STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Fidelity Security Life Insurance Company for the period ended December 31, 2012

ORDER

After full consideration and review of the report of the financial examination of Fidelity Security Life Insurance Company for the period ended December 31, 2012, 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 Fidelity Security Life Insurance Company as of December 31, 2012 be and is hereby ADOPTED as filed and for Fidelity 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 2nd day of June, 2014.

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

FILED
JUN 2 2014
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

REPORT OF THE

FINANCIAL EXAMINATION OF

Fidelity Security Life Insurance Company

AS OF

DECEMBER 31, 2012

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Kansas City, MO
March 21, 2014

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Director Huff:

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

Fidelity Security Life Insurance Company

hereinafter referred to as FSLIC or as the Company. Its main administrative office is located at 3130 Broadway, Kansas City, Missouri. The fieldwork for this examination began on July 1, 2013, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a full scope financial examination of Fidelity Security Life Insurance Company. The last examination was completed as of December 31, 2008. This examination covers the period of January 1, 2009 through December 31, 2012. The examination also includes the material transactions and/or events occurring subsequent to December 31, 2012.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners' (NAIC) Financial Condition Examiners Handbook (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 the Company, including corporate governance, inherent risks within the Company, system controls, and procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination approach. Key activities for FSLIC included: Investments, Premiums, Managing General Agent (MGA)/Third Party Administrator (TPA) Oversight & Underwriting, Claims Handling, Life Reserves, Related Parties, Taxes, Reinsurance, and Other Liabilities and Surplus.

Reliance Upon Others

The examination relied heavily upon information provided by the Company and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Company's independent auditor, McGladrey LLP of Omaha, Nebraska for its audit covering the period from January 1, 2012 through December 31, 2012. Information relied upon included fraud risk analysis and substantive testing for investments.

SUMMARY OF SIGNIFICANT FINDINGS

The Company is not in compliance with RSMo 375.1053.2) (Inapplicability of statute to foreign insurers--audit committee responsibilities, member qualifications--report required--waiver, when) as the Company's CPAs do not report directly to the Audit Committee. The Board of Directors and senior management regularly attend the Audit Committee meetings, which limits the Committee's ability to effectively provide independent oversight and does not provide an open forum for the discussion of confidential or private matters.

Overall, the Company's internal controls were not sufficiently documented or performed to a significant extent to where the examination could place reliance.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2012 through the date of this report.

CORPORATE HISTORY

General

Fidelity Security Life Insurance Company was incorporated on January 17, 1969, and was issued a Certificate of Authority on June 12, 1969. The Company commenced business on July 1, 1969, as a stock life insurance company, in accordance with the provisions of Chapter 376, RSMo (Life, Health and Accident Insurance).

Capital Stock and Contributions

The Company is authorized to issue 1,100,000 shares of $2.50 par value common stock, 50,000 shares of $100 par value Class A preferred stock, and 40,000 shares of $100 par value Class B preferred stock. The Company has issued 1,000,000 shares of common capital stock reported as $2,500,000 in the common capital stock account, with 932,625 issued shares outstanding, and the remaining 67,375 shares held as treasury stock. As of December 31, 2012, the 67,375 shares of common capital stock held as treasury stock were valued at $8,201,624. The Company has 30,000 shares of Class A preferred capital stock and 6,000 shares of Class B preferred capital stock issued and outstanding reported as $3,600,000 in the preferred capital stock account.

Dividends

The Company did not pay any common stock dividends during the examination period. The Company declared and paid Class A preferred stock dividends of $232,500 in each year of the examination period, which were determined to be ordinary.

Mergers and Acquisition

On August 17, 2011, the Company entered into a stock purchase agreement with Great American Life Insurance Company to purchase its wholly-owned subsidiary, Great American Life Insurance Company of New York (GALIC-NY). The proposed agreement was subject to regulatory approval by both the Director of the DIFP and the Superintendent of the New York Department of Financial Services. In accordance with 375.355 RSMo (Acquisition of control of one company by another, director may authorize, procedure, exceptions.), the Company obtained approval for the acquisition from the Director on December 14, 2011. The stock purchase transaction was executed on December 30, 2011 with a final purchase price of $9,394,707. GALIC-NY was subsequently renamed Fidelity Security Life Insurance Company of New York (FSLIC NY), which is a wholly-owned subsidiary of the Company.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. There were no amendments or changes to the Articles of Incorporation during the examination period. The Bylaws were amended in 2010 to remove the requirement that the Board annually approve Officers salaries and other compensation.

