



MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

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May 1, 2012

CERTIFIED MAIL RETURN RECEIPT REQUESTED

Ms. Charlotte Pearce, President
Pine Belt Life Insurance Company
851 County Road 1519
Bay Springs, MS 39422

RE: Report of Examination as of December 31, 2010

Dear Ms. Pearce:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), 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.

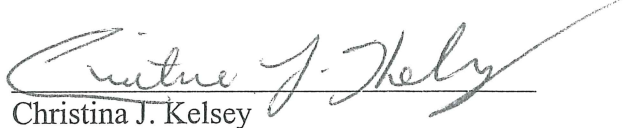
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

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

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

BY


Christina J. Kelsey
Senior Attorney

MC/CJK/bs
Encls. Order w/exhibit

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

**IN RE: REPORT OF EXAMINATION PINE BELT
 LIFE INSURANCE COMPANY**

CAUSE NO. 12-6502

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. 2011). 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. 2011).

II.

That Pine Belt Life Insurance Company is a Mississippi-domiciled Company licensed to write Industrial Life, Industrial 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. 2011), called for an examination of Pine Belt Life Insurance Company and appointed Dale Miller, Examiner-In-Charge, to conduct said examination.

IV.

That on or about March 19, 2012, the draft Report of Examination concerning Pine Belt Life Insurance Company for the period of May 1, 2008, through December 31, 2010, was submitted to the Department by the Examiner-In-Charge, Dale Miller.

V.

That on or about April 13, 2012, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), 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. On or about April 26, 2012, the Company responded by email to the Department citing no objections to the content of the draft report.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), 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 response and all relevant examiner work papers, that the Report of Examination of Pine Belt 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 for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, Pine Belt 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 Pine Belt Life 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 1st day of May 2012.

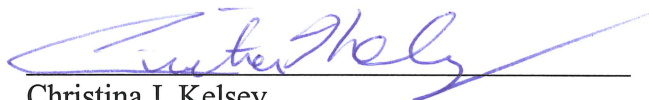


J. MARK HAIRE
DEPUTY COMMISSIONER OF INSURANCE

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 15th day of May 2012, to:

**Ms. Charlotte Pearce, President
Pine Belt Life Insurance Company
851 County Road 1519
Bay Springs, MS 39422**



Christina J. Kelsey
Senior Attorney

Christina J. Kelsey
Senior Attorney
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 9853



MISSISSIPPI INSURANCE DEPARTMENT

Report of Examination

of

PINE BELT LIFE INSURANCE COMPANY

as of

December 31, 2010

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

State of Mississippi,

County of Madison,

R. Dale Miller, being duly sworn, states as follows:

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


The affiant says nothing further.



R. Dale Miller, CPA, CFE, CFF
Examiner-in-charge

Subscribed and sworn before me by R. DALE MILLER on this 26TH day of APRIL, 20 10.

(SEAL)



Notary Public



My commission expires 9-10-14 [date].



MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

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Deputy Commissioner of
Insurance

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December 31, 2011

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2010, of the affairs and financial condition of:

PINE BELT LIFE INSURANCE COMPANY

851 County Road 1519
Bay Springs, MS 39422

| License # | NAIC # | FEETS# |
|-----------|--------|-----------------|
| 0700040 | 13158 | 13158-MS-2010-7 |

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq.* and the report of examination is herewith submitted.

SCOPE OF EXAMINATION

The examination was performed by examiners representing the Mississippi Insurance Department ("MID") and covered Pine Belt Life Insurance Company ("Pine Belt" or "Company") operations and financial condition from the commencement of operations on May 1, 2008 through December 31, 2010, including material transactions and/or events occurring subsequent to the examination date through December 31, 2011.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* ("Handbook"). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

The examination as of December 31, 2010, is the commencement examination for Pine Belt Life Insurance Company.

SUMMARY OF SIGNIFICANT FINDINGS

During the actuarial review, it was noted that the Company did not fairly and adequately represent its financial position with respect to its actuarially determined assets and liabilities. The examination actuary determined that the Company issued many premium-paying life insurance policies that were not in accordance with provisions of the policy forms filed with the Mississippi Insurance Department, and the Company's calculations did not reflect premiums collected through December 31, 2010.

