STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

NATIONAL SECURITY LIFE AND ANNUITY COMPANY

CONDITION:	DECEMBER 31, 2005
DATE OF REPORT:	FEBRUARY 16, 2007

STATE OF NEW YORK INSURANCE DEPARTMENT

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AS OF

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EXAMINER:	MARK MCLEOD

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

Eliot Spitzer
Governor

Eric R. Dinallo
Superintendent

February 16, 2007

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22524, dated June 29, 2006 and annexed hereto, an examination has been made into the condition and affairs of National Security Life and Annuity Company, hereinafter referred to as “the Company,” at its home office located at 100 Court Street Binghamton, New York 13901.

Wherever “Department” appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2005 filed annual statement. (See item 5 of this report)

The examiner's review of the Company's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Company. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2005. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2005 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2005 to determine whether the Company’s 2005 filed annual statement fairly presents its financial condition. The examiner reviewed the Company’s income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners’ Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Officers' and employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the recommendations contained in the prior report on examination. The results of the examiner’s review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as Urbaine Insurance Company on February 7, 1973 and licensed as a property insurer on March 31, 1973. The Company was initially owned by subsidiaries of Societe Centrale L'Union des Assurances de Paris, France ("UAP"). On May 14, 1973, the Company became a licensed life insurer and changed its name to The Urbaine Life Insurance Company. The Company commenced business on July 25, 1975. Initial resources of $4,061,574, consisting of common capital stock of $1,000,000 and paid in and contributed surplus of $3,061,574, were provided through the sale of 10,000 shares of common stock for $406.15 per share. On June 27, 1977, the Company changed its name to The Urbaine Life Reinsurance Company. Ultimate control of the Company passed from UAP to SCOR S.A. in November of 1989. All of the shares of the Company's capital stock were repurchased by UAP in February 1990 and sold on March 31, 1993 to Security Life of Denver Insurance Company. On June 21, 1994 the Company changed its name to First ING Life Insurance Company of New York.

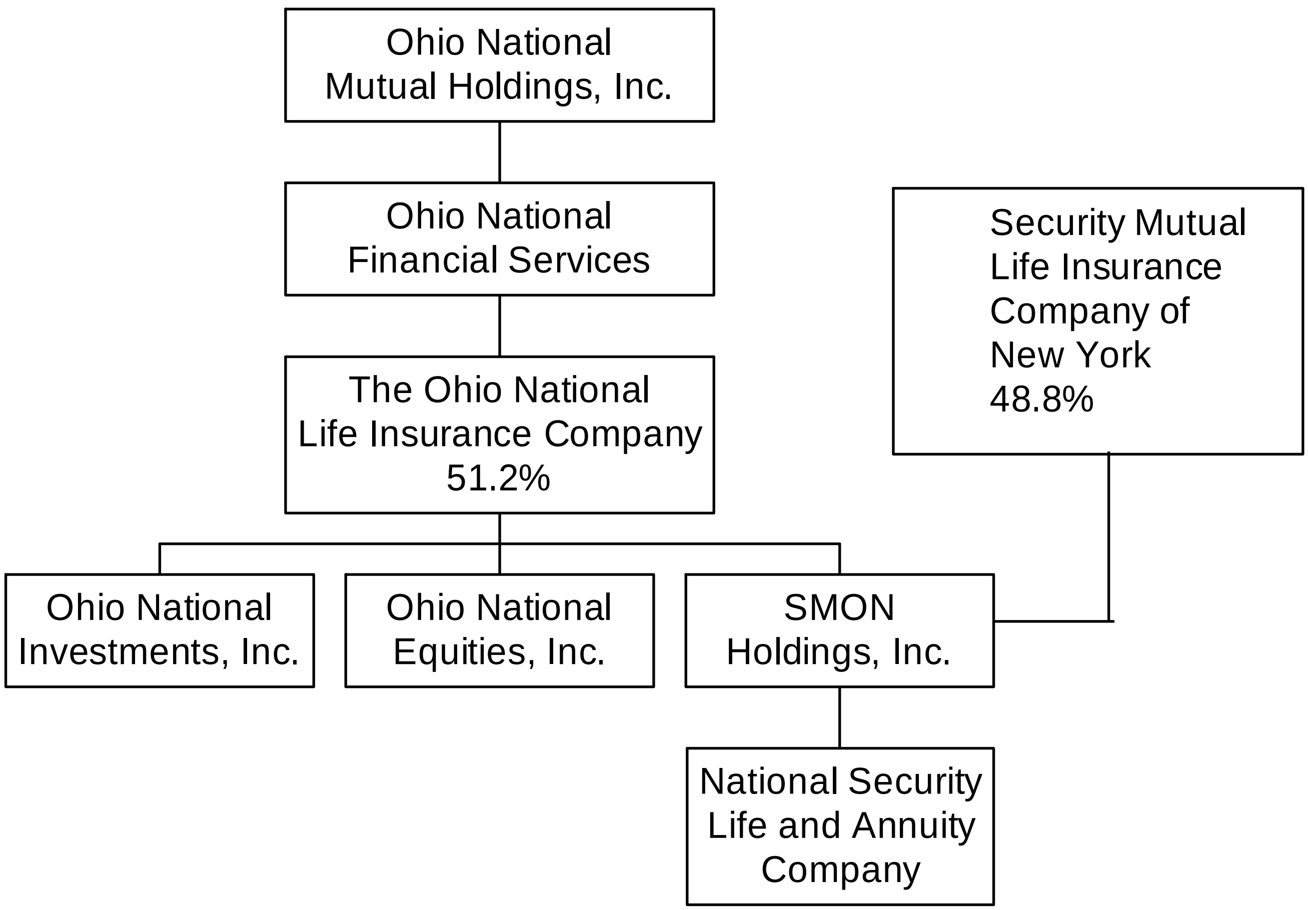
In 1997, the Company increased the par value of its capital stock to $250 by transferring $1,400,000 from paid in capital to capital stock. This increased capital stock to $2,500,000 and decreased paid in and contributed surplus to $21,929,976.

