

REPORT ON EXAMINATION
OF
SECURITY FIRST INSURANCE COMPANY
ORMOND BEACH, FLORIDA

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	3
HISTORY	4
GENERAL	4
CAPITAL STOCK	4
PROFITABILITY OF COMPANY	7
DIVIDENDS TO STOCKHOLDERS	7
MANAGEMENT.....	7
CONFLICT OF INTEREST PROCEDURE.....	9
CORPORATE RECORDS.....	9
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	9
AFFILIATED COMPANIES.....	10
ORGANIZATIONAL CHART	11
MANAGING GENERAL AGENCY AGREEMENT	12
FIDELITY BOND AND OTHER INSURANCE	12
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	13
STATUTORY DEPOSITS	13
INSURANCE PRODUCTS.....	13
TERRITORY.....	13
TREATMENT OF POLICYHOLDERS.....	13
REINSURANCE	14
CEDED	14
ACCOUNTS AND RECORDS	14
CUSTODIAL AGREEMENT.....	15
INVESTMENT MANAGER AGREEMENT	15
INFORMATION TECHNOLOGY REPORT	16
FINANCIAL STATEMENTS PER EXAMINATION	16
ASSETS.....	17
LIABILITIES, SURPLUS AND OTHER FUNDS	18
STATEMENT OF INCOME	19
COMMENTS ON FINANCIAL STATEMENTS	20
ASSETS.....	20
LIABILITIES.....	24

CAPITAL AND SURPLUS.....	24
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	25
SUMMARY OF FINDINGS.....	26
CONCLUSION	29

Tallahassee, Florida

March 19, 2010

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2008, of the financial condition and corporate affairs of:

**SECURITY FIRST INSURANCE COMPANY
140 SOUTH ATLANTIC AVE, SUITE 200
ORMOND BEACH, FLORIDA 32176**

hereinafter referred to as the "Company". Such report on examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2008, through December 31, 2008. This is the third year Risk-Focused Examination of the Company. This examination commenced with planning at the Florida Office of Insurance Regulation (Office), on September 21, 2009, to September 25, 2009. The fieldwork commenced September 29, 2009, and was concluded as of March 19, 2010. The examination was temporarily suspended from November 13, 2009, until February 22, 2010, due to significant delay in receiving requested company information including the audited financial statements of Security First Insurance Holdings, LLC, the Company's parent.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Demotech rating report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as

considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report on examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2007, along with resulting action taken by the Company.

General

The Company was party to Consent Order No. 81029-05-CO, filed April 8, 2005, regarding the application for the issuance of a certificate of authority. The Company failed to comply with the provision of the consent order which required the Company to maintain sufficient and adequate internal controls and supervision of external contractors providing services and performances under service agreements. There were seven control deficiencies identified. **Resolution:** The Company provided documentation confirming the remediation of these deficiencies.

Cash

Cash reported as \$9,751,423 was reduced by \$7,000,000 which represented a year end deposit in transit that was received on January 2, 2008. **Resolution:** The Company filed an amended 2007 annual statement on December 18, 2008 with the corrected reporting of deposits in transit. The Company subsequently complied with Section 625.012(1), Florida Statutes.

HISTORY

General

Security First Insurance Company (Company), a domestic stock company was licensed only in Florida. The Company was incorporated under Florida law on February 8, 2005, and commenced business on May 25, 2005

The Company was originally authorized to remove up to 16,000 policies from Citizens Property Insurance Company pursuant to a depopulation plan approved by the Office on April 22, 2005. The Company ultimately took out 12,211 policies in 2005 and 2,683 in 2006. Assumption of policies from other carriers which have elected to reduce their exposure in Florida, such as Vanguard and Nationwide, as well as new business from the voluntary market, has helped support policy levels.

The Company was authorized to transact the following insurance coverage in Florida as of December 31, 2008:

Fire
Homeowner's multi peril

The Articles of Incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	6,300
Number of shares issued and outstanding	6,300
Total common capital stock	\$6,300
Par value per share	\$1.00

Control of the Company was maintained by its owner, Security First Insurance Holdings, LLC (“SFIH”), who owned 100 percent of the stock issued by the Company. SFIH also owned the Company’s affiliated managing general agent, Security First Managers, LLC (“SFM”). The owners of the parent company were W. Lockwood Burt (45.005%), Harry R. Bleiwise (45.005%), and Ritchie RSLF, Inc. (9.99%).

