

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION OF

NATIONAL SECURITY FIRE & CASUALTY COMPANY

ELBA, ALABAMA

AS OF DECEMBER 31, 2013

PARTICIPATION:
SOUTHEASTERN ZONE, NAIC
ALABAMA

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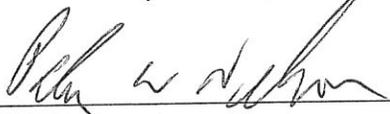
EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF COFFEE**

Palmer W. Nelson, CFE, being duly sworn, states as follows:

1. I have the authority to represent Alabama in the examination of National Security Fire & Casualty Company.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of National Security Fire & Casualty Company was performed in a manner consistent with the standards and procedures required by the State of Alabama.

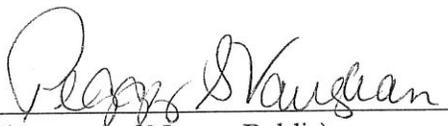
The affiant says nothing further.



Examiner-in-charge

Subscribed and sworn before me by PALMER W. NELSON on this
30th
day of January, 2015.

(SEAL)



(Signature of Notary Public)

My commission expires February 7th 2015.



ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

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DEPUTY COMMISSIONER
CHARLES M. ANGELL

CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
EDWARD S. PAULK
GENERAL COUNSEL
REYN NORMAN

Elba, Alabama
January 30, 2015

Jim L. Ridling, Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, AL 36104

Dear Commissioner:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

National Security Fire & Casualty Company
Elba, Alabama

at its home office located at 661 Davis Street, Elba, Alabama 36323 as of December 31, 2013. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate National Security Fire & Casualty Company.

SCOPE OF EXAMINATION

The Company was last examined for the five year period ended December 31, 2009, by the examiners representing the State of Alabama. The current examination covers the intervening period from the date of the last examination through December 31, 2013, and was conducted by examiners from Alabama, representing the Southeastern Zone, NAIC. Where deemed appropriate, transactions, activities and similar items subsequent to 2013 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama, 1975*, as amended, the Alabama Insurance Department regulations, bulletins and directives and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2013, and to identify the Company's prospective risks by obtaining information about the Company including corporate governance, by identifying and assessing inherent risks within the Company and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and NAIC *Annual Statement Instructions*.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology systems (IT) was conducted concurrently with the financial examination. The IT examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory and plan of operation, management and operations, claims, complaint handling, marketing and sales, policyholder services, producer licensing, underwriting and rating, and privacy standards.

Warren Averett, LLC was the Company's certified public accountants (CPAs) for the years under examination. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2013.

ORGANIZATION AND HISTORY

The Company was incorporated on January 1, 1959, under the laws of the State of Alabama, as a wholly owned subsidiary of National Security Insurance Company.

Various changes in the amounts and par value of the Company's capital stock occurred between the date of incorporation and 1985. From 1985 through 1991, the authorized capital remained 1,500,000 shares of \$1.00 par value common stock of which 1,000,000 shares were issued and outstanding.

On December 31, 1990, all of the Company's outstanding capital stock was contributed to a newly formed holding company, The National Security Group, Inc. (NSG), a Delaware corporation. Simultaneously, an extraordinary cash dividend of \$10,000,000 was declared by the Company's Board of Directors payable to NSG.

On June 30, 1992, the Company paid a stock dividend for 500,000 shares to NSG, thereby increasing the Company's paid up capital to \$1,500,000 consisting of 1,500,000 shares of \$1.00 par value common stock.

During 2005, the Company received a capital contribution of \$6,000,000 from its sole owner, The National Security Group, Inc. The Company's capital structure at December 31, 2013 consisted of 1,500,000 shares of common stock, issued and outstanding, for a total common stock par value of \$1,500,000. The Company also had \$6,360,000 in gross paid in and contributed surplus and reported \$18,457,374 of unassigned funds.

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation with ultimate control vested in its stockholders. At December 31, 2013, 100% of the Company's issued and outstanding common stock was owned by National Security Group, Inc., a Delaware corporation.

Board of Directors

Members elected to the Board of Directors by the sole shareholder and serving at December 31, 2013, were as follows.