On May 3, 2001, Security Life of Denver Insurance Company, the former parent of the Company, entered into a stock purchase agreement with Security Mutual Life Insurance Company of New York ("SML"), Ohio National Financial Services ("ONFS") and SMON Holdings, Inc. ("SMON") to sell the Company (then First ING Life Insurance Company of New York) to SMON. After receiving regulatory approval for the sale on January 3, 2002, the transaction was closed on January 4, 2002. As a result of the sale, the Company changed its name from First ING Life Insurance Company of New York to National Security Life and Annuity Company effective January 4, 2002.

B. Holding Company

The Company is a wholly owned subsidiary of SMON, a Delaware holding company. SMON is in turn a jointly owned subsidiary of The Ohio National Life Insurance Company, an Ohio insurance company (51.2%) and Security Mutual Life Insurance Company of New York (48.8%), a New York insurance company. The ultimate parent of the Company is Ohio National Mutual Holdings, Inc.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2005 follows:



The Company had seven service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Administrative Services Agreement 29524A	1/4/02	The Ohio National Life Insurance Company	the Company	Administrative Services	2002 ($1,536,854) 2003 ($1,081,713) 2004 ($984,428) 2005 ($952,443)
Administrative Services Agreement 29524A	1/4/02	SML	the Company	Administrative Services	2002 ($430,594) 2003 ($228,347) 2004 ($191,704) 2005 ($88,681)
Investment Management Agreement 29524A	1/4/02	Ohio National Investments, Inc.	the Company	Investment Management Services	2002 ($17,225) 2003 ($46,389) 2004 ($6,845) 2005 ($4,303)
Management Agreement 29524A	1/4/02	Ohio National Financial Services, SML and SMON	the Company	Management Services	This agreement does not have an income /expense impact; Relates to Stock Purchase Agreement
Distribution Agreement 30476	8/14/02	The O.N. Equity Sales Company	the Company	Distribution Services	Distribution system channel agreement with no income /expense impact
Principal Underwriting Agreement 30475	8/1/02	Ohio National Equities, Inc.	the Company	Underwriting Services	2002 $ 0 2003 ($4,865) 2004 ($4,500) 2005 ($ 395)
Administrative Services Agreement 29524A	5/7/02	Ohio National Equities, Inc.	the Company	Administrative Services	2002 - $ 0 2003 ($151,529) 2004 ($169,260) 2005 ($156,969)

