STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of American Financial Security Life Insurance Company for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of American Financial Security Life Insurance Company for the period ended December 31, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of American Financial Security Life Insurance Company as of December 31, 2011, be and is hereby ADOPTED as filed and for American Financial Security Life Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 19th day of March, 2013.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

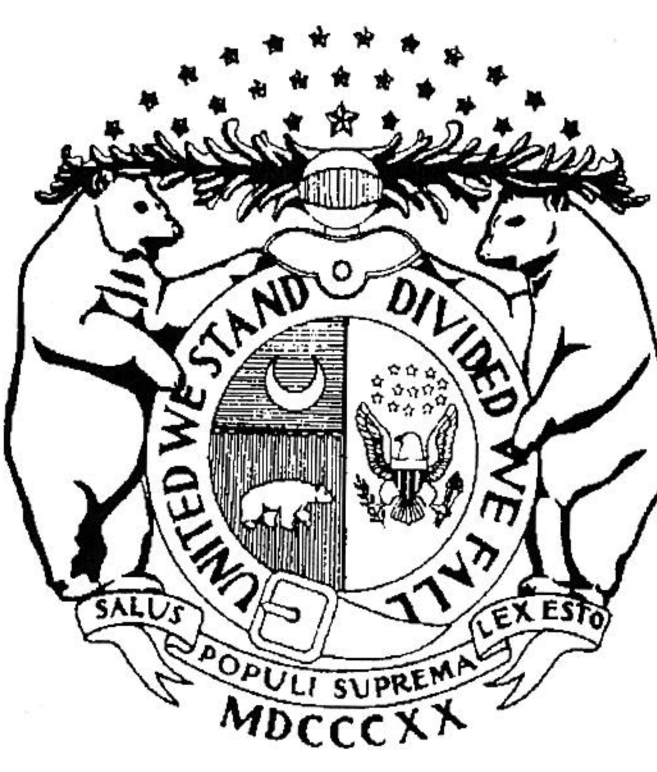
REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

AMERICAN FINANCIAL SECURITY LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2011



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Kansas City, Missouri
January 16, 2013

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

American Financial Security Life Insurance Company

hereinafter referred to as such, AFSLIC, or as the Company. Its administrative office is located at 127 East High Street, Jefferson City, Missouri, 65101, telephone number (573) 636-5057. Its books and records are located at 10342 Walmer Street, Overland Park, Kansas, 66212, telephone number (913) 341-1190. This examination began on May 14, 2012 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a full scope multi-state examination of American Financial Security Life Insurance Company. AFSLIC was last examined by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) as of September 30, 2007. The current full scope examination covers the period October 1, 2007 through December 31, 2011.

This examination also included the material transactions or events occurring subsequent to December 31, 2011 as noted in this report.

Procedures

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about corporate governance, identifying and assessing inherent risks, and evaluating the Company's controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statements of Statutory Accounting Principles (SSAP) and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of AFSLIC were considered in accordance with the risk-focused examination process. However, due to the small size and limited operation of the Company, a modified risk-focused approach, emphasizing aspects of the risk-focused approach and substantive procedures was utilized.

The Company requested a waiver and exemption from filing audited financial statements as of December 31, 2011, that was granted by the DIFP due to its limited policyholder count and insignificant premium production in 2011. Accordingly, the examination could not review and/or rely on the work of the independent auditor for any aspect of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

The Company reported a year-end receivable from its parent in recognition of a promise by the parent company to contribute additional capital. The parent company did not provide an actual contribution through the end of the subsequent year second quarter.

The examination noted many instances where the Board of Directors did not provide the necessary oversight over management activities by reviewing and approving significant transactions and events.

The examination's review of the biography of the current Board members shows that certain Board members appear to lack the background and experience necessary to perform governance functions in an insurance company. In addition, the Bylaws are silent with respect to the term of office of elected Board members. As it stands now, once an individual is elected, the term of office is in perpetuity.

