



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>

June 6, 2007

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Clifton Joseph Saik, President
Magna Insurance Company
100 James Boulevard
Saint Rose, LA 70087-4059

RE: Report of Examination as of December 31, 2005

Dear Mr. Saik:

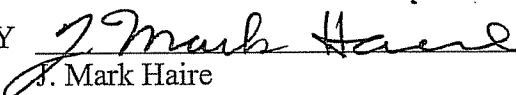
In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

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 
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
 MAGNA INSURANCE COMPANY**

CAUSE NO. 06-5291

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 Magna Insurance Company is a Mississippi-domiciled Company licensed to write Life; Accident and Health; and Credit Life, Credit Health and Accident 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 Magna Insurance Company and appointed Brian Spong, Examiner-In-Charge, to conduct said examination.

IV.

That on or about April 19, 2007, the draft Report of Examination concerning Magna Insurance Company for the period of January 1, 2003 through December 31, 2005, was submitted to the Department by the Examiner-In-Charge, Brian Spong.

V.

That on or about May 9, 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 15-day period to submit any rebuttal to the draft report. The Department received the Company's response on or about May 29, 2007, and in response thereto, minor revisions were made 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 and all relevant examiner work papers and the Company's rebuttal, that the Report of Examination of Magna Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

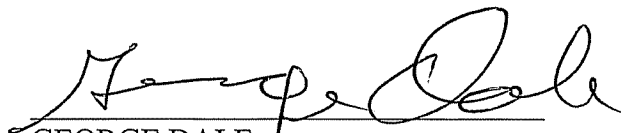
IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential 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, Magna 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 Magna Insurance Company take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

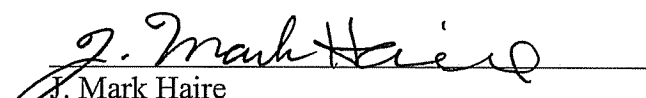
SO ORDERED, this the 6th day of June, 2007.


GEORGE DALE
COMMISSIONER OF INSURANCE

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 6th day of June, 2007, to:

**Mr. Clifton Joseph Saik, President
Magna Insurance Company
100 James Boulevard
Saint Rose, LA 70087-4059**


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

Magna Insurance Company

**One Hancock Plaza
2510 14th Street
Gulfport, Mississippi 39501**

As of December 31, 2005

**NAIC Company Code 61018
NAIC ETS No. MS029-C17**

MAGNA INSURANCE COMPANY
EXAMINATION REPORT TABLE OF CONTENTS
DECEMBER 31, 2005

Examiner Affidavit.....	1
Salutation.....	2
Introduction	3
Scope of Examination	3
History of the Company	3
Holding Company Structure.....	4
Management and Control	5
Corporate Records.....	6
Fidelity Bonds and Other Insurance	6
Officers', Employees', and Agents' Welfare	6
Territory and Plan of Operation	6
Reinsurance	7
Accounts and Records	7
Statutory Deposits	7
Financial Statements:	
Introduction	8
Statement of Admitted Assets, Liabilities, Surplus and Other Funds	9
Summary of Operations.....	10
Reconciliation of Capital and Surplus	11
Reconciliation of Examination Changes to Surplus and Other Funds	12
Market Conduct Activities	13
Compliance with Previous Examination Recommendations.....	14
Commitments and Contingencies.....	15
Comments and Recommendations	15
Subsequent Events.....	16
Acknowledgement.....	17

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

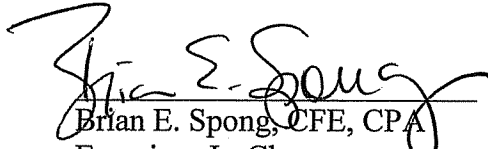
State of Mississippi,

County of Hinds,

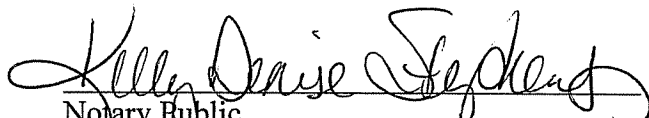
Brian E. Spong, CFE, CPA, being duly sworn, states as follows:

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

The affiant says nothing further.


Brian E. Spong, CFE, CPA
Examiner-In-Charge

Subscribed and sworn before me by Brian Spong on May 29, 2007.