<u>Director</u>	<u>Residence</u>	<u>Principal Occupation</u>
Jack Edward Brunson	Elba, Alabama	President of National Security Fire & Casualty Company and Omega One Insurance Company
William Lister Brunson, Jr.	Elba, Alabama	President, National Security Insurance Company and CEO of The National Security Group, Chairman of the Board of National Security Insurance Company, National Security Fire & Casualty Company, and Omega One Insurance Company
Brian Richard McLeod	Elba, Alabama	Treasurer and Chief Financial Officer of National Security Insurance Company, National Security Fire & Casualty Company, and Omega One Insurance Company

Committees

No committees of the board were appointed during the examination period.

Officers

Officers of the Company elected by the Board of Directors and serving at December 31, 2013 were as follows:

<u>Officer</u>	<u>Title</u>
William Lister Brunson	Chairman of the Board
Jack Edward Brunson	President
Brian Richard McLeod	Treasurer and Chief Financial Officer
Tonya Mathews Jones	Secretary
Robert Glover	Vice President
Timothy Wilson	Vice President
Kelly Holland Jackson	Controller
Laura Williams Jordan	Assistant Secretary

Management and Service Agreements

The following agreements between the Company and its affiliates were in effect during the examination period.

Holding Company Management Service Agreement

Effective July 1, 2010, National Security Group (the Holding Company) entered into a Holding Company Management Service Agreement among and between, National Security Fire and Casualty Company, Omega One Insurance Company and National Security Insurance Company.

The one year term of the Holding Company Management Service Agreement is renewable for successive one year periods until either party terminates or until modified, amended or superseded by a subsequent agreement.

The purpose is to provide remuneration for services provided by the Holding Company on behalf of and/or to the benefit subsidiaries. The primary intent of this fee is to cover operating cost of National Security Group related to providing additional risk management, board oversight and various other benefits to its subsidiaries. The Holding Company Management Fee is calculated and paid on a monthly basis.

Agreement for the Allocation of General and Administrative Expenses

On December 1, 2011, an Amendment to the Memorandum Agreement for Allocation of General and Administrative Expenses, Adjuster Employees and Income Taxes was filed. A Form D Prior Notice of a Transaction was filed with the Alabama Department of Insurance by the National Security Group, Inc. on behalf of the following Insurance Companies: National Security Insurance Company, Inc., National Security Fire & Casualty, Omega One Insurance Company, Inc. and Natsco, Inc. The amendment provided for allocation of common expenses, adjuster fees and income taxes between NSG and its subsidiaries.

In consideration for the settlement of common expenses adjuster fees and income taxes between NSG and its subsidiaries, each subsidiary agreed to pay the respective amounts to the respective Company as calculated using the most pertinent means which shall be construed as reimbursement of all direct costs.

This term of the agreement was for one year, renewable for successive one year periods until any party elects to terminate or until modified, amended or superseded by a subsequent agreement.

Conflicts of Interest

The conflict of interest statements filed by the officers and directors of the Company were reviewed for the examination period. There were no conflicts disclosed.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected and found to provide for the operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings of the stockholder and Board of Directors meetings from December 31, 2013, through the most recent meetings held at the conclusion of the examination were reviewed. The minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

HOLDING COMPANY AND AFFILIATE MATTERS

The Company was subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE §27-29-1 (1975). The Company's sole owner, National Security Group, Inc. was registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System.

Appropriate filings required under the Holding Company Act were made from time to time by the registrant. A review of the Company's filings during the period under examination indicated that all required filings were made.