The policy forms filed with the Mississippi Insurance Department define a specific non-flexible premium structure for each life insurance policy whereby a level monthly premium is to be collected each month during the applicable premium-paying period of either five, ten or twenty years. The death benefit at a given date under the policy forms equals the total amount of premiums collected to that date under the policy. The Company's reserves, net premium factors, and the non-forfeiture factors found in the policy forms are calculated based upon this assumed premium and death benefit structure.

The actuarial review also found that the Company issued many premium-paying policies that were either (a) an equal amount of premium was not scheduled to be collected during all months of the premium-paying period, or (b) the scheduled premium-paying period for the policy was less than the applicable five year premium-paying period that formed the basis for the Company's reserve, net premium, and non-forfeiture factors.

Specifically, the following examination adjustments were required during the examination:

- A \$7,366 decrease to Premiums and Considerations: Uncollected
- A \$363,836 increase to the Aggregate Reserve for Life Contracts
- A \$153,169 increase to Premiums and Annuity Considerations Received in Advance.

The combined effect of these adjustments is a surplus decrease of \$524,371. See the "Comments on Financial Statements" section of this report for additional information.

HISTORY OF THE COMPANY

Pine Belt Life Insurance Company was organized on March 27, 2008 to support the sale of pre-need funeral contracts sold at funeral homes owned by John Pearce. The Company was incorporated under the laws of the State of Mississippi as a life insurance company, with business commencing on May 1, 2008. The Company was incorporated as a wholly owned subsidiary of Colonial Telephone Company. At the time of incorporation, Colonial Telephone Company was wholly owned by Colonial Group which was wholly owned by John Pearce. Colonial Group was also the parent company of various funeral homes that sold pre-need funeral contracts.

Prior to the establishment of Pine Belt, funds received on the sale of pre-need funeral contracts were submitted to a trust account at Regions Bank ("Regions") who was the trustee for the pre-need contracts sold by the various funeral homes controlled by John Pearce. Regions would then invest the funds into a life insurance policy with a life insurance company of the trustee's choice. Pine Belt was established to be the insurance company in which Regions Bank would invest funds from the sale of pre-need funeral contracts at funeral homes ultimately owned by John Pearce. At the time of the establishment of Pine Belt, the funds already held by the trustee were converted and invested in Pine Belt industrial life policies. In September of 2009, Pine Belt began directly issuing industrial life insurance policies and bypassed the use of a trust.

During 2010, the Company was involved in a holding company structural change. Colonial Group became the wholly owned subsidiary of South Mississippi Funeral Services, LLC which is jointly and equally owned by John Pearce and Charlotte Pearce. Today, funeral homes operated by John and Charlotte Pearce use agents at the funeral homes to sell industrial life

policies. Customers may choose a single-pay policy requiring one premium payment or multi-payment policies for five, ten, or twenty years.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws and amendments thereto were reviewed and duly applied in other sections of this report where appropriate. Minutes of the meetings of the Board of Directors ("Board"), as recorded during the period covered by this examination, were reviewed and appeared to be complete and in order with regard to actions brought up at the meetings for deliberation and appropriate action, which included the approval and support of the Company's transactions and events, as well as the review of the audit and actuarial reports.

MANAGEMENT AND CONTROL

Stockholders

At December 31, 2010, the Company had 100,000 shares outstanding of common capital stock with a par value of \$1 per share. The Company was owned 100% by Colonial Telephone Company which is wholly owned by Colonial Group, a subsidiary of South Mississippi Funeral Services, LLC which is jointly owned by John Pearce and Charlotte Pearce.

Board of Directors

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board. The Company's Board is comprised of 3 members. The members of the duly elected Board, along with their place of residence, year elected/appointed, and principal occupation, at December 31, 2010, were as follows:

| Name and Residence | Year Elected/Appointed | Principal Occupation |
|---------------------------------------|------------------------|--|
| Charlotte Pearce Bay Springs, MS | 2008 | President, Pine Belt Life Insurance Company |
| John E. Pearce, Jr. Clinton, MS | 2008 | University Budgets Director, Mississippi Institution of Higher Learning |
| Christopher D. Stockman Laurel, MS | 2008 | Insurance Agent, Farm Bureau Insurance Company |

Committees

The Company's Bylaws authorize four committees: Executive Committee, Investment Committee, Loan Committee, and Agency Committee. As of December 31, 2010, the Company was utilizing an Investment Committee and an Audit Committee.

