



GEORGE DALE
Commissioner of Insurance
State Fire Marshal

LEE HARRELL
Deputy Commissioner of Insurance

STATE OF MISSISSIPPI
Mississippi Insurance Department

501 N. West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079
(601) 359-3569
<http://www.doi.state.ms.us>

March 26, 2007

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Richard J. Hale, President
Bluebonnet Life Insurance Company
Post Office Box 22924
Jackson, MS 39225-2924

RE: Report of Examination as of December 31, 2005

Dear Mr. Hale:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

GEORGE DALE
COMMISSIONER OF INSURANCE

BY

Handwritten signature of J. Mark Haire in cursive script.

J. Mark Haire
Special Assistant Attorney General

GD/JMH/bs
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI**

**IN RE: REPORT OF EXAMINATION OF
BLUEBONNET LIFE INSURANCE COMPANY**

CAUSE NO. 06-5372

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination, together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999).

II.

That Bluebonnet Life Insurance Company is a Mississippi-domiciled company licensed to write Life; Accident and Health coverages.

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of Bluebonnet Life Insurance Company and appointed Mitch Rayborn, Examiner-In-Charge, to conduct said examination.

IV.

That on or about December 19, 2006, the draft Report of Examination concerning Bluebonnet Life Insurance Company for the period of January 1, 2003, through December 31, 2005, was submitted to the Department by the Examiner-In-Charge, Mitch Rayborn.

V.

That on or about January 26, 2007, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The Department received the Company's rebuttal in writing on or about February 23, 2007, stating no objections to the draft report.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of Bluebonnet Life Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

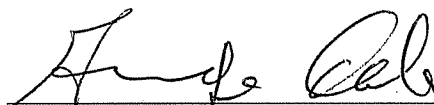
IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential information for a period of

ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, Bluebonnet Life Insurance Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that Bluebonnet Life Insurance Company take the necessary actions and implement the necessary procedures to properly and promptly comply with all recommendations contained in the Report of Examination.

SO ORDERED, this the 26th day of March 2007.

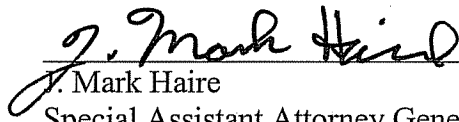


GEORGE DALE
COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 26th day of March 2007, to:

**Mr. Richard J. Hale, President
Bluebonnet Life Insurance Company
Post Office Box 22924
Jackson, MS 39225-2924**



J. Mark Haire
Special Assistant Attorney General

J. Mark Haire
Special Assistant Attorney General
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 2065



Mississippi Insurance Department

Report of Examination

of

BLUEBONNET LIFE INSURANCE COMPANY

**3545 Lakeland Drive
Flowood, Mississippi 39232**

As of December 31, 2005

**NAIC Group Code 1126
NAIC Company Code 68535
NAIC ETS No. MS029-C24**

STATE OF MISSISSIPPI
COUNTY OF HINDS

Mitch Rayborn, CFE, FLMI, being duly sworn, states as follows:

1. I have authority to represent the Commissioner of Insurance of the State of Mississippi in the examination of Bluebonnet Life Insurance Company.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have prepared the examination work papers and examination report, and the examination of Bluebonnet Life Insurance Company as of December 31, 2005, was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

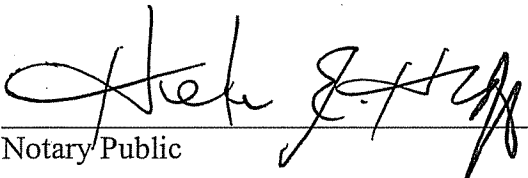
The affidavit says nothing further.



Mitch Rayborn, CFE, FLMI
Examiner

Subscribed and sworn before me this 6th day of March, 2007.

(SEAL)



Notary Public

My commission expires Notary Public State of Mississippi At Large
My Commission Expires: December 9, 2009
Bonded Thru Heiden, Brooks & Garland, Inc.