Dividends to Stockholder

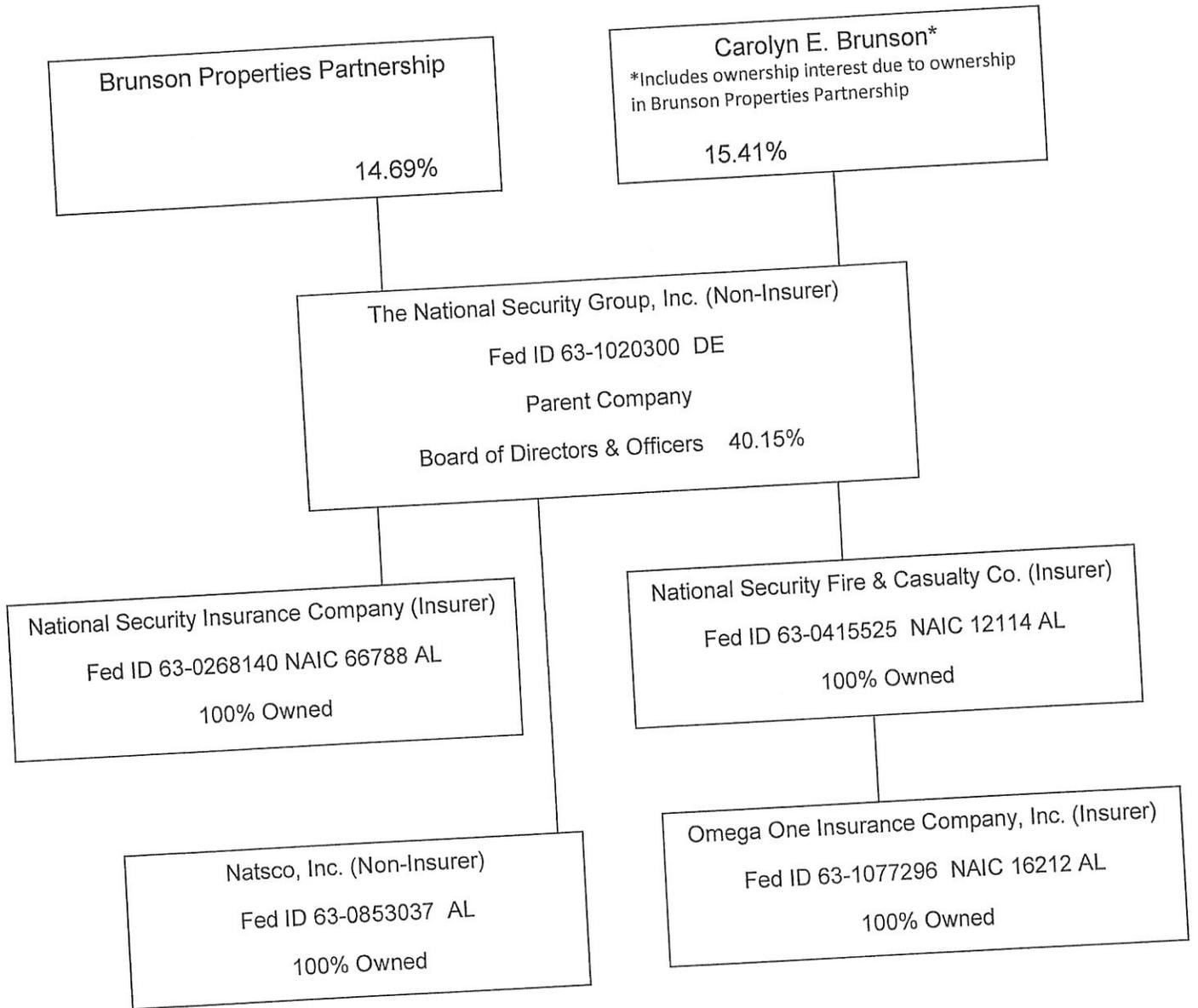
The Company paid stockholder dividends in the following amounts during the period under examination.

<u>Year</u>	<u>Dividends Paid</u>
2013	\$750,000
2012	\$800,000
2011	\$1,800,000
2010	\$2,800,000

Organizational Chart

The following chart presents the identities and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2013.

Organizational Chart



FIDELITY BONDS AND OTHER INSURANCE

The Company was insured by a Financial Institution Bond issued by Liberty Mutual Insurance Company; Boston Massachusetts at December 31, 2013. The bond provided dishonesty and fraud coverage for salaried officers, employees and contractors. The bond did not provide coverage for forgery or alteration and securities. The amount of the fidelity bond maintained by the Company exceeded the minimum amount suggested in the NAIC Financial Condition Examiners Handbook.

In addition, to the above coverage, the Company was named insured under policies affording the following protections at December 31, 2013:

- Property
- General Liability
- Electronic Data Processing Equipment
- Business Auto
- Excess Liability

The coverage and limits of the Company's insurance program were reviewed and were deemed to adequately protect the Company's interests.

EMPLOYEE AND AGENT WELFARE

National Security Fire and Casualty did not have any employees at December 31, 2013; therefore it had no employee benefit plans. All functions of the Company were performed by employees of National Security Insurance Company via the terms of an administrative services agreement. The Company utilized an independent agent distribution system.

U.S. Code Title 18 § 1033 Compliance

The examiners determined the Company's internal procedures for determining whether applicants for employment or potential contract employees have a felony conviction for a Section 1033 offense and the Company's internal procedure for determining if existing employees were convicted of a Section 1033 offense since the date of hiring was in compliance with ALA. ADMIN CODE 482-1-146-.11(2009).