Notary Public

(SEAL)

My commission expires MY COMMISSION EXPIRES JULY 7, 2007



GEORGE DALE
Commissioner of Insurance
State Fire Marshal

LEE HARRELL
Deputy Commissioner

STATE OF MISSISSIPPI
Mississippi Insurance Department

501 N. West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079
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April 10, 2007

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

Honorable Julie McPeak
Executive Director
Secretary, Southeastern Zone
Kentucky Office of Insurance
Post Office Box 517
Frankfort, Kentucky 40602-0517

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee
Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
Post Office Box 1157
Richmond, Virginia 23218

Honorable Merle Scheiber
Director
Secretary, Midwestern Zone
South Dakota Division of Insurance
Department of Revenue & Regulation
445 East Capitol Avenue, 1st Floor
Pierre, South Dakota 57501-3185

Honorable Kent Michie
Commissioner
Secretary, Western Zone
Utah Department of Insurance
3110 State Office Building
Salt Lake City, Utah 84114-1201

Dear Sirs and Madam:

Pursuant to the instructions and authorization from the Commissioner of Insurance for the State of Mississippi, and in compliance with statutory provisions, an examination as of December 31, 2005 has been conducted of the affairs and financial condition of:

MAGNA INSURANCE COMPANY
(NAIC COMPANY CODE 61018; NAIC-ETS No. MS029-C17)

Statutory Home Office:

One Hancock Plaza
2510 14th Street

Gulfport, Mississippi 39501

Main Administrative Office:

100 James Boulevard
Saint Rose, Louisiana 70087-4059

This examination was performed at the Mississippi Insurance Department (MID) and at Magna Insurance Company's (Magna or Company) Main Administrative Office in the State of Louisiana, and was conducted in accordance with Miss. Code Ann. §83-1-201 et seq., and the report of examination is herewith submitted for your review.

INTRODUCTION

The examination period, for purposes of this report, is defined as January 1, 2003 through December 31, 2005, and the examination date is December 31, 2005. The examination was performed by examiners representing the MID and covered Magna's operations and financial condition through the examination period, including material transactions and/or events that occurred subsequent to the examination date and were noted during the course of the examination. The Company's previous examination was as of December 31, 2002, and the previous report of examination was dated May 18, 2004.

SCOPE OF EXAMINATION

The examination of the Company was a full scope financial examination conducted in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* as well as the MID, and included an assessment of the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations and compliance with applicable laws.

The examiners tested the underlying data for the Company's reserve provisions; however, the amounts reported within this report for reserves, including any related items and reinsurance credits, was based on the review and opinion of the examination actuary who was assigned to the examination by the MID.