TABLE OF CONTENTS

Salutation.....	1
Introduction	2
Scope of Examination.....	2
History of the Company	2
Holding Company Structure.....	3
Organizational Chart.....	3
Related Party Transactions.....	5
Management and Control	5
Stockholder	5
Board of Directors.....	5
Officers	6
Conflict of Interest	6
Corporate Records	6
Fidelity Bond and Other Insurance.....	7
Officers', Employees' and Agents' Welfare	7
Territory and Plan of Operation	7
Reinsurance	8
Accounts and Records	9
Statutory Deposits	9
Financial Statements.....	10
Introduction.....	10
Statement of Assets, Liabilities, Surplus and Other Funds	11
Summary of Operations	12
Reconciliation of Capital and Surplus.....	13
Reconciliation of Examination Adjustments to Surplus	14
Market Conduct Activities	15
Commitments and Contingencies.....	15
Comments and Recommendations	16
Acknowledgment.....	17



GEORGE DALE
Commissioner of Insurance
State Fire Marshal

LEE HARRELL
Deputy Commissioner of Insurance

STATE OF MISSISSIPPI
Mississippi Insurance Department

501 N. West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079
(601) 359-3569
<http://www.doi.state.ms.us>

December 4, 2006

Honorable Alfred Gross
Financial Condition (E) Subcommittee
Southeastern Zone
Bureau of Insurance
1300 East Main Street
Richmond, Virginia 23219

Honorable Eleanor Kitzman
Director of Insurance
South Carolina Department of Insurance
300 Arbor Lake Drive, Suite 1200
Columbia, South Carolina 29223

Honorable George Dale
Commissioner of Insurance
Mississippi Insurance Department
501 North West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079

Dear Sirs and Madam:

Pursuant to Commissioner Dale's instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2005, of the affairs and financial condition of:

BLUEBONNET LIFE INSURANCE COMPANY
COMPANY LICENSE # 8700018
NAIC COMPANY CODE 68535
3545 Lakeland Drive
Flowood, Mississippi 39232

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Flowood, Mississippi, at the statutory home office of the Company. The report of examination is herewith submitted.

INTRODUCTION

This examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered Bluebonnet Life Insurance Company's (BBL or Company) operations and financial condition from January 1, 2003 through December 31, 2005, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

For purposes of this examination report, the examination period is defined as January 1, 2003 through December 31, 2005, and the examination date is defined as December 31, 2005. The Company was previously examined by the MID as of December 31, 2002.

SCOPE OF EXAMINATION

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with the law. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

This examination was conducted in accordance with procedures recommended by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

HISTORY OF THE COMPANY

The Company was incorporated under the laws of the State of Louisiana on June 11, 1984, and commenced business on that same date. The Company was originally capitalized by Louisiana Health Service Indemnity Company, d/b/a Blue Cross & Blue Shield of Louisiana, (BCBSLA) with 100,000 shares of \$1.00 par value capital stock and \$1,000,000 of gross paid in and contributed surplus.

Per the Articles of Incorporation, the Company was formed to enter into forms of insurance contracts insuring perils similar to those described within Miss. Code. Ann. § 83-19-1 "Class Two (2)(a)(b) – Life and Accident and Health", and to carry on any other business activities and financial services that an insurance company can lawfully conduct under the laws of the State of Louisiana.

On October 13, 1989, the Company was acquired by Capstone Corporation, a Mississippi for-profit holding company and wholly-owned subsidiary of Blue Cross & Blue Shield of Mississippi, a Mutual Insurance Company (BCBSMS). Shares are not actively traded and

neither management nor members of the Board of Directors hold any shares of BBL or Capstone Corporation.

