

REPORT OF EXAMINATION
OF THE
TRANS WORLD ASSURANCE COMPANY
AS OF
DECEMBER 31, 2014

Filed on June 23, 2016

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San Francisco, California
May 5, 2016

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

Trans World Assurance Company

(hereinafter also referred to as the Company) at its home office located at 885 South El Camino Real, San Mateo, California 94402.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2010. This examination covered the period from January 1, 2011 through December 31, 2014.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Insurance Holding Company System Annual Registration Statement

Pursuant to California Insurance Code (CIC) Section 1215.4(b)(1), every insurer subject to Insurance Holding Company System Regulatory Act shall file a registration statement (also known as the Form B) with the Commissioner which shall contain current information about the capital structure, general financial condition, ownership, and management of the insurer and any person controlling the insurer. Pursuant to CIC Section 1215.4(b)(2), the Form B shall contain the identity and relationship of every member of the insurance holding company system. In accordance with CIC Section 1215(c), control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or hold proxies representing, more than 10 percent of the voting securities of any other person. The Form B filed during the examination period disclosed "None" to the question regarding ownership of 10% or more of voting securities of TWA Corp., the Company's parent. It was noted that American Fidelity Life Insurance Company (AFLIC), an affiliate, owned 10% of TWA Corp. stock as of December 31, 2014. The Company owned 21% of the stock of AMFI

Corp., AFLIC's parent. As these two insurance company groups have controlling interest in each other, the affiliates of AMFI Corp. and AFLIC are also affiliates of TWA Corp. and the Company, and should be reported as such. In addition, 53% of TWA Corp. stock is held in depositories, of which ownership could not be verified. It is recommended that the Company accurately complete "The Ultimate Controlling Person" section of Form B to comply with CIC Section 1215.4(b)(1) and report the identity and relationship of every member of the insurance holding company system to comply with CIC Section 1215.4(b)(2).

Pursuant to CIC Section 1215.4(b)(6), effective January 1, 2014, statements that the Board of Directors is responsible for overseeing corporate governance and internal controls and that the insurer's officers or senior management have approved, implemented, and continue to maintain and monitor corporate governance and internal control procedures shall be included in Form B filed with the CDI. It was noted that the Form B filed on April 2, 2014 and April 13, 2015 did not include the required statements. It is recommended that the Company comply with CIC Section 1215.4(b)(6) and include the required statements in its future Form B filings.

Annual Financial Reporting

Pursuant to California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 3, Article 3.3, Sections 2309.14(a) and 2309.14(f)(1), the Audit Committee shall be directly responsible for the appointment, compensation and oversight of the work of any accountant for the purpose of preparing or issuing the audited financial report; and shall require the accountant to report timely to the Audit Committee in accordance with the requirements of Statement of Auditing Standards (SAS) 61, Communication with Audit Committee. A review of the Board minutes showed no evidence that the Audit Committee was directly responsible for the appointment, compensation and oversight of the work of the independent certified public accountant, nor was there any indication that the accountant reported its findings to the Board as required under SAS 61. It is recommended that the Company implement procedures to ensure compliance with

CCR, Title 10, Chapter 5, Subchapter 3, Article 3.3, Sections 2309.14(a) and 2309.14(f)(1) as well as SAS 61. This is a repeat finding from the previous examination.

Annual Statement Instructions

Pursuant to the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners (NAIC), the Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The minutes of the Board of Directors shall indicate that the Appointed Actuary has presented such information to the Board or the Audit Committee. During the course of the examination, it was noted that the Appointed Actuary did not report to the Board of Directors or Audit Committee the items within the scope of the actuarial opinion during the period under examination; nor was there indication in the Board minutes that such report by the Appointed Actuary was made. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Pursuant to the NAIC Annual Statement Instructions, Schedule Y, Part 2, the Company should report transactions between insurers, and between insurers and non-insurers within the holding company system. The Company did not report mortgage loans with affiliates or reinsurance assumed and ceded to affiliates in Schedule Y, Part 2. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions. This is a repeat finding from the last examination.