Audit Committee:

The Board members serve as the members of the audit committee. The primary purpose of the audit committee is to examine the annual audit of the Company and be the primary contact for the Company's financial statement auditors. No separate committee minutes are maintained but rather the actions and records of the Board relating to audit concerns are considered the actions and records for the audit committee.

Investment Committee:

The Board members serve as the members of the investment committee. The investment committee approves investments of corporate funds and reviews the Company's investments which are held and managed by Regions Bank. No separate committee minutes are maintained but rather the actions and records of the Board relating to investment concerns/transactions are considered the actions and records for the investment committee.

Officers

Following are the officers that were duly elected by the Board and holding office at December 31, 2010:

| Name of Officer | Year Elected/Appointed | Title |
|------------------------|-------------------------------|----------------|
| Charlotte Pearce | 2008 | President |
| Christopher Stockman | 2008 | Vice President |
| John E. Pearce, Jr. | 2008 | Secretary |

Conflict of Interest

The Company had no formal procedures whereby disclosures were made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with their official duties. It is recommended that the Company adopt a Conflict of Interest policy and require Board members and officers to annually sign written affidavits regarding the presence of any potential conflicts.

Corporate Governance

Upon review of the corporate governance structure, it was noted that the Company's management primarily consisted of a Chief Executive Officer, Charlotte Pearce, who also served as President of the Company and a member of the Company's Board of Directors. The Company's Board also appears to have sufficient knowledge of the Company and the insurance industry in order to carry out their duties as outlined in the Company's Bylaws. Additionally, it was reported to the examination team that the President of Colonial Telephone Company, the Company's parent, acted in an advisory capacity to the Company's Board primarily in the areas of investments, sales, claims and reserves. There did not appear to be any compensation arrangements that caused unusual emphasis on earnings. Management records, such as Board minutes, appeared to be in order.

The Board's involvement and oversight was considered during the course of the examination. Other key variables in our consideration of the Board's involvement included but were not limited to factors such as: (1) the frequency of Board meetings and attendance of the directors, (2) the sufficiency and timeliness of information provided to the Board prior to meetings, (3) the topics discussed along with the depth and quality of discussions, (3) key communication channels between management and the Board, and (4) the Board's role in setting the overall "tone at the top". Information regarding the Board members, committees and other related information can be found in the Management and Control section of this report.

The appropriateness of the entity's organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining our understanding of the organizational structure. Our consideration also encompassed understanding the assignment of authority and responsibility.

Our consideration of corporate governance encompassed the risk management function through discussions with management and members of the Board and through gaining an understanding of the risk management function.

Management competence is a consideration in the overall assessment of corporate governance. In our review of this area, we considered factors such as management's experience level and management turnover.

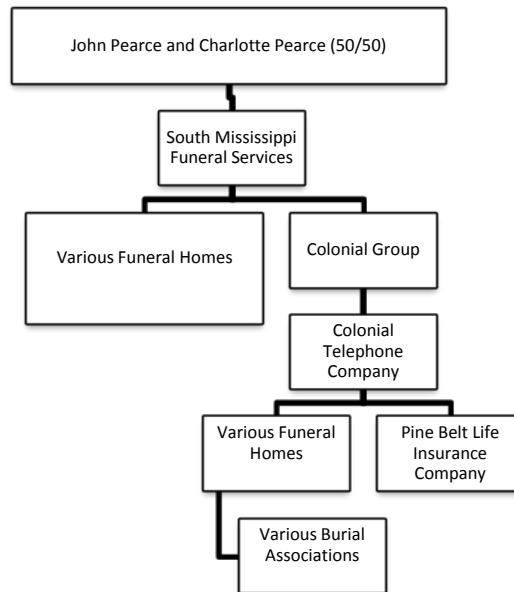
Concerns and/or issues noted relating to this section are included in the "Comments and Recommendations" section of this report.