The minutes of the Board of Directors', investment committee, audit committee, and shareholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear thorough and properly reflect the review and approval of the Company's major transactions and events for the period under examination.

Board of Directors

The corporate powers of the Company are vested in a Board of Directors elected by the shareholders. Pursuant to the Company's Bylaws, the number of Directors shall consist of ten persons. As of December 31, 2012, there were ten directors serving on the Board of Directors. The Directors elected and serving on the Board as of December 31, 2012, were as follows:

Name and Address	Address	Occupation and Business Affiliation
Richard F. Jones*	Shawnee Mission, KS	President/Treasurer, FSLIC
David J. Smith*	Olathe, KS	Senior Vice President/Secretary, FSLIC
Michael E. Hall*	Prairie Village, KS	Senior Vice President, FSLIC
Jeffrey B. Hanes	Mission Hills, KS	Former CEO, Carter-Waters Corporation
George J. Bereska*	Carbondale, CO	President, Benefits Brokerage Consultants, Inc.
Larry G. Vogt*	Overland Park, KS	Former President/CEO, USBA
John S. Arnoldy	Houston, TX	President/CEO, Triten Corporation
David G. Ruf Jr.*	Leawood, KS	Former President/CEO, Burns & McDonnell
Richard L. Andrews	Buckeye, AZ	Former Dean, University of Missouri Columbia
Alan E. Zink*	Columbus, OH	Former Chairman, USI Affinity

* Board members holding shares of common capital stock.

Committees

Pursuant to the Bylaws, the Board of Directors may provide for an Executive Committee, consisting of three or more Directors and other special or standing committees of three or more Directors. The committees established and the Directors appointed as of December 31, 2012 were as follows:

Executive Committee	Investment Committee	Audit Committee
Richard F. Jones	Richard F. Jones	George J. Bereska
David J. Smith	David G. Ruf, Jr.	Jeffrey B. Hanes
George J. Bereska	Larry G. Vogt	Larry G. Vogt
	Michael E. Hall	John S. Arnoldy
		David G. Ruf, Jr.
		Richard L. Andrews
		Alan E. Zink

From a review of the 2010, 2011, and 2012 Board of Directors and Audit Committee minutes, the CPAs do not report directly to the Audit Committee and instead report to the Board of Directors. This is a violation of RSMo 375.1053.2, which requires "each accountant shall report directly to the Audit Committee".

Overall, the Company's Audit Committee appears to be an Audit Committee in name only. The Board of Directors and senior management regularly attend the Audit Committee meetings, which limits the Committee's ability to effectively provide independent oversight and does not provide an open forum for the discussion of confidential or private matters.

Officers

Pursuant to the Company's Bylaws, the officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, an Assistant Secretary, a Treasurer, and such other officers

as may be elected by the Board of Directors. The officers elected and serving in that capacity as of December 31, 2012 were as follows:

Name	Position
Richard F. Jones	President/Treasurer
David J. Smith#	Senior Vice President/Secretary
Michael E. Hall	Senior Vice President
William R. Hobbs	Vice President/Controller
Martha E. Madden	Vice President/General Counsel
Kenneth G. House	Vice President
Leroy M. McCarty	Vice President
Bradford R. Jones^	Assistant Secretary

\# Retired as Senior Vice President and Secretary effective March 31, 2013.
^ Bradford R. Jones elected Secretary of FSLIC effective March 31, 2013