The day-to-day management of the Company is contracted to Matrix Insurance Consulting, LLC, (Matrix Consulting), which is owned by Michael Camilleri. Mr. Camilleri is also the President, CEO and a Board member of AFSLIC. There is a written understanding of the functions to be performed by Matrix Consulting, however, the written understanding, referred to as an Engagement Letter, was signed only by Mr. Camilleri and was not filed with the DIFP for review and approval.

The annual Insurance Holding Company Registration Statement (Forms B & C) filed by the Company for itself as of December 31, 2011was determined to be deficient and erroneous due to non-disclosure of several entities that are under the ***control*** of the ultimate controlling persons as defined by Missouri Law at Section 382.010.1-9 RSMo (Definitions).

The Company does not have fidelity bond coverage to protect against its fidelity bond exposure. The Company also does not have any of the other related insurance coverages such as general liability, directors and officers liability insurance, etc.

In the years since being licensed by the DIFP, the Company has provided several versions of its Business Plan. The one recurring theme in each of the versions of the Business Plan is the significant variance between the target premium volume and the actual premium written by the Company. The unrealistic assumptions utilized by the Company in developing its Business Plan consequently have resulted in the Business Plans being of little value for planning or evaluation purposes.

SUBSEQUENT EVENTS

Pursuant to a Real Property and Sale Agreement of March 29, 2012, the Company purchased a condominium in Palm Beach County, Florida at a cost of $434,466. According to the Company, the building will be utilized as the Company's home office.

Article VI of AFSLIC's Articles of Incorporation was amended effective April 11, 2012, to reflect the change in the amount of its capital and surplus. The amendment now stipulates a paid in capital and minimum surplus of $3,500,000, consisting of $1,500,000 of paid-in capital and $2,000,000 of surplus.

COMPANY HISTORY

General

The Company was incorporated on January 25, 1957 and commenced business on July 23, 1957 under the name of Survivor's Benefit Insurance Company. On December 1, 1981, the name was changed to Penn Diversified Insurance and Annuity Company and on May 17, 1989, the name was changed to its current name of American Financial Security Life Insurance Company. The Company was placed in court ordered rehabilitation on March 30, 1993, where it remained until the order was terminated when and the Company was placed in administrative supervision on November 6, 2002.

The Company was purchased out of rehabilitation by American Financial Security Holdings, Inc. (AFSH) and became a Missouri domestic pursuant to a Form A Registration Statement that was approved by the DIFP on July 21, 2008. AFSH is a Delaware domiciled holding company that is one hundred percent owned by Carol and Michael Sonnenberg, the ultimate controlling persons. The Company currently operates as a stock life insurance company, in accordance with the provisions of Chapter 376, Revised Statutes of Missouri (RSMo) (Life and Accident Insurance).

Capital Contribution

In order to meet the minimum capital and surplus requirements for certain states in its licensing expansion applications, AFSLIC received capital contributions from the parent company, AFSH, during the examination period. Such capital contributions received were $650,000 in 2011; $1,600,000 in 2010; $322,512 in 2009 and $1,030,000 in 2008.

In 2012, AFSLIC continued to require additional capital infusion to raise its capital and surplus to $3.5 million as required under its amended Articles of Incorporation. AFSH provided capital contributions of $120,000 on May 3, 2012; $85,555 on May 4, 2012 and $100,000 on September 21, 2012 for a combined total of $305,555 in additional capital contribution subsequent to year-end, 2011.

It should be noted that the 2011 capital contribution includes a $35,000 accounting entry that was made at year-end 2011 to bring the Company's capital and surplus to the minimum required by its amended Articles of Incorporation. No actual asset transfer, such as cash was provided at the time, accordingly, the Company reported a receivable from the parent company for the $35,000 capital contribution. While the Company did not request nor receive prior approval of the DIFP to receive an additional capital infusion from the parent, the amount of the receivable remained uncollected through the second quarter subsequent to the examination date.