HOLDING COMPANY STRUCTURE

During the time period covered by this examination, the Company reported as a member of an insurance company holding system as defined by Miss. Code Ann. §83-6-1. Holding Company Registration Statements were filed with the MID in accordance with Miss. Code Ann. §83-6-5 and §83-6-9. These filed statements and applicable amendments were reviewed and it appeared that any changes and material transactions by and between the Company and its affiliates, as defined in the filed statements, were appropriately disclosed.

Organizational Chart

A simplified organizational chart as of December 31, 2010, depicting the direct line of ownership for the Company, is shown below. Schedule Y of the Company’s 2010 annual statement provides a list of all related companies of the holding company group.



Listed below are the various funeral homes, burial associations, and other companies not illustrated above that were owned by John and Charlotte Pearce at December 31, 2010.

| Funeral Homes | |
|---|---|
| Ellisville Funeral Home | Brookhaven Funeral Home, Natchez Drive |
| Hathorn Funeral Home | Johns Funeral Home |
| Catchings Funeral Home | Frank J. Fisher Funeral Home |
| Johns Funeral Home | Hartman Hughes Funeral Home |
| Colonial Chapel of Jones and Covington Counties | Colonial Chapel of Bay Springs, Raleigh, and Forest |
| Upton Mims Mitchell Funeral Home | Brookhaven Funeral Home |
| Wilson Funeral Home | Capps Funeral Home |

| Burial Associations | |
|-------------------------------------|--|
| Frank J. Fisher Burial Association | Parker Burial Association |
| WRC Burial Association | TRP Burial Association |
| Capps Burial Association | Walthall Burial Association |
| CWT Burial Association | CCI Burial Association |
| CCS Burial Association | CC Burial Association |
| Johns Burial Association | Magnolia Memorial Burial Association |
| Gold Key Burial Association | Forest Lawn Burial Association |
| Magnolia Central Burial Association | U&M Burial Association |
| H&M Burial Association | Upton Mims Mitchell Burial Association |

| Other Companies | |
|---------------------------------|----------------------------------|
| Noxapater Long Distance | Noxapater, Inc. |
| BPM, Inc. | Colonial Land & Mineral |
| PLP, Inc. | Newton County Memorial Gardens |
| Hillcrest Memorial Gardens | Brookhaven Funeral Insurance Co. |
| Magnolia Memorial Service Corp. | Colonial Land and Mineral |

On December 17, 2010, a proposed change of control hearing was conducted at the Mississippi Insurance Department regarding the ultimate ownership of the Company. As a result of this hearing and proper approval by the MID, the Company's ultimate ownership was transferred to John Pearce and Charlotte Pearce.

The Company reported John Pearce and Charlotte Pearce as the ultimate controlling persons in the Holding Company Registration Statements filed by the Company with the MID as of December 31, 2010. Pursuant to these filings, the Company's outstanding shares are owned by Colonial Telephone Company. Colonial Telephone Company is a wholly-owned subsidiary of Colonial Group which is 100% owned by South Mississippi Funeral Services. South Mississippi Funeral Services is jointly and equally owned by John Pearce and Charlotte Pearce. Mr. Pearce has operated and managed Colonial Telephone Company since 1981 and has operated South Mississippi Funeral Services, LLC since its organization in 2007. Colonial Telephone Company operates multiple funeral homes and cemeteries. Mrs. Pearce has served as President of the Company since its inception.

Affiliated and Related Party Transactions

Service Agreement

Effective July 15, 2008, the Company entered into a service agreement with Colonial Telephone Company. Pursuant to this agreement, the Company received various services which included but were not limited to maintaining records and copies of life insurance policies issued by Pine Belt, providing accounting services for Pine Belt, and using Colonial Telephone Company building and space for Pine Belt's operation. Per the terms of the agreement the Company paid an amount equal to 2% of the monthly premium collections for the services rendered. It was noted that the Company was not complying with the repayment terms specified within the service agreement. It is recommended that the Company comply with the repayment terms specified within the service agreement with Colonial Telephone Company.