* Amount of Income or (Expense) incurred by the Company

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 21 directors, provided, however, that the number of directors shall be increased to not less than 13 directors within one year following the end of the calendar year in which the Company's admitted assets exceed $1,500,000,000. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2005, the board of directors consisted of ten members. Meetings of the board are held quarterly.

The ten board members and their principal business affiliation, as of December 31, 2005, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Bruce W. Boyea Binghamton, New York	Chairman of the Board, President, and Chief Executive Officer Security Mutual Life Insurance Company of New York	2002
Carson E. Beadle * Naples, Florida	Retired	2002
David L. Birchenough Star Lake, New York	President National Security Life and Annuity Company Chief Operating Officer and Chief Financial Officer Security Mutual Life Insurance Company of New York	2002
James A. Carrigg* Endwell, New York	Retired	2002
George E. Castrucci* Cincinnati, Ohio	Retired	2002
Raymond R. Clark* Cincinnati, Ohio	Retired	2002

Name and Residence	Principal Business Affiliation	Year First Elected
Ronald J. Dolan Cincinnati, Ohio	Vice President, Chief Financial Officer and Valuation Actuary National Security Life and Annuity Company Executive Vice President and Chief Financial Officer Ohio National Life Insurance Company	2002
David B. O'Maley Cincinnati, Ohio	Chairman, President and Chief Operating Officer Ohio National Life Insurance Company	2005
John J. Palmer Cincinnati, Ohio	Chief Executive Officer National Security Life and Annuity Company Vice Chairman Ohio National Life Insurance Company	2002
Frederick L. Wortman Vestal, New York	Senior Vice President, Administration and Systems and Chief Compliance Officer Security Mutual Life Insurance Company of New York	2005

* Not affiliated with the Company or any other company in the holding company system

In May 2006, David L. Birchenough retired from the board and was replaced by Howell M. Palmer III.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2005:

Name	Title
David L. Birchenough	President
John J. Palmer	Chief Executive Officer
Susan E. Mistretta	General Counsel and Secretary
Arthur J. Roberts	Treasurer
Ronald J. Dolan	Vice President, Chief Financial Officer and Valuation Actuary

Joseph M. Fischer is the designated consumer services officer per Section 216.4(c) of Department Regulation No. 64.

In May 2006, Howell M. Palmer III replaced David L. Birchenough as President.

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in 18 states and the District of Columbia. In 2005, all life premiums and annuity considerations were received from New York. Policies are written on a non-participating basis.

The Company has assumed and retroceded life and accident and health policies as a result of its prior operations as First ING Life Insurance of New York. During 2003, the Company began offering variable annuities through Ohio National Equities, Inc., (“ONEQ”), a registered broker dealer and affiliate of Ohio National Financial Services. These annuities are 50% reinsured under a modified coinsurance agreement. The Company only sold variable universal life insurance in 2004. To date, the business production of the Company has been relatively modest. However, Ohio National has recently established selling agreements with broker-dealers and banks to sell variable annuities. With the addition of significant accounts such as Smith Barney and A.G. Edwards, the Company now has over 65 broker-dealers with over 4,000 registered representatives distributing its products in New York. The Company’s product portfolio has been expanded to include new offerings and living benefits riders.

The Company’s agency operations are conducted through wirehouses, regional and independent broker dealers.

E. Reinsurance

As of December 31, 2005, the Company had reinsurance treaties in effect with 26 companies, of which 23 were authorized or accredited. The Company's life business is reinsured on a coinsurance, modified-coinsurance, and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $100,000, however the Company chooses not to retain any of the risk. The total face amount of life insurance ceded as of December 31, 2005 was $210,168,344, which represents 100% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $5,018,900, was supported by letters of credit and funds withheld.

