

Report on Examination
of
Best Meridian Insurance Company
Coral Gables, Florida
as of
December 31, 2006

By The
State of Florida
Office of Insurance Regulation

CONTENTS

SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	3
GENERAL	3
CAPITAL STOCK	3
PROFITABILITY	4
DIVIDENDS	4
MANAGEMENT	5
CONFLICT OF INTEREST PROCEDURE	6
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS AND DIVESTITURES	6
AFFILIATED COMPANIES	7
CLAIMS HANDLING AND POLICY ADMINISTRATION AGREEMENTS	7
MANAGEMENT AND SERVICE AGREEMENTS	7
GENERAL AGENT'S AGREEMENT	8
TAX ALLOCATION AGREEMENT	8
ORGANIZATIONAL CHART	9
FIDELITY BOND AND OTHER INSURANCE	10
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS	10
STATUTORY DEPOSITS	10
INSURANCE PRODUCTS AND RELATED PRACTICES	11
RISK RETENTION	11
TERRITORY AND PLAN OF OPERATION	11
TREATMENT OF POLICYHOLDERS	11
REINSURANCE	12
ASSUMED	12
CEDED	12
ACCOUNTS AND RECORDS	13
RISK-BASED CAPITAL	13
CUSTODIAL AGREEMENT	13
INDEPENDENT AUDITOR AGREEMENT	13
INVESTMENT MANAGEMENT AGREEMENT	14

ACTUARIAL SERVICES	14
FINANCIAL STATEMENTS PER EXAMINATION	15
ASSETS	16
LIABILITIES, SURPLUS AND OTHER FUNDS	17
SUMMARY OF OPERATIONS	18
CAPITAL AND SURPLUS ACCOUNT	19
COMMENTS ON FINANCIAL STATEMENTS	20
COMPARATIVE ANALYSIS OF CHANGES IN CAPITAL AND SURPLUS	21
SUMMARY OF FINDINGS	22
COMPLIANCE WITH PREVIOUS DIRECTIVES	22
CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION	22
CONCLUSION	23

Tallahassee, Florida

December 20, 2007

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
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Kentucky Office of Insurance
Secretary, NAIC Southeastern Zone
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Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chair, NAIC Financial Condition (E) Committee
P.O. Box 1157
Richmond, Virginia 23218

Dear Commissioners McCarty and Gross and Executive Director McPeak:

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, 2006, of the financial condition and corporate affairs of:

**Best Meridian Insurance Company
1320 South Dixie Highway
Coral Gables, Florida 33146**

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 the Florida Office of Insurance Regulation (the "Office") as of December 31, 2003.

Planning for the current examination began on April 4, 2007. The fieldwork commenced on April 11, 2007 and concluded on October 5, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This was a 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, *Best's Insurance Reports*, 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 2006 annual statement. Transactions subsequent to December 31, 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 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, 2003, along with resulting action taken by the Company in connection therewith.

Uncollected Premiums and Agents' Balances

The Company reported premiums due from an affiliate that were not held by the affiliate in a trust account or secured by it with a letter of credit or financial guarantee bond as required by Section 625.012(5), F.S. The Company was directed to non-admit such balances on future statements filed with the Office in accordance with Section 625.012(5), F.S. Resolution: The current examination did not result in similar findings as of December 31, 2006.

Electronic Data Processing Equipment and Software

The Company incorrectly reported as an admitted asset electronic data processing equipment that did not have a cost of at least \$25,000, as required by Section 625.012(11), F.S. The Company was directed to non-admit such equipment on future statements filed with the Office. Resolution: The current examination did not result in similar findings as of December 31, 2006.

Misclassified Assets and Liabilities

The Company incorrectly classified certain assets and liabilities in its 2003 annual statement. The Company was directed to properly report all assets and liabilities in its statements in accordance with the annual statement instructions. Resolution: The current examination did not result in similar findings as of December 31, 2006.

HISTORY

GENERAL

The Company was incorporated in Florida on June 23, 1986 as First American Life Insurance Company. Its name was changed to Best Meridian Insurance Company on July 2, 1987, and the Company commenced business on August 1, 1987.