FIDELITY BOND AND OTHER INSURANCE

The Company's upstream parent maintained coverage for employee dishonesty and forgery or alteration in the amount of \$250,000. This coverage exceeded the NAIC's suggested minimum amount for fidelity coverage. It was noted that Pine Belt was not specifically listed on the above-mentioned coverage. It is recommended for the Company to be added as a specifically named insured.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

As of December 31, 2010, the Company did not provide any retirement or insurance plans for its employees.

TERRITORY AND PLAN OF OPERATION

The Company issued industrial life insurance policies to support pre-need funeral contracts sold by funeral homes which are related parties of the insurance company. A pre-need funeral contract allows the customer to prefund the cost of his or her funeral by locking in a certain price in advance. Prior to the establishment of Pine Belt, funds from the sale of these pre-need funeral contracts were placed into a trust account at Regions Bank. Regions, being the independent trustee, invested the funds into a life insurance policy with an insurance company independent of the funeral home. Before 2006, 50% of the funds were submitted to the trust account while the remaining 50% was held by the funeral home to cover operating costs. As of 2006, Miss. Code Ann. Section §75-63-59 requires that 85% of funds received be submitted to the trust.

When Pine Belt began operations in 2008, funds that were invested by Regions Bank in insurance policies of other companies were converted to Pine Belt industrial life insurance policies. For an individual pre-need contract, the funds transferred became a Pine Belt single-pay policy. The insurance policy number was coded with "SP" to represent this single-pay portion of the insurance policy. Any funds received for the individual pre-need contract after the transfer was used to fund a multi-pay policy. The insurance policy number was coded with "IB" to represent the increasing benefit portion of the insurance policy. Therefore, for a single pre-

need contract sold before the establishment of Pine Belt, there was a single-pay policy and an increasing benefit policy, unless the policy was paid in full prior to the transfer.

When Pine Belt was established, it became the insurance company used by Regions to invest pre-need contract funds in insurance policies. Therefore, any new pre-need funeral contracts sold after the Company's establishment were labeled as "trust-issued" life insurance policies. The funeral home submitted 85% of the funds received to Regions. Then, Regions invested the funds into a Pine Belt life insurance policy; therefore, 85% of the pre-need contract amount was the ultimate face amount of the Pine Belt life insurance policy. Likewise, 85% of the monthly premium received for the pre-need contract was used as the premium for the corresponding life insurance policy with Pine Belt.

These contracts were advertised to the public as pre-need funeral policies rather than life insurance policies; however, customers were notified that the pre-need funeral contract was supported by an insurance policy in the customer's name. When a customer entered into a pre-need funeral contract with a funeral home owned by John Pearce, they first chose the "goods and services" to be applied to his or her funeral. Then, the customer was quoted a contract price. The customer could choose one of four payment options: (1) single-pay policy, (2) multi-pay 5-year policy, (3) multi-pay 10-year policy, or (4) multi-pay 20-year policy. The payment option selected for the pre-need contract was also assigned to the corresponding insurance policy. As part of the contract, the customer was also required to name the funeral home as the primary beneficiary of the life insurance policy. The customer chose a secondary beneficiary.

As previously mentioned, the ultimate face amount of an insurance policy was 85% of the pre-need contract amount. Furthermore, for multi-pay policies, the premium payment each month for the life insurance policy equaled 85% of the contract price divided by the payment period in months less the amount of the down payment. If the policy lapsed after 60 days or if the insured died before the policy was paid in full, the contract was voided, and the face amount of the insurance policy equaled the amount of premiums paid by the insured until the time of death or lapse status. Essentially, there is a dollar-for-dollar relationship between the amount of premiums paid by the insured into the Company and the death benefit received.

Although, the funeral home is named the primary beneficiary of the life insurance policy, the insured's family is not required to use the funeral home for funeral services. If the funeral home is not used, the funeral home assigns the rights to the death benefits to the funeral home or person at the insured's family's request.

In September of 2009, Pine Belt began issuing policies directly to the individual applying for the pre-need contract. The funeral home is listed as the primary beneficiary on these policies. Under the operating structure, the Company will not pay a death benefit that exceeds the premium proceeds paid to the Company for an individual insurance policy.