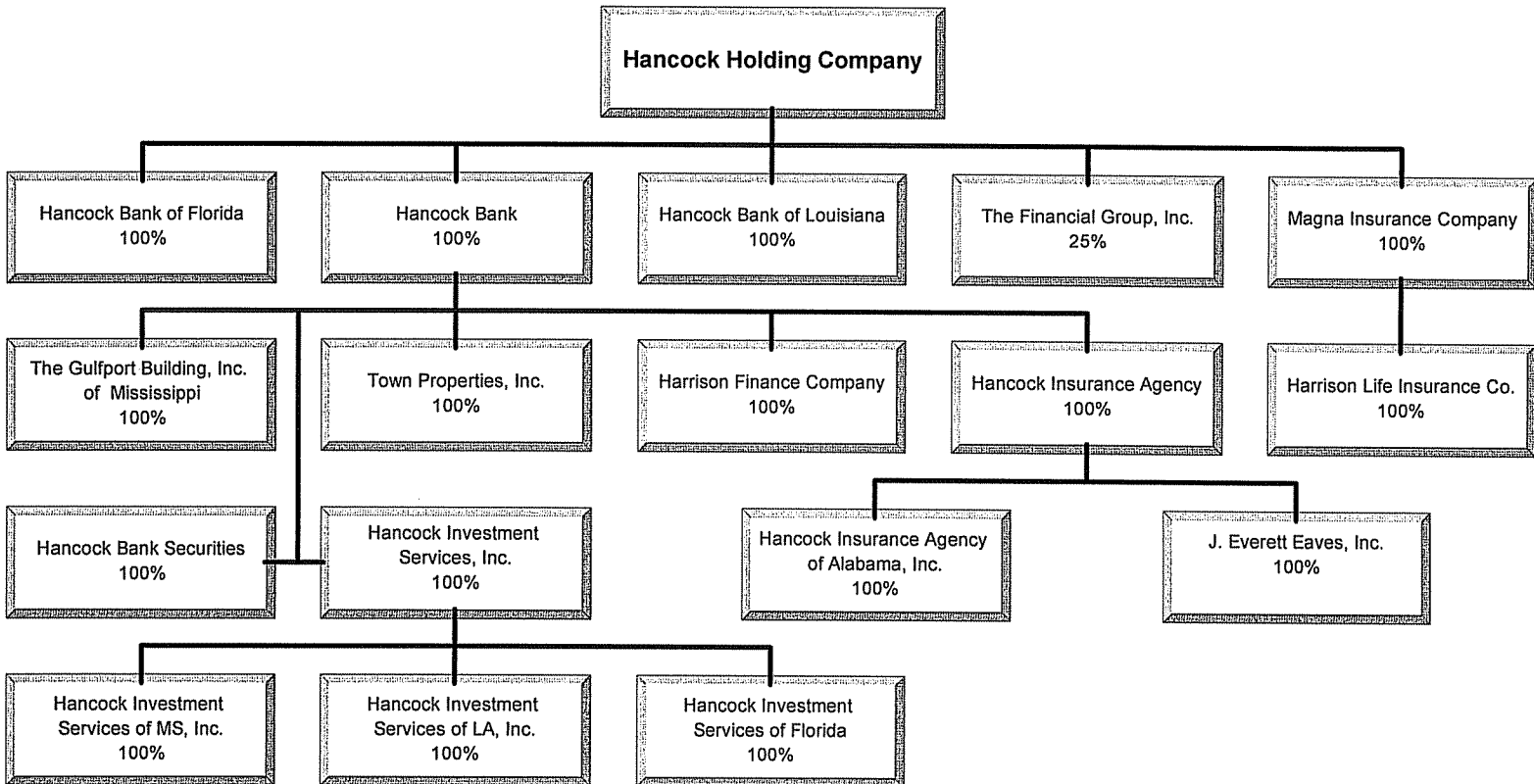
HISTORY OF THE COMPANY

On June 13, 1960, the Company was formed under the laws of the State of South Carolina as Argus Life Insurance Company (Argus). In December 1994, Magna Bancorp, Inc. (MBI) acquired the Company and redomiciled its operations to the State of Mississippi. Thereafter, by Articles of Merger executed June 13, 1995, the former Magna Insurance Company was merged with and into Argus, with Argus being the surviving entity and the corporate name being changed to its current title. In 1997, MBI ultimately merged into Union Planters Corporation, leaving the Company as an indirect subsidiary of Union Planters Bank, and in December 2003, the Company was purchased by Hancock Holding Company (HHC). Effective March 1, 2004 and January 1, 2005, the Company assumed group credit life and disability insurance from Harrison Life Insurance Company (HLIC), and, effective March 1, 2004, the Company assumed business from Family Financial Life Insurance Company.

HOLDING COMPANY STRUCTURE

Organizational Chart

HHC is a publicly traded multi-state bank holding company that, at year-end 2005, had consolidated assets of approximately \$6 billion and stockholders equity approximating \$480 million. HHC is also the parent company of Hancock Bank (HB), which has over 100 branch locations in three states. The organization chart for HHC is displayed below.



Related Party Transactions

Investment and Custodial Agreement: Effective January 5, 2005, the Company executed an investment management agreement with HB. Pursuant to the agreement, HB agreed to make sales, exchanges, investments, and reinvestments, subject to the investment limitations set forth in Miss. Code Ann. §83-19-51. Under the terms of this agreement, the Company paid HB \$85,505 for investment management and custodial services.

Administrative Agreement: The Company had an Administrative Services Agreement with The Financial Group, Inc. (TFG), which, in addition to other items, provided the Company with underwriting, policy issuance, accounting, premium collection and billing, payment of claims, and supervisory and clerical services, as needed by the Company to issue, maintain, service and administer its insurance business. The contract is cancellable with thirty days written notice and remains in effect through July 31, 2007, and, without proper cancellation, renews automatically for successive one-year terms, thereafter. The fees paid to TFG for services rendered consisted of two components. The first was a

monthly administration fee which increased from \$12,500 to \$25,000 in August 2004. The second was a policy fee for new and in force policies. The total administrative fees paid by the Company to TFG amounted to \$1,247,069 in 2005, \$1,372,789 in 2004, and \$1,090,058 in 2003.