As of the date of this examination, the Company was authorized to transact the following insurance coverage in Florida, in accordance with Section 624.401, F.S.:

Life	Credit life
Group life & annuities	Credit disability
Variable life	Accident & 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, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	2,500,000
Number of shares issued and outstanding	750,000
Total common capital stock	\$750,000
Par value per share	\$1.00

At December 31, 2006, the Company was wholly-owned and controlled by BMI Financial Group, Inc. (BMIFG). An abbreviated organizational chart appears on page 9.

PROFITABILITY

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

(In millions)	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net premiums	\$41.6	\$42.2	\$24.4
Total revenues	\$53.9	\$53.3	\$36.4
Net income	\$4.2	\$0.1	\$3.2
Total capital and surplus	\$20.1	\$15.5	\$16.8

DIVIDENDS

The Company did not pay any shareholder dividends during the period of this examination.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S. Directors serving as of December 31, 2006 were:

Directors

<u>Name and Location</u>	<u>Principal Occupation</u>
Brent Bush Miami, Florida	Director - Best Meridian Insurance Company
Rosario P. Duncan Miami, Florida	General Counsel and Secretary - Best Meridian Insurance Company
Carlos Garcia-Velez Miami, Florida	Retired
Anthony F. Sierra Miami, Florida	President & CEO - Best Meridian Insurance Company President - Business Men's Insurance Corp. & BMI Financial, Inc.
Antonio M. Sierra Miami, Florida	Chairman of the Board - Best Meridian Insurance Company
Jose A. Villalobos Miami, Florida	Attorney - Akerman Senterfitt

At December 31, 2006, members of the principal committees of the Board were:

Finance and Audit Committees

Brent Bush
Rosario P. Duncan
Carlos Garcia-Velez
Anthony F. Sierra
Antonio M. Sierra
Jose A. Villalobos

The following were the Company's senior officers as of December 31, 2006, as appointed by its board of directors in accordance with the Company's bylaws:

Senior Officers

<u>Name</u>	<u>Title</u>
Anthony F. Sierra	President & Chief Executive Officer
Manuel Pelati	Vice President, Treasurer & Chief Financial Officer
Rosario P. Duncan	General Counsel and Secretary
Michael W. Morgan	Vice President & Actuary
Eloy de Armas	Vice President
Karen M. Michell	Vice President

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 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. A review of the prior report of examination by the Office was not documented in the minutes of the Board.

ACQUISITIONS, MERGERS AND DIVESTITURES

In 2004, the Company sold its interest in its subsidiary Best Meridian International Insurance Company SPC to BMIFG for the statutory book value as of September 30, 2004 of \$938,775.

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 January 9, 2007.

The following agreements were in force between the Company and its affiliates on December 31, 2006:

CLAIMS HANDLING AND POLICY ADMINISTRATION AGREEMENTS

Magna Administrative Services, Inc. (Magna), a Florida-based third party administrator (TPA), provided claims processing and payment services to the Company pursuant to a June 1, 1999 agreement. On May 7, 2007, Magna changed its name to Magna Life Settlements, Inc. Magna also provided policy underwriting, issuance, maintenance, and medical policy reporting services to the Company pursuant to a policy administration agreement dated June 1, 1999, as subsequently amended. As of December 31, 2006, fees under this agreement were \$0.29 per insured per month for medical assistance on national plans, and \$0.80 per insured per month for medical assistance on international plans. Total fees to Magna under these two agreements amounted to \$1.8 million, \$2.5 million, and \$2.6 million in years 2004, 2005, and 2006, respectively.

MANAGEMENT AND SERVICE AGREEMENTS

BMIFG rendered management, marketing, legal, and insurance services to the Company pursuant to a management and service agreement originally effective September 1, 1994. Fees for these services amounted to \$250,000 in each of years 2004, 2005, and 2006.

BMI Services, Inc. provided the Company with data processing, management, administrative, underwriting, policy issuance, and reinsurance services pursuant to a management and service

agreement which became effective October 8, 1997. Fees for these services amounted to \$2.0 million in year 2004, and \$2.2 million in each of years 2005 and 2006.