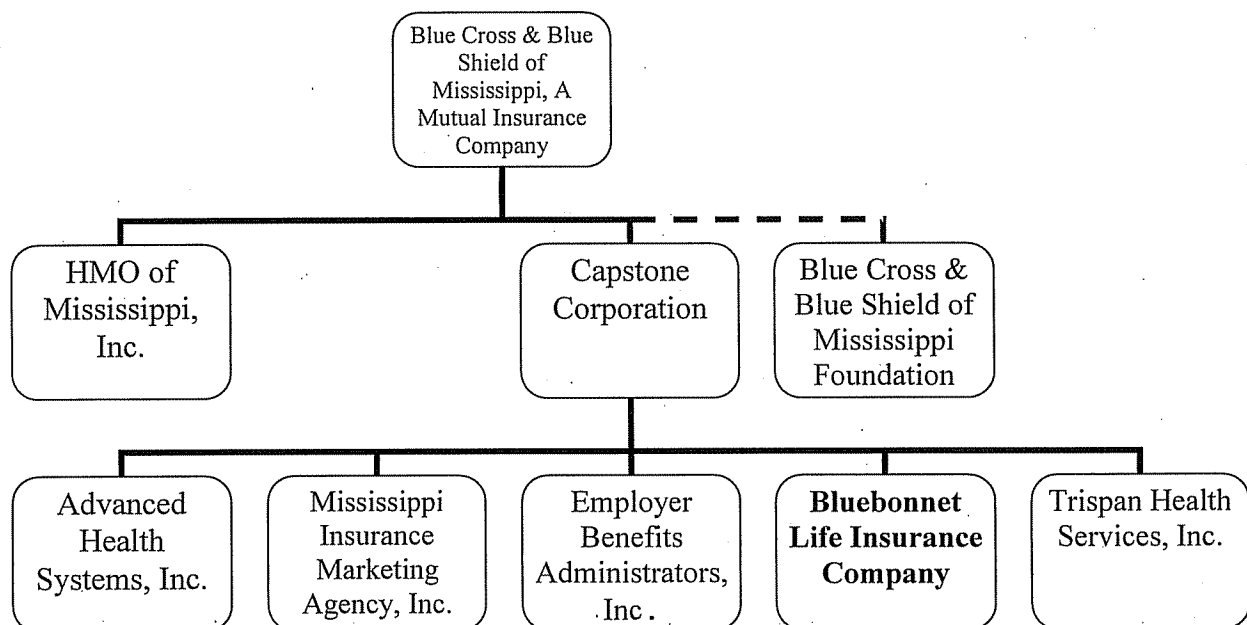
On February 18, 1997, the Board of Directors of BBL resolved to re-domesticate from Louisiana to Mississippi, effective at the close of business March 31, 1997. Amendments were made to the Bylaws and Articles of Incorporation, and approval was granted by the Commissioner of Insurance of the State of Mississippi for the Company to re-domesticate to Mississippi.

HOLDING COMPANY STRUCTURE

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company filed Holding Company Registration Statements, in conjunction with its parent and affiliates, with the MID in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. The statements and applicable amendments that were filed during the examination period were reviewed during the examination of the parent company, and it appeared that any changes and material transactions between the Company and its parent and affiliates were reported.

Organizational Chart

The following chart depicts the Company's organizational structure at December 31, 2005. A brief description of the Company's parent and affiliates, including their principal activities, follows the organizational chart.



BLUE CROSS & BLUE SHIELD OF MISSISSIPPI, A MUTUAL INSURANCE COMPANY (BCBSMS): This company was the ultimate controlling entity and was incorporated in 1947 under the laws of the State of Mississippi. It provided hospitalization and other health care benefits under contract to subscribers. This company also performed administrative services and processed claims for other Blue Cross & Blue Shield plans and for certain other programs, such as Medicare.

HMO OF MISSISSIPPI, INC.: This company, a wholly owned subsidiary of BCBSMS, was incorporated on June 21, 1995, under the laws of the State of Mississippi, as a health maintenance organization whose products were included within BCBSMS's managed care offerings.

CAPSTONE CORPORATION: This company, a wholly owned subsidiary of BCBSMS, was incorporated on November 2, 1984, under the laws of the State of Mississippi, as a for-profit holding company for the interests of BCBSMS.

BLUE CROSS & BLUE SHIELD OF MISSISSIPPI FOUNDATION: This company, a non-profit corporation, is a philanthropic affiliate of BCBSMS. It is a private, charitable foundation operated exclusively to fund and support 501(c)(3) organizations and programs that positively impact the health of Mississippians.

ADVANCED HEALTH SYSTEMS, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on December 14, 1984, under the laws of the State of Mississippi, as Automated Health Systems, Inc. with its business being the facilitation of electronic submission of claims by providers. The company's name was changed to Advanced Health Systems, Inc., and, in 1994, its business purposes were expanded to include utilization management, managed care services for clients, employers and groups; the development and maintenance of provider networks; providing health care provider management and consulting; and providing computerized information management.

MISSISSIPPI INSURANCE MARKETING AGENCY, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 19, 1986, under the laws of the State of Mississippi. The primary purpose of this company was that of a general insurance agency, which included the selling and brokerage of insurance coverage and the administration of claims and other services.

EMPLOYER BENEFITS ADMINISTRATORS, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 18, 1986, under the laws of the State of Mississippi, as a third party administrator for self-insured, partially insured and insured employee benefit plans.

TRISPAN HEALTH SERVICES, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on April 21, 2005, under the laws of the State of Mississippi. The primary purpose of this company was to execute contracts related to federal and/or state government health care programs.