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

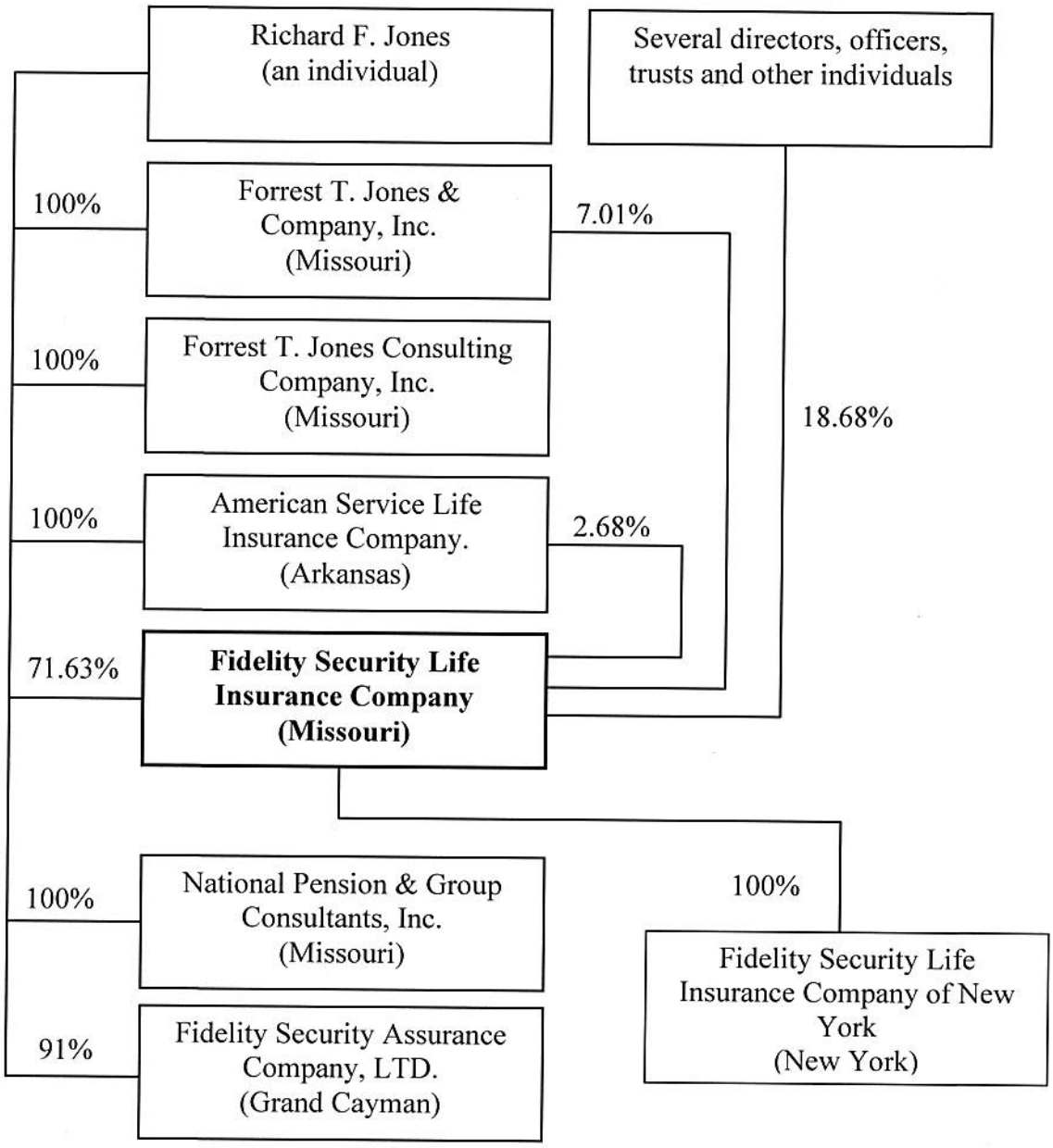
FSLIC is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the Company for each year of the examination period on behalf of itself and its affiliates. Richard F. Jones, an individual, is the ultimate controlling person of FSLIC and the below named affiliates.

FSLIC has several affiliates which engage in insurance related activities. The affiliates are described as follows:

- Fidelity Security Life Insurance Company of New York is a New York domiciled insurance company licensed solely in the State of New York to transact the business of life, accident, and health insurance.
- Forrest T. Jones & Company, Inc., a Missouri corporation licensed as a third party administrator and insurance agency, owns 7.01% of the outstanding shares of FSLIC.
- Forrest T. Jones Consulting Company, a Missouri corporation, is licensed as a third party administrator and insurance agency.
- American Service Life Insurance Company, an Arkansas domiciled insurance company licensed in Arkansas to transact life, accident, and health insurance, owns 2.68% of the outstanding shares of the FSLIC.
- National Pension Group Consultants, Inc., a District of Columbia corporation, sells insurance and annuities.
- Fidelity Security Assurance Company is organized under the laws of the Cayman Islands is an alien reinsurer.

Organizational Chart

The following organizational chart illustrates the holding company system of FSLIC and its affiliates as of December 31, 2012.



Intercompany Transactions

The Company's significant intercompany agreements are outlined below.