MANAGEMENT AND CONTROL

Stockholders

The Company is a Mississippi domestic stock insurance company whose common stock at December 31, 2005 was wholly owned by HHC. In 2004, after receiving approval from the MID, the Company paid an extraordinary dividend of \$10 million.

Board of Directors

The Articles of Association 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, follows:

<u>NAME AND PLACE OF RESIDENCE</u>	<u>PRINCIPAL OCCUPATION</u>
Mr. Carl J. Chaney Gulfport, Mississippi	Executive Vice President and CFO Hancock Holding Company
Ms. Joanne B. Collins Gulfport, Mississippi	Coordinator of Insurance Products Hancock Bank
Mr. Clifton J. Saik Gulfport, Mississippi	Executive Vice President, Sr. Trust Officer Hancock Holding Company
Mr. George A. Schloegel Gulfport, Mississippi	Vice Chairman and CEO Hancock Holding Company
Mr. Leo W. Seal, Jr. Gulfport, Mississippi	President Hancock Holding Company

Officers

The following officers were duly elected by the Board and holding office at December 31, 2005:

<u>NAME</u>	<u>OFFICE HELD</u>
Ms. Joanne B. Collins*	President
Mr. Jack P. Panno	Secretary & Treasurer

* Subsequent to the examination date, Ms. Joanne B. Collins resigned and Mr. Clifton J. Saik was elected in her place.

Committees

The Company did not have any active committees at the examination date.

Conflict of Interest

The Company had formal procedures whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that is, or would likely be, a conflict with their official duties. These procedures were reviewed, and no conflicts or exceptions to the Company's policies were noted.

CORPORATE RECORDS

The minutes of the meetings of the Stockholders and Board, regarding the Company's business affairs, as recorded during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording action on matters brought up at the meetings for deliberation, which included the approval and support of the Company's transactions and events, as well as the review of its audit and examination reports.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity coverage that, with its \$300,000 single loss limit of liability, did not meet the NAIC's suggested minimum amount for fidelity coverage for this size company, which is in the range of \$350,000 to \$400,000. The Company, after this was brought to their attention, increased their fidelity coverage to \$350,000. In addition, the exclusionary language within the fidelity coverage included losses resulting solely from any violation of any law regulating insurance companies or any rule or regulation made pursuant to such law. It is recommended that the Company obtain fidelity coverage that does not exclude claims made as a result of violations relating to the laws or regulations of insurance companies.

OFFICERS', EMPLOYEES', AND AGENTS' WELFARE

The Company did not have any direct employees, but instead received management services from its third party administrator, TFG.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to conduct business in the States of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas, and Virginia. Wherein, the Company, through its agents and loan officers at captive and client banks, marketed a portfolio of annuities, mortgage life, mortgage disability, credit life, and credit disability. During 2005, due to changes in bank regulations and other factors, the Company decided to suspend writing new annuity business.

REINSURANCE

The Company had reinsurance with different insurance carriers, including: Union Security Life Insurance Company, Atlanta, Georgia; American Bankers Life Assurance Company, Miami, Florida, and Swiss Re Life and Health America, Inc., Hartford, Connecticut. The reinsurance transactions and agreements were reviewed by the MID's examination actuary, and the treaties did not contain any provisions considered unusual, and the projected final accounting did show proper transfer of risk. It was noted, however, that the Company failed to include approximately \$5.7 million worth of annuity business within its 2005 records, but since this business was wholly ceded, no surplus effect was incurred. The Company has corrected this reporting error. Further, the examination actuary noted errors in the Company's 2005 Schedule S, which reports, in the filed annual statement, the Company's various reinsurers, reserve credits, etc., and Exhibit 5, which displays the Company's life reserve reconciliations in the filed annual statement. It is recommended that, in the future, the Company prepare its Schedule S to accurately reflect all of the Company's active reinsurance agreements, and that the reinsurance reserve credits shown in Schedule S always balance to the appropriate reserve exhibits. Further, it is recommended that the Company report in Exhibit 5 the reserve for all in force deferred annuity contracts, as well as identify and separately report the reserve associated with any in force annuity contracts and supplementary contracts.

