32746-8402**

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, 1999. In lieu of conducting statutory financial examinations of the Company for the years 2000 and 2001, the Office accepted the independent certified public accountant's (CPA) audit reports on the Company's statutory-basis financial statements for those years pursuant to Section 624.316(2)(a), FS.

Planning for the current examination began on March 3, 2005. The fieldwork commenced on March 7, 2005 and concluded on August 10, 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 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 (FAC), 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 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.

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, 1999, along with resulting action taken by the Company in connection therewith.

INFORMATION SYSTEMS CONTROLS

During the prior examination, deficiencies relating to the Company's internal controls over its information technology resources were noted. During the current examination, we found that the deficiencies had been corrected.

HISTORY

GENERAL

The Company was incorporated in Florida as Sunbeam Life Insurance Company on June 29, 1966. On May 10, 1968, it was acquired by Columbia National Corporation, and on July 17, 1968 changed its name to Columbia National Life Insurance Company. A Certificate of Authority to write all types of life insurance was issued by the Office on August 18, 1968, and the Company began business in Florida on October 15, 1969. On March 10, 1970, the Company's name was changed to Columbia National Life Insurance Company of Florida. Controlling interest in the Company was acquired by Consolidare Enterprises, Inc. on May 3, 1978, and its name was changed to Southern Security Life Insurance Company. On December 17, 1998, Security National Financial Corporation ("SNFC"), completed an acquisition of Consolidare Enterprises, Inc., thereby becoming the Company's ultimate parent.

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

- Life
- Accident & health
- Group life and annuities

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	3,000,000
Number of shares issued and outstanding	2,105,235
Total common capital stock	\$2,105,235
Par value per share	\$1.00

At December 31, 2004, the Company was 77%-owned by SSLIC Holding Corporation, which in turn was wholly-owned by Security National Life Insurance Company (SNLIC), which was wholly-owned by SNFC, a publicly-held company. A simplified organizational chart appears on page 8.

PROFITABILITY

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

(\$ Millions)	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net premiums	\$6.2	\$4.8	\$8.4
Total revenues	\$11.2	\$11.8	\$12.1
Net income (loss)	(\$0.5)	\$2.4	(\$0.4)
Total capital & surplus	\$10.9	\$11.4	\$8.6

DIVIDENDS

The Company did not pay any cash dividends to shareholders during the period of this examination.

MANAGEMENT

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

Directors

Name and Location	Principal Occupation
Jack Lynn Beckstead, Jr. Utah	Director of the Company
Charles Lee Crittenden Utah	Director of the Company
Robert Gail Hunter Utah	Director of the Company
Howard Craig Moody Utah	Director of the Company
George Robert Quist, Jr. Utah	Vice President & Secretary of the Company
George Robert Quist, Sr. Utah	Chairman and CEO of the Company
Scott Milton Quist Utah	President and COO of the Company
Norman Gilbert Wilbur Utah	Director of the Company

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

Senior Officers

Name	Title
George Robert Quist, Sr.	Chairman & CEO
Scott Milton Quist	President & COO
George Robert Quist, Jr.	VP & Secretary
Stephen Mc Entire Sill	VP, Treasurer & CFO

CONFLICT OF INTEREST PROCEDURE

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

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors 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, FS, including the authorization of investments as required by Section 625.304, FS.

ACQUISITIONS, MERGERS, ETC.

Subsequent to the period of this examination, the Company merged with SSLIC Holding Corporation, as more fully discussed on page 24.

SURPLUS DEBT

As of December 31, 2004, the Company was obligated in the amount of \$1 million for a surplus note held by SNLIC, along with interest payable thereon at a variable annual rate of 9% to 11%. The note was approved by the Company's board of directors and the Office. In accordance with Section 628.401, FS, the surplus note debt is included in the Company's surplus.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, FS, and Rule 69O-143.046, FAC, on May 25, 2004.