Pursuant to Section 624.316, Florida Statutes, allowing for the examination of the affairs, transactions, accounts, and records of the controlling entity, the 2008 audited financial statements of the Company’s parent, SFIH were requested. Despite repeated subsequent requests and a temporary suspension of the examination done in part to provide additional time to produce the documents, the audited financial statements were not provided. The Company was in violation of Section 624.318 (2), Florida Statutes, which requires that all accounts, records, documents, files, information, assets and matters in their possession or control be made freely available to the Office or its examiners.

The stock of the Company has been pledged as collateral in connection with two loans entered into by SFIH and SFM in 2007. These loans were acquired in part to infuse capital into the Company. The current balance as of the end of fieldwork was approximately \$19,000,000. The Company was not in compliance with Rule 69O-143.046 (2) (d), Florida Administrative Code, requiring the disclosure in the Holding Company Registration Statement of any pledge of the insurer’s stock, including stock of any subsidiary or controlling affiliate, for a loan made to any member of the insurance holding company system.

The Company was not in compliance with Section 624.424 (1) (a), Florida Statutes, and Rule 69O-137.001 (4) (a) (1), Florida Administrative Code, which require that the annual statement be prepared in conformity with the *NAIC Annual Statement Instructions for Property-Casualty Companies*. The annual statement instructions require disclosure of transactions which involve guarantees or undertakings for the benefit of an affiliate or related party in Note 10 of the annual statement. The annual statement instructions require disclosure of assets “pledged as collateral” in General Interrogatories Part 1 #23.25.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements:

	2008	2007	2006
Premiums Earned	10,004,416	6,148,807	8,510,524
Net Underwriting Gain/(Loss)	(2,924,413)	944,678	(1,556,545)
Net Income	(2,097,051)	2,093,354	(1,135,565)
Total Assets	36,896,226	47,820,023	12,870,543
Total Liabilities	16,530,912	24,939,559	8,313,684
Surplus As Regards Policyholders	20,365,314	22,880,462	4,556,860

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2008.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

Directors

Name and Location

Harry Robert Bleiwise, Chairman
Boca Raton, Florida

Charles David Bleiwise
Boca Raton, Florida

Principal Occupation

Owner
Rider Insurance Agency

Vice President
Rider Insurance Agency

Susan Debra Bleiwise-Greenfeld Boca Raton, Florida	Treasurer Rider Insurance Agency
Charles Edward Lally Springfield, New Jersey	President Rider Insurance Agency
Wallace Lockwood Burt Ormond Beach, Florida	President Security First Insurance Company
Melissa Ann Burt Ormond Beach, Florida	Legal Counsel Security First Insurance Company
Werner Erich Kruck Ormond Beach, Florida	Senior Vice President Security First Insurance Company
Donald Gene Brocksmith Ormond Beach, Florida	Treasurer Security First Insurance Company

The Board of Directors (Board) in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Wallace Lockwood Burt	President
Donald Gene Brocksmith	Treasurer / Secretary
Werner Erich Kruck	Senior Vice President
Walter Theodore Zehnder	Vice President, Claims

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2008:

Executive Committee

Wallace Lockwood Burt
Harry Robert Bleiwise

Audit Committee

Charles Edward Lally
Charles David Bleiwise
Susan Debra Bleiwise-Greenfield

Investment Committee

Harry Robert Bleiwise
Charles Edward Lally

Compensation Committee

Harry Robert Bleiwise
Charles Edward Lally

Reinsurance Committee

Wallace Lockwood Burt
Charles Edward Lally
Werner Erich Kruck

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions, or purchase or sales through reinsurance during the period of examination.

AFFILIATED COMPANIES

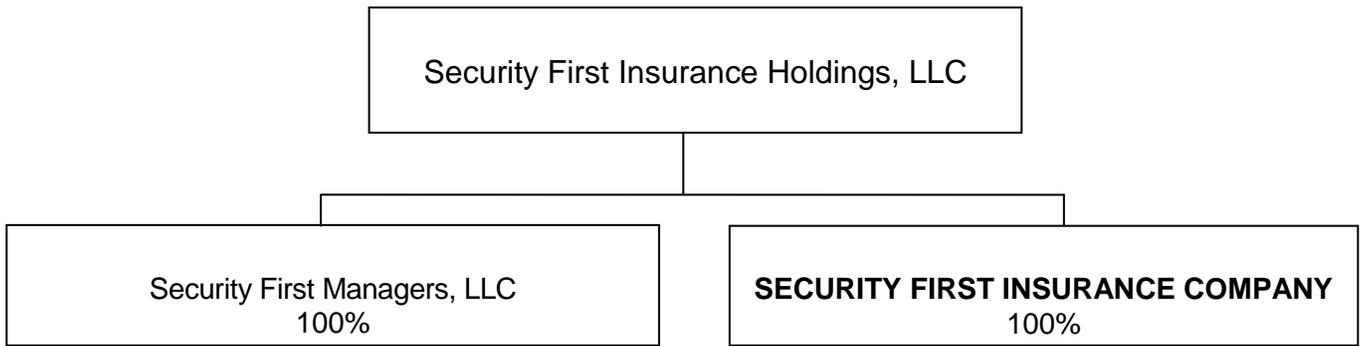
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest Holding Company Registration Statement was filed with the State of Florida on February 2, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

SECURITY FIRST INSURANCE COMPANY, INC.