ACCOUNTS AND RECORDS

The Company's accounting records and Informix databases are maintained electronically through the use of a Compaq Compliant 570 server that is RAID 5 configures. The server runs a Santa Cruz Organization (SCO) 5.6 Version operating system. The policy administration is custom developed.

STATUTORY DEPOSITS

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

Description of Security	State Deposited	Book Value	Par Value	Fair Value
Bond	Arkansas	\$118,569	\$120,000	\$100,903
Bond	Florida	294,725	300,000	293,157
Certificate of deposit	Georgia	35,000	35,000	35,000
Bond	Louisiana	99,961	100,000	101,520
Bond	Mississippi	5,162,286	5,050,000	4,990,841
Bond	North Carolina	283,075	280,000	298,248
Bond	South Carolina	150,472	150,000	147,796
Bond	Tennessee	125,393	125,000	123,163
Bond	Texas	44,820	45,000	29,250
Money market	Virginia	90,000	90,000	90,000

FINANCIAL STATEMENTS

The following financial statements reflect the same amounts reported by the Company and consist of a Statement of Admitted Assets, Liabilities, Surplus and Other Funds at December 31, 2005, a Summary of Operations for year ended December 31, 2005, and a Reconciliation of Capital and Surplus for examination period ended December 31, 2005.

MAGNA INSURANCE COMPANY
STATEMENT OF ADMITTED ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2005

Admitted Assets

Bonds	\$59,955,882
Common stocks	7,381,942
Cash and short-term investments	3,084,591
Receivable for securities	90,000
Investment income due and accrued	730,671
Uncollected premiums and agents' balances in course of collection	481,147
Amounts recoverable from reinsurers	767,504
Other amounts receivable under reinsurance contracts	28,854
Net deferred tax asset	145,572
Guaranty funds receivable or on deposit	80,346
Funds held by ceding company	<u>31,272</u>
Total Admitted Assets	<u>\$72,777,781</u>

Liabilities, Capital and Surplus

Aggregate reserve for life policies	\$53,418,897
Aggregate reserve for accident and health policies	1,694,688
Life contract claims payable	240,937
Accident and health contract claims payable	116,829
Commissions to agents due or accrued	180,236
General expenses due or accrued	164,000
Taxes, licenses and fees due or accrued	61,763
Current federal income taxes	785,085
Amounts withheld or retained by the Company	26,715
Remittances and items not allocated	437,482
Asset valuation reserve	117,857
Reinsurance in unauthorized companies	<u>4,056</u>
Total Liabilities	<u>57,248,545</u>
Capital common stock	1,203,750
Gross paid in and contributed surplus	10,041,695
Unassigned funds	<u>4,283,791</u>
Total Capital and Surplus	<u>15,529,236</u>
Total Liabilities, Capital and Surplus	<u>\$72,777,781</u>

**MAGNA INSURANCE COMPANY
SUMMARY OF OPERATIONS
FOR YEAR ENDED DECEMBER 31, 2005**

INCOME:

Life premiums and annuity considerations	\$ 9,045,157
Reinsurance commissions and expense allowances	(105,876)
Net investment income	3,060,768
Amortization of interest maintenance reserve	(1,969)
Other income	<u>586,167</u>

Total income	<u>12,584,247</u>
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BENEFITS AND RESERVE CHANGES:

Death benefits	1,283,839
Annuity benefits	5,514,364
Disability benefits	552,244
Increase in aggregate reserves for life and A&H contracts	<u>(871,837)</u>

Total benefits and reserve changes	<u>6,478,610</u>
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OTHER OPERATING EXPENSES:

Commissions and expense allowances	2,059,338
General insurance expenses	1,686,502
Taxes, licenses and fees	<u>159,844</u>