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

ADMINISTRATIVE SERVICES AGREEMENT

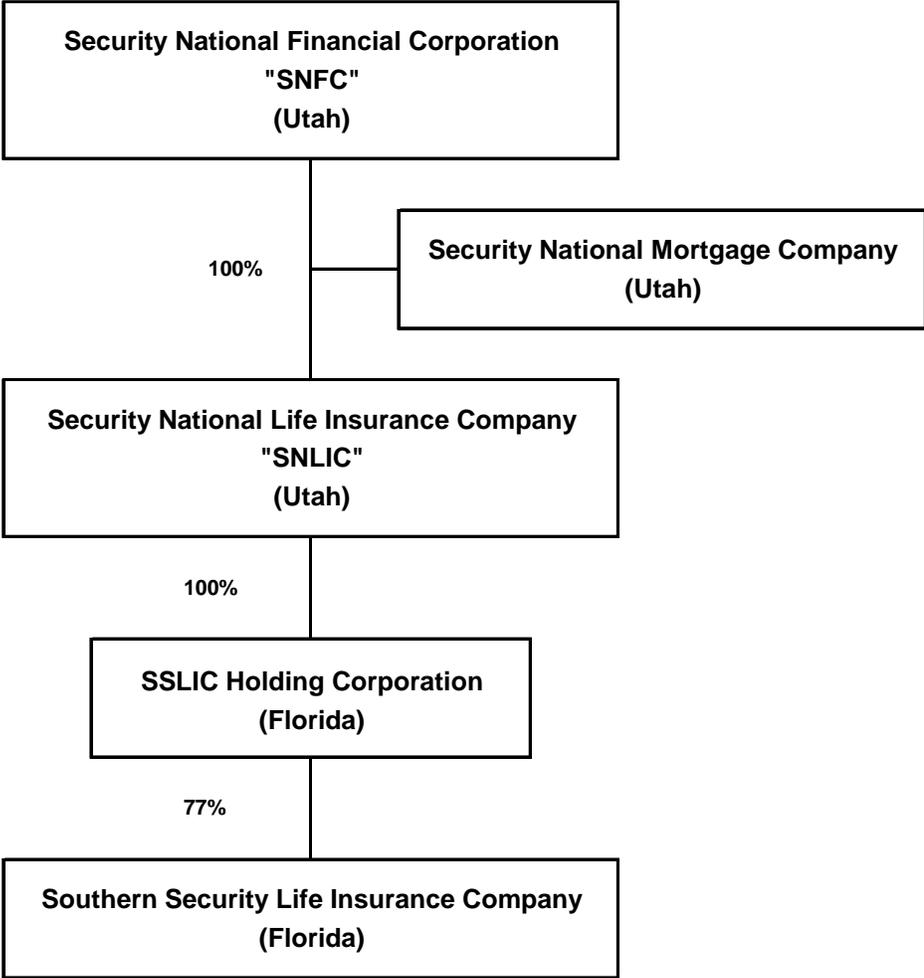
SNFC provides administrative services to the Company pursuant to an administrative services agreement that became effective December 31, 1998. Services include accounting, financial reporting, actuarial, policyholder, underwriting, data processing, legal, building management, marketing advisory, and investment services. Fees for these services were \$3 million in each of years 2002, 2003, and 2004.

LOAN FUNDING AGREEMENT

The Company participates in a loan funding arrangement with Security National Mortgage Company, an affiliate, pursuant to a 1998 agreement. The Company funds individual residential loans that are pre-committed to unaffiliated third party investors. The funded loans, which are repaid from the amounts received from the third party investors, amounted to \$16.4 million, \$17.5 million, and \$12.2 million as of December 31, 2002, 2003, and 2004, respectively.

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.

**Southern Security Life Insurance Company
Organizational Chart
December 31, 2004**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$1 million with a deductible of \$10,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$350,000.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has no direct employees and, as a result, has no pension or other employee benefit plans.