STATUTORY DEPOSITS

At December 31, 2013, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows.

<u>State</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Alabama	\$1,102,937	\$1,155,336
Georgia	\$50,000	\$50,000
South Carolina	\$520,734	\$565,903

FINANCIAL CONDITION/GROWTH OF COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated.

	2013*	2012	2011	2010	2009*
Admitted Assets	\$64,700,462	\$60,657,433	\$61,009,516	\$68,814,171	\$69,462,530
Liabilities	38,383,096	36,568,634	35,550,765	38,293,153	40,720,923
Gross Written Premium	55,712,401	52,519,879	52,785,369	54,742,196	54,983,883
Net Losses Incurred	23,246,641	24,665,636	29,896,669	26,372,088	26,595,577
Net Loss Adjustment Expenses Incurred	4,259,431	4,704,279	5,047,031	3,542,721	4,050,395
Common Capital Stock	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Gross Paid in and Contributed Surplus	6,360,000	6,360,000	6,360,000	6,360,000	6,360,000
Unassigned Funds	18,457,374	16,228,799	17,598,751	22,661,017	20,564,417

*Per Examination

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company's primary lines of businesses were dwelling fire, mobile homeowners, limited homeowners, comprehensive mobile homeowners, and dwelling and tenant schedule options.

As of December 31, 2013, the Company's agency force consisted of 980 independent agents. The Company's claims office was located at its home office Elba, Alabama.

Territory

As of December 31, 2013, the Company was licensed to write business in the following states: Alabama, Arkansas, California, Florida, Georgia, Kentucky, Mississippi, Oklahoma, South Carolina, Tennessee, and West Virginia.

The Company wrote business on a surplus basis in Louisiana, Idaho, Missouri, and Texas.

Policy Forms and Underwriting

Rates and Statistical Reporting

The Company reports all written premium, paid and unpaid losses to Independent Statistical Service (ISS). The Company also subscribes to Insurance Services Offices (ISO) and American Association of Insurance Services (AAIS) manuals, forms and symbols. The Company independently filed changes to ISO forms with the Departments of Insurance in states the Company wrote business.

Policy Forms

The examiner indicated that all of the forms, endorsements and premium rates utilized in Alabama during the examination period had been properly filed and approved by the Alabama Department of Insurance.

Underwriting Practices

A random sample of 116 Alabama premiums was selected from a population of 121,780 premium transactions in 2013. The examiners recalculated the premium amounts and verified that the premium was calculated in accordance with the Company's underwriting guidelines and rate filings. It was verified that the Company's policies and endorsements were issued to the applicants in a timely manner. The examiner also reviewed samples Alabama canceled policies and rejected applications for insurance for completeness and accuracy and whether notices were sent timely. No noteworthy discrepancies were noted during the review.

Advertising and Marketing

The National Security Group, Inc. (NSG), the holding Company, did general corporate advertising with very little specific advertisement of its products. The Company had a limited number of advertisements appearing in insurance periodicals during the examination period. Brochures and advertising materials were distributed to potential customers through the Company's agents. The Company filed certificates of compliance by an authorized officer of the Company with its annual statements.

The Company's website (www.nationalsecuritygroup.com) provided information about its products, access to claim forms that can be submitted over the website, information to help customers find an agent, information for prospective agents, investor information, and instructions for customers to submit premium payments on-line.

Claims Review

The examiner selected a sample of 108 Alabama paid claims during the year 2013 from a population of 2,087 paid claims. The examiner completed a time study of the sample of Alabama paid claims. The claims were paid in a timely manner and were completely documented to support the ultimate claim settlement determination. The examiners also reviewed the Company's Alabama closed-without payment claims during the examination period. The Company had a total of 1,910 Alabama closed-without payment claims. A sample of 107 files was selected for review. The Company's closed-without payment claims were determined to be denied for a reasonable basis and referenced a specific policy provision. The Company provided the examiners with the Alabama population of litigated claims during the examination period. Due to the size of the population of Alabama Litigated claims, the examiner elected to review the entire population. The litigated claim files did not indicate any problematic claim handling practices.