Pursuant to the NAIC Annual Statement Instructions, Schedule D, Part 6, Section 1, Valuation of Shares of Subsidiary, Controlled or Affiliated Companies, the Company should report details regarding preferred and common stocks for each subsidiary, controlled, or affiliated company. The Company's Schedule D, Part 6, Section 1 was not completed for the 2014 year. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Pursuant to the NAIC Annual Statement Instructions, Notes to Financial Statements, Number 10, Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties, the Company should include disclosures of all material related party transactions. The Company's Notes to the Financial Statements, Number 10, Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties was not completed for the years 2013 and 2014, and was incomplete for the years 2011 and 2012. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Five Flags Banks, Inc.

It was noted during the examination that the Company is affiliated with Five Flags Banks, Inc., a bank holding company which owns Bank of Pensacola, The Warrington Bank, and Bank of the South, banks that the Company does business with and which share common management with the Company. Ownership information obtained from the Company, Annual Statements and the Annual Report of Holding Companies of Five Flags Banks, Inc. indicated ownership of 4.6% by the Company, 10.2% by TWA Corp., and 4.4% by American Fidelity Life Insurance Company. The Company did not disclose Five Flags Banks, Inc. and its subsidiary banks as affiliates in its Form B or the Annual Statement. Based on the amount of controlling interest, it is recommended that the Company recognize Five Flags Banks, Inc. as an affiliate, and make the required disclosures in its Form B and Annual Statement. It is also recommended the Company report its ownership in Five Flags Banks, Inc. as affiliated common stock in the Annual Statement, Schedule D, Part 2, Section 2.

COMPANY HISTORY

The Company was formed in California on October 3, 1962 and commenced business on December 19, 1963. TWA Corporation (TWA Corp.), a Delaware domiciled insurance holding company, owns all outstanding shares of the Company's common stock.

Capitalization

The Company is authorized to issue two million shares of Class A voting common stock with a par value of \$6 per share. As of December 31, 2014, there were 416,667 shares outstanding.