GENERAL AGENT'S AGREEMENT

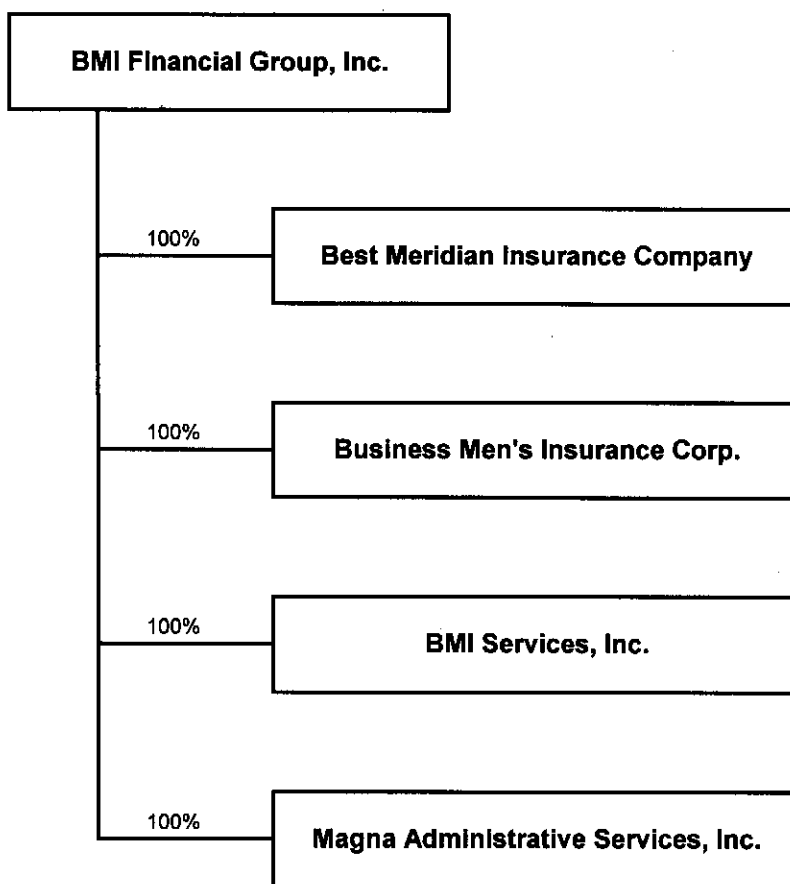
Business Men's Insurance Corp. (Business Men's) provided agent services to the Company pursuant to a general agent's agreement which became effective July 2, 1987. Under the terms of the agreement, compensation was paid to Business Men's in the form of commissions. All of the Company's accident and health policies and the majority of its life insurance policies were written through Business Men's. Commissions paid in accordance with this agreement were \$14.3 million in year 2004 and \$15.5 million in years 2005 and 2006.

TAX ALLOCATION AGREEMENT

The results of the Company's operations were included in the consolidated federal income tax return of BMIFG. Pursuant to a tax allocation agreement dated January 1, 1998, federal income taxes were allocated to members of the consolidated group based upon separate return calculations, with current credit for net losses.

An abbreviated 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 the names of all related companies in the holding company group.

**Best Meridian Insurance Company
Organizational Chart
December 31, 2006**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of up to \$700,000 with a deductible of \$50,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$700,000.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company provided eligible employees with medical, dental, life, and disability insurance, educational assistance, and voluntary participation in a 401(k) retirement plan. The Company matched 25% of the first 6% of employee contributions to the 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 Value	Market Value
Florida	U.S. Treasury Bond	8.75%	5/15/2017	\$100,000	\$132,360
Florida	U.S. Treasury Bond	12.00%	8/15/2013	<u>150,000</u>	<u>164,715</u>
Total special deposits				<u>\$250,000</u>	<u>\$297,075</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

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

RISK RETENTION

The Company generally retained \$250,000 of risk per life insurance policy. However, for certain policies, the first \$250,000 was co-insured so that the Company and a co-insurer shared the first \$250,000 of risk equally. The Company generally retained all accident and health insurance risk. The long-term care risk retention was ten percent (10%) of benefits payable. Effective December 31, 2005, the Company terminated a treaty ceding a portion of risk on major medical policies.