The total face amount of life insurance assumed as of December 31, 2005 was $210,168,344.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

	December 31, 2000	December 31, 2005	Increase (Decrease)
Admitted assets	$21,220,573	$60,247,123	$39,026,550
Liabilities	$ 638,842	$39,511,844	$38,873,002
Common capital stock	$ 2,500,000	$ 2,500,000	$ 0
Gross paid in and contributed surplus	21,929,976	23,271,590	1,341,614
Unassigned funds (surplus)	(3,848,245)	(5,036,311)	(1,188,066)
Total capital and surplus	$20,581,731	$20,735,279	$ 153,548
Total liabilities, capital and surplus	$21,220,573	$60,247,123	$39,026,550

The increase in assets and liabilities is due to the initiation of selling activities in 2003. These efforts produced $27.1 million of variable annuity premiums and $1.4 million of separate account appreciation through the end of 2005.

The Company's invested assets as of December 31, 2005, exclusive of separate accounts, were mainly comprised of bonds (72.4%) and cash and short-term investments (23%).

The majority (94.4%) of the Company's bond portfolio, as of December 31, 2005, was comprised of investment grade obligations.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2001	2002	2003	2004	2005
Life insurance	$500,206	$ (119,154)	$ (51,740)	$ 49,601	$ 103,655
Individual annuities	0	(969,752)	(644,278)	(524,520)	(455,222)
Total	$500,206	$(1,088,906)	$(696,018)	$(474,919)	$(351,567)

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2005, as contained in the Company's 2005 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2005 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2005

Admitted Assets

Bonds	$33,191,508
Mortgage loans on real estate	
First liens	831,655
Cash, cash equivalents and short term investments	10,166,803
Receivable for securities	4,196
Investment income due and accrued	460,211
Reinsurance:	
Amounts recoverable from reinsurers	1,104,861
Other amounts receivable under reinsurance contracts	67,096
NSCC deposit	5,000
Fund revenue receivable	3,376
From separate accounts, segregated accounts and protected cell accounts	14,412,417
Total admitted assets	$60,247,123

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$13,849,019
Other amounts payable on reinsurance	1,467,700
Interest maintenance reserve	116,254
General expenses due or accrued	213,222
Transfers to Separate Accounts due or accrued	(503,229)
Taxes, licenses and fees due or accrued, excluding federal income taxes	27,355
Miscellaneous liabilities:	
Asset valuation reserve	196,041
Reinsurance in unauthorized companies	36,630
Payable to parent, subsidiaries and affiliates	108,099
Funds held under coinsurance	9,588,337
From Separate Accounts statement	14,412,417
Total liabilities	$39,511,844
Common capital stock	$ 2,500,000
Gross paid in and contributed surplus	$23,271,590
Unassigned funds (surplus)	(5,036,311)
Surplus	$18,235,279
Total capital and surplus	$20,735,279
Total liabilities, capital and surplus	$60,247,123

B. CONDENSED SUMMARY OF OPERATIONS

	2001	2002	2003	2004	2005
Premiums and considerations	$ 0	$ (425,268)	$ 6,817,202	$2,718,668	$ 4,215,752
Investment income	1,243,381	1,257,689	1,466,566	1,691,376	1,738,952
Net gain from operations from separate accounts	0	0	0	0	(1)
Commissions and reserve adjustments on reinsurance ceded	318,373	132,318	7,193,804	2,459,357	4,186,659
Miscellaneous income	5	47,395	10,174	220,685	210,324
Total income	$1,561,759	$ 1,012,134	$15,487,746	$7,090,086	$10,351,686
Benefit payments	$ 0	$ 45,293	$ 96,004	$ 270,461	$ 403,184
Increase in reserves	8,781	(473,141)	12,410,585	375,237	1,063,197
Commissions	141,194	139,923	754,439	371,301	532,787
General expenses and taxes	549,312	2,483,439	2,015,630	1,832,224	1,648,626
Net transfers to (from) separate accounts	0	0	803,482	4,781,893	7,094,318
Miscellaneous deductions	(5,957)	(94,471)	103,623	(66,111)	(38,860)
Total deductions	$ 693,330	$ 2,101,043	$16,183,763	$7,565,005	$10,703,252
Net gain (loss)	$ 868,429	$(1,088,909)	$ (696,017)	$ (474,919)	$ (351,566)
Federal and foreign income taxes incurred	368,223	0	0	0	0
Net gain (loss) from operations before net realized capital gains	$ 500,206	$(1,088,909)	$ (696,017)	$ (474,919)	$ (351,566)
Net realized capital gains (losses)	2,924	10,827	(46,241)	11,978	(450)
Net income	$ 503,130	$(1,078,082)	$ (742,258)	$ (462,941)	$ (352,016)