STATUTORY DEPOSITS

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

Holder	Description	Rate	Due	Par Value	Market Value
Florida	U.S. Treasury bonds	6.250%	8/15/23	\$100,000	\$117,074
Florida	AETNA, Inc. note	7.125%	8/15/06	640,000	673,344
Florida	Chase Manhattan Corp. note	6.375%	2/15/08	600,000	642,456
Florida	Dean Witter Discover & Co. note	6.500%	11/1/05	360,000	370,696
				<u>1,700,000</u>	<u>1,803,570</u>
Alabama	Chase Manhattan Corp. note	6.375%	2/15/08	100,000	107,076
Georgia	Dean Witter Discover & Co. note	6.500%	11/1/05	250,000	257,428
Indiana	Dean Witter Discover & Co. note	6.500%	11/1/05	200,000	205,942
South Carolina	Chase Manhattan Corp. note	6.375%	2/15/08	300,000	321,228
Total				<u>\$2,550,000</u>	<u>\$2,695,244</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company markets ordinary life, individual accident and health, annuities, group life, group accident and health, credit life, and credit accident and health products through licensed agents and brokers.

TERRITORY AND PLAN OF OPERATION

At December 31, 2004, the Company was authorized to transact insurance in the following 14 states:

Alabama	Indiana	Oklahoma
Florida	Kentucky	South Carolina
Georgia	Louisiana	Tennessee
Hawaii	Michigan	Texas
Illinois	Missouri	

TREATMENT OF POLICYHOLDERS

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS, 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. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ASSUMED

During the period of the examination, the Company assumed reinsurance from Swiss Re Life & Health America, Inc. and Prudential Insurance Company of America.

CEDED

MEGA LIFE AND HEALTH INSURANCE COMPANY

The Company entered into a reinsurance agreement with Mega Life and Health Insurance Company (Mega) effective December 31, 1992. Pursuant to the agreement, the Company ceded 18% of all universal life policies in force at December 31, 1992. The reinsurance agreement is a co-insurance treaty entitling MEGA to 18% of all future premiums and making MEGA responsible for 18% of all future claims and policyholder loans relating to the ceded policies.

SECURITY NATIONAL LIFE INSURANCE COMPANY (SNLIC)

The Company entered into two similar indemnity reinsurance agreements with SNLIC during the period of the examination. The first such agreement was entered into on December 26, 2003, and became effective September 30, 2003. The second agreement was entered into on December 28, 2004, and became effective September 30, 2004. Pursuant to these agreements, the Company ceded to SNLIC 50% quota share of the Company's direct universal life business in force as of October 1, 2003, and 25% quota share of the Company's direct universal life business in force as of October 1, 2004. The reinsurance was partially on a coinsurance basis and partially on a modified coinsurance basis. Both agreements contain the required insolvency clauses.

While the agreements call for the Company to take a reserve credit for the coinsurance reserves, and for SNLIC to establish the coinsurance reserves, the Company retained on its books the assets and reserves related to the modified coinsurance portion of the reinsurance. The assets related to the modified coinsurance portion of the reinsurance were held in trust in a custodial account by SunTrust Bank, as custodian, for the sole use and benefit of SNLIC, as beneficiary, to secure payments of amounts becoming due to SNLIC in connection with the reinsurance agreements. The custodial account was subject to withdrawal solely by SNLIC; and SunTrust Bank, as custodian, had authority to negotiate any of the assets held in the custodial account without the consent of the Company.

Pursuant to the custodial agreement, SNLIC had the right at any time to withdraw assets from the custodial account without notice to the Company in order to satisfy reinsurance obligations of the Company. The custodial account assets were held by SunTrust Bank, as custodian, for the Company and SNLIC.

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), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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 Lake Mary, Florida, where this examination was conducted.

RISK-BASED CAPITAL

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

The following agreement was in effect between the Company and non-affiliates:

CUSTODIAL AGREEMENT

As a result of its reinsurance agreements with SNLIC discussed on page 12 , the Company as grantor, SNLIC as beneficiary, and SunTrust Bank as custodian entered into a custodian agreement on December 26, 2003.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain 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. Adjustments resulting from this examination are summarized on page 21.