Related Party Transactions

Tax Sharing Agreement with BCBSMS:

Effective January 1, 1996, the Company was a party to a Tax Sharing Agreement with BCBSMS which provided for an allocation of tax liability based on the amount of taxable income or taxable loss. This agreement was in effect during the examination period.

Service Agreement with Capstone Corporation:

The Company entered into a Service Agreement on January 1, 1997, with Capstone Corporation. Under the terms of this agreement, Capstone agreed to provide business services as requested to BBL. The services were to be provided by Capstone's parent company, BCBSMS, in compliance with a service agreement between Capstone and BCBSMS.

Property Lease with Capstone Corporation:

The Company entered into a Property Lease on January 1, 1997, with Capstone Corporation. Under the terms of this agreement, Capstone agreed to lease or sublease certain office space, furniture, fixtures, and equipment business services as requested to BBL. The property to be leased or subleased was provided by Capstone's parent company, BCBSMS, in compliance with a service agreement between Capstone and BCBSMS.

MANAGEMENT AND CONTROL

Stockholder

As of December 31, 2005, the Company had issued and outstanding two hundred fifty thousand (250,000) shares of common capital stock with a par value of \$4.00 per share. The common capital stock was owned 100% by Capstone Corporation, a for-profit holding company for the interests of BCBSMS. No dividends were paid to Capstone Corporation during the examination period.

Board of Directors

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board of Directors (Board). The members of the duly elected Board, along with their place of residence and principal occupation, at December 31, 2005, were as follows:

Name and Place of Residence

Principal Occupation

Arthur Claiborne Kelly, Chairman
Starkville, Mississippi

Administrator/Chief Executive Officer,
Oktibbeha County Hospital

Robert Mark Ledbetter, Vice Chairman
Tupelo, Mississippi

Vice President and General Manager,
WTVA, Inc.

Carol Puckett Daily
Jackson, Mississippi

President, The Everyday Gourmet, Inc.

James Herbert Finley
Morton, Mississippi

President and Chief Executive Officer, Craft-Co
Enterprises, Inc.

Richard John Hale
Madison, Mississippi

President and Chief Executive Officer - Blue
Cross & Blue Shield of Mississippi

Robin Young McCormick
West Point, Mississippi

Partner, Watkins, Ward and Stafford, CPAs,
PLLC

Ralph Brooks Vance, M.D.
Jackson, Mississippi

Professor, University of Mississippi Medical
School

Officers

The following officers were duly elected by the Board and held the following offices:

Richard John Hale
Jeffery Thomas Leber
Mary Carol Pigott
Robert Clark Williams

President and Chief Executive Officer
Chief Operating Officer and Treasurer
Vice President
Corporate Secretary

Conflict of Interest

The Company's parent maintained a policy whereby disclosure was made to the Board of BCBSMS of any material interest or affiliation on the part of any officer or director that was a conflict, or would likely be a conflict, with the official duties of such persons. This policy was approved by BBL. Written statements were signed annually by all officers and members of the Board.

CORPORATE RECORDS

The minutes of the meetings of the Stockholder and Board, prepared during the period under examination, were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included approval of the Company's investment transactions and actions of the Company's officers.

FIDELITY BOND AND OTHER INSURANCE

The Company's parent maintained a comprehensive corporate insurance program. This program included commercial general liability, and commercial property, as well as other policies, as deemed appropriate by BCBSMS' management. BBL was a named insured on a financial institution bond with a \$2,000,000 aggregate limit of liability, which exceeded the minimum fidelity coverage suggested by the NAIC for a company of this size.

During the review of these policies, it was noted that the financial institution bond in place at December 31, 2005, contained an exclusion regarding "loss resulting solely from any violation of any law regulating insurance companies, or of any rule or regulation made pursuant to any such law." It is recommended that the Company obtain fidelity coverage that does not exclude violations relating to the laws or regulation of insurance companies.

OFFICERS', EMPLOYEES' AND AGENTS' WELFARE

The directors and officers of the Company that served in similar capacities for BCBSMS participate in the retirement plan and benefits provided by BCBSMS. The Company also established an irrevocable Rabbi Trust for the benefit of directors not employed by BCBSMS in which BancorpSouth Bank serves as Trustee and the Company pays all administrative and Trustee's fees expenses.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to write life and accident and health insurance products in the states of Alabama, Arkansas, Florida, Louisiana, Mississippi and Tennessee. The majority of the business was written in Mississippi. The Company exited the voluntary dental and third party administrator markets during 2002 and primarily concentrated on group life and accident and health insurance during the examination period. The Company's products were marketed with BCBSMS' health products and almost all of the Company's revenues were generated by BCBSMS' agency force.

