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 as of December 31, 2005

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, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER 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 mentioned in the General Comments and/or 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 May 23, 2007.

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

FIDELITY SECURITY LIFE

INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS &

PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Kansas City, Missouri
February 21, 2007

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, (E) Financial Condition Committee, NAIC

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
Midwestern Zone Secretary

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial Institutions &
Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

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

Fidelity Security Life Insurance Company

hereinafter referred to as such, as Fidelity Security, or as the Company. Its administrative office is located at 3130 Broadway, Kansas City, Missouri 64111, telephone number 816-756-1060. This examination began on August 7, 2006 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior comprehensive association financial examination of Fidelity Security Life Insurance Company was made as of December 31, 2002 and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zone participating.

The current full scope association financial examination covers the period from January 1, 2003 through December 31, 2005 and has been conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zone participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions & Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, KPMG LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2005 through December 31, 2005. Such reliance included, but was not limited to, fraud risk assessments and internal control analysis and testing.

Comments - Previous Examination

The prior examination report contained 12 separate Notes to the Financial Statements and related recommendations relating mainly to reclassifications and adjustments to non-admit certain overdue or uncollectible assets in accordance with NAIC guidelines. It was noted in the current examination that the Company had implemented procedures to correct the classification problems and account for overdue or uncollectible receivables. Although the current examination noted the Company still had some items misclassified on its 2005 Annual Statement, the misclassified items were not material and did not materially affect the ending capital and surplus of the Company.

Due to the Company's implementation of procedures to correct the prior examination recommendations related to the Notes to the Financial Statements and the immaterial effect of the remaining misclassified items, the individual previous examination report Notes to the Financial Statements and subsequent response or action taken by the Company will not be documented in this report except as noted below. The classification problems noted in the current examination will, however, be communicated in a separate management letter to the Company.

Listed below are comments, recommendations and notes of the previous examination report (except as indicated above) dated as of December 31, 2002 and the subsequent response or action taken by the Company.

Amounts Recoverable from Reinsurers

The Company incorrectly classified an asset called, "Other amounts receivable under reinsurance contracts," on Page 2, line 12.4 of the Annual Statement. This was an erroneous presentation of the underlying transactions, which should have been classified as "Amounts recoverable from reinsurers," on Page 2, line 12.1 of the Annual Statement. The Company also did not report any reinsurance recoverables on paid losses on Schedule S, Part 2 of the Annual Statement. The Company reported a total of $2,036,306 in recoverables from various reinsurers on a block of business written by an MGA that ceased doing business in 1999. As collection of these balances appeared doubtful, the Company should have non-admitted the account balance. Finally, the Company reported an amount of $2,994,763 recoverable from Overseas Partners Re as part of "Aggregate write-ins for other than invested assets-Due from other companies." This amount should have been reported as part of "Amounts recoverable from reinsurers." Overall, the systemic problems that characterized the reporting of the Company's reinsurance transactions originated from the Company's accounting personnel not following Annual Statement Instructions of the NAIC and underlying SSAPs.

Company's Response: A reserve for uncollectible reinsurance balances was established in December 2003 and is adjusted quarterly. The amount recoverable from Overseas Partners Re was collected and is no longer applicable.

Current Findings: The "Amounts recoverable from reinsurers" were once again misclassified and reported under the "Other amounts receivable under reinsurance contracts" line of the Annual Statement. The Company also once again failed to properly report reinsurance recoverables on paid losses on Schedule S, Part 2. See the Accounts and Records section of this report for recommendations. The Company has established a liability which appears to materially account for uncollected reinsurance recoverables and is no longer reporting any reinsurance related amounts under "Aggregate write-ins for other than invested assets."

Cost Allocation Agreement

Comment: The Company was unable to provide the basis for the allocation or an allocation worksheet in accordance with the provisions of this agreement. The Company was directed to submit a written policy explaining the cost allocation percentages, settlement periods and how often and under what circumstances the percentages should be revised or reviewed. The Company should ensure its policy and allocations are in compliance with Section 382.190 RSMo (Transactions with affiliates) and Section 382.195 RSMo (Transactions Within a Holding Company System).

Company Response: An analysis was done and a new cost allocation policy is in effect.

Current Findings: The Company implemented a new cost allocation system in November 2005. The cost allocations under the new system appear reasonable; however, it was noted that one of the companies being included in the new allocation system was not included as a party to the cost allocation agreement. In addition, some of the new allocation methods differed from those in the cost allocation agreement. See the Intercompany Transactions section of this report for recommendations.

Schedule Y

Comments: The Company's Annual Statement Schedule Y did not reflect an accurate summary of intercompany payments and receipts during the period under examination in accordance with the Annual Statement Instructions of the NAIC. The Company was directed to summarize all intercompany payments and receipts and report such on Schedule Y of the Annual Statement in the future.

Company's Response: All inter-company payments and receipts are now reported on Schedule Y. This was revised in the December 2003 Annual Statement.

Current Findings: The Company has implemented procedures to ensure that inter-company payments are properly reported on Schedule Y. Amounts reported on Schedule Y for the years under examination appeared to be materially correct.

Deposits with Other States

Comments: The Company's Schedule E, Part 2 - Special Deposits of the Annual Statement was improperly presented as the funds on deposit with the State of New Mexico were omitted. The Company was directed to accurately complete all schedules and exhibits of the Annual Statement in the future.

Company's Response: New Mexico's special deposit was listed on Schedule E, Part 2 in December 2003 and subsequent years.

Current Findings: No problems were noted with the Company's reporting of special deposits listed on Schedule E, Part 2 during the current examination.

Oversight Function Over MGA and TPA Operations

Comments: The review of the Company's oversight of its extensive network of MGAs and TPAs noted various problems which were in violation of Section 375.149 (3) RSMo (Written contract required for placing business with insurer, content--termination of contract for cause--prohibited acts by managing general agents). These violations included: the Company's name not being listed on fiduciary bank accounts, the Company not being listed as an authorized signatory on fiduciary bank accounts and the TPA/MGA not handling funds in accordance with its contract. The Company was directed to observe and enforce the provisions of the cited statute.