Southern Security Life Insurance Company
Assets
December 31, 2004

	Per Company	Examination Adjustments	Per Examination
Bonds	\$26,689,423	(\$24,126,155)	\$2,563,268
Common stocks	521,539	0	521,539
Mortgage loans on real estate - first liens	1,524,157	0	1,524,157
Properties occupied by the company	2,107,727	0	2,107,727
Cash, cash equivalents, & short-term investments	13,955,388	0	13,955,388
Contract loans	7,634,912	(1,184,463)	6,450,449
Other invested assets	604,222	0	604,222
	<u>53,037,368</u>	<u>(25,310,618)</u>	<u>27,726,750</u>
Investment income due & accrued	543,381	0	543,381
Uncollected premiums & agents' balances	228,863	0	228,863
Deferred premiums, agents' balances & installments	1,056,861	0	1,056,861
Amounts recoverable from reinsurers	35,000	0	35,000
Other amounts receivable under reinsurance contracts	23,565	0	23,565
Net deferred tax asset	246,377	0	246,377
Electronic data processing equipment & software	32,305	0	32,305
Receivables from parent, subsidiaries & affiliates	913,032	0	913,032
Aggregate write-ins for other than invested assets	1,889	0	1,889
Totals	<u><u>\$56,118,641</u></u>	<u><u>(\$25,310,618)</u></u>	<u><u>\$30,808,023</u></u>

Southern Security Life Insurance Company
Liabilities, Surplus & Other Funds
December 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$41,590,422	\$0	\$41,590,422
Aggregate reserve for A&H contracts	219,134	0	219,134
Liability for deposit-type contracts	84,138	0	84,138
Contract claims - life	830,062	0	830,062
Dividends apportioned for payment	850	0	850
Premiums received in advance	19,230	0	19,230
Interest maintenance reserve	332,097	0	332,097
General expenses due or accrued	20,523	0	20,523
Taxes, licenses & fees due or accrued	113,830	0	113,830
Unearned investment income	351,604	0	351,604
Amounts held for agents' account	3,883	0	3,883
Remittances & items not allocated	30,701	0	30,701
Asset valuation reserve	427,986	0	427,986
Funds held under coinsurance	1,184,463	(1,184,463)	0
Aggregate write-ins for liabilities	<u>32,606</u>	<u>0</u>	<u>32,606</u>
Total liabilities	45,241,529	(1,184,463)	44,057,066
Capital & Surplus			
Surplus notes	1,000,000	0	1,000,000
Gross paid in and contributed surplus	4,582,106	0	4,582,106
Unassigned funds (surplus)	<u>3,189,771</u>	<u>(24,126,155)</u>	<u>(20,936,384)</u>
Total surplus	8,771,877	(24,126,155)	(15,354,278)
Common capital stock	<u>2,105,235</u>	<u>0</u>	<u>2,105,235</u>
Totals of capital & surplus	<u>10,877,112</u>	<u>(24,126,155)</u>	<u>(13,249,043)</u>
Total liabilities, capital & surplus	<u>\$56,118,641</u>	<u>(\$25,310,618)</u>	<u>\$30,808,023</u>

Southern Security Life Insurance Company
Statement of Operations
For Year Ended December 31, 2004

Premiums & annuity considerations		\$6,211,486
Net investment income		3,490,426
Amortization of interest maintenance reserve		43,887
Commissions & expense allowances on reinsurance ceded		1,428,502
Charges & fees for deposit-type contracts		5,980
Aggregate write-ins for miscellaneous income		<u>(19,980)</u>
		11,160,301
Death benefits	\$2,051,427	
Matured endowments	17,845	
Annuity benefits	427,162	
Disability benefits & benefits under A&H contracts	32,977	
Coupons, guaranteed endowments & similar benefits	24,814	
Surrender benefits & withdrawals for life contracts	928,474	
Group conversions	304	
Interest & adjustments on contract funds	4,811	
Payments on supplementary contracts	11,279	
Increase in aggregate reserves for contracts	<u>831,867</u>	
	4,330,960	
Commissions on premiums	2,186,281	
General insurance expenses	3,721,950	
Insurance taxes, licenses & fees	212,038	
Increase in loading on deferred & uncollected premiums	202,575	
Aggregate write-ins for deductions	<u>1,015,782</u>	
		<u>11,669,586</u>
Net gain (loss) from operations before dividends & income taxes		(509,285)
Dividends to policyholders		<u>846</u>
Net gain (loss) before federal income taxes		(510,131)
Federal and foreign income taxes incurred		<u>15,106</u>
Net income (loss)		<u><u>(\$525,237)</u></u>