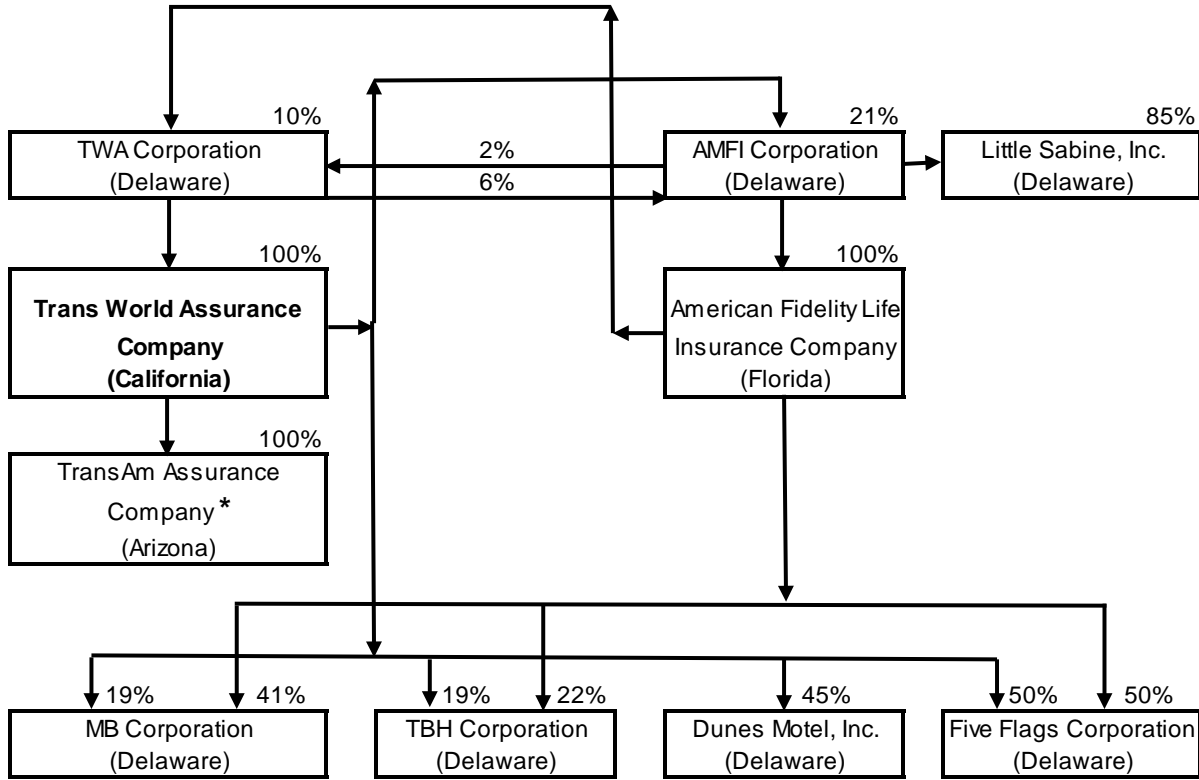
Dividends

The Company paid ordinary cash dividends to TWA Corp. totaling \$150,000 in 2012 and \$1,350,000 in 2013.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system in which TWA Corporation is the direct parent company. The Company is affiliated through ownership, management, joint investments, and shared operations with American Fidelity Life Insurance Company (AFLIC), and its direct parent, AMFI Corporation. The following abridged organization chart depicts some of the Company's relationships within its holding company system and with AFLIC's:

Trans World Assurance Company Organizational Chart with Affiliates (Abridged)
December 31, 2014



* Articles of Dissolution were filed on August 24, 2015 with the Arizona Corporation Commission and approved by the Arizona Department of Insurance.

The six members of the Board of Directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2014:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Earl Bartlett Tucson, Arizona	Retired
Marilyn Woodbury Hess Pensacola, Florida	Chairman of the Board American Fidelity Life Insurance Company
Charles B. Royals San Mateo, California	President Trans World Assurance Company
Nancy E. Royals Mesquite, Nevada	Secretary Trans World Assurance Company
Barbara J. Woodbury La Jolla, California	Vice President Trans World Assurance Company
William P. Woodbury Pensacola, Florida	President Bank of Pensacola

Principal Officers

<u>Name</u>	<u>Title</u>
Charles B. Royals	President
Nancy E. Royals	Secretary
Mary A. Vrooman	Treasurer

Management Agreements

Policy Issuance/Maintenance Agreement: Under this Agreement effective March 1, 1997, with amendments dated August 23, 2002 and February 9, 2007, the Company's affiliate, American Fidelity Life Insurance Company (AFLIC), provides the

majority of the Company's critical services including policy issuance, claims administration, accounting, investments, premium collection, data processing and financial reporting. In return, the Company pays a fee of \$5 per in-force policy to AFLIC. The Agreement was approved for use by the California Department of Insurance (CDI) on March 30, 2009.

Reimbursement Agreement: Under this Agreement effective April 4, 1982, the Company provides certain general administrative services to its parent, TWA Corporation (TWA Corp.). Services include facilities, stock ledger maintenance, and preparation of tax filings. The Agreement pre-dates prior notice requirements.

Federal Income Tax Agreement: Under this Agreement effective December 1, 2004, the Company agrees to file a consolidated federal income tax return with TWA Corporation and TransAm Assurance Company. The agreement was approved for use by the CDI on March 10, 2004.

Non-affiliated Service Agreements

Third Party Administration Service Agreement with Actuarial Management Resources (AMR): Under this Agreement effective January 1, 2010, AMR performs customer service, policy administration, system support, claims handling, and document maintenance for all Universal Life policies issued and/or reinsured by the Company. Commencing on the effective date, the Company, TransAm Assurance Company, and American Fidelity Life Insurance Company will pay on the first business day of each month a fee of \$10 per policy for new business issued and a policy maintenance fee of \$1.30 (\$1.15 if policies are issued by the Company) per policy in force, subject to a \$5,000 minimum.

Insurance Administrative System Sales and Services Agreement with Actuarial Management Resources (AMR): Under this Agreement, effective August 19, 2010, the Company and AMR mutually agree that AMR will sell, customize, implement, and

service their life insurance policy management system known as the Insurance Administration System which will provide the Company the ongoing administrative capabilities necessary to service their current policy owners, process claims, perform accounting processes, perform reinsurance processes, and perform information technology processes. Commencing on the effective date, the Company, TransAm Assurance Company, and American Fidelity Life Insurance Company will remit a payment of \$0.50 per active policy, subject to a \$25,000 minimum, on the first business day of each month through the term of the agreement.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write, or report life insurance premiums based on the policyholder's residence, in all fifty states and the District of Columbia, as well as the following countries and territories: Guam, Puerto Rico, Northern Mariana Islands, Canada, Japan, Korea, and the Philippine Islands. As of December 31, 2014, direct premiums written were \$10.1 million which included \$8.4 million from life insurance and \$1.7 million from individual annuities. Direct written premiums in the top five states in 2014 were as follows:

California	\$2,692,769 (21%)
Texas	\$1,631,185 (15%)
Florida	\$415,011 (5%)
North Carolina	\$408,473 (4%)
Virginia	\$301,276 (4%)

The Company offers term, whole and universal life insurance products mainly to military personnel. Distribution is through general and individual agents.