Policyholder Complaints

The Company had 26 Alabama complaints recorded in its complaint register for the examination period. The examination indicated that the Company did not promptly respond to two of the Alabama Department of Insurance complaints in accordance with ALA. ADMIN. CODE 482-1-118.06(2003), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

The examiner verified that the Company responded to properly address all of the issues raised in the complaints recorded in the complaint register.

Compliance with Producer Licensing Requirements

Appointment of Producers

The examiner selected and reviewed a random sample of 117 commission payments paid to the Company's Alabama producers from a population of 221,177 transactions. It was determined that the Company paid commissions to two agencies that were not properly licensed and appointed in accordance with ALA. CODE §27-7-30(1975)(a), which states:

Each insurer appointing a producer in this state shall file with the commissioner in a format approved by the commissioner, a notice of appointment within 15 days from the date agency contract is executed or the first insurance application is submitted, whichever occurs first. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system by the filing of a single appointment request.

It was also determined that the Company was subject to ALA. CODE §27-7-4.1(1975), which states:

- (a) No insurer or producer shall pay, directly or indirectly, any commission or other valuable consideration to any person for services as a producer or service representative within this state unless the person holds a currently valid license as a producer or service representative as to the kind or class of business involved as required by this Chapter.
- (b) Any insurer or producer violating this section shall be liable for a fine in the amount of up to three times the amount the commission paid. The fine shall be levied and collected by the commissioner. Upon failure to pay the fine the commissioner may, in the commissioner's discretion, revoke the license of the producer or the insurer's certificate of authority.

The examiners determined that the commissions paid to the producers were equal to \$2,771.60 which represents the commissions paid prior to being appointed with the Company. The Company's management provided evidence of the correction of the issue mentioned above by adding the appointment of the agencies during the course of the examination.

Terminated Producers

The examiner selected a random sample of 84 Alabama terminated producer files from a population of 336. It was determined that the Company did not properly send termination notifications to the producers' last known address for 45 terminated producers in accordance with ALA. CODE §27-7-30.1(1975)(a), which states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

Privacy Standards

Compliance with ALA. ADMIN. CODE 482-1-122 (2002)

The Company's Privacy Notice was reviewed for compliance with ALA. ADMIN. CODE 482-1-122 (2002). The Company sent out the notices to new policyholders when a policy was written or renewed and annually thereafter. The Company provided notices to its customers that indicated the types of information collected, the way the information is used and the manner that it is collected. The notice also informed the customer that the Company did not disclose any information to any nonaffiliated third parties.

The Company's privacy notice emphasized and explained the Company's policies. The Company's policies followed the guidelines established in ALA. ADMIN. CODE 482-1-122 (2002).

The Company does not share customer and/or consumer personal information with any nonaffiliated third parties. The Company had proper controls in place for employees and producers for the disclosure of nonpublic personal financial, health or medical information.

REINSURANCE

Reinsurance Ceded

Property Catastrophe Excess of Loss Reinsurance Program

As of December 31, 2013, the Company had a property catastrophe agreement that involved four excess layers. The business of the Company's subsidiary, Omega One Insurance Company, was also reinsured under the agreement. The limits, retentions, and reinsurance premiums were applicable to the combined losses and premiums of the Company and its subsidiary.

Business Covered - Dwelling and commercial fire, allied lines, homeowners (section I only), mobile homes, inland marine, special multi-peril (section I only) and industrial fire in force at the inception of the reinsurance agreement or written or renewed during the term of the contract.

Term - January 1, 2013 to January 1, 2014, with respect to losses occurring during the term of the contract.

The retentions and limits were per occurrence. There was an additional loss limit for all occurrences within each layer that was twice the per occurrence limit. Each layer began where the previous layer ended leaving no gaps in reinsurance from the first layer to the fourth. The catastrophe reinsurance

program provided reinsurance for \$72.5 million of catastrophe losses from any one occurrence with a retention of \$4 million.

First Layer - \$6 million each occurrence, in excess of \$4 million.
 Second Layer - \$7.5 million each occurrence in excess of \$10 million.
 Third Layer - \$25 million each occurrence in excess of \$17.5 million.
 Fourth Layer - \$30 million each occurrence in excess of \$42.5 million.