Dividends

During the period under examination, no ordinary dividends were declared or paid. However, an extra-ordinary dividend request of $1,145,000 was approved by the DIFP and paid to the parent, AFSH, on August 31, 2009.

Mergers and Acquisitions

The Company was acquired by American Financial Security Holdings Company, Inc. from ACA Holding, Inc. on April 22, 2008. The acquisition was approved pursuant to a Form A filing which was approved by the DIFP on July 21, 2008. ACA Holding, Inc. purchased the Company out of administrative supervision in 2005.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. Following the acquisition of the Company as stated above, Article IV of the Articles of Incorporation was amended to reduce the par value of the capital stock from $650 to $300 per share, effective August 13, 2009. In 2010, the Articles of Incorporation were amended and restated whereby Article VI was amended to reflect a stated paid-in capital of $1,000,000 and $600,000 of minimum surplus and Article VII was amended to reflect a change in the authorized share capital to 1,000,000 shares of $1 per share. The Articles of Incorporation were further amended and restated effective April 11, 2012. The significant change by this amendment is to Article VI which now stipulates a paid-in capital and minimum surplus of $3,500,000, consisting of $1,500,000 of paid-in capital and $2,000,000 million of surplus.

The Bylaws were amended and restated effective July 31, 2009, to remove the original Bylaws of the Company under the former ownership. There have been no other changes to the Bylaws.

The minutes of the Board of Directors' meetings and the shareholder's meetings were reviewed for proper approval of corporate transactions. The examination noted many instances where the Board of Directors did not provide the necessary oversight over management activities by reviewing and approving significant transactions and events. It should be noted and emphasized that part of the Board of Directors' oversight function over management under an effective corporate governance structure requires the Board to review and approve all material transactions and activities of management. In general, the minutes did ***not*** properly reflect and approve the Company's major transactions and events for the period under examination as follows:

1. In 2009, the Company declared and requested an extra-ordinary dividend of \$1,145,000 that was approved by the DIFP. However, there is no record of this dividend having been approved by the Board of Directors.
2. Although there are general notations in the Board meeting minutes regarding financial activities of the Company, there are no specific notations of the Board's approval of the financial or quarterly statements.
3. The Company made several requests to the DIFP to approve capital infusion by the parent company during the period under examination. However, except in a minority of cases, there are no records in the Board meeting minutes to indicate that these requests were approved by the Board of Directors.
4. The Company entered into a Claims Services Agreement with International Benefits Administrators, LLC, an affiliate, effective May 6, 2010. There is no record in the Board meetings minutes that this agreement was reviewed and approved by the Board.
5. The Company entered into a Management Agreement with American Financial Security Holding, Inc., its parent, effective April 15, 2010. There is no record in the Board meeting minutes that this agreement was reviewed and approved by the Board.
6. The Company's Business Plan and various revisions to it were not approved by the Board of Directors.
7. The Company purchased an office condominium in Boca Raton, Florida in March 2012. Again, the Board of Directors meeting minutes did not reflect a review and approval of this significant transaction.

MANAGEMENT AND CONTROL

Board of Directors

The management of AFSLIC is vested in a Board of Directors, elected by the shareholder. The Bylaws specify that the number of Board of Directors shall be not less than nine (9) and no more than ten (10). The Board members appointed and serving as of December 31, 2011 were as follows:

Name	Address	Occupation & Business Affiliation
Robert L. Hilton	Birmingham, AL	Member of the Board, American Equity Investment Life Holding Company
Michael H. Sonnenberg	Garden City, NY	Secretary and Chief Financial Officer, AFSLIC
Michael E. Green	Apopka, FL	Automotive Service Technician Mullinax Ford of Apopka
Michael Camilleri	Boca Raton, FL	President and CEO, AFSLIC
Melinda E. Green	Boca Raton, FL	Self-Employed Paralegal
John S. Maloney	Brightwaters, NY	Treasurer, AFSLIC and Owner, John S. Maloney, P.C.
Eric P. Serna	Santa Fe, NM	President, Global Financial Strategies, LLC
Carol J. Sonnenberg	New York, NY	Owner, American Financial Security Holding, Inc
James M. Pickens	Little Rock, AR	Attorney/President, Mike Pickens Law Firm

The examination's review of the biography of the current Board members shows that certain Board members appear to lack the background and experience necessary to perform governance functions in an insurance company. In addition, the Bylaws are silent with respect to the term of office of elected Board members. As it stands now, once an individual is elected, the term of office is in perpetuity. These issues weaken the Board's effectiveness in setting policy and monitoring management's actions.

Committees

Article III, Section II of the amended Bylaws grants the Board of Directors authority to establish one or more Committees, each Committee to comprise one or more members of the Board of Directors. As of December 31, 2011, no Committees have been established.

Officers

The officers elected and serving as of December 31, 2011 were as follows:

Name	Title
Michael H. Sonnenberg	Chairman of the Board
Michael Camilleri	President and CEO
John S. Maloney	Treasurer

Holding Company, Subsidiaries and Affiliates

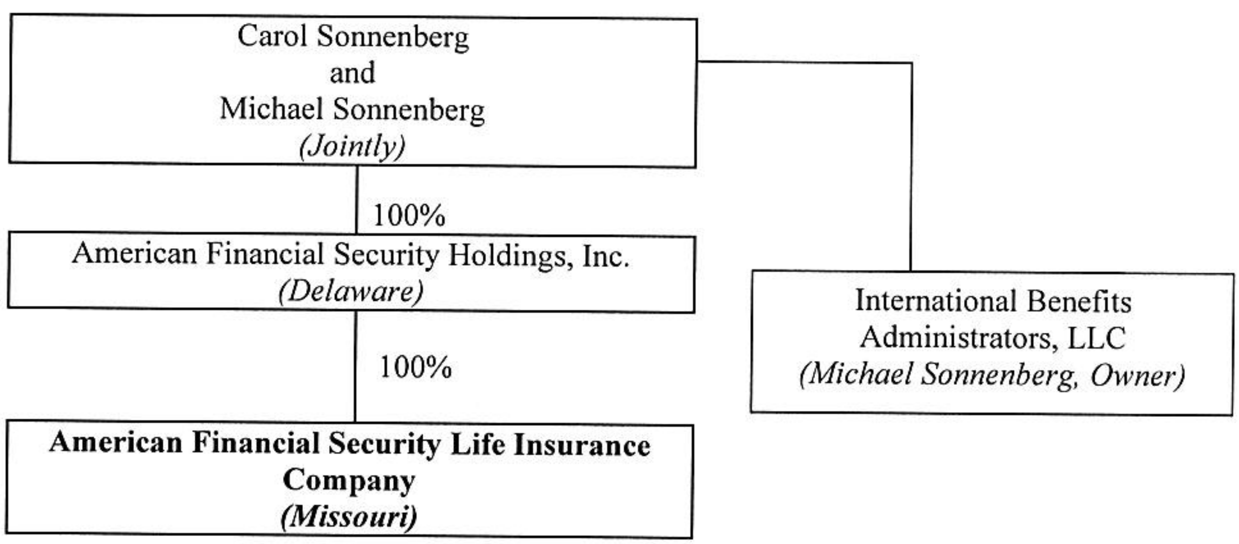
AFSLIC is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is wholly owned by AFSH, which, in turn is 100% owned by Michael and Carol Sonnenberg, who in combination and individually represent the ultimate controlling person of the Company.

ASFLIC is affiliated with International Benefits Administrators, LLC, (IBA) of Garden City, NY, a third-party administrator that is owned by the ultimate controlling persons. An Insurance Holding Company System Registration Statement was filed by AFSLIC for itself during each of the years under examination.

The day-to-day management of the Company is contracted to Matrix Insurance Consulting, LLC, (Matrix Consulting) of Boca Raton, FL. Matrix Consulting is owned by Michael Camilleri, who is also the President, CEO and a Board member of AFSLIC. On the basis of having common management as indicated, Matrix Consulting is therefore deemed a related party of the Company. There is a written understanding of the functions to be performed by Matrix Consulting, including a stipulated monthly fee of $15,000, however, the written understanding, referred to as an Engagement Letter, was signed only by Mr. Camilleri for AFLISC and for Matrix Consulting and was not filed with the DIFP for review and approval.

Organizational Chart

The following organizational chart depicts the ownership and holding company structure of AFSLIC as represented by its management, as of December 31, 2011.



The organizational chart above contains the entities within the holding company system of the Company with which it does business. However, there are other entities that are owned by the ultimate controlling persons that were not included in the above chart or disclosed in the annual Insurance Holding Company Registration Statement (Forms B and C) filed with the DIFP as of December 31, 2011. Accordingly, it was determined that the 2011 Forms B and C fillings was deficient and erroneous due to non-disclosure of entities that are under the ***control*** of the ultimate controlling persons as defined by Section 382.010.1-9 RSMo (Definitions). The organizational chart that is filed annually with the DIFP as part of the Forms B and C filing should include all entities that are under the control of the ultimate controlling entity.

Intercompany Transactions

AFSLIC has the following agreements with its affiliated companies:

1) **Management Agreement**

Parties:	AFSLIC and AFSH
Effective:	April 15, 2010
Terms:	AFSH agrees to reimburse AFSLIC for all necessary and reasonable costs for (a) general management services, (b) accounting services, and (c) investment advisory services.
Rate(s):	AFSH will pay to AFSLIC the actual allocated cost for such services plus an amount equal to $3,500 per month to cover the cost of other unallocated services such as various accounting and rate processing services. Invoices should be generated between the 1st and 15th of every month and shall be paid within 75 days of invoicing. Although this agreement has received the requisite regulatory approval, it is yet to become operational, accordingly, no income or payment was received or paid.

2) **Claims Services Agreement**

Parties:	AFSLIC and IBA
Effective:	May 6, 2010
Terms:	IBA shall provide claims administration services including the adjustment, management, handling, and oversight of claims under policies issued by AFSLIC as fully described in Schedule 1 of the agreement.
Rate(s):	AFSLIC shall pay IBA 7% of gross premium to cover claim services and services and activities that improve health care quality, including but not limited to facilitating access to preferred provider networks and care management. Other allocated loss adjustment expenses noted in Schedule 2 of the agreement are to be charged to an individual claim file. This agreement became operational in June 2011 and approximately $2,400 was paid under this agreement as of December 31, 2011.

FIDELITY BOND AND OTHER INSURANCE

The Company currently does not have fidelity bond coverage to protect against its fidelity bond exposure. According to the NAIC guidelines, the Company should maintain a fidelity bond with a minimum liability limit of $50,000.

The Company also does not have any of the other related insurance coverages such as general liability, directors and officers liability insurance, etc.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any full-time employees. The management of the Company's operations is performed by Matrix Insurance Consulting, LLC, a third-party consulting firm pursuant to an agreement. The Company has not established any employee benefits program.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, AFSLIC was licensed to transact the business of insurance in nineteen states, an increase of eleven additional licenses during 2011 from eight licenses at year-end 2010. The Company's focus has been to reactivate licenses that had been suspended or inactive since its acquisition by current ownership. In addition to the current active nineteen licenses, the Company has pending applications for licensure in several additional states.

In terms of product offering, AFSLIC has a small life insurance block, with only nine remaining yearly-renewable term life policies. These are carry-over policies from the predecessor owners and the Company is currently not underwriting any new life policies. In the second quarter of 2011, the Company began writing Limited Medical Benefits (LMB) coverage. The LMB coverage according to information provided by the Company is designed for the following consumer group:

- Employed, earning between $40,000 to $60,000 per year, where the employer does not offer traditional group health coverage.
- Employed, earning between $40,000 to $60,000 per year, but cannot obtain traditional coverage for underwriting reasons.
- Retired or unemployed and either cannot afford traditional coverage or is unable to secure such coverage because of underwriting issues.