1. Type: Managing General Agent Agreement
   Affiliate: Forrest T. Jones & Company, Inc. (FTJ)
   Effective: December 1, 2009
   Terms: FTJ performs certain administrative services for the Company including soliciting insurance business, delivering policies, billing and collecting premiums, paying commission fees to the agents and brokers, and underwriting risk. The compensation paid by the Company generally consists of commissions and administrative fees calculated as percentages of premiums depending on the type of policy and the first year or renewal status of each policy.

2. Type: Administrative and Marketing Services Agreement
   Affiliate: Forrest T. Jones Consulting Company (FTJCC)
   Effective: December 1, 2009
   Terms: FTJCC performs certain administrative services for the Company including soliciting insurance business, delivering policies, billing and collecting premiums, paying commission fees to the agents and brokers, and underwriting risk. The compensation paid by the Company generally consists of commissions and administrative fees calculated as percentages of premiums depending on the type of policy and the first year or renewal status of each policy.

3. Type: Cost Allocation Agreement
   Affiliate: Forrest T. Jones & Company, Inc.
   Effective: August 1, 1994
   Terms: The Company is to pay FTJ allocated amounts for various common expenses. Salaries and payroll taxes are allocated based upon a time study by employee. Employee benefits are allocated based upon the salary allocation percentage. Rent, utilities, and building maintenance expenses are allocated based upon the square footage dedicated to the Company's operations.

4. Type: Affiliation Agreement
   Affiliates: Forrest T. Jones & Company, Inc. and National Pension and Group Consultants, Inc. (NPGC)
   Effective: May 15, 1999
   Terms: FTJ is authorized to solicit applications, through its licensed insurance agents for the Company's Flexible Premium Variable Annuity product. NPGC serves as the distributor and principal underwriter of the annuity policies. Amounts due to NPGC are to be paid by the Company to FTJ on behalf of NPGC.

5. Type: Distribution and Principal Underwriting Agreements
   Affiliate: National Pension and Group Consultants, Inc.
   Effective: May 15, 1999
   Terms: NPGC will act as the exclusive agent for distribution of the Company's Separate Account contracts, which are variable annuities. NPGC acts as the principal underwriter soliciting applications for the contracts and providing sales services relative to the contracts.

6. Type: Promissory Note Agreement
   Affiliate: Forrest T. Jones & Company, Inc.
   Effective: April 30, 1998
   Terms: The Company agreed to advance FTJ a maximum of $4,000,000 per year. Interest for the advances shall be calculated at the "Prime Rate" as of the note date. FTJ is to repay any advances and all accrued interest on or before the last day of the calendar year in which the advances were made.

7. Type: Mortgage Loan Agreement
   Affiliate: Forrest T. Jones & Company, Inc.
   Effective: December 31, 2002
   Terms: The Company agreed to lend FTJ $3,600,000, with the home office building serving as collateral. Interest for the note shall be calculated at "Treasury Yield" plus 2%. FTJ will make monthly payments which include principal and interest for a term of 180 months.

8. Type: Investment Services Agreement
   Affiliate: Fidelity Security Life Insurance Company of New York
   Effective: January 1, 2012
   Terms: The Company provides investment advice and services to FSLIC NY for an annual fee of 0.25% of statutory invested assets, computed and settled on a quarterly basis.

9. Type: Tax Allocation Agreement
   Affiliate: Fidelity Security Life Insurance Company of New York
   Effective: January 1, 2012
   Terms: FSLIC NY and the Company will file a consolidated federal tax filing with each company's tax liability computed on a stand-alone basis.

10. Type: Escrow Agreement
    Affiliate: Fidelity Security Life Insurance Company of New York
    Effective: January 1, 2012
    Terms: The agreement establishes an escrow account to hold federal income tax payments under the tax allocation agreement until such time as they are due and payable to the IRS.

11. Type: Guaranty Agreement
Affiliate: Fidelity Security Life Insurance Company of New York
Effective: January 31, 2012
Terms: The Company agreed to contribute or cause to be contributed cash or equivalents at the end of any quarter where FSLIC NY's BCAR falls below 150.