GROWTH OF COMPANY

| | 2010 | 2009 | 2008 |
|---|--------------|--------------|--------------|
| Total admitted assets | \$ 4,498,986 | \$ 3,564,922 | \$ 2,305,660 |
| Total liabilities | \$ 3,791,626 | \$ 2,966,978 | \$ 1,967,111 |
| Total capital and surplus | \$ 707,360 | \$ 597,944 | \$ 338,549 |
| | | | |
| Net cash from operations | \$ 976,514 | \$ 1,231,380 | \$ 1,983,838 |
| | | | |
| Total adjusted capital | \$ 707,360 | \$ 597,944 | \$ 338,548 |
| Authorized control level risk-based capital | \$ 72,920 | \$ 71,142 | \$ 71,800 |
| | | | |
| Premiums for life contracts | \$ 2,074,246 | \$ 1,972,110 | \$ 2,526,438 |
| Net investment income | \$ 25,404 | \$ 33,232 | \$ 26,038 |
| Death benefits | \$ 631,464 | \$ 404,441 | \$ 147,564 |
| Net income | \$ 109,416 | \$ 242,980 | \$ 5,963 |

MORTALITY AND LOSS EXPERIENCE

The Mississippi Insurance Department contracted with Thomas L. Burger, FSA, MAAA to review the actuarial analysis supporting the Company's carried aggregate reserve for life contracts. Mr. Burger's recommendations are located in the "Financial Statement Comments and Recommendations" section of this report.

REINSURANCE

The Company was not a party to any reinsurance agreement during the examination period.

ACCOUNTS AND RECORDS

The Company utilized a computerized accounting system on which general ledger information was maintained. The trial balance at December 31, 2010, was traced to the 2010 annual statement without material exception.

The Company did not have an internal audit department; however, there was an Audit Committee that met to discuss financial issues relative to the Company. The Company was audited by an independent CPA firm.

The Company did not provide an executed custodial agreement with Regions Morgan Keegan, its custodian. It is recommended that the Company enter into an agreement with its custodian that complies with all NAIC requirements.

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 total statutory deposits pledged at December 31, 2010.

| <u>Description</u> | <u>Par Value</u> | <u>Book/Adjusted Carrying Value</u> | <u>Fair Value</u> |
|------------------------|------------------|---|-----------------------|
| Certificate of Deposit | \$ 150,000 | \$ 150,000 | \$ 150,000 |

**PINE BELT LIFE INSURANCE COMPANY
FINANCIAL STATEMENTS
EXAMINATION AS OF DECEMBER 31, 2010**

Introduction

The following financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds – Statutory at December 31, 2010, a Summary of Operations – Statutory for year ended December 31, 2010, a Reconciliation of Capital and Surplus – Statutory for examination period ended 2010, and Reconciliation of Examination Changes to Surplus – Statutory at December 31, 2010.

Pine Belt Life Insurance Company
Statement of Assets, Liabilities, Surplus and
Other Funds - Statutory

As of December 31, 2010

Admitted Assets

| | | |
|---|----|-----------|
| Bonds | \$ | 857,302 |
| Cash and cash equivalents | | 3,625,427 |
| Investment income due and accrued | | 5,534 |
| Uncollected premiums and agents' balances in course of collection | | 3,357 |

| | | |
|-----------------------|----|-----------|
| Total admitted assets | \$ | 4,491,620 |
|-----------------------|----|-----------|

Liabilities, Surplus and Other Funds

| | | |
|---|----|-----------|
| Aggregate reserve for life contracts | \$ | 4,007,150 |
| Life contract claims | | 41,000 |
| Premiums for life contracts received in advance | | 200,246 |
| Interest maintenance reserve | | 10,208 |
| Commissions to agents due or accrued | | 4,576 |
| General expenses due or accrued | | 11,604 |
| Taxes, licenses and fees due or accrued, excluding federal income taxes | | 10,527 |
| Current federal income taxes | | 8,078 |
| Payable to parent | | 15,242 |

| | | |
|-------------------|--|-----------|
| Total liabilities | | 4,308,631 |
|-------------------|--|-----------|

| | | |
|---------------------------------------|--|-----------|
| Common capital stock | | 100,000 |
| Gross paid in and contributed surplus | | 200,000 |
| Unassigned funds (surplus) | | (117,011) |

| | | |
|-------------------------------|--|---------|
| Total surplus and other funds | | 182,989 |
|-------------------------------|--|---------|

| | | |
|--|----|-----------|
| Total liabilities, surplus and other funds | \$ | 4,491,620 |
|--|----|-----------|