Southern Security Life Insurance Company
Capital and Surplus Account
For Year Ended December 31, 2004

Capital and surplus - December 31, 2003		\$11,443,488
Net income (loss)	(\$525,237)	
Change in net unrealized capital gains or (losses)	97,258	
Change in net deferred income tax	30,481	
Change in nonadmitted assets and related items	(172,197)	
Change in asset valuation reserve	3,319	
Paid in capital	1,635	
Paid in surplus	4,823	
Aggregate write-ins for gains and losses in surplus	(6,458)	
Examination adjustments	<u>(24,126,155)</u>	<u>(24,692,531)</u>
Capital and surplus - December 31, 2004		<u><u>(\$13,249,043)</u></u>

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Bonds **\$2,563,268**

The amount reported by the Company at December 31, 2004 of \$26,689,423 has been decreased by \$24,126,155 to \$2,563,268. The Company incorrectly reported bonds as admitted assets in the total amount of \$26,689,423, including \$24,126,155 of bonds held in a custodial account pursuant to a reinsurance agreement with SNLIC, as more fully described on page 12. Because the custodial account assets were not owned solely by the Company, they are not admissible pursuant to Section 625.012, FS, which limits allowable assets of insurers to those assets that are owned by the insurer. In addition, statutory accounting principles require that the custodial account assets be nonadmitted in accordance with Statement of Statutory Accounting Principles No. 4, in that they are not within the control of the Company, unavailable to fulfill policyholder obligations, and generally unavailable to the Company. As a result, we have nonadmitted bonds in the amount of \$24,126,155.

Contract Loans **\$6,450,449**

The amount reported by the Company at December 31, 2004 of \$7,634,912 has been decreased by \$1,184,463 to \$6,450,449. The Company incorrectly reported the reinsured portion of contract loans in the amount of \$1,184,463 as *funds held under coinsurance*, a liability. The NAIC annual statement instructions require that such amounts be offset against the asset *contract loans*. Accordingly, we have reclassified \$1,184,463 from *funds held under coinsurance* to *contract loans*.

LIABILITIES

Aggregate Reserves and Claim Liabilities

\$42,723,756

An outside actuarial firm appointed by the Board of Directors rendered an opinion that the 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.

Funds Held Under Coinsurance

\$0

The amount reported by the Company at December 31, 2004 of \$1,184,463 has been reclassified to contract loans. The Company reported the reinsured portion of contract loans in the amount of \$1,184,463 as *funds held under coinsurance*, a liability. The NAIC annual statement instructions require that such amounts be offset against the asset *contract loans*.

CAPITAL & SURPLUS

(\$13,249,043)

The \$10,877,112 reported by the Company as its total capital and surplus at December 31, 2004 has been reduced by \$24,126,155 to negative \$13,249,043 as a result of examination adjustments described above. Because the Company's actual capital and surplus after examination adjustments was negative \$13,249,043, which is \$14,989,054 less than its required capital and surplus of \$1,740,011, the Company was, at December 31, 2004, insolvent and in violation of Section 624.408, FS.

Southern Security Life Insurance Company
Comparative Analysis of Changes in Capital & Surplus
December 31, 2004

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

Capital & surplus - December 31, 2004, per annual statement \$10,877,112

	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Assets:				
Bonds	\$26,689,423	\$2,563,268	(\$24,126,155)	
Contract loans	\$7,634,912	\$6,450,449	(\$1,184,463)	
Liabilities:				
Funds held under coinsurance	\$1,184,463	\$0	<u>\$1,184,463</u>	
Net change in capital and surplus				<u>(24,126,155)</u>
Capital & surplus - December 31, 2004, per examination				<u><u>(\$13,249,043)</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the 1999 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 of the examination as of December 31, 2004.