Intercompany Payments

The amounts incurred by FSLIC payable to affiliates during the period under examination, under the various intercompany agreements were as follows:

Agreement Title	Affiliate	2012	2011	2010	2009
Cost Allocation	FTJ	$6,032,878	$5,769,748	$5,341,620	$5,815,919
Managing General Agent	FTJ	3,699,115	3,676,422	3,540,302	260,000
Affiliation	FTJ, NPGC	13,755	27,360	4,627	16,287
Administrative & Marketing Services	FTJCC	7,070	4,028	3,308	743,725
Administrative & Marketing Services	FTJ	-	-	-	2,308,689
Agency Services	FTJCC	-	-	-	807,648
Total		$9,752,818	$9,477,558	$8,889,857	$9,952,268

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company is the named insured along with its subsidiary, Fidelity Security Life Insurance Company of New York, on a Fidelity Bond policy with a single loss liability limit of $1,500,000 and a $25,000 deductible. This level of coverage is in compliance with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

The Company is also a named insured on the following insurance policies: Commercial Property and General Liability, Commercial Excess and Umbrella, Business Auto, Workers' Compensation and Employers' Liability, Travel and Accident, and Directors' and Officers' Liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Fidelity Security Life Insurance Company maintains no direct employees. The Company's business operations are managed by the employees of an affiliate, Forrest T. Jones and Company, Inc. The Company is allocated a percentage of the benefit costs for FTJ employees pursuant to a Cost Allocation Agreement, as described in the Intercompany Transaction section.

The employees of FTJ receive standard benefits including, but not limited to, health insurance, vision, dental, long term disability, term life insurance, and a 401(k) retirement plan. Medical insurance coverage is provided to all full time employees at no cost. Dependent coverage is available at the employee's expense.

Additionally, FTJ maintains two non-qualified deferred compensation plans entitled "Bonus Award and Non-qualified Deferred Compensation Plan" and "Salary Reduction Non-qualified Deferred Compensation Plan." As the direct employer, FTJ records any benefit liabilities on its financial statements. FSLIC remits its allocated share of benefit expense to FTJ under the terms of the Cost Allocation Agreement and carries no direct benefit liabilities. No expenses were recorded for either plan in 2012.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Fidelity Security Life Insurance Company is licensed by the Missouri Department of Insurance, Financial Institution and Professional Registration under Chapter 376 RSMo (Life, Health and Accident Insurance) to do business in the following kinds of insurance: life, accident and health, and variable contracts. As of December 31, 2012, the Company was licensed to transact the business of insurance in forty-nine states and the District of Columbia. The Company was also a licensed reinsurer in the State of New York.

The Company's insurance products are managed through five strategic business units: Specialty Benefits, Asset Accumulation, Special Markets, Joint Venture, and Stop-Loss/Self-Funded. The Company has developed initiatives to grow through existing marketing relationships, expanding the producer network, and developing new products. The Company's accident and health line of business continues to generate the majority of earnings and represents approximately 82% of total gross premium volume.

The Specialty Benefits business unit (SB) principally markets prescription drug, vision, and dental coverages. SB relationships typically involve the collaboration of brokers, pharmacy benefit managers, vision service plans, and reinsurers. Eyemed Vision Care, LLC, a leading managed vision care organization, currently offers vision care plans on a group basis and accounted for approximately 78% of SB's total direct written premium. SB accounted for approximately 60% of the Company's total gross premium volume, yet only accounts for 36% of total net premium volume in 2012 due to extensive reinsurance.

The Asset Accumulation business unit (AA) principally markets retirement plans to not-for-profit niche markets including education and government, as well as, other not-for-profit organizations. The primary products offered by the AA include fixed annuity products, single premium deferred annuities, and flexible premium group annuity contracts in the individual retirement and deferred compensation marketplace. AA accounted for 16% of the Company's total gross premium volume and due to the Company's minimal use of reinsurance for AA products, annuities accounted for 58% of total net premium volume in 2012.

The Special Markets business unit principally markets term life, supplemental health, accidental death and dismemberment, hospital indemnity, and cancer coverages. The Joint Ventures business unit utilizes a collaborative business model to allow for the consideration of unique products that may be unavailable through other means. The Stop-Loss/Self-Funded business unit provides medical stop-loss coverages on both a specific and aggregate basis which is largely

reinsured. These three strategic business units collectively accounted for 24% of the Company's total gross premium volume.

The Company utilizes a variety of distribution channels to market its products on a nationwide basis and primarily involve individual sales representatives, brokers, managing general agents, and third party administrators. As of December 31, 2012, the Company had 207 licensed producers, generally affiliated with a managing general agent or third party administrator.