Total other operating expenses	<u>10,384,294</u>
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Net gain from operations before federal income taxes	2,199,953
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Federal income taxes	<u>790,356</u>
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Net income	<u>\$ 1,409,597</u>
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**MAGNA INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2005**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Capital and surplus, beginning of year	\$17,460,122	\$17,477,811	\$14,071,956
Net income	(70,975)	(326,564)	1,409,597
Change in net unrealized capital gains or (losses)	74,199	0	73,365
Change in net deferred income tax	0	0	95,987
Change in non-admitted assets	0	(10,702)	(279,570)
Change in liability for reinsurance in unauthorized companies	2,164	(6,725)	2,737
Change in asset valuation reserve	12,301	(52,890)	(61,946)
Paid in capital	0	3,750	0
Paid in surplus	0	6,987,276	54,419
Prior period adjustments	0	0	162,691
Dividends to stockholders	<u>0</u>	<u>(10,000,000)</u>	<u>0</u>
Capital and surplus, end of year	<u>\$17,477,811</u>	<u>\$14,071,956</u>	<u>\$15,529,236</u>

**MAGNA INSURANCE COMPANY
RECONCILIATION OF EXAMINATION CHANGES TO SURPLUS AND OTHER FUNDS
FOR YEAR ENDED DECEMBER 31, 2005**

There were no changes made to the admitted assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2005. The capital and surplus, which totaled \$15,529,236 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.

MARKET CONDUCT ACTIVITIES

A full market conduct examination in accordance with the NAIC's Market Conduct Handbook was not performed; however, particular areas of the Company's market conduct were examined in connection with the financial examination, and no significant exceptions were noted. The particular areas reviewed are as follows:

Complaint Handling

The Company maintained a complaint log during the period under examination, and all complaints appeared to have been resolved amicably and no policyholder abuse or undesirable patterns were noted.

Marketing and Sales

The Company, during the period under examination, issued credit life, credit accident and health, and annuities through various financial institutions, with approximately 77% of business being written in the States of Alabama and Mississippi.

Producer Licensing

The agents writing business for the Company in the State of Mississippi, during the period under examination, were compared against the licenses issued by the MID and no significant exceptions were noted. In addition, the Company's third party administrator was appropriately authorized by the MID.

Underwriting and Rating

The Company had appropriate licensure to issue its products, and the applicable policy forms were approved by the MID. In addition, the review of premium charges, cancellation refunds, and commissions paid appeared to be in compliance with approved policies and applicable laws.

Claims

A sampling of claims paid by the Company, for the period under examination, were selected and reviewed without significant exception. In addition, the denied claims were reviewed on a sample basis and it appeared that the Company had a reasonable basis for its denial.

Privacy

The Company had a privacy policy in place for the protection of its policyholders, and this policy appeared to be in compliance with applicable laws and standards.

COMPLIANCE WITH PREVIOUS EXAM RECOMMENDATIONS

1. It was noted in the previous examination report that the Company's Bylaws mandate that "the officers of the Company shall be a President, a Vice-President, a Secretary, and a Treasurer," and that the Company was not following these approved and filed Bylaws.

Corrective Action: The Company amended their Bylaws and no significant exceptions during the current examination were noted.

2. It was noted in the previous examination report that Articles V and VII of the Life Catastrophe Excess and Article V, Sections 1 and 2 of the Credit ADB reinsurance agreements with TIG included a terrorism exclusion that was not acceptable to the MID. It was agreed, at the instruction of the actuary that was assigned to the examination by the MID, that the Company would establish an additional reserve in the amount of \$70,000 to cover any potential liability related to this exclusion.

Correction Action: The above referenced agreement was inactive as of November 1, 2004 and thus was not applicable at December 31, 2005.

3. It was noted in the last examination report that the Company's Schedule S did not accurately reflect the reinsurers at December 31, 2002.

Corrective Action: The examination actuary for the current examination also recommended that the Company prepare their annual statement's Schedule S to accurately describe all of the Company's reinsurance agreements that are in force, and that the reinsurance reserve credits shown in Schedule S always balance to the appropriate reserve exhibits.

4. It was noted in the previous examination report that the Company used straight-line methodology to amortize the premium or discount associated with its bonds, and that this conflicted with statutory accounting principles, as the scientific method is required pursuant to SSAP No. 26.

Corrective Action: It was noted, during the current examination, that the Company did not consistently apply the scientific method for amortizing the premiums and discounts of its bonds, as required by Miss. Code Ann. §83-5-55.