REINSURANCE

The Company utilized reinsurance agreements to minimize its exposure to large losses. A review of the reinsurance agreements and records revealed that the terms of the reinsurance agreements were being followed.

Reinsurance Intermediary:

The Company utilized the services of Innovative Reinsurance Group, a reinsurance intermediary, to place reinsurance with various reinsurers. Innovative Reinsurance Group was licensed and authorized by the Mississippi Insurance Department and had the authority to procure placement certificates from various reinsurers in the Company's reinsurance ceded program.

Ceded Reinsurance Agreements:

The following reinsurance agreements were active during the examination period and summarized as follows:

Agreements with Swiss Re Life & Health of America, Inc. (Swiss Re)

The Company was a party to a Yearly Renewable Term Reinsurance Agreement with Swiss Re of Stamford, Connecticut on life insurance ceded for all ages and ratings, with maximum limits of retention by the Company of \$30,000. The reinsurer's maximum limits of automatic reinsurance cessions of life insurance, ages 0-75, shall not exceed \$70,000. Provisions were also available for facultative reinsurance.

The Company was a party to an Automatic Reinsurance Agreement with Swiss Re of Stamford, Connecticut covering cessions by the Company of Group Term Life, Voluntary Group Term Life, Group Accidental Death and Dismemberment and Voluntary Accidental Death and Dismemberment reinsurance. Group life retention by the Company for automatic reinsurance was \$30,000.

Agreement with London Life Reinsurance Company (LLRC)

The Company was a party to a Group Long-Term Disability Facultative Reinsurance Agreement with LLRC of Blue Bell, Pennsylvania whereby LLRC facultatively reinsured 100% of group long-term disability policies with zero retention by BBL.

Agreement with American National Insurance Company (ANIC)

The Company was a party to a Cancer Excess of Loss Reinsurance Agreement with ANIC, of Galveston, Texas whereby ANIC accepted liability for the ultimate net loss in excess of \$20,000, not to exceed \$230,000 per insured.

ACCOUNTS AND RECORDS

The 2005 trial balance of the Company's accounts was reconciled to the balance sheet of the Company's statutory annual statement filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm.

The Company maintained its accounting records electronically through the utilization of an IBM model 2064-104 mainframe that was running the IBM z/OS operating system. The primary applications used during the examination period were IMS for claims processing, MABIL and BBIM for membership, CARMS for billing, and WALKER for financial systems.

It was noted in the examination that the Company's Corporate Disaster Recovery Plan was not in conformance with the criteria established in Part 1, Section IV, Subsection B Number 4. g. of the NAIC *Financial Condition Examiners Handbook*. It is recommended that the Company evaluate its Corporate Disaster Recovery Plan to ensure it is complete and up to date as referenced in the aforementioned section of the NAIC *Financial Condition Examiners Handbook*.

It was noted that the Company's safekeeping agreement with Trustmark National Bank did not conform to the standards established by the NAIC *Financial Condition Examiners Handbook*. During the examination and subsequent to the examination date, the Company executed a safekeeping agreement which conformed to the standards established by the NAIC *Financial Condition Examiners Handbook*.

STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. §§ 83-7-21 and 83-19-31(2). The following chart displays the Company's statutory deposits as of December 31, 2005:

<u>Arkansas</u>	<u>Par Value</u>	<u>Fair Value</u>
Certificate of Deposit	\$100,000	\$100,000
<u>Mississippi</u>		
U. S. Treasury Note	\$400,000	\$406,080
U. S. Treasury Note	\$200,000	\$192,126
Money Market Fund	<u>\$ 77,802</u>	<u>\$ 77,802</u>
<i>Total</i>	<u>\$777,802</u>	<u>\$776,008</u>

FINANCIAL STATEMENTS

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2005, a Summary of Operations for year ended December 31, 2005, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2005, and a Reconciliation of Examination Adjustments to Surplus at December 31, 2005.