REINSURANCE

Assumed

As of December 31, 2014, the Company assumed an immaterial amount of reinsurance from its former subsidiary, TransAm Assurance Company, and is a participant in the Serviceman's Group Life Insurance Program.

Ceded

As of December 31, 2014, the Company ceded to TransAm Assurance Company, on a 50% coinsurance basis, the annual Renewable Term Rider and Guaranteed Insurability Option Riders of policies with limits of risk less than or equal to \$50,000 with the insured's last name beginning with the letters A – L.

Coinsurance

The Company and American Fidelity Life Insurance Company (AFLIC) are parties to three coinsurance agreements under which certain life policies and riders issued by the parties are automatically coinsured 50 percent in excess of each company's retention. Two agreements cover ordinary life and limited pay life or endowment policies. The Company's retention under these policies was \$35,000 through December 31, 1997. A separate treaty covers Annual Renewable Term and Guaranteed Insurability Option Riders. Retention under this treaty was \$50,000 through December 31, 1997. Effective January 1, 1998, the retention was increased to \$75,000 prospectively on all three contracts. Effective September 1, 2009, the Company entered into a Yearly Renewable Term Coinsurance Agreement with AFLIC whereby the Company and AFLIC agree to cede and accept universal life policies. The amount reinsured is 50% of the net amount at risk not to exceed \$75,000.

ACCOUNTS AND RECORDS

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of this review, some findings were noted and were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate the recommendations and make appropriate changes to strengthen its information systems controls

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2014

Summary of Operations and Capital and Surplus Account for Year Ended
December 31, 2014

Reconciliation of Capital and Surplus from December 31, 2011 through
December 31, 2014

Statement of Financial Condition
as of December 31, 2014

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 270,991,542	\$	\$ 270,991,542	
Common stock	32,285,336		32,285,336	
Mortgage Loans on real estate: First Liens	19,441,258		19,441,258	
Real Estate:				
Properties held for the production of income	14,162,734		14,162,734	
Properties held for sale	151,502		151,502	
Cash and short-term investments	6,342,756		6,342,756	
Contract loans	1,369,109	47	1,369,062	
Investment income due and accrued	4,102,918		4,102,918	
Premiums and considerations:				
Uncollected premiums and agents' balances in the Course of collection	36,203		36,203	
Deferred premiums, agents' balances and installments Booked but deferred and not yet due	1,220,199		1,220,199	
Amounts recoverable from reinsurers	13,119		13,119	
Current federal and foreign income tax recoverable and interest thereon	673,211	673,211		
Electronic data processing equipment and software	998	998		
Furniture and equipment	123,288	123,288		
Health care and other amounts receivable	<u>3,318,758</u>	<u>3,318,758</u>		
 Total assets	 <u>\$ 354,232,931</u>	 <u>\$ 4,116,302</u>	 <u>\$ 350,116,629</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life contracts			\$ 65,550,611	(1)
Liability for deposit-type contracts			189,565,198	(1)
Contract Claims: Life			908,184	
Provisions for policyholders' dividends and coupons payable:				
Dividends not yet apportioned			5,562	
Premiums and annuity considerations received in advance			3,382	
Interest maintenance reserve			337,047	
General expenses due or accrued			62,898	
Taxes, licenses and fees due or accrued			60,767	
Current federal and foreign income taxes			139,475	
Net deferred tax liability			2,366,177	
Amounts withheld or retained by as agent or trustee			1,543,520	
Remittances and items not allowed			2,836,145	
Asset valuation reserve			5,349,381	
Aggregate write-ins for liabilities			<u>117</u>	
 Total liabilities			 268,728,464	
Common capital stock		\$ 2,500,002		
Gross paid-in and contributed surplus		500,000		
Unassigned funds (surplus)		<u>78,388,162</u>		
Surplus as regards policyholders			<u>81,388,164</u>	
 Total liabilities, surplus and other funds			 <u>\$ 350,116,628</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2014