GROWTH OF THE COMPANY AND LOSS EXPERIENCE

The Company's capital and surplus increased significantly throughout the examination period, with a total increase of $29.4 million from December 31, 2009. Gross premiums written increased 52% during the examination period, while net premiums earned decreased 44%. Benefits incurred to premiums earned increased during the examination period from a ratio of 79% in 2009 to 95% in 2012. The disproportionate development in gross premiums written to net premiums earned and the negative trend of benefits incurred to premiums earned is primarily attributable to a reinsurance agreement executed in 2010 with its largest vision premium producer, under which the Company cedes nearly all vision premiums to a captive insurance company formed by that producer. The Company's group accident and health lines of business continue to generate a majority of operating earnings.

Net premiums earned increased in 2012 due to a surge in individual annuity sales after two years of declines related to the ceded vision premiums. The Company retains nearly all annuity premiums, which increased from $16.2 million in 2011 to $111.9 million in 2012. The growth and loss experience of the Company is summarized in the following schedule.

	2012	2011	2010	2009
Gross Premiums Written	$760,945,842	$641,047,913	$572,987,000	$501,070,083
Net Premiums Written	202,735,203	117,315,860	207,859,576	361,855,475
Benefits Incurred	192,146,666	98,544,528	169,641,225	286,792,746
Total Surplus	117,129,347	116,138,030	102,118,909	85,975,208
Premiums Written to Surplus	173.09%	101.01%	203.55%	420.88%
Benefits Incurred to Premiums Earned	94.78%	84.00%	81.61%	79.26%

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis for the period under examination is indicated as follows:

Premiums	2012	2011	2010	2009
Direct Premiums Written	$ 727,502,845	$ 609,211,771	$ 528,912,958	$ 473,567,103
Reinsurance Assumed	31,776,017	30,682,356	45,838,053	26,145,252
Reinsurance Ceded	556,543,658	522,578,266	363,891,436	137,856,880
Net Premiums Written	$ 202,735,204	$ 117,315,861	$ 207,859,575	$ 361,855,475

Assumed

The Company had only three active writers for assumed life business as of December 31, 2012. FSLIC assumed, under a quota share agreement, business from NY Life Insurance Company. This assumption represented over 99% of the assumed in-force business for life policies as of year-end. FSLIC also assumes various amounts of A&H business from four active companies, the largest being from Standard Security Life Insurance Company of NY whose cession represents 95% of all A&H assumed premiums.

Ceded

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

FSLIC's risks are significantly reinsured for both life and A&H business. In general, the Company reinsures most of its programs on a quota share basis and/or an excess of loss basis to an extensive number of highly rated reinsurers. The maximum amount of insurance the Company retains on any one life is $250,000.

The following table provides a summary of the most significant reinsurance balances recoverable on unpaid losses by reinsurer and ceded premiums. At year end 2012, FSLIC did not report any recoverables on paid losses or reserve credits taken for these reinsurers. These six reinsurers represent 79% of all recoveries.

Reinsurer	Recoverable on Unpaid Losses	Ceded Premiums
Avesis Insurance Incorporated	$ 2,420,000	$ 41,502,403
Everest Reinsurance Company	2,885,757	4,874,984
Eyemed Insurance Company	15,949,500	366,056,564
Navigators Insurance Company	4,967,440	14,077,360
Sirius America Insurance Company	3,866,769	7,069,378
Union Labor Life Insurance Company	15,027,100	4,229,161

The Company ceded an insignificant amount of business to American Service Life Insurance Company, an affiliate, on a modified coinsurance basis. As of December 31, 2012, the Company reported modified coinsurance reserves on this business of $65,926 in Schedule S, Part 3, Section 2.

The Company participates in several fronting arrangements with unauthorized reinsurers. The following table provides a summary of reinsurance with unauthorized reinsurers under fronting

arrangements. FSLIC did not report any recoverables on paid losses for these reinsurers. These reinsurers represent 90% of all unpaid loss recoverables.

Name of Reinsurer	Unpaid Losses Recoverable	Letters of Credit	Trust Agreements	Funds Withheld from Reinsurers	Excess Over Recoverable Amounts
ATA Performance	$ 28,345	$ -	$ 89,334	$ -	$ 60,989
Avesis Ins.	2,420,000	100,000	1,210,201	2,001,412	8,916,131
Eyemed Ins.	15,949,500	-	16,317,549	-	368,049
Opticare Vision Ins.	175,553	200,000	-	61,223	85,670

ACCOUNTS AND RECORDS

Policy management, claims management, reinsurance, and producer management utilize DOTI, an internally developed system, and Genelco, which was purchased and customized. In addition, financial reporting is performed in DOTI. Investment and fund management is handled through Camra, a SS&C Technologies product.

The Company's financial statements for each of the years under examination were audited by the CPA firm, McGladrey LLP, Omaha, Nebraska. Life policy and claim reserves were reviewed and certified by James M. Merwald, FSA, MAAA, of Actuarial Resources Corporation, Overland Park, Kansas, for each of the years under examination. Accident and health policy and claim reserves were reviewed and certified by Paul E. Hansen, FSA, MAAA, of Paul Hansen, Inc., Waconia, Minnesota for each of the years under examination.

It was noted during the examination, that although the Company had established internal controls in various areas, the internal controls were often not sufficiently documented or performed to a significant extent to where the examination could place reliance.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2012, as reflected below, were sufficient to meet the minimum capital deposit requirement of $600,000 for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities). Funds on deposit are as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Note	$2,350,000	$2,360,927	$2,351,376

Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2012, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Arkansas	U.S. Treasury Note	$ 260,000	$ 261,209	$ 260,152
Florida	U.S. Treasury Note	250,000	251,162	250,146
Georgia	Money Market Fund	50,000	50,022	50,022
Massachusetts	U.S. Treasury Note	110,000	131,824	131,377
New Mexico	U.S. Treasury Note	135,000	135,628	135,079
North Carolina	U.S. Treasury Note	400,000	401,860	400,234
Virginia	U.S. Treasury Note	100,000	100,465	100,059
Total		$ 1,305,000	$ 1,332,170	$ 1,327,069

Other Deposits

The Company has certain securities pledged as collateral for loans with the Federal Home Loan Bank of Iowa (FHLB). The collateral is required to be maintained pursuant to the terms of the underlying FHLB agreement. The Company's assets in the FHLB accounts may be withdrawn by FHLB upon FSLIC's default of its obligations under the respective agreement. The pledged account assets consist of corporate bonds, government bonds, and FHLB activity and membership stock. The account assets on deposit as of December 31, 2012, were as follows:

Federal Home Loan Bank	Par Value	Fair Value	Statement Value
Bonds	$89,340,845	$ 95,566,637	$91,832,194
Activity and Membership Stocks	4,610,900	4,610,900	4,610,900
Total	$93,951,745	$100,177,537	$96,443,094

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Fidelity Security Life Insurance Company for the period ending December 31, 2012. 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 activity.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 696,485,964	$ -	$ 696,485,964
Common Stocks	16,150,962	-	16,150,962
Mortgage Loans – First Liens	4,998,411	-	4,998,411
Cash, Cash Equivalents and Short-term Investments	25,976,802	-	25,976,802
Contract Loans	8,319,920	-	8,319,920
Other Invested Assets	9,508,387	-	9,508,387
Broker's Fund Balance	47,420		47,420
Investment Income Due and Accrued	7,224,081	-	7,224,081
Uncollected Premiums and Agents' Balances in Course of Collection	9,130,385	382,552	8,747,834
Deferred Premiums	898,093	-	898,093
Amounts Recoverable from Reinsurers	186,481	-	186,481
Other Amounts Receivable Under Reinsurance Contracts	111,749	-	111,749
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	275,498	-	275,498
Net Deferred Tax Asset	7,110,622	2,290,053	4,820,569
Guaranty Funds Receivable or on Deposit	258,071	-	258,071
Electronic Data Processing Equipment and Software	2,322,246	2,322,246	-
Furniture and Equipment	150,358	150,358	-
Receivable from Parent, Subsidiaries and Affiliates	60,796	-	60,796
Total Assets Excluding Separate Accounts	**$ 789,216,248**	**$ 5,145,209**	**$ 784,071,039**
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	5,601,773	-	5,601,773
TOTAL ASSETS	**$ 794,818,021**	**$ 5,145,209**	**$ 789,672,812**

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	$ 509,181,553
Aggregate Reserve for Accident and Health Contracts	10,044,481
Liability for Deposit-Type Contracts	9,645,257
Contract Claims – Life	1,695,273
Contract Claims – Accident & Health	9,144,025
Premiums and Annuity Considerations Received in Advance	223,108
Provision for Experience Rating Refunds	633,917
Other Amounts Payable on Reinsurance	7,112,994
Interest Maintenance Reserve	6,560,164
Commissions to Agents Due or Accrued	(93,872)
General Expenses Due or Accrued	2,230,620
Transfers to Separate Accounts Due or Accrued	(33,147)
Taxes, Licenses and Fees Due or Accrued	1,653,872
Amounts Held for Agents' Account	5,938,953
Remittances and Items Not Allocated	1,367,154
Borrowed Money	84,600,000
Asset Valuation Reserve	4,976,585
Reinsurance in Unauthorized and Certified Companies	59,053
Funds Held Under Reinsurance Treaties with Unauthorized and Certified Reinsurers	5,489,469
Liability for Unclaimed Funds	412,233
TOTAL LIABILITIES EXCLUDING SEPARATE ACCOUNTS	$ 660,841,692
From Separate Accounts Statement	5,601,773
TOTAL LIABILITIES	$ 666,443,465
Common Capital Stock	2,500,000
Preferred Capital Stock	3,600,000
Gross Paid In and Contributed Surplus	1,479,419
Unassigned Funds (Surplus)	120,742,468
Less Treasury Stock	5,092,539
TOTAL CAPITAL & SURPLUS	$ 123,229,347
TOTAL LIABILITIES AND CAPITAL & SURPLUS	**$ 789,672,812**

Statement of Income

Premium and Annuity Considerations for Life and A&H Contracts	$ 202,735,203
Considerations for Supplementary Contracts with Life Contingencies	514,994
Net Investment Income	28,360,688
Amortization of Interest Maintenance Reserve	1,197,842
Commissions and Expense Allowances on Reinsurance Ceded	107,992,747
Income from Fees Associated with Separate Accounts	89,588
Billing and Self Funding Administration Fees	1,105
Total Revenues	$ 340,892,165
Death Benefits	7,799,976
Annuity Benefits	30,873,495
Disability Benefits and Benefits Under A&H Contracts	43,409,674
Surrender Benefits and Withdrawals for Life Contracts	1,568,165
Interest and Adjustments on Contract or Deposit-Type Contract Funds	(330,184)
Payments on Supplementary Contracts with Life Contingencies	2,547,740
Increase in Aggregate Reserves for Life and A&H Contracts	106,277,801
Total Benefit Payments	$ 192,146,666
Commissions on Premiums, Annuity Considerations & Deposit-Type Contract Funds	103,153,056
Commissions and Expense allowances on Reinsurance Assumed	3,884,712
General Insurance Expenses	19,822,065
Insurance Taxes, Licenses and Fees	13,776,254
Increase in Loading on Deferred and Uncollected Premiums	(37,894)
Net Transfers to or (from) Separate Accounts Net of Reinsurance	(913,385)
Total Benefit Payments and Expenses	$ 331,831,475
Net Gain from Operations after Dividends to Policyholders and Federal Income Taxes	$ 9,060,691
Federal and Foreign Income Taxes Incurred	6,337,329
Net Realized Capital Gains (Losses)	(396,938)
NET INCOME	**$ 2,326,423**

Capital and Surplus Account

Capital and Surplus, December 31, 2011	$	122,838,031
Net Income		2,326,423
Change in Net Unrealized Capital Gains and (Losses)		(5,493)
Change in Net Deferred Income Tax		3,558,851
Change in Non-Admitted Assets		(2,676,249)
Change in Liability for Reinsurance in Unauthorized and Certified Companies		6,997
Change in Asset Valuation Reserve		(1,654,999)
Change in Treasury Stock		(386,559)
Paid In Capital Changes		(600,000)
Paid In Surplus Adjustment		54,846
Dividends to Stockholders		(232,500)
Net Change in Capital and Surplus	$	391,317
Capital and Surplus at December 31, 2012	**$**	**123,229,348**

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

The Company should ensure the CPAs directly report to Audit Committee and attendance of the Audit Committee meetings is limited to the Audit Committee members and its presenters.

The Company should review its current internal control documentation, update it as necessary, and ensure its observance and implementation.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of FSLIC during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Scott Rennick, CFE; Kimberly Dobbs, CFE; Laura Church, CPA, and Alvin Garon, CFE examiners for the DIFP, participated in this examination.

VERIFICATION

State of Missouri)
County of Jackson)

I, Leslie Nehring, CPA, CFE, 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 Fidelity 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.

Leslie Nehring, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 21ST day of March, 2014.

My commission expires: 01/07/2018

Tammy Morales
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

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, except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Mark A. Nance, CFE, CPA
Audit Manager
Missouri Department of Insurance, Financial Institutions and Professional Registration