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2005**

ASSETS

Bonds	\$ 22,373,478
Cash, cash equivalents and short-term investments	5,080,274
Other invested assets	92,736
Investment income due and accrued	250,707
Uncollected premiums in the course of collection	184,171
Amounts recoverable from reinsurers	56,279
Net deferred tax asset	87,148
Guaranty funds receivable or on deposit	299
Receivable from parent, subsidiaries and affiliates	8,394
Aggregate write-in for other than invested assets	31,108
Total Assets	<u>\$ 28,164,594</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$ 619,196
Aggregate reserve for accident and health contracts	12,057
Contract claims: Life	773,338
Contract claims: Accident and Health	4,840
Premiums for accident and health contracts received in advance	24,782
Interest maintenance reserve	124,326
Commissions to agents due or accrued	80,542
General expenses due or accrued	559,465
Taxes, licenses and fees due or accrued	50,811
Current federal and foreign income taxes	1,905,341
Amounts withheld or retained by company as agent or trustee	2,000
Asset valuation reserve	46,644
Payable to parent, subsidiaries and affiliates	33,806
Aggregate write-ins for liabilities	239,312
Total Liabilities	<u>4,476,460</u>
Common capital stock	1,000,000
Gross paid in and contributed surplus	899,660
Unassigned funds (surplus)	21,788,474
Total Liabilities, Surplus and Other Funds	<u>\$ 28,164,594</u>

**SUMMARY OF OPERATIONS
FOR YEAR ENDED DECEMBER 31, 2005**

Premiums and annuity considerations	\$ 7,580,840
Net investment income	1,130,986
Amortization of interest maintenance reserve	27,009
Aggregate write-ins for miscellaneous income	<u>100,876</u>
Total Income	<u>8,839,711</u>
Death benefits	2,631,276
Disability benefits and benefits under accident and health contract	52,990
Increase in aggregate reserves for life and accident and health policies and contracts	<u>(44,989)</u>
Total policy benefits	2,639,277
Commissions on premiums and annuity considerations	863,272
General insurance expenses	580,092
Insurance taxes, licenses, and fees	<u>277,501</u>
Total expenses	<u>4,360,142</u>
Net gain (loss) from operations before federal income taxes	4,479,569
Less: Federal income taxes incurred	<u>1,470,675</u>
Net income (loss)	<u>\$ 3,008,894</u>

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2005**

	2003	2004	2005
Capital and surplus, beginning of the year	\$16,055,365	\$18,647,511	\$21,007,320
Net income	2,095,701	2,330,820	3,008,894
Change in net deferred income tax	(7,129)	(260,531)	(467,513)
Change in non-admitted assets	515,807	300,470	152,061
Change in asset valuation reserve	(12,233)	(10,950)	(12,628)
Examination Adjustments	-0-	-0-	-0-
Capital and surplus, end of the year	\$18,647,511	\$21,007,320	\$23,688,134

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2005**

As a result of this examination, there have been no adjustments made to the admitted asset, liability, and surplus balances reported by the Company in the 2005 annual statement. The surplus reported by the Company of \$21,788,474 is accepted as reasonably stated for purposes of the balance sheet per the examination.

MARKET CONDUCT ACTIVITIES

A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct which included: advertising, agents' licensing, claims, complaints, and policy forms. No significant issues were noted.

COMMITMENTS AND CONTINGENCIES

As of the examination date, the Company was named as a defendant in certain litigation that was still pending at the report date. The Company intends to contest these claims and believes that meritorious defenses exist. The ultimate outcome of this litigation could not be reasonably determined for examination purposes; however, management of the Company does not anticipate any significant losses or costs to result.

COMMENTS AND RECOMMENDATIONS

1. It was noted that the financial institution bond in place at December 31, 2005, contained an exclusion regarding "loss resulting solely from any violation of any law regulating insurance companies, or of any rule or regulation made pursuant to any such law." It is recommended that the Company obtain fidelity coverage that does not exclude violations relating to the laws or regulation of insurance companies. (Page 7)

2. It was noted in the examination that the Company's Corporate Disaster Recovery Plan was not in conformance with the criteria established in Part 1, Section IV, Subsection B Number 4. g. of the NAIC *Financial Condition Examiners Handbook*. It is recommended that the Company evaluate its Corporate Disaster Recovery Plan to ensure it is complete and up to date as referenced in the aforementioned section of the NAIC *Financial Condition Examiners Handbook*. (Page 9)

ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner:	Amy M. Deer
Automation:	J. Scott Joyner, AES, CISA
Field Examination Manager	Joseph R. May, CPA, CMA, CFE, CIE, FAHM
Supervising Examiner:	Dale Miller, CPA, CFE
Examiner-in-charge:	Mitch Rayborn, CFE, FLMI
Examiner:	Kimberly D. Strong, CFE
Actuary:	Taylor-Walker and Associates, Inc.

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Mitch Rayborn, CFE, FLMI
Examiner-in-charge