The Company's selection of this product is to take advantage of the current unfavorable economic condition, which the Company believes, has created a demand for the LMB coverage. The Company further asserts that the general regulatory problems often associated with this type of coverage in the industry stem from failure to properly represent the level of coverage provided by the product to the insureds, which results in regulatory difficulties. The Company believes that it has instituted appropriate and adequate controls through an operational compliance program and manual that is designed to meet or exceed regulatory requirements in licensed jurisdictions.

The Company generated $17,550 in term life premium and $83,017 in Limited Health Benefit coverage premium as of year-end 2011. It should be noted that in the years since being licensed by the DIFP, the Company has provided several versions of its Business Plan. The one recurring theme in each of the versions of the Business Plan is the significant variance between the target premium volume and the actual premium written by the Company. The unrealistic assumptions utilized by the Company in developing its Business Plan consequently have resulted in the Business Plans being of little value for planning or evaluation purposes. The Company has explained that the large variances are as a result of delays in obtaining licenses in some of the states. However, the Company is already licensed in nineteen states, which is far greater than many health insurance companies and yet, the Company continues to struggle to write premium.

AFSLIC has appointed two Managing General Agents (MGAs) to market its products. The marketing plan further envisions the MGAs appointing agents and sub-agents as part of the sales force. Other forms of marketing such as the use of call centers, the internet and mass mailings are also utilized to make contact with potential insureds. In combination, the two MGAs have appointed 85 sub-agents and made arrangement with two call centers to market AFSLIC products.

The Company has also contracted with an affiliate third-party administrator to process its claims and perform other claims handling functions.

GROWTH OF COMPANY AND LOSS EXPERIENCE

AFSLIC's total admitted assets have increased steadily over the four year period since its acquisition by the current ownership. However, the Company has struggled to grow premium as gross written premium has barely grown from a low of less than $20,000 in 2008 to less than $100,000 in 2011.

The Company's capital and surplus has been aided by infusion of capital from the parent company during the examination period, since operating performance has been a drain on capital and surplus. This infusion of capital has been necessary to maintain capital and surplus minimum amount as stipulated in the Company's amended Articles of Association and to also meet specific state minimum capital and surplus demands required to gain state insurance license.

As a result of limited operational history, it is not possible to determine whether or not the Company's limited medical benefit insurance product will be profitable. It appears additional capital infusion by the parent will be needed to achieve any level of premium growth and to pay for the cost of maintaining existing licenses and additional licenses the Company has applied to acquire.

The table below depicts the financial growth and loss experience of the Company during the period under examination:

	2008	2009	2010	2011
Total Admitted Assets	$3,085,660	$1,914,393	$3,258,408	$3,653,412
Total Capital and Surplus	3,016,075	1,832,920	3,173,886	3,525,485
Net Written Premiums	19,622	19,350	21,444	97,450
Loss (Benefit) Paid	586	8,324	708	65,065
Loss (Benefit) Ratio	3.0%	45.8%	3.3%	66.8%
Net Income (Loss)	(102,147)	(360,854)	(259,175)	(298,171)

REINSURANCE

The Company does not have any reinsurance activity or program, accordingly, it did not cede or assume any business during the period under examination.

ACCOUNTS AND RECORDS

Independent Auditor

The Company has been exempted by the DIFP from providing audited CPA reports for the years under examination due to its limited operation and small number of policyholders.

Appointed Actuary

The actuarial items reported by the Company as of December 31, 2011 and for the other years under examination, were reviewed and certified by Mark A. Haarer, FSA, MAAA, with Mark Haarer Consulting, LLC, of Elkhart, Indiana.