The $425,268 decrease in premiums and considerations and $473,141 decrease in reserves in 2002 was to the recapture of five policies by Security Life of Denver.

The increases in premiums, commissions and reserve adjustments on reinsurance ceded, increase in reserves, and commissions in 2003 are directly related to the commencement of the variable annuity selling activities. The direct premium for the variable annuities was $13.6 million for the year. The annuities are 50% reinsured under a modified coinsurance agreement between the Company and The Ohio National Life Insurance Company, an affiliated company.

The decreases in premiums, commissions and reserve adjustments on reinsurance ceded, increase in reserves, and commissions in 2004 are primarily related to the loss of momentum arising from the parent companies' attention on their potential demutualization and acquisition transaction.

The increases in premiums, commissions and reserve adjustments on reinsurance ceded, increase in reserves, and commissions in 2005 are primarily the result of the increased focus on writing variable annuity business.

The increase in miscellaneous income in 2004 is primarily due to changing the servicing fees associated with the block of acquired business with the former parent, and an increase in mortality and expense charges from the separate accounts.

The increase in benefit payments in 2005 was primarily due to annuity surrenders on policies in normal operations based on increased annuity production.

The increase in general expenses in 2002 is primarily due to transforming the Company after acquisition from a non-variable company to a variable company.

C. CAPITAL AND SURPLUS ACCOUNT

	2001	2002	2003	2004	2005
Capital and surplus, December 31, prior year	$20,581,731	$21,543,821	$22,491,647	$21,665,534	$21,158,687
Net income	$ 503,130	$ (1,078,082)	$ (742,258)	$ (462,941)	$ (352,016)
Change in net unrealized capital gains (losses)	292,357	821,429	(14,770)	(17,940)	0
Change in net deferred income tax	0	671,689	(272,058)	71,815	25,474
Change in non-admitted assets and related items	215,938	(779,259)	236,099	(65,491)	2,990
Change in liability for reinsurance in unauthorized companies	6,438	0	0	0	(36,630)
Change in asset valuation reserve	(55,773)	(29,565)	(33,126)	(32,290)	(45,279)
Surplus adjustments:					
Paid in	0	1,341,614	0	0	0
Amortization of Goodwill	0	0	0	0	(17,946)
Net change in capital and surplus for the year	$ 962,090	$ 947,826	$ (826,113)	$ (506,847)	$ (423,406)
Capital and surplus, December 31, current year	$21,543,821	$22,491,647	$21,665,534	$21,158,687	$20,735,281

The surplus adjustment in 2002 is a capital contribution the Company received from its parent in 2002.

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the recommendations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The examiner recommends that the Company perform annual time studies as required by the service agreement. Since the Company is no longer a part of the ING holding company system, the recommendation is no longer applicable.
B	The examiner recommends that the Company make annual submissions outlining any advances made under the revolving credit loan agreement. Since the Company is no longer a part of the ING holding company system, the recommendation is no longer applicable.

Respectfully submitted,

_______/s/____________
Mark McLeod
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Mark McLeod, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_______/s/___________________
Mark McLeod

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 22524

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

MARK MCLEOD

as a proper person to examine into the affairs of the

NATIONAL SECURITY LIFE AND ANNUITY COMPANY

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 29th day of June, 2006

HOWARD MILLS
Superintendent of Insurance

Superintendent