5. It was recommended in the previous examination report that the Company calculate its claim reserve for present value of amounts not yet due by using an actuarial method (which would include an appropriate morbidity table, using age at disablement, number of months of benefit left at valuation date and time elapsed since disablement; an appropriate morbidity table; the number of \$100s of monthly disability benefit; and

an assumed interest rate) and to calculate the claim liability for incurred but not reported claims by a completion/lag study.

Corrective Action: The examination actuary for the current examination did not note any concerns in this area for the current examination.

6. It was noted in the previous examination report that the Company was unable to provide certificates of insurance for some of the sample items requested, which related to the USLIC assumed business, and that certain amounts appeared to have been inappropriately included in the reserve detail.

Corrective Action: The USLIC business is in runoff, and the reserve amounts for this business, at the current examination date, were deemed insignificant.

7. It was recommended in the previous examination report that all persons, agents, firms or corporations receiving commissions be duly licensed in compliance with Miss. Code Ann. §§ 83-17-7 and 83-17-1 (d).

Corrective Action: As previously noted, the agents writing business for the Company in the State of Mississippi, during the period under examination, were compared against the licenses issued by the MID and no significant exceptions were noted.

8. It was recommended in the previous examination report that the Company remit all amounts due directly to the second beneficiary.

Corrective Action: The Company was able to provide evidence, for the sample items selected during the current examination, where the second beneficiary was paid appropriately.

COMMITMENTS AND CONTINGENCIES

At December 31, 2005, the Company was involved as a defendant in various litigation matters. Although the outcome of such legal actions cannot be predicted, in the opinion of management and its legal representatives, the resolution of any currently pending or threatened actions should not have a material adverse effect on the surplus position of the Company.

COMMENTS AND RECOMMENDATIONS

1. Investments: It was noted during the current examination that the Company did not appear to report acquisitions and disposals of its investment, at all times, on the trade date, as required by SSAP No. 26. It is recommended that the Company report its acquisitions and disposals, at all times, on the trade dates, as required by SSAP No. 26. It was also noted that the Company utilized straight-line methodology to amortize some of its bond premiums and discounts, when, in accordance with SSAP No. 26, the scientific method of amortization is required. Although the difference between these

two methods did not produce any significant differences at the examination date, it is recommended that the Company amortize its investments in accordance with SSAP No. 26. Finally, it was noted that the Company was not updating its investment ratings obtained from Nationally Recognized Statistical Rating Organizations, and it is recommended that the Company obtain current or “as of period” ratings in accordance with the SVO Purposes and Procedures Manual.

2. Fidelity Coverage: It was recommended that the Company obtain fidelity coverage that does not exclude claims made as a result of violations relating to the laws or regulations of insurance companies. (Page 6)
3. Reinsurance: The examination actuary noted errors in the Company’s 2005 Schedule S, which reports, in the filed annual statement, the Company’s various reinsurers, reserve credits, etc., and Exhibit 5, which displays the Company’s life reserve reconciliations in the filed annual statement. It was recommended that, in the future, the Company prepare its Schedule S to accurately reflect all of the Company’s active reinsurance agreements, and that the reinsurance reserve credits shown in Schedule S always balance to the appropriate reserve exhibits. Further, it was recommended that the Company report in Exhibit 5 the reserve for all in force deferred annuity contracts, as well as identify and separately report the reserve associated with any in force annuity contracts and supplementary contracts. (Page 7)

SUBSEQUENT EVENTS

Effective December 29, 2006, and after receiving approval from the MID, HLIC, a wholly-owned insurance subsidiary, was dissolved.

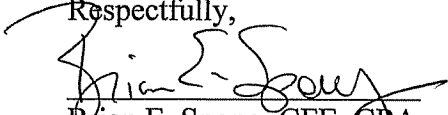
ACKNOWLEDGEMENT

In addition to the undersigned, the examiners representing the Mississippi Insurance Department who participated in the examination of the Company are listed below.

Manager:	Mr. Joseph R. May, CFE, CPA, CMA, CIE
Assisting Examiner:	Mr. R. Dale Miller, CFE, CPA
Assisting Examiner:	Mrs. Kimberly Strong, CFE
Examination Actuary:	Mr. Thomas Burger, FSA, MAAA
Automation:	Mr. J. Scott Joyner, CISA, AES, CGAP

The courteous cooperation extended by the Company is hereby acknowledged and appreciated.

Respectfully,


Brian E. Spong, CFE, CBA
Examiner-In-Charge