Reinsurers and Percentage of Participation:

<u>Participating Reinsurer</u>	<u>1st Layer</u>	<u>2nd Layer</u>	<u>3rd Layer</u>	<u>4th Layer</u>
American Agricultural Insurance Company	NIL	NIL	NIL	2.00%
Amlin Bermuda Branch of Amlin AG	NIL	1.75%	NIL	4.65%
Allied World Reinsurance Company	5.00%	1.50%	4.00%	1.50%
Arch Reinsurance Company	NIL	7.50%	7.50%	6.00%
Employers Mutual Casualty Company	NIL	NIL	1.75%	NIL
Everest Reinsurance Company	11.00%	10.00%	11.25%	9.00%
Farm Mutual Reinsurance Plan Inc.	10.00%	NIL	3.00%	NIL
Lloyds London Syndicate 2001	23.00%	22.50%	23.50%	20.00%
Lloyds London Syndicate 2791	8.75%	8.505%	NIL	NIL
Lloyds London Syndicate 2791	3.75%	3.645%	NIL	NIL
Lloyds London Syndicate 2987	3.50%	4.00%	5.00%	7.00%
Lloyds London Syndicate 4444	NIL	2.28%	3.42%	2.39%
Lloyds London Syndicate 958	NIL	1.72%	2.58%	1.81%
Lloyds London Syndicate 2007	NIL	1.60%	2.00%	1.50%
Lloyds London Syndicate 2010	NIL	4.00%	5.00%	4.00%
Lloyds London Syndicate 780	NIL	3.00%	3.50%	2.70%
Lloyds London Syndicate 1955	NIL	NIL	5.00%	2.00%
Lloyds London Syndicate 1414	NIL	NIL	NIL	7.70%
Lloyds London Syndicate 1225	NIL	NIL	NIL	2.25%
R+V Versicherung AG	22.50%	22.50%	22.50%	21.00%
Taiping Reinsurance Company Limited	NIL	NIL	NIL	2.50%
Validus Reinsurance, Ltd.	12.50%	5.50%	NIL	2.00%

The catastrophe reinsurance was administered by a reinsurance intermediary, Guy Carpenter. Interest and liability agreements with the subscribing reinsurers were a part of the agreement. All communications between the parties were transmitted through the intermediary. Payments by the Company were deemed to constitute payment to the participating reinsurers. Payments by the reinsurers to the intermediary were deemed to constitute payment to the Company, to the extent that such payments were actually received by the Company. The agreement provided reinsurance for any one occurrence. The agreement had provisions for a reinstatement premium to reinstate the reinsurance subsequent to an occurrence. The Company had an additional reinsurance agreement for reinsurance reinstatement premium protection.

Reinsurance Assumed

Affiliated

The Company had a catastrophe reinsurance agreement with its subsidiary, Omega One Insurance Company (Omega) effective January 1, 2006. The agreement was renewed for successive one year terms on January 1 of each successive year. The agreement may be cancelled by either party giving the other 90 days advance notice of cancellation. The agreement covers Omega's business known as dwelling fire, allied lines, homeowners (section I only), and mobile home. Under the terms of the agreement, the Company agreed to reinsure catastrophe losses in excess of \$600,000 from any one occurrence. Omega does not currently have any policies of insurance outstanding.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums and losses data electronically. The Company maintained additional electronic workpapers, reconciliations and statements in its database of imaged records.

The Company's independent audit was performed by Warren Averett, a certified public accounting firm of Birmingham, Alabama.

Unclaimed Property

At December 31, 2013, there was an outstanding check dated August 11, 2009, in the amount of \$37.50 that was not escheated to the state of Alabama, Unclaimed Property Division. This was not in accordance with ALA. CODE §35-12-72 (1975) which states:

(a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property:

... (18) All other property, three years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.

All Alabama unclaimed property is to be included in the unclaimed property reports in accordance with the reporting procedures described in ALA. CODE §35-12-76 (1975).

FINANCIAL STATEMENTS

The financial statements included in this report were reported on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2013. Amounts shown in the comparative years 2010, 2011, and 2012 were compiled from the Company's copies of the filed Annual Statements. The statements were presented in the following order.