ORGANIZATIONAL CHART

DECEMBER 31, 2008



The following agreement was in effect between the Company and its affiliate:

Managing General Agency Agreement

The Company entered into a managing general agency agreement with its affiliate, SFM, dated January 1, 2005. The agreement stated that SFM shall act as the managing general agent for the insurance policies issued in the State of Florida and that SFM had the authority to produce, administer and manage the policies and to adjust claims and provide other services in connection with such policies, including but not limited to marketing, claims analysis, general ledger accounting, information services, product and underwriting development and management, and catastrophe risk management on behalf of the Company. Under this agreement, the Company paid SFM 31% of premiums written and they were permitted to retain the \$25 per policy fee.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage with both a single loss and aggregate limit of liability of \$500,000. The Company was not in compliance with the suggested requirement of the NAIC Financial Condition Examiners Handbook (FCEH) guidelines (Exhibit R- Suggested Minimum Amounts of Fidelity Insurance) for the Company's exposure, for which a bond with a minimum \$600,000 to \$700,000 was recommended. **Subsequent event:** The Company increased its fidelity bond coverage to \$750,000, considered adequate by NAIC guidelines.

The Company also maintained Directors and Officers (D&O) Insurance, with an aggregate limit of \$5,000,000. A Commercial Excess Liability (Umbrella) Insurance Policy was also maintained offering business and personal property replacement cost coverage with aggregate limits of liability of \$5,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not participate in any pension, stock ownership or insurance plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Cash Deposit	\$ 300,000	\$ 300,000
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

INSURANCE PRODUCTS

The Company wrote Fire and Homeowners Multi Peril insurance policies.

Territory

The Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Ceded

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

The Company ceded risk under an 85 percent quota share agreement through May 31, 2008. As of June 1, 2008, the amount of risk ceded under the new quota share agreement was reduced to 75 percent. The Company purchased various excess of loss and catastrophe coverage policies on its retention. The Company ceded its written business to various authorized and unauthorized, US and non-US reinsurers. All unauthorized reinsurers provided a letter of credit and/or the Company utilized ceded balances payable to secure unauthorized reinsurance recoverables. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The Company utilized the reinsurance intermediary services of Guy Carpenter to assist in negotiating and preparing reinsurance treaties.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Ormond Beach, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the year 2008 in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Morgan Stanley Trust, N. A. The 2007 examination determined that the custody agreement was not in compliance with Rule 69O-143.042, Florida Administrative Code. A new custody agreement with Morgan Stanley Trust, dated December 29, 2008, was executed and approved by the Office.

Investment Manager Agreement

On May 23, 2005, the Company entered into an Investment Management Agreement with Morgan Stanley & Company Incorporated (Morgan Stanley) to serve as investment advisor and was responsible for implementing investment management decisions. Morgan Stanley provided management services in accordance with investment policies and guidelines provided by the Company.

Information Technology Report

INS Services, Inc. performed a computer systems evaluation on the Company. Results of the evaluation were noted in the IT report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

SECURITY FIRST INSURANCE COMPANY
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$15,065,231		\$15,065,231
Common stocks	2,200,466		2,200,466
Cash and short-term investments	1,029,248		1,029,248
Investment income due and accrued	162,138		162,138
Premiums and considerations:			
Uncollected premium	345,561		345,561
Deferred premium	3,532,215		3,532,215
Reinsurance:			
Amounts recoverable from reinsurers	3,633,982		3,633,982
Other amounts receivable under reinsurance contracts	9,358,750		9,358,750
Current federal and foreign income tax recoverable and interest thereon	803,405		803,405
Net deferred tax asset	483,477		483,477
Guaranty funds receivable or on deposit	281,753		281,753
Totals	<u>\$36,896,226</u>	<u>\$0</u>	<u>\$36,896,226</u>