Statement of Operations

Premiums and annuity considerations	\$ 10,973,738
Net investment income	13,145,921
Amortization of interest maintenance reserve	101,494
Commissions and expense allowances on reinsurance ceded	691
Charges and fees for deposit-type contracts	<u>155,773</u>
Total	24,377,617
Death benefits	3,501,789
Annuity benefits	1,178,336
Surrender benefits and withdrawals for life contracts	1,778,703
Group conversions	(586)
Interest and adjustments on contract or deposit-type contract funds	7,578,085
Increase in aggregate reserves for life contracts	<u>1,450,536</u>
Total	15,486,863
Commissions on premiums, annuity considerations, and deposit-type contracts	1,693,370
Commissions and expense allowances on reinsurance assumed	5,099
General insurance expenses	2,825,903
Insurance, taxes, licenses and fees	505,999
Increase in loading on deferred and uncollected premiums	<u>(304,714)</u>
Total	<u>20,212,520</u>
Net gain from operations before dividends to policyholders and federal income tax	4,165,097
Dividends to policyholders	6,200
Federal and foreign income taxes incurred	(447,645)
Net income	<u>\$ 4,606,542</u>
Capital and Surplus Account	
Capital and surplus, December 31, 2013	\$ 77,139,542
Net income	\$ 4,606,542
Change in net unrealized capital losses	(441,049)
Change in net unrealized foreign exchange capital losses	(11,387)
Change in net deferred income tax	454,751
Change in nonadmitted assets	(47,404)
Change in asset valuation reserve	(311,069)
Aggregate write-ins for losses in surplus	<u>(1,761)</u>
Net change in capital and surplus for the year	<u>4,248,623</u>
Capital and surplus, December 31, 2014	<u>\$ 81,388,165</u>

Reconciliation of Capital and Surplus
from December 31, 2010 through December 31, 2014

Capital and Surplus, December 31, 2010			\$ 72,027,757
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 17,490,513	\$	
Net unrealized capital losses		2,505,410	
Change in net foreign exchange capital gains	36		
Change in net deferred income tax		907,833	
Change in nonadmitted assets		583,173	
Change in asset valuation reserve		1,513,445	
Dividends to stockholder		1,500,000	
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>1,120,282</u>	
Total gains and losses	<u>\$ 17,490,549</u>	<u>\$ 8,130,143</u>	
Net increase in capital and surplus			<u>9,360,406</u>
Capital and Surplus, December 31, 2014			<u>\$ 81,388,163</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Contracts and Liability for Deposit-Type Contracts

Pursuant to California Insurance Code Section 733(g), the California Department of Insurance (CDI) retained an independent actuary to perform an actuarial review of the aggregate reserves for life contracts and liability for deposit-type contracts. A CDI actuary reviewed and concurred with the work performed. Based on the review, the Company's December 31, 2014 reserves for the above liabilities were found to be reasonably stated and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

On July 2, 2015, the Board of Directors of both the Company and TransAm Assurance Company voted to proceed with the dissolution of TransAm Assurance Company due to the decrease in active policies and the increase in operating costs. The corporate dissolution was performed in accordance with the requirements of the Arizona Department of Insurance. Effective August 24, 2015, the Company and TransAm Assurance Company entered into a Novation, Assumption, and Release Agreement. On the novation date, TransAm Assurance Company transfers, delegates and assigns to the Company all its rights, interests, duties, obligations, responsibilities and liabilities as an insurer under the policies subject to the terms and conditions of the agreement.

The Company; its affiliates, American Fidelity Life Insurance Company and AMFI Corporation; The Warrington Bank; and Bank of the South entered into an Agreement for Extension of Loan Participation on June 30, 2015. The Agreement extended the original five-year loan with Little Sabine, Incorporated, an additional five years at the interest rate of 5% per annum, commencing June 30, 2015 based upon a thirty-year amortization with a five-year balloon. The new principal amount due is \$29,021,778.46.

The Company filed for an approval for this transaction with the California Department of Insurance. The approval is still pending.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Summary of Significant Findings – Insurance Holding Company System Annual Registration Statement (Page 2): It is recommended that the Company accurately complete “The Ultimate Controlling Person” section of Form B to comply with California Insurance Code (CIC) Section 1215.4(b)(1) and report the identity and relationship of every member of the insurance holding company system to comply with CIC Section 1215.4(b)(2).

Summary of Significant Findings – Insurance Holding Company System Annual Registration Statement (Page 3): It is recommended that the Company comply with CIC Section 1215.4(b)(6) and include the required corporate governance statements in its future Form B filings.

Summary of Significant Findings - Annual Financial Reporting (Page 3): It is recommended that the Company implement procedures to ensure compliance with CCR, Title 10, Chapter 5, Subchapter 3, Article 3.3, Sections 2309.14(a) and 2309.14(f)(1), as well as SAS 61. This is a repeat finding from the previous examination.

Summary of Significant Findings – Annual Statement Instructions (Page 4): It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions regarding the presentation by the Appointed Actuary of items within the scope of the Actuarial Opinion to the Board of Directors or the Audit Committee and document as such in the Board or Audit Committee minutes.

Summary of Significant Findings – Annual Statement Instructions (Page 4): It is recommended that the Company implement procedures to ensure compliance with the Annual Statement Instructions regarding reporting of Schedule Y, Part 2. This is a repeat finding from the last examination.

Summary of Significant Findings – Annual Statement Instructions (Page 4): It is recommended that the Company implement procedures to ensure compliance with the Annual Statement Instructions regarding reporting of Schedule D, Part 6, Section 1.

Summary of Significant Findings – Annual Statement Instructions, Notes to Financial Statements, Number 10 (Page 5): It is recommended that the Company implement procedures to ensure compliance with the Annual Statement Instructions regarding the presentation of the Notes to the Financial Statements.

Summary of Significant Findings – Five Flags Bank, Inc. (Page 5): It is recommended that the Company recognize Five Flags Bank, Inc. as an affiliate and make the required disclosures in its Form B and Annual Statement. It is also recommended the Company report its ownership in Five Flags Banks, Inc. as affiliated common stock in the Annual Statement, Schedule D, Part 2, Section 2.

Accounts and Records (page 11): As a result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its information systems controls.

Previous Report of Examination

Corporate Records – (Page 2): There was no indication in the Board minutes that the Board was directly responsible for the appointment, compensation and oversight of the work of the independent certified public accountant, nor was there any indication that the accountant reported its findings to the Board as required under Statement of Auditing Standards 61, Communication with Audit Committees. This is required by the

Annual Financial Reporting requirements in California Code of Regulations, Title 10, Sections 2309.14(a) and 2309.14(f)(1). It was recommended that compliance with these regulations be reflected in the Board minutes. The Company has not complied with this recommendation.

Management and Control, Management Agreement (Page 6): The Company's policyholder database is processed and maintained by a third-party data service provider, Actuarial Management Resources (AMR), through the Policy Issuance/Maintenance Agreement with American Fidelity Life Insurance Company. Due to the critical nature of the Company's policyholder data to its ongoing operations and to protect the Company's interests, it was recommended the Company become a direct party to the agreement with AMR. The Company has complied with this recommendation.

Accounts and Records – Information System Controls (Page 8): As a result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. The Company has partially complied with this recommendation.

Accounts and Records – Annual Statement Reporting (Page 8): The following was noted regarding Annual Statement Reporting:

- (a) The Company did not report the fees it pays to a servicing organization to the expense classification as prescribed by the National Associate of Insurance Commissioner (NAIC) Annual Statement Instructions. The Company has complied with this recommendation.

- (b) The Company did not report investments in mortgage loans with affiliates or reinsurance assumed and ceded to affiliates in Schedule Y, Part 2 as prescribed by the NAIC Annual Statement Instructions in regards to completion of Schedule Y, Part 2. The Company has not complied with this recommendation.

Comments on Financial Statement Items – Bonds (Page 13): It was recommended the Company file its custodial agreement with the California Department of Insurance pursuant to California Insurance Code Section 1104.9(c) or (d). The Company executed a new agreement with Union Bank, but still needs to file a certification that it is in the same form as previously approved by the Commissioner.

Comments on Financial Statement Items – Aggregate reserve for Life Contracts and Liability for Deposit-Type Contracts (Page 13): It was recommended that the Notes to the Financial Statements numbers 31A and 31C be consistent with the reserve methodologies and indicate the surrender value in excess of formulaic reserves and the presence of net premiums in excess of gross premiums. The Company has complied with this recommendation. It was also recommend the Risk Based Capital, C-3 cash flow testing be conducted using only the accumulation fund and annuities, and not the life reserves. The Company has complied with this recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/ _____

Kyle Dowell
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/ _____

Isabel Spiker, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California