TERRITORY AND PLAN OF OPERATION

At December 31, 2006, the Company was authorized to transact insurance in Florida; however, over 99% of its business was in Latin America.

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 assumed life insurance risk from Conseco Life Insurance Company under a modified coinsurance agreement. Additionally, the Company assumed minor amounts of life and accident and health insurance risk from affiliates.

CEDED

The Company ceded insurance to eight unaffiliated companies. Under the reinsurance agreement and an accompanying trust agreement between Hannover Life Insurance Company of America and Wachovia Bank, the Company retained possession of assets that supported the reserves, and such assets were held in trust by the bank. Funds held in trust were reported at \$16,789,275 as of December 31, 2006.

Portions of the Company's life insurance products were reinsured by Revious Ruckversicherung A.G. (Revious) and Converium Ruckversicherung Deutschland A.G. (Converium). Amounts recoverable from Revious and Converium are secured by letters of credit in the amounts of \$500,000 and \$300,000, respectively.

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

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2004, 2005, and 2006, 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 Coral Gables, 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

The Company entered into a custodian agreement with U.S. Bank (formally, Star Bank NA) on December 29, 1997, for the safekeeping of its securities. Fees related to this agreement were \$25,577, \$5,770, and \$4,400 in years 2004, 2005, and 2006, respectively. The agreement complied with the requirements of Rule 69O-143.042, F.A.C.

INDEPENDENT AUDITOR AGREEMENT

The Company entered into agreements with Dixon Hughes PLLC, of High Point, North Carolina, for audit services. Fees related to these agreements were \$148,058, \$129,000, and \$243,970 in years 2004, 2005, and 2006, respectively.

INVESTMENT MANAGEMENT AGREEMENT

On July 29, 2003, the Company entered into an investment management agreement with Asset Allocation & Management Company, LLC, for investment management and advisory services for the Company's cash and securities. Fees related to this agreement were \$132,762, \$138,327, and \$150,777 in years 2004, 2005, and 2006, respectively.

ACTUARIAL SERVICES

The Company utilized the actuarial consulting services of Faifian & Associates, Milliman USA, AUL LTC Solutions, Inc., and Actuarial Resources Corp. Fees for these services amounted to \$134,204, \$118,666, and \$136,715 in years 2004, 2005, and 2006, respectively.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2006, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

Best Meridian Insurance Company
Assets
December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$111,609,564	\$0	\$111,609,564
Properties occupied by the company	1,261,165	0	1,261,165
Cash, cash equivalents, and short-term investments	6,017,111	0	6,017,111
Contract loans	6,551,377	0	6,551,377
Aggregate write-ins for invested assets	610,315	0	610,315
	<u>126,049,532</u>	<u>0</u>	<u>126,049,532</u>
Investment income due and accrued	1,419,704	0	1,419,704
Uncollected premiums and agents' balances	5,962,401	0	5,962,401
Deferred premiums, agents' balances and installments	170,002	0	170,002
Amounts recoverable from reinsurers	1,175,822	0	1,175,822
Other amounts receivable under reinsurance contracts	2,679,284	0	2,679,284
Current federal and foreign income tax recoverable	454,862	0	454,862
Net deferred tax asset	1,573,196	0	1,573,196
Receivables from parent, subsidiaries and affiliates	95,281	0	95,281
	<u>95,281</u>	<u>0</u>	<u>95,281</u>
Totals	<u>\$139,580,084</u>	<u>\$0</u>	<u>\$139,580,084</u>