Statement of Assets, Liabilities, Surplus and Other Funds	Pages 16 and 17
Summary of Operations	Page 18
Capital and Surplus Account	Page 19

National Security Fire & Casualty Company
Statement of Assets, Liabilities, Surplus and Other Funds
for the Year Ended December 31, 2013

Assets

	Assets	Non- admitted Assets	Admitted Assets
Bonds	\$30,319,454	\$ 0	\$30,319,454
Common stocks	5,827,105	0	5,827,105
Real Estate: Properties held for the production of income	3,554,158	0	3,554,158
Cash and short-term investments	2,583,130	0	2,583,130
Other invested assets	3,183,507	0	3,183,507
Investment income due and accrued	234,576	0	234,576
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection	597,370	111	597,259
Premiums and considerations: Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,599,978	0	9,599,978
Reinsurance: Amounts recoverable from reinsurers	718,704	21,732	696,972
Net deferred tax asset	2,254,319	14,699	2,239,620
Electronic data processing equipment and software	5,413	0	5,413
Furniture and equipment, including health care delivery assets	46,379	46,379	0
Receivables from parent, subsidiaries and affiliates	975	0	975
Aggregate write-ins for other than invested assets:			
Cash value of Company Owned Life Insurance	5,858,316	0	5,858,316
Premium tax overpayments	2,228	2,228	0
Suspense items	1,125	1,125	0
Total Assets	<u>\$64,786,736</u>	<u>\$86,274</u>	<u>\$64,700,462</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Liabilities, Surplus and Other Funds

	\$6,236,685
Losses	770,529
Loss adjustment expenses	936,516
Commissions payable, contingent commissions and other similar charges	780,064
Other expenses	450,059
Taxes, licenses and fees	1,107,386
Current federal and foreign income taxes	26,700,648
Unearned premiums	586,104
Advance premium	550,548
Ceded reinsurance premiums payable	119,470
Funds held by company under reinsurance treaties	97,000
Provision for reinsurance	48,087
Payable to parent, subsidiaries and affiliates	\$38,383,096
Total Liabilities	\$ 1,500,000
Common capital stock	6,360,000
Gross paid in and contributed surplus	18,457,374
Unassigned funds (Note 7)	\$26,317,374
Surplus as regards policyholders (Note 1)	\$64,700,471
Totals	

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

National Security Fire & Casualty Company
Summary of Operations
for the Years Ended December 31, 2010, 2011, 2012, and 2013

	2010	2011	2012	2013
Underwriting Income				
Premiums earned	\$49,124,715	\$45,803,350	\$43,799,761	\$45,326,405
Deductions:				
Losses incurred	26,372,088	29,896,669	24,665,636	23,246,641
Loss adjustment expenses incurred	3,542,721	5,047,031	4,704,279	4,259,431
Other underwriting expenses incurred	16,383,163	17,187,814	17,213,893	17,056,127
Total underwriting deductions	46,297,972	52,131,515	46,583,808	44,562,200
Net underwriting gain or (loss)	2,826,743	(6,328,165)	(2,784,047)	764,206
Investment Income				
Net investment income earned	2,136,191	1,624,799	1,444,009	1,140,870
Net realized capital gains or (losses) less capital gains tax	854,112	312,658	2,972,341	619,959
Net investment gain (loss)	2,990,304	1,937,457	4,416,350	1,760,829
Other Income:				
Net gain (loss) from agents' or premium balances charged off	34,291	0	0	11,948
Finance and service charges not included in premiums	693,477	633,128	586,031	566,506
Aggregate write-ins for miscellaneous income:				
Miscellaneous income	10,136	6,555	12,132	6,929
Returned check fees	20,531	16,921	15,575	18,340
Total other income	758,435	656,604	613,738	603,723
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	6,575,482	(3,734,104)	2,246,041	3,128,758
Federal and foreign income taxes incurred	1,181,239	(1,697,704)	(222,904)	739,556
Net income	\$5,394,243	\$(2,036,400)	\$2,468,945	\$2,389,202

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

National Security Fire & Casualty Company
Capital and Surplus
for the Years Ended December 31, 2010, 2011, 2012, and 2013

	2010	2011	2012	2013
Surplus as regards policyholders, December 31 prior year	\$28,741,603	\$30,521,012	\$25,458,747	\$24,088,795
Net income	5,394,243	(2,036,400)	2,468,945	2,389,202
Change in net unrealized capital gains or (losses)	(569,224)	(853,465)	240,853	591,150
Change in net deferred income tax	(469,289)	(608,547)	274,943	(39,084)
Change in nonadmitted assets	520,679	313,147	16,057	64,311
Change in provision for reinsurance	(297,000)	(77,000)	319,000	(27,000)
Dividends to stockholders	(2,800,000)	(1,800,000)	(800,000)	(750,000)
Extraordinary dividend – Transfer of real estate to parent			(3,889,750)	
Change in surplus as regards policyholders	1,779,409	(5,062,265)	(1,369,952)	2,228,578
Surplus as regards policyholders, December 31 current year	<u>\$30,521,012</u>	<u>\$25,458,747</u>	<u>\$24,088,795</u>	<u>\$26,317,373</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Unassigned funds \$18,457,374

The above captioned amount is the same as reported by the Company in the 2013 Annual Statement.