Information Systems

The Company's information system is very simple and primarily consists of PowerSpec Desktop computer with Pentium 4.3 GHz, and .99 GB RAM. The operating system is Microsoft XP Professional version 2002. The General Ledger system is performed with Peachtree accounting software version 8.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2011, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290, RSMo (Deposit and transfer of securities). The Company's required deposit for Missouri is $600,000. The funds on deposit as of December 31, 2011 were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Notes	$1,030,000	$1,032,550	$1,032,773

Deposits with Other States

The Company also had funds on deposit with various other states in which it is licensed. Those funds on deposit as of December 31, 2011, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Alabama	U.S. Treasury Note	$100,000	$100,379	$100,273
Arizona	US. Treasury Note	200,000	202,632	202,757
Arkansas	U.S. Treasury	100,000	102,961	103,036
Georgia	U.S. Treasury Money Mkt.	25,000	25,001	25,001
Nevada	Certificate of Deposit	200,000	200,000	200,000
New Mexico	U.S. Treasury Note	125,000	125,308	125,210
North Carolina	U.S. Treasury Notes	600,000	604,170	604,342
Virginia	U.S. Treasury Money Mkt.	57,991	57,991	57,991
Totals		**$1,407,991**	**$1,418,442**	**$1,418,610**

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of American Financial Security Life Insurance Company for the period ending December 31, 2011. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statement Items." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item or key activity.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$1,878,535		$1,878,535
Cash, Cash Equivalents and Short-term Investments	1,701,357		1,701,357
Investment Income Due and Accrued	4,440		4,440
Premiums and Considerations:			
Uncollected Premiums and Agents' Balances	25,161		25,161
Deferred Premiums , Agents' Balances	8,919		8,919
Electronic Data Processing Equipment	49	$49	0
Receivables from Parent, Subsidiaries and Affiliates	35,000	0	35,000
TOTAL ASSETS	**$3,653,461**	**$ 49**	**$3,653,412**

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	$6,841
Aggregate Reserve for Accident and Health Contracts	3,942
Contract Claims: Life	26,111
Contract Claims: Accident and Health	30,446
Advance Premium	253
Interest Maintenance Reserve	4,126
General Expenses Due or Accrued	22,440
Taxes, Licenses and Fees	33,120
Asset Valuation Reserve	349
Payable to Parent, Subsidiaries and Affiliates	300
TOTAL LIABILITIES	**$127,928**
Common Capital Stock	1,000,000
Gross Paid-In and Contributed Surplus	5,987,452
Unassigned Funds (Surplus)	(3,461,967)
Capital and Surplus	**$3,525,485**
TOTAL LIABILITIES AND SURPLUS	**$3,653,413**

Summary of Operations

Premiums and Annuity Considerations	$97,449
Net Investment Income	6,295
Amortization of Interest Maintenance Reserve	162
TOTAL	**$103,906**
Death Benefits	14,028
Disability Benefits and Benefits under Accident and Health	49,811
Increase in Aggregate Reserves for Life and Accident & Health Contracts	1,226
Commissions on Premiums and Annuity Considerations	3,421
General Insurance Expenses	248,033
Insurance Taxes, Licenses and Fees	84,229
Aggregate Write-ins for Deductions	1,450
TOTAL	**$402,198**
NET GAIN FROM OPERATIONS	($298,292)
Net Realized Capital Gains and (Losses)	121
NET INCOME OR (LOSS)	**($298,171)**

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2010	$3,173,886
Net Income or (Loss)	(298,171)
Change in Nonadmitted Assets	118
Change in Asset Valuation	(349)
Surplus Adjustment:	
Paid-in	650,000
Net Change in Surplus as Regards Policyholders for the Year	**$351,598**
Surplus as Regards Policyholders, December 31, 2011	**$3,525,484**

Examination Changes

None

Comments on Financial Statement Items

None

General Comments and/or Recommendations

Capital Contribution (Page 4)
The Company reported a year-end receivable from its parent in recognition of a promise by the parent company to contribute additional capital. The parent company did not provide an actual contribution through the end of the subsequent year second quarter. The Company is advised to desist from such erroneous recording in the future. The Company should also ensure that all future capital infusions by the parent must first receive prior approval of the DIFP before being recorded in the Company's Annual Statement.