Company's Response: Numerous changes have been made as a result of the examination suggestions including revisions to bank accounts. In addition, a team has been assembled to annually review all bank relationships for compliance with regulatory and Company guidelines.

Current Findings: During our review of internal audits and bank statements for selected MGAs and TPAs, no significant problems were noted related to the fiduciary bank accounts or the handling of the Company's funds.

Review of Control Environment Over Use of MGAs and TPAs

Comment: The evaluation of the control environment and the Company's oversight functions with respect to the MGAs and TPAs resulted in the numerous findings. The company was directed to implement the following: obtain monthly bank statements for each premium account; adopt a formal process of communicating significant audit findings to the affected MGAs and TPAs with a specific action plan and timeline to implement recommendations; exercise due diligence in appointing agents and ensure adequate safeguards with respect to the Company's assets are observed in the process; institute proper accounting procedures, consistent with the prescriptions of underlying SSAPs, in recording and reporting transactions originating from its network of MGAs and TPAs.

Company's Response: Various changes were implemented in response to these comments, including a thorough review of forms and documents used by MGAs and TPAs by Company Compliance Department personnel. Follow up procedures are in place to ensure that corrections are implemented timely for all audit issues.

Current Findings: The measures implemented by the Company in response to the prior examination and internal audit reports for selected companies were reviewed. While the Company's procedures were generally found to be adequate, the Company should ensure that it continues to diligently monitor its TPAs and MGAs due to the significant risk involved. See the Territory and Plan of Operations section of this report for recommendations.

MGA Audited Financial Statement

Comment: It was noted that two of Fidelity Security's appointed MGAs at December 31, 2002, Voorhees Risk Management, Inc., and Special Insurance Services, Inc., did not have annual audits of their financial statements as required by 20 CSR 200-10.300 (What Must Be Certified and Filed Annually).

Company's Response: The Company contends that the cost of a complete financial audit for smaller MGAs is prohibitive, and believes that alternatives to providing a complete financial audit should be considered. This matter was fully discussed with the Chief Financial Examiner and the Director of the DIFP at the Company's April 2006 Board of Director's meeting.

Current Finding: It was noted that audited financial reports were filed by the larger licensed MGAs. Unaudited financial information was obtained for the smaller MGAs.

MGA Agreements

Comments: Some of the MGA contracts reviewed during this examination contained effective dates made prior to the approval of the contract by the DIFP. This practice is in violation of Section 375.149 RSMo (Rights and obligations under employment contract). The Company is directed to ensure that the effective dates of future MGA contracts are on or after the date the contract is approved by the DIFP.

Company's Response: Fidelity Security has in place procedures to monitor premiums to determine when a particular agency or administrator meets the statutory threshold for DIFP approval. However, there are instances when a premium increase can cause the entity to meet that threshold before the parties can reasonably react and meet the filing requirements. The Company, however, will strive to comply with the TPA and MGA filing requirements.

Current Findings: The Company did not have any new MGA contracts during the current examination period which required DIFP approval.

Underlying Data

Comment: By design, detail records that support various accounting records are maintained by the MGAs and TPAs that produce and administer the underlying business. The Company was directed to implement a system allowing it access to these detail records in order for its accounting personnel to perform necessary reviews and analysis including the aging of various receivable accounts. This system could be achieved with the application of appropriate technology that would allow the Company to download and access the same detail records generated by the MGA or TPA.

Company's Response: Management continues to address this very complex issue. A project is underway to have each TPA and MGA report data electronically and when complete will enable the Company to have a more complete record of data currently maintained by separate TPAs and MGAs.

Current Findings: Although no significant or material problems were noted in our testing of underlying data or related accounts, it does not appear that the Company has made any significant progress towards implementing the prior recommendation. The Company should continue to try and integrate as much as practical its system with that of its MGAs and TPAs. See the Territory and Plan of Operations section of this report for recommendations.

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

Pursuant to Article IV of its Articles of Incorporation, Fidelity Security is authorized to issue 1,100,000 shares of $2.50 par value common stock and 50,000 shares of $100.00 par value preferred stock. As of December 31, 2005, common stock issued consisted of 1,000,000 shares and preferred stock issued and outstanding consisted of 30,000 shares, resulting in balances of $2,500,000 and $3,000,000 in the Company's respective capital accounts. Treasury stock as of December 31, 2005 consisted of 8,803 shares of common stock valued at $395,528 resulting in 991,197 shares of common stock outstanding.

Dividends

Fidelity Security did not pay any common stock dividends during the examination period. Dividends in the amount of $232,500 were declared and paid on preferred stock for each of the years in the examination period.

Management

The management of the Company is vested in a Board of Directors appointed by its shareholders. The Company's Bylaws specify that the Board of Directors shall consist of at least ten members. The members of the Board of Directors elected and serving as of December 31, 2005 were as follows:

Name and Address	Occupation and Business Affiliation
Dr. Richard L. Andrews Buckeye, AZ	Retired Dean, College of Education University of Missouri-Columbia
Alan E. Zink Columbus, OH	Real Estate Investor
George J. Bereska New Canaan, CT	President Benefits Brokerage Consulting, Inc.
Michael E. Hall Prairie Village, KS	Senior Vice President Fidelity Security
Dorothy M. Jones Shawnee Mission, KS	Treasurer Emerita Fidelity Security
Richard F. Jones Shawnee Mission, KS	President and Treasurer Fidelity Security
David G. Ruf, Jr. Leawood, KS	Chairman Emeritus Burns & McDonnell
David J. Smith Leawood, KS	Senior Vice President Fidelity Security
Albert H. Wohlers Park Ridge, IL	President AHW Enterprises
Larry G. Vogt Overland Park, KS	President/CEO Uniformed Services Benefit Association, Inc.

Pursuant to the Company's Bylaws, the officers of the Company shall be a President, one or more Vice Presidents, a Secretary, an Assistant Secretary and a Treasurer. The Board of Directors may also elect a Chairman of the Board, additional Assistant Secretaries and Assistant Treasurers as needed.

The officers elected and serving as of December 31, 2005 were as follows:

Richard F. Jones	President and Treasurer
David J. Smith	Senior Vice President & Secretary
Michael E. Hall	Senior Vice President
Martha Madden	Vice President
Mark L. Burley	Vice President
William R. Hobbs	Vice President, Controller & Assistant Secretary

Pursuant to the Bylaws, the Board of Directors may provide for an Executive Committee and any special or standing committees consisting of three or more directors. The Executive Committee may exercise all of the authority of the Board of Directors in the management of the Company during the intervals between the meetings of the Board of Directors. The Board of Directors has also appointed an Investment Committee. Members elected and serving on these committees as of December 31, 2005 were as follows:

Executive Committee	Investment Committee
Richard F. Jones	Richard F. Jones
David J. Smith	David G. Ruf, Jr.
George J. Bereska	Larry G. Vogt
	Michael E. Hall

Conflict of Interest

The Company has procedures which require all officers and directors complete a conflict of interest statement annually. Signed conflict of interest statements were reviewed for each of the years in the examination period. No significant conflicts were disclosed.

Corporate Records

A review was performed of the Articles of Incorporation and Bylaws for the examination period. Neither the Articles of Incorporation nor the Bylaws were amended during the period under examination.

The minutes of the Company's Board of Directors, shareholder, and committee meetings were reviewed and, in general, appeared to properly reflect and approve the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers or major corporate events noted for the period under examination.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

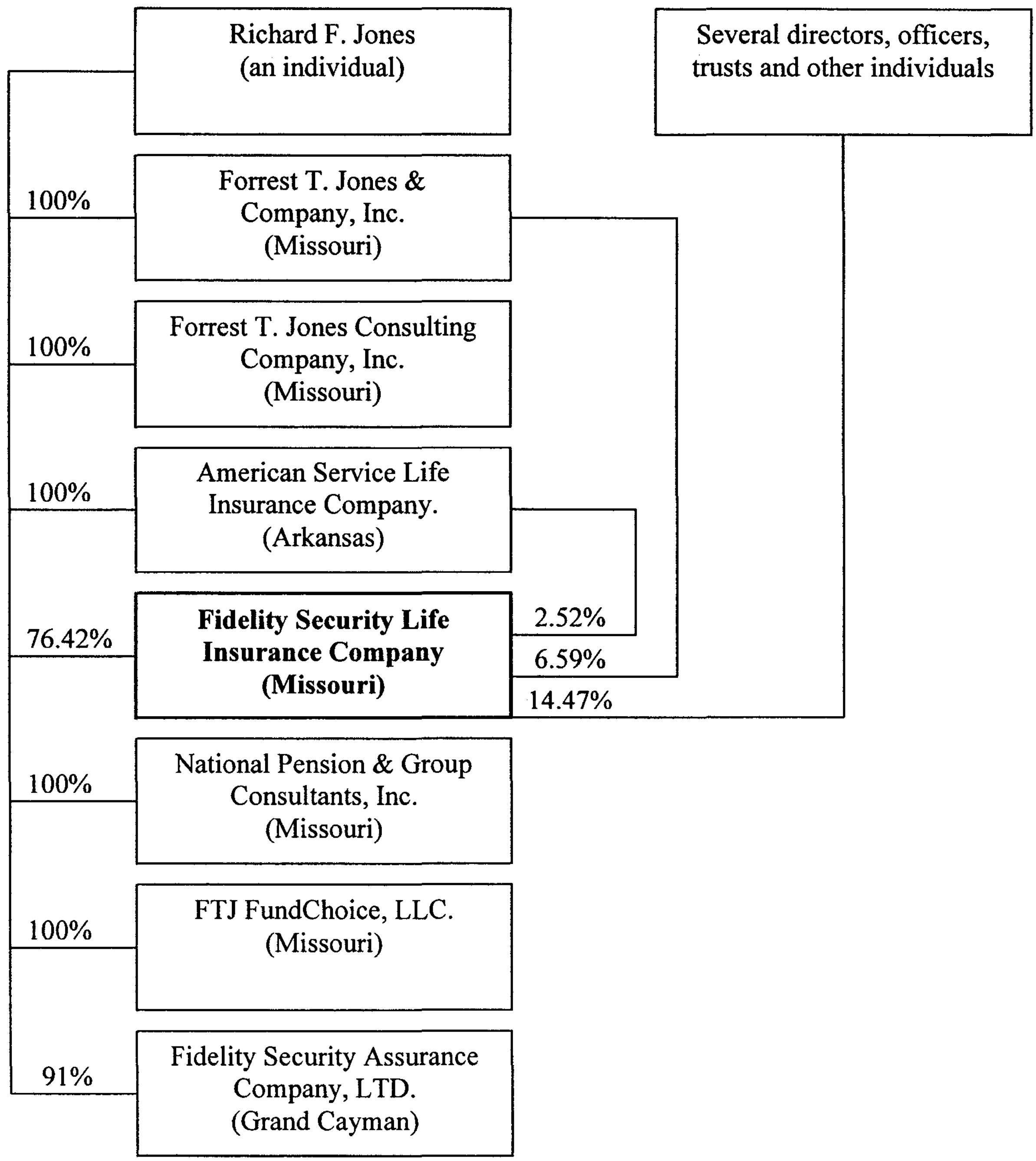
Fidelity Security is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by Fidelity Security, for each year of the examination period on behalf of itself and the following affiliates: Forrest T. Jones & Company, Inc. (FTJ&C), Forrest T. Jones Consulting Company (FTJCC), American Service Life Insurance Company (ASLIC), National Pension Group Consultants, Inc. (NPGC), FTJ FundChoice, LLC and Fidelity Security Assurance Company (FSAC).

Richard F. Jones, an individual, is the ultimate controlling person of Fidelity Security and the above named affiliates. FTJ FundChoice, LLC, formed in 2001 provides financial services in the nature of mutual fund investment and mutual fund brokerage administration. FTJ FundChoice has agreements between Forrest T. Jones & Company, Inc. and National Pension & Group Consultants. These agreements allow FTJ FundChoice to provide administrative services to enable eligible persons (FTJ&C and NPGC clients) to acquire mutual funds for their retirement programs.

FTJ&C is an insurance agency for various health, life, and casualty companies. FTJCC acts as an agent for insurance companies in the administration of insurance policies. FTJ&C and FTJCC are both licensed TPAs in the State of Missouri. ASLIC is licensed in Arkansas to transact the business of insurance. NPGC sells insurance and annuities and is a general partner in a partnership engaged in commodity futures trading. FSAC is a reinsurer established under the laws of the Cayman Islands.

Organizational Chart

The following organizational chart depicts Fidelity Security's ownership and holding company structure, as of December 31, 2005:



Intercompany Transactions

The Company's significant intercompany agreements are outlined below.

1. Type: Administrative and Marketing Agreement

   Affiliate: Forrest T. Jones & Company, Inc.

   Effective: April 1, 1990

   Terms: FTJ&C performs certain administrative services for Fidelity Security including soliciting insurance business, delivering policies, billing and collecting premiums, paying commission fees to the agents and brokers, and qualifying and underwriting risk for Fidelity Security according to the rates, underwriting rules, limits, and forms authorized by Fidelity Security. The compensation paid to FTJ&C 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. Fidelity Security pays FTJ&C net compensation of 4.5% on all fixed annuity contracts for which FTJ&C acts as marketing and servicing agent.

2. Type: Administrative and Marketing Services Agreement

   Affiliate: Forrest T. Jones Consulting Company

   Effective: April 1, 1990

   Terms: FTJCC performs certain administrative services for Fidelity Security including soliciting insurance business, delivering policies, billing and collecting premiums, paying commission fees to the agents and brokers, and qualifying and underwriting risk for Fidelity Security according to the rates, underwriting rules, limits, and forms authorized by Fidelity Security. The compensation paid to FTJCC 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. The Company pays fixed amounts of administrative fees for some policies and pays FTJCC net compensation of 4.5% on all fixed annuity contracts for which FTJCC acts as marketing and servicing agent.

3. Type: Promissory Note / Loan Agreement

   Affiliate: Forrest T. Jones & Company, Inc.

   Effective: April 30, 1998

Terms: FTJ&C issued a promissory note to Fidelity Security for the repayment of amounts previously loaned, up to a maximum principal balance of \$4,000,000. The original note required FTJ&C to repay any loan balance plus interest on January 4, 1999. An amendment, effective January 1, 1999, revised the promissory note into a continuous loan agreement, whereby any loans or advances made during any calendar year are to be repaid by the end of the calendar year. The maximum outstanding loan balance at any one time shall not be greater than the original \$4,000,000 in the promissory note. Interest charges are calculated daily using the prime rate of interest and are payable monthly.

4. Type: Agency Service Agreement

Affiliate: Forrest T. Jones Consulting Company

Effective: March 1, 1994

Terms: FTJCC performs certain agency functions including processing insurance applications, handling routine correspondence, maintenance of licenses required to perform agency functions, delivery of contracts, and termination notices. Fidelity Security shall pay commissions to FTJCC for services rendered according to the policy type and the first year or renewal status of applicable policies.

5. Type: Cost Allocation Agreement

Affiliate: Forrest T. Jones & Company, Inc.

Effective: August 1, 1994

Terms: Fidelity Security pays to FTJ&C 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 Fidelity Security's operations. Fidelity and FTJ&C will pay respective expenses directly to the vendors.

Exception: The Company implemented a new cost allocation system in November 2005. The new allocation system updated the allocation percentages and automated the process. The allocation percentages were updated mainly by going through each of departments and determining the amount of time each individual employee spent on each company. Employee head counts adjusted for time spent are the basis for the majority of the current cost allocations. It was noted that FTJCC was being included in the allocation process; however, FTJCC is not a party to the cost allocation agreement.

In addition, it was noted that under the new allocation system, shared invoices are paid by Fidelity Security, which is then reimbursed by the other companies. The Company should amend the cost allocation agreement to add FTJCC as a party and to reflect the changes to the cost allocations methods. The amended agreement should be filed for approval with the DIFP in accordance with Section 382.195 RSMo. (Transactions Within a Holding Company System).

6. Type: Affiliation Agreement

   Affiliates: Forrest T. Jones & Company, Inc. and National Pension and Group Consultants, Inc.

   Effective: May 15, 1999

   Terms: FTJ&C is authorized to solicit applications, through its licensed insurance agents, for Fidelity Security's Flexible Premium Variable Annuity product. NPGC serves as the distributor and principal underwriter of the annuity policies. NPGC is to be paid commissions of 3% of purchase payments plus an annual commission of 0.25% of assets, or the contract values. Amounts due to NPGC are to be paid by Fidelity Security to FTJ&C on behalf of NPGC.

7. 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 Fidelity Security's Separate Account contracts, which are variable annuities. NPGC will also act as the principal underwriter. NPGC will use its best efforts to solicit applications for the contracts and to undertake to provide sales services relative to the contracts.

8. Type: Mortgage Loan Agreement

   Affiliate: Forrest T. Jones & Company

   Effective: December 31, 2002

   Terms: Fidelity Security agrees to lend Forrest T. Jones & Company $3,600,000, with the home office building as collateral. Interest for the note shall be calculated at "Treasury Yield" plus 2%. FTJ&C will make monthly payments which include interest and principal for a term of 180 months.

The amounts (paid to) and received from parent and affiliates during the period under examination under the above agreements were as follows:

	2005	2004	2003
Administrative & Marketing Services Agreement			
Paid to FTJ&C	$ (300,636)	$ (321,500)	$ (351,531)
Administrative & Marketing Services Agreement			
Paid to FTJCC	(969,572)	(760,241)	(1,291,557)
Promissory Note			
Paid to FTJ&C	(1,100,000)	(500,000)	-
Received from FTJ&C	1,100,917	511,623	-
Agency Service Agreement			
Paid to FTJCC	(682,718)	(689,789)	(790,442)
Cost Allocation Agreement			
Paid to FTJ&C	(11,542,391)	(10,923,611)	(10,543,155)
Affiliation Agreement			
Paid to NPGC through FTJ&C	(29,856)	(30,819)	(30,934)
Mortgage Loan Agreement			
Received from FTJ&C	211,004	227,219	210,254
Net amount (paid) or received	**$ (13,313,252)**	**$ (12,487,118)**	**$ (12,797,365)**

In addition to the above agreements, the Company also has a group life reinsurance agreement with American Service Life Insurance Company and a reinsurance agreement with Fidelity Security Assurance Company, LTD. These agreements are discussed in detail in the Reinsurance section of this report.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond with a liability limit of $1,500,000 and a $25,000 deductible. This level of coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

The Company is also a named insured on the following commercial insurance policies: group travel and accident, disability and dismemberment, travel blanket accident, property and general liability, automobile, umbrella excess liability, workers compensation and directors and officers liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Fidelity Security does not have any direct employees. The Company's business operations are managed by the employees of an affiliate, Forrest T. Jones and Company. Fidelity Security is allocated a percentage of the benefit costs for FTJ&C employees pursuant to an intercompany agreement as described in the Intercompany Transactions section of this report.

The employees of FTJ&C receive standard benefits including, but not limited to, a 401(k) profit sharing plan, a non-qualified deferred compensation plan, self-funded medical coverage, an HMO plan, vision, dental, long term disability, and term life insurance. In addition, executive employees of FTJ&C have the option of participating in two non-qualified deferred compensation plan entitled "Salary Reduction Non-qualified Deferred Compensation Plan" and the "Bonus Award and Non-qualified Deferred Compensation Plan." The Company appears to have properly accounted for its allocated share of employee benefits in the financial statements.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2005 as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The Company's required deposit for the State of Missouri was $600,000. The funds on deposit as of December 31, 2005 were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Notes	$2,350,000	$2,331,553	$2,370,627

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, 2005 were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Arkansas	U.S. Treasury Note	$ 260,000	$ 257,959	$ 262,282
Florida	U.S. Treasury Note	250,000	248,038	252,194
Georgia	Money Market Fund	50,423	50,423	50,423
Massachusetts	U.S. Treasury Note	110,000	109,137	110,966
New Mexico	U.S. Treasury Note	135,000	133,940	136,185
North Carolina	Money Market Fund	403,164	403,164	403,134
Virgina	U.S. Treasury Note	135,000	136,344	135,751
Totals		$ 1,343,587	$ 1,339,005	$ 1,350,935

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Fidelity Security Life Insurance Company is licensed by the Missouri DIFP under Chapter 376 RSMo (Life, Health and Accident Insurance) to do business in the following kinds of insurance: life, accident and health (A&H), and variable contracts. As of December 31, 2005, the Company was licensed to transact the business of insurance in forty-nine states and the District of Columbia. In addition, the Company was a licensed reinsurer in the State of New York.

The Company utilizes a variety of distribution channels in marketing its products including, but not limited to, individual sales representatives, brokers, third party administrators (TPAs), managing general agents (MGAs), payroll deduction, and direct responses. An extensive agency network produces most of the Company's business.

As of December 31, 2005, the Company had agreements with 66 general agents, 11 MGAs, 52 TPAs, and 3 agencies that were both a general agent and a TPA. MGAs and TPAs produced approximately 68% of the total 2005 direct premiums. Two affiliated TPAs, FTJ&C and FTJCC, accounted for 4.6% of 2005 direct premium volume.

The Company provides a diverse product line through five definable markets: annuities, special markets, joint ventures, self-funded/stop loss, and specialty benefits. As of December 31, 2005, the largest line of business was group accident and health insurance, which accounted for approximately 85% of the total direct written premium in 2005.

The annuity unit targets specific professions and strategic relationships. The core product, a fixed annuity, is marketed by two TPAs primarily to the education industry. The business is processed through tax-deferred payroll reduction facilities. This unit had approximately 3,675 insureds at year end 2005.

The special markets unit is the oldest unit of Fidelity Security. This unit has a broad product portfolio, which includes life, accidental death, supplemental health, short-term disability, and short-term medical. The products are marketed and distributed to a client base of professional groups, trade groups, employee groups, and alumni groups by a network of TPAs. As of year end 2005, the Company had 25 groups participating in the special markets unit lines of business.

The joint ventures unit operates based on relationships with eight MGAs and TPAs. The portfolio includes life, health, supplemental health, and sub-standard short-term disability products which are marketed to individuals and groups primarily within niche segments. This unit utilizes reinsurance to protect the benefit structure.

The stop loss/self-funded unit is processed through independent distribution by a small network of MGAs, with reliance on reinsurance. During 2005, the group life product for this unit was updated and the Company added an online quoting system. The Company has not experienced significant growth from this unit over the exam period; however, this is similar to the industry overall.

The specialty benefits unit includes prescription drug, vision and dental benefits. The marketing and distribution for these programs involves brokers, pharmacy benefit managers, and vision service providers. The prescription drug and dental programs have overall national exposure, and the vision program has national exposure through a retail market leader and six niche providers that market to smaller networks. Profits are generally predictable for these programs and the programs are inherently short-tailed lines of business. As of December 2005, approximately 2,000 groups were insured under these programs, representing approximately two million individual insureds.

Fidelity Security has an internal auditing staff that performs the required annual audits of the MGAs and TPAs in accordance with 20 CSR 200-10.600 (On-Site Reviews) and Section 376.1084 RSMo (Responsibilities of Insurer). In addition, the staff reviews selected general agents annually, based upon premium volume. The DIFP relied on the work and reports of the internal audit staff in evaluating the Company's control over its extensive network of MGAs and TPAs.

By design, the detailed accounting records that support various accounting records are maintained by the MGAs and TPAs that produce and administer the underlying business. While the Company's audits and monitoring procedures related to the MGAs and TPAs were generally found to be adequate, the Company should ensure that it continues to diligently monitor its TPAs and MGAs due to the significant risks involved. In addition, the prior examination report included a recommendation that Fidelity Security implement a system allowing the Company access to detailed records maintained by the MGAs and TPAs. Although no significant or material problems were noted in our testing of underlying data or related accounts, it does not appear that the Company has made any significant progress towards implementing the prior recommendation. The Company should continue to try and integrate as much as practical its system with that of its MGAs and TPAs.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The Company's last Missouri market conduct report was dated July 22, 1998 and was issued for the examination period from January 1, 1997 through December 31, 1997. The examination number for this report was MO189-M21. The review of the market conduct examination did not reveal problems that would have a material impact on the Company's financial statements. A cursory review was performed on the Company's complaint log for the examination period and this review did not indicate any material problems.

REINSURANCE

General

The Company's premium and annuity activity on a direct written, assumed and ceded basis for the period under examination is documented below:

Premiums	2005	2004	2003
Direct premiums written	$ 315,923,417	$ 300,945,222	$ 277,643,736
Reinsurance assumed	2,391,072	20,362,995	6,544,234
Reinsurance ceded	(163,934,249)	(167,831,948)	(171,757,937)
Net premiums written	$ 154,380,240	$ 153,476,269	$ 112,430,033

Assumed

The Company had only three active agreements for assumed life business as of the end of the examination period. Fidelity Security assumes 50% of a group life product from New York Life Insurance Company (NY Life), pursuant to a quota share agreement that has been in effect since 1983. The business assumed from NY Life represented over 99% of the assumed in-force for life policies as of December 31, 2005. The Company also assumes small amounts of A&H business from various companies.

Ceded

The Company is contingently liable for all reinsurance losses ceded 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.

Fidelity Security'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. Only significant ceded reinsurance treaties and ceded reinsurance treaties with affiliated companies are discussed below.

The Company cedes life insurance business to Unified Life Insurance Company on a modified coinsurance basis. An agreement effective January 1, 1995 cedes 50% of the risk on the underlying policies. The Company reported modified coinsurance reserves on this business of $7,972,866 in Schedule S, Part 3, Section 1 as of December 31, 2005.

The Company also ceded an insignificant amount of business to American Service Life Insurance Company, an affiliate, on a modified coinsurance basis. The Company reported modified coinsurance reserves on this business of $513,887 in Schedule S, Part 3, Section 1 as of December 31, 2005.

Pursuant to an agreement effective October 1, 1998, the Company cedes life insurance business to Hannover Life Reassurance Company of America. The business ceded under this agreement is produced by a TPA, Legacy Insurance Services, Inc. The Company retains a 50% quota share of $50,000 per life for graded death benefit and guaranteed issue whole life plans and a 10% quota share per life for term life plans. The reinsurer limits are 50% quota share of $50,000 per life for graded death benefit and guaranteed issue whole life plans and a 90% quota share per life for term life plans.

Pursuant to an agreement effective April 1, 1994, the Company ceded group term life and group decreasing term life insurance business to SCOR Life US Re Insurance Company on a 60% quota share basis. The Company retained 40% of the first $200,000 on any one life. The reinsurer assumed a 60% quota share of the first $200,000 on any one life, and risks in excess of $200,000 may be reinsured on a facultative basis. For facultative risks in excess of $200,000, upon approval by the reinsurer, 100% of the risk is assumed up to a maximum issue amount of $500,000 per life. This agreement was terminated on December 31, 2000 and is currently on a run off basis.

Pursuant to an agreement effective January 1, 2001, the Company cedes term life and group credit life business to Optimum Re Insurance Company (Optimum Re) on a 60% quota share basis. For business that was previously ceded to SCOR Life US Reinsurance Company as mentioned above, Optimum Re reinsures the business for policies with effective dates on or after January 1, 2001. The Company retains a 40% quota share of the risk on this business to a maximum of $100,000 per life. The Company retrocedes 10% of the risk to another carrier under a separate agreement, which reduces their net retention on this business to 30%. Optimum Re assumes a 60% quota share on the risk to a maximum of $400,000 per life in excess of the Company's maximum retention. The facultative reinsurance limit is $1,000,000 per life.

Pursuant to an agreement effective September 1, 2000, the Company cedes business classified as term life, AD&D, dental, vision, short-term disability and excess loss to ATA Reinsurance Company, an unauthorized reinsurer. The business ceded under this agreement was produced by a MGA, American Trust Administrators (ATA). The Company cedes this business on a 100% quota share basis and retains no risk. The reserve credits taken on business ceded to this unauthorized reinsurer were secured by assets held in a trust account pursuant to a trust agreement that was in compliance with Missouri Regulation 20 CSR 200-2.100(8) (Trust Agreements).

Pursuant to an agreement effective April 1, 2002, the Company cedes business classified as dental and vision to Avesis Insurance Incorporation, an unauthorized reinsurer. The business ceded under this agreement was produced by Avesis Third Party Administrators Inc, an MGA. The Company cedes this business on a 100% quota share basis and retains no risk. The reserve credits taken on business ceded to this unauthorized reinsurer were secured by a letter of credit and assets held in a trust account pursuant to a trust agreement that was in compliance with Missouri Regulation 20 CSR 200-2.100(8) (Trust Agreements).

Pursuant to an agreement effective April 1, 2002 the Company cedes business classified as individual major medical loss to Everest Reinsurance Company. The business ceded under this agreement was produced by Insurers Administrative Corporation, a licensed TPA. This business is ceded on a 95% quota share basis. The reinsurer's limit of liability for major medical loss business is $1,000,000 per covered person per policy year, with a maximum limit of $5,000,000 per person, per life.

Pursuant to an agreement effective January 1, 2002 the Company ceded business classified as specific and aggregate medical excess loss to Employers Life Insurance Corporation (Employers Life), a South Carolina domiciled, unauthorized reinsurer. The business ceded under this agreement was produced by East Coast Underwriters (ECU), a licensed and appointed MGA affiliated through common management with Employers Life. This business was ceded on a 100% quota share basis.

In March of 2005, Fidelity Security was notified by the state of South Carolina that Employers Life was insolvent and was being placed into receivership. At the time of the insolvency, Fidelity Security was holding a letter of credit in the amount of $500,000 and funds held in the amount of $2,993,779 to cover the anticipated claims ceded to Employers Life. However, the letter of credit and funds held proved to be insufficient to cover the 2005 run-out of the claims for the ECU block of business. As of December 31, 2005, Fidelity Security was claiming a total remaining reinsurance recoverable of $4,215,058 from Employers Life. Of this amount, $2,315,058 was written-off as uncollectible. Therefore, the net estimated recoverable from Employers Life was $1,900,000. Subsequently, in November of 2006, Fidelity was notified by the State of South Carolina that no further funds were available through the liquidation of Employers Life; therefore, Fidelity Security was unable to collect any of the $1,900,000 estimated reinsurance recoverable.

It was noted that Fidelity Security has several arrangements similar to the arrangement with ECU and Employers Life where Fidelity Security is in effect fronting the business produced by the TPA or MGA that is in turn ceded to a reinsurer related to the TPA or MGA. As many of these reinsurers are unauthorized, Fidelity Security maintains letters of credit and/or funds held to cover anticipated claims. A review of financial information for several of the unauthorized reinsurers obtained from the NAIC and from information provided by the reinsurers to Fidelity Security showed that the capitalization levels for some of the unauthorized reinsurers were close to minimal levels. Therefore, it is essential that the Company set adequate reserves and maintain sufficient letters of credit and/or funds held for the business ceded to these reinsurers.

Although, Fidelity Security has procedures in place to monitor both the TPA or MGA that produces the business and the affiliated reinsurer, monitoring and reserving procedures related to the ECU block of business were clearly not adequate. The MGA was allowed to substantially increase its business writings while at the same time the MGA was apparently not following the underwriting guidelines established by the Company. The noncompliance with the underwriting guidelines was not timely detected by Fidelity Security's internal audit function. In addition, the increase in business and changes in the underwriting do not appear to have been adequately considered in the establishment of the reserves by the Company's actuary.

The Company should have ensured that the actuarial methods utilized by its actuary factored in all relevant items such as lack of historical development data and the projected increases in business. Once the Company became aware of the increase in business, it should have taken steps to ensure that ECU was following the underwriting guidelines. Such steps could have included requiring more frequent and detailed reports from ECU, scheduling more frequent internal audits and ensuring that the individuals conducting the internal audits had the knowledge and expertise necessary to determine whether the underwriting guidelines were being followed. In the future, the Company should consider obtaining an additional actuarial opinion for some of the larger and/or new fronting arrangements and requiring the captive unauthorized reinsurers provide collateral equal to 125% of reserve balances. In addition, the Company should ensure it obtains adequate information regarding the financial condition of both the TPA/MGA and reinsurers and ensure that it adequately monitors compliance with the underwriting and marketing guidelines established for the TPA/MGA.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by the CPA firm of KPMG LLP, Kansas City, Missouri for each of the years under examination.

Independent Actuary

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., Bloomington, Minnesota for each of the years under examination.

Reinsurance Accounting

During our review of the Company's reinsurance accounts, it was noted that the Company has not corrected some of the problems noted in the prior examination. The Company is improperly including reinsurance recoverables on paid and unpaid losses due from reinsurers in the amounts reported on Page 2, line 14.3, "Other amounts recoverable from reinsurers," rather than on Page 2, line 14.1, "Amounts recoverable from reinsurers," as required by the NAIC Annual Statement Instructions. In addition, the Company is still not reporting any reinsurance recoverables on paid losses on Schedule S, Part 2, column 6 of the Annual Statement. The Company should ensure that reinsurance recoverable amounts are correctly classified and reported in the Annual Statement.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Fidelity Security for the period ending December 31, 2005. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." 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 "Notes to the Financial Statements." 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.

Assets

	Ledger and Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 402,856,506		$ 402,856,506
Common stocks	1,149,196		1,149,196
Mortgage loans on real estate	9,673,000		9,673,000
Cash, cash equivalents and short-term investments	11,737,959		11,737,959
Contract loans	6,688,449		6,688,449
Other invested assets	4,542,457		4,542,457
Receivable for securities	306,627		306,627
Investment income due and accrued	3,699,460		3,699,460
Premiums and considerations			
Uncollected premiums and agents' balances in the course of collection	6,248,934		6,248,934
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,541,671		1,541,671
Accrued retrospective premiums	1,873,141		1,873,141
Other amounts receivable under reinsurance contracts	2,648,667		2,648,667
Current federal and foreign income tax recoverable	472,023		472,023
Net deferred tax asset	1,302,499	$ 638,794	663,705
Guaranty funds receivable or on deposit	198,644		198,644
Electronic data processing equipment and software	21,638		21,638
Furniture and equipment	180,374	180,374	-
Receivables from parent, subsidiaries and affiliates	955,951		955,951
Total Assets Excluding Separate Accounts	$ 456,097,198	$ 819,168	$ 455,278,030
Assets from Separate Accounts Statement	13,782,332		13,782,332
Total Assets	$ 469,879,530	$ 819,168	$ 469,060,362

Liabilities, Surplus and Other Funds

Aggregate reserve for life contracts	$	336,336,067
Aggregate reserves for accident and health contracts		10,408,217
Liability for deposit-type contracts		6,570,743
Contract claims:		
Life		1,888,907
Accident and health		10,321,921
Premiums and annuity considerations for life and accident and health contracts received in advance		188,061
Provision for experience rating refunds		1,100,413
Other amounts payable on reinsurance		4,398,359
Interest maintenance reserve		4,914,839
Commissions to agents due or accrued-life and annuity contracts		1,057,854
General expenses		2,736,948
Transfers to Separate Accounts due or accrued		(130,679)
Taxes, licenses and fees due or accrued excluding federal income taxes		1,106,055
Amounts withheld or retained by company as agent or trustee		4,283
Amounts held for agents' account		1,069,599
Remittances and items not allocated		1,672,067
Asset valuation reserve		2,186,529
Reinsurance in unauthorized companies		2,510,436
Funds held under reinsurance treaties with unauthorized reinsurers		7,575,305
Aggregate write-ins for liabilities - unclaimed funds		370,985
Liabilities from Separate Accounts Statement		13,782,332
Total liabilities	$	410,069,241
Common capital stock	$	2,500,000
Preferred capital stock		3,000,000
Gross paid in and contributed surplus		1,305,774
Unassigned funds (surplus)		52,580,876
Less treasury stock at cost		395,528
Total Capital and Surplus	$	58,991,122
Total Liabilities and Capital and Surplus	$	469,060,363

Summary of Operations

Premium and annuity considerations	$154,380,239	
Considerations for supplementary contracts with life contingencies	2,034,228	
Net investment income	21,172,868	
Amortization of interest maintenance reserve	728,212	
Commissions and expense allowances on reinsurance ceded	41,965,278	
Miscellaneous income	333,670	
Total revenues		$220,614,495
Death benefits	5,705,823	
Annuity benefits	29,772,842	
Disability benefits and benefits under accident and health plans	78,648,374	
Surrender benefits and withdrawals for life contracts	990,435	
Interest and adjustments on contract or deposit-type contracts	417,660	
Payments on supplementary contracts with life contingencies	2,178,141	
Increase in aggregate reserves for life and accident and health contracts	9,965,907	
Commissions on premiums, annuity considerations and deposit-type funds	67,446,795	
Commissions and expense allowances on reinsurance assumed	778,566	
General insurance expenses	17,407,237	
Insurance taxes, licenses and fees, excluding federal income taxes	2,591,175	
Increase in loading on deferred and uncollected premiums	(4,420)	
Net transfers to or (from) Separate Accounts net of reinsurance	(4,996,124)	
Total underwriting deductions		$210,902,411
Net gain from operations before dividends to policyholders and federal income taxes		$ 9,712,084
Federal income taxes incurred		2,948,322
Net realized capital gains or (losses)		152,660
Net Income		$ 6,916,422

Capital and Surplus Account

Capital and surplus, December 31, 2004		$ 54,460,025
Net income	$ 6,916,422	
Change in unrealized capital gains	373,084	
Change in net deferred tax asset	131,141	
Change in nonadmitted assets	(239,443)	
Change in liability for reinsurance in unauthorized companies	(2,176,292)	
Change in asset valuation reserve	(436,088)	
Change in treasury stock	157,985	
Surplus adjustment: Paid in	36,787	
Dividends to stockholders	(232,500)	
Net change in capital and surplus for the year		4,531,097
Capital and surplus, December 31, 2005		$ 58,991,122

NOTES TO THE FINANCIAL STATEMENTS

--None--

EXAMINATION CHANGES

--None--

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Cost Allocation Agreement (page 12)

The Company should amend its cost allocation agreement to add FTJCC as a party and to reflect the changes to cost allocations methods. The amended agreement should be filed for approval with the DIFP in accordance with Section 382.195 RSMo. (Transactions Within a Holding Company System).

Monitoring of TPAs and MGAs (page 17)

By design, the detailed accounting records that support various accounting records are maintained by the MGAs and TPAs that produce and administer the underlying business. While the Company's audits and monitoring procedures related to the MGAs and TPAs were generally found to be adequate, the Company should ensure that it continues to diligently monitor its TPAs and MGAs due to the significant risk involved. In addition, the prior examination report included a recommendation that the Company implement a system allowing it access to detailed records maintained by the MGAs and TPAs. Although no significant or material problems were noted in our testing of underlying data or related accounts, it does not appear that the Company has made any significant progress towards implementing the prior recommendation. The Company should continue to try and integrate as much as practical its system with that of its MGAs and TPAs.

Unauthorized Reinsurers (page 19)

The Company has several arrangements under which it is in effect fronting the business produced by a TPA or MGA that is in turn ceded to a reinsurer related to the TPA or MGA. As many of these reinsurers are unauthorized, Fidelity Security maintains letters of credit and/or funds held to cover anticipated claims. It was noted, one of the Company's unauthorized reinsurers, Employers Life, became insolvent in 2005, and the letters of credit and funds held were insufficient to cover the run-out of the remaining claims. Although, Fidelity Security has procedures in place to monitor the TPA or MGA that produces the business and the affiliated reinsurer, the monitoring and reserving procedures relating to Employers Life and its associated MGA, ECU were not adequate.

The Company should have ensured that the actuarial methods utilized by its actuary factored in all relevant items such as lack of historical development data and the projected increases in business. Once the Company became aware of the increase in business, it should have taken steps to ensure that ECU was following the underwriting guidelines. Such steps could have included requiring more frequent and detailed reports from ECU, scheduling more frequent internal audits and ensuring that the individuals conducting the internal audits had the knowledge and expertise necessary to determine whether the underwriting guidelines were being followed. In the future, the Company should consider obtaining an additional actuarial opinion for some of the larger and/or new fronting arrangements and requiring the captive unauthorized reinsurers provide collateral equal to 125% of reserve balances. In addition, the Company should ensure it obtains adequate information regarding the financial condition of both the TPA/MGA and reinsurers and ensure that it adequately monitors compliance with the underwriting and marketing guidelines established for the TPA/MGA.

Reinsurance Accounting (page 21)

The Company has not corrected some of the reinsurance accounting problems noted in the prior examination. The Company is improperly including reinsurance recoverables on paid and unpaid loss due from reinsurers in the amounts reported on Page 2, line 14.3, "Other amounts recoverable from reinsurers," rather than on Page 2, line 14.1, "Amounts recoverable from reinsurers," as required by the NAIC Annual Statement Instructions. In addition, the Company is not reporting any reinsurance recoverables on paid losses on Schedule S, Part 2, column 6 of the Annual Statement. The Company should ensure that reinsurance recoverable amounts are correctly classified and reported in the Annual Statement.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Fidelity Security Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Angela Campbell, CFE, Bernie Troop, CFE, Larry Kleffner, CFE and Alvin Garon, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Andrew Balas, CFE, AES, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Timothy Harris, FSA, MAAA of Milliman USA, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of Jackson)

I, Mark A. Nance, 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 the 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.

Mark A. Nance

Mark A. Nance, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 6th day of Mar, 2007.

My commission expires: 10/11/10 Sandra D. Martin
Notary Public

NOTARY PUBLIC OFFICIAL SEAL STATE OF ILLINOIS
SANDRA D. MARTIN
MY COMMISSION EXPIRES
OCTOBER 11, 2010

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.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance, Financial Institutions and Professional Registration