Pine Belt Life Insurance Company
Summary of Operations - Statutory

For the year ended December 31, 2010

Income

| | |
|--|--------------|
| Premiums for life contracts | \$ 2,074,246 |
| Net investment income | 25,404 |
| Amortization of interest maintenance reserve | 9,501 |

Total income, net of amortization of interest maintenance reserve 2,109,151

Benefits and Reserve Changes

| | |
|---|---------|
| Death benefits | 631,464 |
| Increase in aggregate reserves for life contracts | 896,044 |

Total benefits and reserve changes 1,527,508

Other Operating Expenses

| | |
|---|---------|
| Commissions | 82,489 |
| General insurance expenses | 306,370 |
| Taxes, licenses and fees, excluding federal income taxes | 76,037 |
| Increase (decrease) in loading on deferred and uncollected premiums | 1,412 |

Total other operating expenses 466,308

Net gain from operations before federal income taxes 115,335

Federal income taxes incurred 5,919

Net income \$ 109,416

Pine Belt Life Insurance Company
Reconciliation of Capital and Surplus - Statutory

For the examination period ended December 31, 2010

| | 2008 | 2009 | 2010 |
|---|-------------------|-------------------|-------------------|
| Surplus and other funds, beginning of the year | \$ - | \$ 338,549 | \$ 597,944 |
| Net Income | 54,963 | 242,980 | 109,416 |
| Change in nonadmitted assets | (16,415) | 16,415 | - |
| Capital Changes : Paid in | 100,000 | - | - |
| Surplus Adjustment: Paid in | 200,000 | - | - |
| Examination adjustments directly to surplus | - | - | (524,371) |
| Net change in capital and surplus for the year | 338,548 | 259,395 | (414,955) |
| Surplus and other funds, end of year | \$ 338,548 | \$ 597,944 | \$ 182,989 |

Pine Belt Life Insurance Company
Reconciliation of Examination Adjustments to Surplus - Statutory

As of December 31, 2010

| | Balance Sheet Per Annual Statement | Balance Per Examination | Increase (Decrease) in Surplus |
|--|---|-------------------------------|--------------------------------------|
| Assets | | | |
| Uncollected premiums and agents' balances in course of collection | \$ 10,723 | \$ 3,357 | \$ (7,366) |
| Liabilities | | | |
| Aggregate reserve for life contracts | 3,643,314 | 4,007,150 | (363,836) |
| Premiums for life contracts received in advance | 47,077 | 200,246 | (153,169) |
| Total examination adjustments effecting unassigned surplus | | | (524,371) |
| Surplus and other funds per 2010 annual statement | | | 707,360 |
| Surplus and other funds per examination | | | \$ 182,989 |

MARKET CONDUCT ACTIVITIES

A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct. The areas in which limited procedures were performed included producer licensing and claims. No significant exceptions with regard to the limited procedures performed were noted.

COMMITMENTS AND CONTINGENT LIABILITIES

During and subsequent to the examination period, the Company was not a party to any litigation.

COMMENTS ON FINANCIAL STATEMENTS

Uncollected Premiums **\$3,357**

Uncollected Premiums represent net due premiums associated with the Company's industrial life insurance policies. The Company's premium asset calculations did not accurately recognize actual premiums collected under its life insurance policies through December 31, 2010. Per the actuarial review, Uncollected Premiums were overstated by \$7,366. Therefore, the balance at December 31, 2010, was reduced from \$10,723 to \$3,357.