BONDS

As discussed on page 19, the Company reported bonds in the aggregate amount of \$26,689,423, of which \$24,126,155 were held in a custodial account pursuant to a reinsurance agreement with SNLIC. The custodial account assets are not owned or controlled by, or available to the Company. Because the custodial account assets are not owned solely by the Company, they are not admissible pursuant to Section 625.012, FS, which limits allowable assets of insurers to those assets that are owned by the insurer. In addition, statutory accounting principles require that the custodial account assets be nonadmitted in accordance with Statement of Statutory Accounting Principles No. 4, in that they are not within the control of the Company, unavailable to fulfill policyholder obligations, and generally unavailable to the Company. As a result, we have nonadmitted bonds in the amount of \$24,126,155. Comments regarding related events occurring subsequent to the period of this examination are contained on page 24 of this report. **We recommend that, in all future statements filed with the Office, the Company admit only those assets owned and controlled by the Company that are allowable by Section 625.012, FS.**

CONTRACT LOANS & FUNDS HELD UNDER COINSURANCE

The Company reported the reinsured portion of contract loans in the amount of \$1,184,463 as *funds held under coinsurance*, a liability. The NAIC annual statement instructions require that such amounts be offset against the asset *contract loans*. Accordingly, we have reclassified \$1,184,463 from *funds held under coinsurance* to *contract loans*. **We recommend that, in all future statements filed with the Office, the Company correctly classify its assets and liabilities, including the reinsured portion of contract loans, in accordance with the NAIC annual statement instructions.**

CAPITAL & SURPLUS

The Company is required to maintain total capital and surplus in an amount at least equal to the minimum amount required by Section 624.408, FS, which was \$1,740,011 as of December 31, 2004. The \$10,877,112 reported by the Company as its total capital and surplus at December 31, 2004 has been reduced by \$24,126,155 to negative \$13,249,043 as a result of examination adjustments. Because the Company's actual capital and surplus after examination adjustments was negative \$13,249,043, which is \$14,989,054 less than its required capital and surplus of \$1,740,011, the Company was, at December 31, 2004, insolvent and in violation of Section 624.408, FS. **We recommend that the Company comply at all times with the minimum capital and surplus requirement of Section 624.408, FS.**

SUBSEQUENT EVENTS

In February of 2005, SSLIC Holding Corporation merged with and into the Company, pursuant to an agreement and plan of merger, with the Company being the surviving entity. SSLIC Holding Corporation ceased to exist as an entity, and the Company became a wholly-owned subsidiary of SNLIC.

On October 7, 2005, the Company, SNLIC, and SunTrust Bank replaced the custodial agreement described on page 12, related to the Company's reinsurance agreements with SNLIC, with a revised agreement referred to as an "Amended Trust Agreement". The revised agreement, which was intended to supersede and replace the custodial agreement, is similar to the original custodial agreement except that it provides for the Company's control over the assets held in trust pursuant to the agreement. In addition, on September 26, 2005, SunTrust Bank notified the Office that it changed the name on the securities account to "SunTrust Bank as Custodian for Southern Security Life Insurance Company". As a result, the conditions that resulted in the examination findings as of December 31, 2004 related to bonds, as discussed on page 19, and to the capital and surplus deficiency, as discussed on page 20, have been corrected.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Southern Security 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 **negative** \$13,249,043, which was **not** in compliance with Section 624.408, FS, and which was \$14,989,054 less than its required minimum capital and surplus of \$1,740,011. As a result of events occurring subsequent to December 31, 2004, as described on page 24, the conditions that resulted in the examination findings as of December 31, 2004 related to bonds, as discussed on page 19, and to the capital and surplus deficiency, as discussed on page 20, have been corrected.

In addition to the undersigned, Stephen Feliu, Financial Examiner/Analyst, Cathy S. Jones, CPA, Financial Examiner/Analyst, Kerry A. Krantz, Actuary, Carolyn M. Maynard, CFE, Financial Specialist, and David C. Schleit, CPA, Financial Examiner/Analyst Supervisor, participated in this examination.

Respectfully submitted,

C. Alan Irvin, CPA
Financial Administrator
Florida Office of Insurance Regulation