Unassigned funds per Company	\$18,457,374
Examination increase/(decrease) to assets:	
Examination decrease/(increase) to liabilities:	
Total Unassigned funds per examination	<u>\$18,457,374</u>

COMMENTS AND RECOMMENDATIONS

Policyholder Complaints – Page 10

It is recommended that the Company respond to policyholder complaints in a timely manner in accordance with ALA. ADMIN. CODE 482-1-118.06 (2003), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

Compliance with Producer Licensing Requirements – Page 11

It is recommended that the Company appoint its agents and agencies in accordance with ALA. CODE §27-7-30(1975)(a), which states:

Each insurer appointing a producer in this state shall file with the commissioner in a format approved by the commissioner, a notice of appointment within 15 days from the date agency contract is executed or the first insurance application is submitted, whichever occurs first. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system by the filing of a single appointment request.

It is recommended that the Company send termination notifications to the terminated producers' last known address in accordance with ALA. CODE §27-7-30.1(1975)(a), which states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-

19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

Accounts and Records – Page 14

It is recommended that the Company properly include all unclaimed property in its unclaimed property filings to the respective states. Alabama unclaimed property is defined in ALA. CODE §35-12-72 (a) (1975), which states, “Property is presumed abandoned if its unclaimed by the apparent owner during the time set forth below for the particular property ... (18) All other property, three years after the owner’s right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.” All Alabama unclaimed property is to be included in the unclaimed property reports in accordance with the reporting procedures described in ALA. CODE §35-12-76.

Compliance with Previous Recommendations – Page 21

It is recommended that the Company comply with the Report of Examination recommendations.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of the contingent liabilities and pending litigation included an inspection of representations made by the Company’s managers, a review of the Company’s records and files for the period under examination, and a review of the records subsequent to the examination date. The reviews performed did not identify any items that would have a material effect on the Company’s financial condition in the event of an adverse outcome.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was performed to determine if the Company had complied with the recommendations made in the last examination report. The review indicated that the Company had complied with the recommendations contained in the most recent Report of Examination with the exception of the items noted below.

The previous examination report included a recommendation for the Company to respond to Alabama Department of Insurance complaints within ten business days in accordance with ALA. ADMIN. CODE 482-1-118.06(2003). The Company had two complaints that were not responded to within 10 business days. Further discussion of the issue is included in this report under the caption “POLICYHOLDER COMPLAINTS.”

The previous examination report included a recommendation for the Company to use one method, either the daily pro rata or monthly pro rata method, to calculate its unearned premiums in accordance with the requirements of SSAP No. 53. The Company complied with this recommendation and the Company uses the daily pro rata method to calculate all unearned premiums. However, there was a corresponding recommendation indicating that the Company must obtain approval from the Commissioner of any changes to its methods of calculating its unearned premium reserves in accordance with ALA. CODE §27-36-3. The Company did not

obtain the required approval before making the change to the policies that were previously calculated using the monthly pro rata method.

The previous report of examination included a recommendation for the Company to identify and properly escheat its unclaimed property in accordance with the unclaimed property laws. The examination indicated that the Company did not identify and escheat all of the unclaimed property. Further discussion of the issue is included in this report under the caption "ACCOUNTS AND RECORDS."

SUBSEQUENT EVENTS

The review of the events subsequent to December 31, 2013, did not reveal anything material in amount or noteworthy in nature.

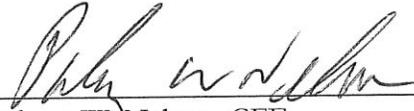
CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing National Security Fire & Casualty Company during the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Toni Bean, CFE, Theo Goodin, MCM, Mora Perkins-Taylor, MCM, Denise Riggins, Charles Turner, CISA, Examiners; and Brent Sallay, FCAS, MAAA, of Taylor Walker & Associates, Consulting Actuary; all representing the Alabama Department of Insurance, participated in the examination of National Security Fire & Casualty Company.

Respectfully submitted,



Palmer W. Nelson, CFE
Examiner-in-charge
Alabama Department of Insurance