Aggregate Reserves for Life Policies **\$4,007,150**

During the course of the actuarial review, several errors were noted which resulted in the following computational adjustments:

- The Company's reserve calculations did not accurately recognize actual premiums collected under its life insurance policies through December 31, 2010. This resulted in an understatement of Unearned Premiums in the amount of \$61,890.
- The Company used premium paying reserve factors to calculate reserves for certain paid-up premium paying life insurance policies. Using appropriate reserve factors resulted in an increase in the aggregate life reserve of \$273,497.
- The Company used incorrect reserve factors for certain paid-up life insurance policies. Using correct reserve factors resulted in an increase in the aggregate life reserve of \$28,449.

The total net understatement of the Aggregate Reserve for Life Contracts from the issues discussed above was \$363,836.

Premiums for Life Contracts Received in Advance **\$200,246**

This liability represents industrial life insurance premiums paid in advance. The Company's premium liability calculations do not accurately recognized actual premiums collected under its

life insurance policies through December 31, 2010. Per the actuarial review, Premiums for Life Contracts Received in Advance were understated by \$153,169 at the examination date.

Additionally, the examination actuary had the following comments/recommendations resulting from his review.

- The Company should only issue premium-paying life insurance policies that are in accordance with the provisions of the policy forms filed with the Mississippi Insurance Department.
- The Company should utilize actual premiums collected under its life insurance policies to calculate net due premiums, aggregate life insurance reserves, and advance premiums.
- The Company should use paid-up reserve factors to calculate reserves for all paid-up premium paying life insurance policies.
- The Company should use correct reserve factors to calculate reserves for all paid-up life insurance policies.
- The Company should comply with the requirements of Regulation 2008-3 in preparing the Statement of Actuarial Opinion.

COMMENTS AND RECOMMENDATIONS

1. It was noted that the Company does not have a policy in place whereby disclosures are made to the Board of Directors 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. It is recommended that the Company adopt a Conflict of Interest policy and require Board members to sign written statements annually regarding any current or potential conflicts. (Page 6)
2. It was noted that the Company was not complying with the terms of the service agreement between Pine Belt and its parent company, Colonial Telephone Company. The terms of the service agreement require Pine Belt to pay Colonial Telephone Company a service fee in the amount of two percent of premiums collected. The payments are to be made on or before the first day of the month for premiums collected during the preceding month. It is recommended that the Company comply with the repayment terms specified within the service agreement with Colonial Telephone Company. (Page 9)
3. The Company's parent maintained coverage for employee dishonesty and forgery or alteration in the amount of \$250,000. This coverage exceeded the NAIC's suggested minimum amount for fidelity coverage. It was noted that Pine Belt was not specifically listed on the above-mentioned coverage. It is recommended for the Company to be added as a specifically named insured. (Page 9)

4. During the examination, the Company was unable to provide a custodial agreement. It is recommended that the Company enter into a custodial agreement with Regions Morgan Keegan that complies with NAIC guidelines. (Page 11)
5. As a result of the actuarial review, it is recommended that the Company only issue premium-paying life insurance policies that are in accordance with provisions of the policy forms filed with the Mississippi Insurance Department. (Page 19)
6. As a result of the actuarial review, it is recommended that the Company utilize actual premiums collected under its life insurance policies to calculate net due premiums, aggregate life insurance reserves, and advance premiums. (Page 19)
7. As a result of the actuarial review, it is recommended that the Company use paid-up reserve factors to calculate reserves for paid-up premium paying life insurance policies. (Page 19)
8. As a result of the actuarial review, it is recommended that the Company use correct reserve factors to calculate reserves for all paid-up life insurance policies. (Page 19)
9. As a result of the actuarial review, it is recommended that the Company comply with the requirements of Regulation 2008-3 in preparing the Statement of Actuarial Opinion. (Page 19)

ACKNOWLEDGMENT

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

| | |
|-----------------------|---|
| Examiner-in-charge: | R. Dale Miller, CPA, CFE, CFF |
| Supervising Examiner: | Joseph R. May, CPA, CMA, CFF, CIE, FAHM |
| Lead Actuary: | Thomas Burger, FSA, MAAA |
| IT Specialist | Francois Houde, CA, CISA |
| Examiner | Breanne Hancock, CPA |

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

Respectfully submitted,



R. Dale, Miller, CPA, CFE, CFF
Examiner-in-charge