Corporate Records (Page 4)
The Board of Directors is advised to review and approve all material agreements and transactions involving the Company and ensure that evidence of such reviews and approval are documented in the Board meeting minutes.

Board of Directors (Page 6)
The Company should review Article III of the Bylaws and add a term of office to the elected Board members and a statement articulating the qualities and minimum qualification required of any prospective individual that may be invited to join the Board.

Holding Company, Subsidiaries and Affiliates (Page 7)
There should be a management agreement between the Company and Matrix Consulting. The agreement should be approved by the Company's Board of Directors, signed by an officer of the Company and should be filed with the DIFP for review and approval.

Organizational Chart (Page 7)
The Company is advised to ensure that all entities under the control of the ultimate parent and parent company are disclosed in the annual Forms B and C filings and are included in the organizational chart filed with the DIFP.

Fidelity Bond and Other Insurance (Page 9)
The Company is advised to obtain fidelity bond coverage with a minimum liability limit of $50,000 and the other related insurance coverages such as general liability and officers and directors liability insurance.

Territory and Plan of Operation (Page 9)

The Company is hereby advised to revise its Business Plan using realistic assumptions that can lead to a credible target of estimates upon which to base its financial performance. The Company should perform a variance analysis of its financial targets versus actual performance and provide explanations for any significant variances noted. The Company should also review its product offering and ascertain the level of demand for the limited medical benefit product.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of American Financial Security Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Laura L. Church, CPA, Examiner for the Missouri DIFP also participated in this examination.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of American Financial Security Life Insurance Company its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 3rd day of January, 2013.

My commission expires: 04/14/2016

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Mark A. Nance, CPA, CFE
Audit Manager
Missouri DIFP

AFSLIC

AMERICAN FINANCIAL SECURITY LIFE INSURANCE CO.

127 A. EAST HIGH STREET, PO BOX 275, JEFFERSON CITY, MO 65102
(573) 636-5057 (TELEPHONE) / (573) 635-9004 (FACSIMILE)

10308 METCALF AVENUE, PMB #275, OVERLAND PARK, KS 66212-1800
(913) 341-1190 (TELEPHONE) / (913) 642-8432 (FACSIMILE)

55 NE 5TH AVENUE. SUITE 502, BOCA RATON FL 33432
(561) 910-1056 (TELEPHONE) / (561) 910-1058 (FACSIMILE)

March 8, 2013

Ms. Tammy Rodieck, Exam Coordinator
Division of Insurance Company Regulation
Missouri Department of Insurance, Financial Institutions and Professional Registration
301 West High Street
Truman Building, Room 530
Jefferson City, MO 65102

Re: <u>Examination Report – American Financial Security Life Insurance Company</u>

Dear Ms. Rodieck:

This is in reference to the Examination Report of American Financial Security Life Insurance Company as of December 31, 2011.

First, I would like to thank the staff of the Missouri Department for their professionalism and courtesies extended throughout the examination process. Further, we appreciate the recommendations provided in this report and will use the Department's analyses and recommendations to further improve the operations of our Company. With respect to the findings and recommendations, we have a few comments/observations as follows:

1. Board and Shareholder minutes are now being recorded in more detail and specificity.

2. Officers and Directors are now elected annually.

3. The Company is in the process of securing fidelity bond coverage as well as general liability and D&O coverage.

4. The Company's premium growth has begun to significantly increase in 2013 given the addition of some major distribution centers. We understand that this is a subsequent event, but want to note that this growth was delayed so that the company's major compliance program development would be completed prior to material premium being written.

Again, thank you for the Department's review and support.

Very truly yours,

Michael Camilleri

Michael Camilleri

cc: M. Sonnenberg, AFSLIC Board of Directors