**Best Meridian Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2006**

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$76,361,576	\$0	\$76,361,576
Aggregate reserve for A&H contracts	14,025,672	0	14,025,672
Liability for deposit-type contracts	642,850	0	642,850
Contract claims - life	1,747,475	0	1,747,475
Contract claims - accident and health	1,827,709	0	1,827,709
Surrender values on canceled contracts	20,125	0	20,125
Commissions to agents due or accrued	1,223,509	0	1,223,509
Commissions and expense allowances payable	6,211	0	6,211
General expenses due or accrued	479,945	0	479,945
Taxes, licenses and fees due or accrued	61,312	0	61,312
Amounts withheld or retained by company	610,315	0	610,315
Remittances and items not allocated	1,034,166	0	1,034,166
Asset valuation reserve	283,292	0	283,292
Funds held under coinsurance	18,995,927	0	18,995,927
Aggregate write-ins for liabilities	2,164,136	0	2,164,136
Total liabilities	<u>119,484,220</u>	<u>0</u>	<u>119,484,220</u>
Capital and Surplus			
Gross paid in and contributed surplus	5,650,000	0	5,650,000
Unassigned funds	13,695,864	0	13,695,864
Surplus	19,345,864	0	19,345,864
Common capital stock	750,000	0	750,000
Total capital and surplus	<u>20,095,864</u>	<u>0</u>	<u>20,095,864</u>
Totals	<u>\$139,580,084</u>	<u>\$0</u>	<u>\$139,580,084</u>

Best Meridian Insurance Company
Summary of Operations
For The Year Ended December 31, 2006

Premiums and annuity considerations		\$41,551,331
Net investment income		6,373,147
Amortization of interest maintenance reserve		44,058
Commissions and allowances on reinsurance ceded		5,890,040
Aggregate write-ins for miscellaneous income		<u>6,474</u>
		53,865,050
Death benefits	\$2,186,930	
Disability benefits and benefits under A&H contracts	10,433,535	
Surrender benefits and withdrawals for life contracts	2,064,542	
Interest and adjustments on contract funds	22,888	
Increase in aggregate reserves for life and A&H contracts	<u>7,786,003</u>	
	22,493,898	
Commissions on premiums	19,414,881	
Commissions and allowances on reinsurance assumed	28,406	
General insurance expenses	5,034,287	
Insurance taxes, licenses and fees	126,866	
Increase in loading on deferred and uncollected premiums	(42,788)	
Aggregate write-ins for deductions	<u>952,721</u>	
		<u>48,008,271</u>
		5,856,779
Federal and foreign income taxes incurred		<u>1,619,347</u>
Net gain from operations before capital gains		4,237,432
Net realized capital gains		<u>7,755</u>
Net income		<u><u>\$4,245,187</u></u>

**Best Meridian Insurance Company
Capital and Surplus Account
For The Year Ended December 31, 2006**

Capital and surplus - December 31, 2005		\$15,516,029
Net income	\$4,245,187	
Change in net unrealized capital gains	23,243	
Change in net deferred income tax	721,611	
Change in nonadmitted assets and related items	184,403	
Change in asset valuation reserve	(86,142)	
Change in surplus as a result of reinsurance	(508,467)	
Examination adjustments	<u>0</u>	<u>4,579,835</u>
Capital and surplus - December 31, 2006		<u><u>\$20,095,864</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Aggregate Reserves and Contract Claims

\$94,605,282

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2006 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.

Best Meridian Insurance Company
Comparative Analysis of Changes in Capital and Surplus
December 31, 2006

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

Capital and surplus, December 31, 2006 - per annual statement				\$20,095,864
	<u>Per</u> Company	<u>Per</u> Examination	<u>Increase</u> <u>(Decrease)</u> <u>In Surplus</u>	
Total assets	\$139,580,084	\$139,580,084	\$0	
Total liabilities	\$119,484,220	\$119,484,220	<u>\$0</u>	
Net change in capital and surplus				<u>0</u>
Capital and surplus, December 31, 2006 - per examination				<u><u>\$20,095,864</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the 2003 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 with statutes, rules, or other requirements on the part of the Company.

CONCLUSION

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

Per examination findings, the Company's total capital and surplus was \$20,095,864, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2006 was \$5,140,211.

In addition to the undersigned, the following individuals participated in this examination: Wenzhang "Mike" Du, Actuarial Analyst; Cathy S. Jones, CPA, Financial Examiner/Analyst; Kerry A. Krantz, Actuary; Richard J. Schaaf, CFE, CPA, Financial Specialist; and David C. Schleit, CFE, CPA, Financial Examiner/Analyst Supervisor.

Respectfully submitted,

Thomas Cook, Financial Examiner/Analyst
Florida Office of Insurance Regulation