SECURITY FIRST INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,593,007		\$1,593,007
Loss adjustment expenses	431,055		431,055
Other expenses	343,495		343,495
Taxes, licenses and fees	166,911		166,911
Unearned premiums	5,326,448		5,326,448
Advance premium	1,203,982		1,203,982
Ceded reinsurance premiums payable	6,134,618		6,134,618
Funds held by company under reinsurance treaties	154,617		154,617
Provision for reinsurance	58,000		58,000
Payable to parent, subsidiaries and affiliates	1,118,779		1,118,779
Total Liabilities	\$16,530,912	\$0	\$16,530,912
Common capital stock	6,300		6,300
Gross paid in and contributed surplus	22,293,700		22,293,700
Unassigned funds (surplus)	(1,934,686)		(1,934,686)
Surplus as regards policyholders	\$20,365,314	\$0	\$20,365,314
Total liabilities, surplus and other funds	\$36,896,226	\$0	\$36,896,226

SECURITY FIRST INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income	
Premiums earned	\$10,004,416
Deductions:	
Losses incurred	3,907,874
Loss expenses incurred	3,155,214
Other underwriting expenses incurred	\$5,865,741
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$12,928,829</u>
Net underwriting gain or (loss)	(\$2,924,413)
Investment Income	
Net investment income earned	\$884,742
Net realized capital gains or (losses)	(545,919)
Net investment gain or (loss)	<u>\$338,823</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(\$42,419)
Finance and service charges not included in premiums	191,260
Aggregate write-ins for miscellaneous income	(33,721)
Total other income	<u>\$115,120</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$2,470,470)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$2,470,470)
Federal & foreign income taxes	<u>(373,419)</u>
Net Income (Loss)	(\$2,097,051)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$22,880,462
Net Income	(\$2,097,051)
Change in net unrealized capital gains or losses	(357,301)
Change in net deferred income taxes	444,076
Change in non-admitted assets	(473,585)
Change in provision for reinsurance	(31,287)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>(\$2,515,148)</u>
Surplus as regards policyholders, December 31, 2008	<u><u>\$20,365,314</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Revenues and assets receivable of the Company were pledged as collateral for the loans entered into by SFIH and SFM.

The Company was not in compliance with the provisions of 625.012 (16), Florida Statutes, which describes admitted assets as those "...deemed by the office to be available for the payment of losses and claims." As pledged assets, those assets were not available for the payment of losses and claims.

The Company was not in compliance with Statement of Statutory Accounting Principles 4, Paragraph 2 which states "An asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others' access to it, and (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred. These assets shall then be evaluated to determine whether they are admitted." As pledged assets, the Company is not able to control others' access to those assets.

These reported receivables do not meet the requirements for admitted assets and accordingly, should be non-admitted. The Office has made the decision to allow the admission of these assets based upon management's agreement to amend the loan to specifically exclude all assets of the Company. Until an amended loan agreement has been approved by the Office

and ratified, the following letter from the representative of the current lenders will suffice to ensure that the assets currently pledged are under the control of the Company and are available for future claims. The Company is required to amend the loan agreements with language approved by the office by June 30, 2011.



April 1, 2010

Melissa Burt
Security First Insurance

Via email

Dear Melissa:

As representative for the Lenders (successors in interest to Brooke Credit) on loan 6273 and 6745 to Security First Insurance Holdings and Security First Managers, I am providing the following clarification of the security interest, UCC filing, and overall collateral on this loan.

This loan does not include a UCC filing or security interest in the assets of Security First Insurance Company (SFIC).

The collateral on this loan includes Security First Insurance Holdings and Security First Managers as debtors as well as a stock pledge of SFIC, which of course is contingent and subject to regulatory approval.

At loan inception, the attached letter was received from the Office of Insurance Regulation acknowledging the loan as well as the exclusion of SFIC as a secured interest.

Please let me know if you have additional questions.

Regards,

A handwritten signature in black ink that reads "Kelly M. Drouillard".

Kelly M Drouillard



OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

May 25, 2007

Mr. Wallace L. Burt
Security First Insurance Company
140 South Atlantic Avenue, Suite 400
Ormond Beach, FL 32176

RE: Security First Insurance Company ("Security First")

Dear Mr. Burt,

The Office of Insurance Regulation ("Office") has received your letter dated May 10, 2007, regarding the Loan agreement between Security First Insurance Holdings, LLC ("SFIH") and Brooke Credit Corporation ("BCC"). The Office has no objection to this transaction; however, please be reminded that none of Security First Insurance Company's assets can be in any way pledged as collateral for the loan between SFIH and BCC.

Thank you.

Sincerely,

Robert Ridenour
Office of Insurance Regulation

FINANCIAL SERVICES
COMMISSION

CHARLIE CRIST
GOVERNOR

ALEX SINK
CHIEF FINANCIAL OFFICER

BILL MCCOLLUM
ATTORNEY GENERAL

CHARLES BRONSON
COMMISSIONER OF
AGRICULTURE

ROBERT RIDENOUR • FINANCIAL EXAMINER/ANALYST SUPERVISOR • PROPERTY & CASUALTY FINANCIAL OVERSIGHT
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0329 • (850)413-5227 • FAX (850) 488-2935

Affirmative Action / Equal Opportunity Employer

Liabilities

Losses and Loss Adjustment Expenses

\$ 2,024,062

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

An independent actuarial review performed on behalf of the Office was in concurrence with this opinion.

Capital and Surplus

The surplus amount of \$20,365,314 meets the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**SECURITY FIRST INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

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

Surplus as Regards Policyholders December 31, 2008, per Annual Statement	\$20,365,314
---	--------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment Needed.			\$0
LIABILITIES			
No Adjustment Needed.			\$0
Net Change in Surplus:			\$0
Surplus as Regards Policyholders December 31, 2008, per Examination			\$20,365,314

SUMMARY OF FINDINGS

Compliance with previous directives

The Company took the necessary actions to comply with the recommendations made in the 2007 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2008.

Company Stock

The stock of the Company has been pledged as collateral in connection with two loans entered into by SFIH and SFM.

The Company was not in compliance with Rule 69O-143.046 (2) (d), Florida Administrative Code requiring the disclosure in the Holding Company Registration Statement of any pledge of the insurer's stock, including stock of any subsidiary or controlling affiliate, for a loan made to any member of the insurance holding company system. **We recommend that the Company comply with Rule 69O-143.046 (2) (d) Florida Administrative Code, and disclose all required information, including pledged stock, in all future holding company registration statements.**

The Company was not in compliance with the Annual Statement Instructions which require disclosure of transactions which involve guarantees or undertakings for the benefit of an affiliate or related party in Note 10 of the annual statement. **We recommend that the Company comply with Section 624.424 (1) (a), and Rule 69O-137.001 (4) (a) (1), Florida Administrative Code and disclose that the aforementioned loans, pledging the stock of**

SFIC as collateral, as required in Note 10 of the Notes to Financial Statements of the annual statement until such time as the loans have been repaid or the stock is no longer pledged as collateral.

Pledged Assets

Documents pertaining to the loans entered into by SFIH and SFM contain collateral statements which pledge revenues payable to the Company as collateral for those loans.

- The Company was not in compliance with the provisions of Section 625.012 (16), Florida Statutes, which describes admitted assets as those "...deemed by the office to be available for the payment of losses and claims." As pledged assets, those assets were not available for the payment of losses and claims.
- The Company was not in compliance with Statement of Statutory Accounting Principles 4, Paragraph 2. As pledged assets, the Company is not able to control others' access to those assets.

These reported receivables do not meet the requirements for admitted assets. **We recommend that the loan be amended to specifically exclude all assets of the Company, in compliance with Section 625.012 (16), Florida Statutes and Statement of Statutory Accounting Principles 4, Paragraph 2.**

Audited Financial Statements of Parent Company

Pursuant to Section 624.316, Florida Statutes, allowing for the examination of the affairs, transactions, accounts, and records of the controlling entity, the 2008 audited financial statements of the Company's parent, Security First Insurance Holdings, LLC were requested. Despite repeated subsequent requests and a temporary suspension of the examination done in part to provide additional time to produce the documents, the financial statements were not provided.

The Company was in violation of Section 624.318 (2), Florida Statutes, which requires that all accounts, records, documents, files, information, assets and matters in their possession or control be made freely available to the Office or its examiners. **We recommend that the Company comply with Section 624.318 (2), Florida Statutes, and provide the 2008 audited financial statements of Security First Insurance Holdings, LLC as requested.**

SUBSEQUENT EVENT

The Company's parent company, SFIH, made a capital contribution in the amount of \$2,500,000 on June 22, 2010.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Security First Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as Regards Policyholders was \$20,365,314, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John V. Normile, CFE, Ins Regulatory Insurance Services, Inc. (InsRis); Patricia Casey Davis, CPA, CFE, Supervisor, InsRis; Robert McGee, CFE, InsRis; Vetrechia Smith, Financial Specialist, Office; and Brian Dunn, CFE, INS Consultants, Inc, participated in portions of the examination. Mike Morro, ACAS, MAAA, INS Consultants, Inc. and James R. Neidermyer, FCAS, MAAA, INS Consultants, Inc. completed the actuarial portion of this examination. We also recognize Claude Granese, CPA, INS Services, Inc. participation in the examination.

Respectfully submitted,

James M. Pafford, Jr.
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation