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
(601) 359-3569
http://www.doi.state.ms.us

November 10, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. James Hilbun Robertson, President
Gulf Guaranty Life Insurance Company
4785 I-55 North, Suite 200
Jackson, MS 39206

RE: Report of Examination as of December 31, 2005

Dear Mr. Robertson:

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
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 GULF GUARANTY LIFE INSURANCE COMPANY **CAUSE NO. 06-5294**

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 Gulf Guaranty Life Insurance Company is a Mississippi-domiciled company licensed to write industrial life; industrial accident and health; life (burial); fire and allied lines; casualty/liability; fidelity; surety; plate glass; inland marine; auto physical damage/auto liability; guaranty; life; accident and health; and credit life, credit 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 Gulf Guaranty Life Insurance Company and appointed Mitch Rayborn, Examiner-In-Charge, to conduct said examination.

IV.

That on or about September 19, 2006, the draft Report of Examination concerning Gulf Guaranty 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 October 17, 2006, 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 rebuttal on or about October 30, 2006, and in response thereto, the draft report was revised.

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 Gulf Guaranty 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. 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, Gulf Guaranty 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 Gulf Guaranty 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 10th day of November, 2006.

George Dale

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 10th day of November, 2006, to:

Mr. James Hilbun Robertson, President
Gulf Guaranty Life Insurance Company
4785 I-55 North, Suite 200
Jackson, MS 39206

J. Mark Haire

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

Gulf Guaranty Life Insurance Company
4785 I-55 North, Suite 200
Jackson, Mississippi 39206

As of December 31, 2005

NAIC Group Code 948
NAIC Company Code 77976
NAIC ETS No. MS029-C20

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 Gulf Guaranty 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 Gulf Guaranty 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
____
Mitch Rayborn, CFE, FLMI
Examiner

Subscribed and sworn before me this 1st day of November, 2006.

(SEAL)

____
Notary Public

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

My commission expires _______________________________.

TABLE OF CONTENTS

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July 19, 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

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:

GULF GUARANTY LIFE INSURANCE COMPANY

(NAIC COMPANY CODE 77976)
4785 I-55 North, Suite 200
Jackson, Mississippi 39206

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Jackson, 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 Gulf Guaranty Life Insurance Company's (GGLIC 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 on February 20, 1970, under the laws of the State of Mississippi as the Greener Life Insurance Company. On July 23, 1970, the Company changed its name to Gulf Guaranty Life Insurance Company.

The Company was licensed effective July 1, 1970, for credit life, credit accident and health lines. On June 1, 1978, the Company's license was amended to include the additional lines of life, accident and health. On July 8, 1980, the Articles of Association were amended to expand the purpose of the Company to include property and casualty insurance lines. As of December 31, 2005, the Company was authorized as a multi-line company to write industrial life; industrial accident and health; life (burial); fire and allied lines; casualty/liability; fidelity; surety; plate glass; inland marine; auto physical damage/auto liability; guaranty; life; accident and health; and credit life, credit accident and health.

MANAGEMENT AND CONTROL

The Articles of Association and By-laws vest the management and control of the Company's business affairs with the Board of Directors. The members of the duly elected Board of Directors, along with their place of residence and principal occupation, as of December 31, 2005, were:

Name and Place of Residence	Principal Occupation or Affiliation
Jack Westbrook Robertson, Jr. Jackson, Mississippi	Chairman of the Board, Gulf Guaranty Life Insurance Company
James Hilbun Robertson Brooklyn, Mississippi	Sales, Gulf Guaranty Life Insurance Company
Alley Stephen Ballard, Jr. Hernando, Mississippi	Owner, Goodwood Lumber
Richard Covey Robertson Jackson, Mississippi	President, Gulf Guaranty Life Insurance Company
McWillie Mitchell Robinson, Jr. Jackson, Mississippi	Retired Physician
Arthur William Pigott Columbia, Mississippi	Arbitrator, National Association of Securities Dealers

The officers duly elected by the Board of Directors and holding office as of December 31, 2005, were:

NAME	POSITION
Richard Covey Robertson	President
Robert Morris Berry	Secretary/Treasurer
William Lynn Townsend, FSA, MAAA	Consulting Actuary
Dennis Wayne Brooks	Senior Vice President
William Boyce Lee	Senior Vice President
Roby David Toney	Vice President
Tammra Obrecht Cascio	General Counsel
Sarah Ellen Methvin	Vice President
Ernest Peery Ward	Senior Vice President

As of December 31, 2005, the Company had 1,000,000 shares authorized, 906,856 issued and outstanding (of which the Company holds 531,700 shares in Treasury Stock) of Class 1 common stock, par value $2.00, 50,000 shares authorized, 90 issued and outstanding of Class 2 common stock, par value $1.00. The Articles of Incorporation allow for various other classes of common stock and nonvoting preferred stock, which had not been issued by the Company as of the examination date.

The outstanding shares of Class 1 common stock were owned by numerous individuals. As of the examination date, Jack W. Robertson was the ultimate controlling person. None of the remaining stockholder's investments exceeded 10% of the shares outstanding. The outstanding shares of Class 2 common stock were owned primarily by banks and finance companies that serve as agents for the Company's collateral protection insurance products.

The Company paid dividends during the exam period, which were approved by the MID. The Articles of Incorporation provide that by appropriate resolution of the Board of Directors, the Company may pay dividends to shareholders. Additionally, the Articles of Incorporation state that, at the discretion of the Board of Directors, shares of common or preferred stock may be called for redemption. During 2003, the Company redeemed 2 shares of Class 2 common stock. The Company did not redeem any shares of stock during 2004 or 2005.

CORPORATE RECORDS

The minutes of the meetings of the Shareholders and Board of Directors 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 maintained a comprehensive corporate insurance program. This program included commercial general liability, and commercial property, as well as other policies, as deemed appropriate by the Company's management. GGLIC maintained a financial institutions bond with a $75,000 single loss limit of liability, which did not meet or exceed the minimum fidelity coverage suggested by the NAIC for a company of this size. It is recommended that the Company obtain fidelity coverage in an amount of $150,000 to $175,000 to comply with the NAIC *Financial Condition Examiners Handbook*. Additionally, it is noted that this recommendation was included in the examination report as of December 31, 2002.

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 deposits as of December 31, 2005:

Type of Security	State Deposited	Book Value	Fair Value
Bond	Arkansas	$155,329	$152,716
Bond	Mississippi	$1,015,272	$1,000,320
Bond	Tennessee	$226,003	$217,854

DIRECTORS', OFFICERS', EMPLOYEES' AND AGENTS' WELFARE

The Company maintained a 401(k) plan for the benefit of its employees. For the year ending December 31, 2005, eligible employees were allowed to contribute up to $14,000 of their annual compensation to the plan. Each year, since the inception of the plan, the Board of Directors has authorized the Company to contribute 10% of the annual compensation paid to its employees. The Internal Revenue Service approved this plan. The Company also offered a comprehensive health care plan through a self-insured plan administered by Gulf Guaranty Employee Benefit Services (GGEBS).

CONFLICT OF INTEREST

The Company had formal procedures whereby disclosure was made to the Board of Directors of any material interest or affiliation on the part of any officers or directors that was a conflict, or would likely be a conflict, with the official duties of such persons. It appeared that not all of the officers and directors completed these statements. Subsequent to the examination date, conflict of interest affidavits were completed by the remaining officers.

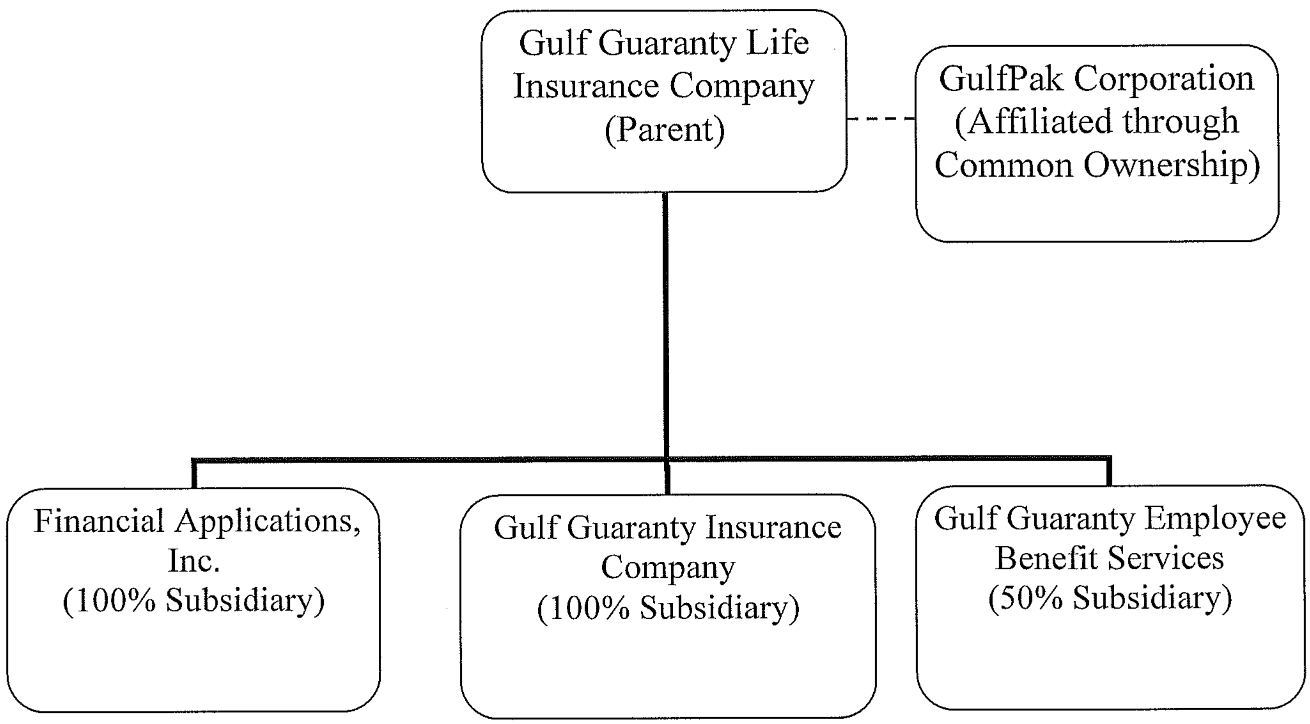
TERRITORY AND PLAN OF OPERATION

The Company primarily marketed individual and group credit life and credit accident and health coverage through commercial banking institutions, federal savings banks, automobile dealers, finance companies, mortgage companies, and other similar entities that are located in the states of its licensure, which were: Alabama, Arkansas, Florida, Louisiana, Mississippi and Tennessee.

HOLDING COMPANY

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company appears to have completed and filed with the MID the necessary documentation to comply with Miss. Code Ann. §§ 83-6-5 and 83-6-9 for the years under examination. The statements and applicable amendments that were filed during the examination period were reviewed, and it appeared that any changes and/or material transactions by and between the Company and its affiliates were reported.

The following organizational chart depicts the ownership and affiliated companies:



FINANCIAL APPLICATIONS, INC. (FAI); This company, a wholly owned subsidiary of GGLIC, was acquired on January 1, 1994. Its principal activities included the development and marketing of loan origination system software that serviced the needs of certain financial institutions. The valuation of this subsidiary was reflected at zero ($0) by the Company within the December 31, 2005, financial statements.

GULF GUARANTY INSURANCE COMPANY (GGIC); This company, a wholly owned subsidiary of GGLIC, was organized on January 15, 1981, under the laws of the State of Mississippi. Its principal activities included operating as a property and casualty insurer that primarily underwrites vendor's single interest (VSI) programs for various financial institutions. The investment in GGIC was reflected within the financial statements (common stock caption) at approximately $3.6 million, which represents the statutory capital and surplus of GGIC that was reported by the Company at December 31, 2005.

GULF GUARANTY EMPLOYEE BENEFIT SERVICES (GGEBS); This company, a 50% owned subsidiary of GGLIC, was formed on July 8, 1992, under the laws of the State of Mississippi. GGEBS' principal activities included providing administrative services for employee benefit plans for both life/health and property/casualty agents throughout the States of Louisiana, Mississippi and Tennessee. The valuation of this subsidiary was reflected at zero ($0) by the Company within the December 31, 2005, financial statements.

RELATED PARTY TRANSACTIONS

Prior to January 1, 2003, the Company maintained a software development operation that designed, developed, and maintained loan documentation and other financial software that was primarily marketed to banks. Under a plan approved by the MID, Company stockholders, and the Company's Board of Directors, operations were transferred to a separate non-insurance corporation named GulfPak Corporation (GulfPak) as of January 1, 2003. Shares of common stock in GulfPak were issued to shareholders of the Company in proportion to their ownership in the Company.

GulfPak signed an agreement on or about January 1, 2005 to pay a fee to GGLIC on a monthly basis until December 25, 2005. This agreement was not signed by a representative of GGLIC and appeared to be ambiguous regarding the responsibilities and duties of either party. It is recommended that the Company revise the agreement to clarify the responsibilities and duties of each party.

GGLIC and GGIC operate under common management and have common operating expenses. The companies have an expense allocation agreement, filed with the MID, that appears to have been consistently applied during the examination period.

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's computer system consisted of two Windows 2003 servers and one SCO Unix server. The Unix server was used for the Company's commercially purchased Accounting System (Passport Software). The Company's proprietary insurance software was written in Visual Basic with an accompanying SQL database.

It was noted in the examination that the Company did not maintain written data security policies and procedures nor a written data processing disaster recovery plan in compliance with the criteria established in Part 1, Section IV, Subsection B of the NAIC *Financial Condition Examiners Handbook*. It is recommended that the Company develop and implement written data security policies and procedures and a data processing disaster recovery plan, in accordance with Part 1, Section IV of the NAIC *Financial Condition Examiners Handbook.*

It was noted that the Company was not appropriately escheating abandoned property (outstanding checks) in compliance with the Unclaimed Property Act (Miss. Code Ann. §§ 89-12-1 et seq.). It is recommended that the Company comply with the Unclaimed Property Act (Miss. Code Ann. §§ 89-12-1 et seq.).

The Company had a formal Privacy Policy regarding the control of non-public personal information. An initial notice was provided to the policyholder as part of the loan document package. An annual privacy notice was sent to each group policyholder to whom a master policy has been issued by GGLIC.

It was noted that the custodial agreements with Trustmark National Bank, Renasant Bank, Pulaski Bank, and UBS Financial Services, Inc. did not exist or did not comply with the requirements of the NAIC *Financial Condition Examiners Handbook*. It is recommended that the Company obtain or modify custodial agreements to comply with all provisions set forth by the NAIC *Financial Condition Examiners Handbook.*

REINSURANCE

Effective February 1, 1997, the Company entered into an Automatic Reinsurance Agreement on a Risk Premium Basis with Munich American Reassurance Company (MARC) located in Atlanta, Georgia. Under the terms of this agreement, GGLIC ceded all amounts on each credit life policy in excess of $30,000 to MARC. The Company also ceded credit accident and health policies when the maximum benefit was in excess of $30,000. When the maximum benefits for credit accident and health policies exceeded $30,000, the risk was shared on a 50% quota share basis.

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 and refunds, complaints, policy forms, and premium charges. No significant issues were noted.

COMMITMENTS AND CONTINGENCIES

The Company was named as a defendant in certain lawsuits that were still pending at the examination report date. The Company intends to contest these claims and believes that meritorious defenses exist. The ultimate outcome of these suits could not be reasonably determined for examination purposes; however, an allowance of $406,000 was recorded in the financial statements reflecting management's best estimate of probable claims expense and estimated defense cost as of December 31, 2005. As with any lawsuit, there is always a possibility that any adverse judgement(s) could have a material effect on the surplus position of the Company.

INTRODUCTION TO FINANCIAL STATEMENTS

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

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

ASSETS

Bonds	$ 3,416,538
Preferred stocks	20,885
Common stocks	6,474,633
Mortgage loans on real estate: First liens	394,160
Real estate: Properties occupied by the Company	754,491
Real estate: Properties held for the production of income	1,472,086
Cash, cash equivalents and short-term investments	1,740,033
Receivables for securities	102,168
Investment income due and accrued	83,725
Uncollected premiums in the course of collection	106,492
Reinsurance: Other amounts receivable under reinsurance contracts	94,904
Electronic data processing equipment and software	28,234
Receivable from parent, subsidiaries and affiliates	587,677
Total Assets	$ 15,997,007

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	$ 2,911,080
Aggregate reserve for accident and health contracts	1,464,106
Contract claims: Life	196,775
Contract claims: Accident and health	186,889
Premiums received in advance	11,875
Commissions to agents due or accrued	42,724
General expenses due or accrued	1,258,090
Taxes, licenses and fees due or accrued	2,419
Amounts withheld or retained by company as agent or trustee	9,783
Remittances and items not allocated	8,385
Asset valuation reserve	505,921
Total Liabilities	6,598,047
Common capital stock	1,813,802
Gross paid in and contributed surplus	1,921,335
Unassigned funds (surplus)	14,248,527
Less treasury stock, at cost	(8,584,703)
Capital and Surplus	9,398,960
Total Liabilities, Surplus and Other Funds	$ 15,997,007

SUMMARY OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

Premiums and annuity considerations	$ 5,464,388
Net investment income	259,623
Amortization of interest maintenance reserve	23,721
Commissions and expense allowances on reinsurance ceded	161,401
Aggregate write-ins for miscellaneous income	379,556
Total Income	6,288,689
Death benefits	730,081
Annuity benefits	3,270
Disability benefits and benefits under accident and health contract	592,211
Increase in aggregate reserves for life and accident and health policies and contracts	181,862
Total policy benefits	1,507,424
Commissions on premiums and annuity considerations	2,644,596
Commissions and expense allowances on reinsurance assumed	(204)
General insurance expenses	2,244,766
Insurance taxes, licenses, and fees	232,310
Increase in loading on deferred and uncollected premiums	17,960
Aggregate write-ins for deductions	9,983
Total expenses	6,656,835
Net gain (loss) from operations before federal income taxes	(368,146)
Less: Federal income taxes incurred	(278,238)
Net gain from operations after federal income taxes	(89,908)
Net realized capital gains or (losses)	1,099,199
Net income (loss)	$ 1,009,291

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

	2003	2004	2005
Capital and surplus, beginning of year	$ 11,182,527	$ 10,302,465	$ 9,958,625
Net Income (loss)	76,279	(107,941)	942,945
Change in net unrealized capital gains	(2,100,107)	(428,785)	(872,396)
Change in net deferred income tax	101,918	-0-	-0-
Change in non-admitted assets and related items	470,778	(313,610)	(430,161)
Change in asset valuation reserve	1,222,743	566,349	111,675
Capital changes: paid in	(2)	-0-	-0-
Surplus adjustment: paid in	(58)	-0-	-0-
Dividends to stockholders	(649,038)	(59,848)	(311,728)
Distribution of earnings	(2,575)	(5)	-0-
Examination adjustments	-0-	-0-	-0-
Capital and surplus, end of the year	$ 10,302,465	$ 9,958,625	$ 9,398,960

RECONCILIATION OF EXAMINATION CHANGES TO SURPLUS
DECEMBER 31, 2005

As a result of this examination, there have been no changes made to the admitted asset, liability, and surplus balances reported by the Company that would affect capital and surplus in the 2005 Annual Statement. The capital and surplus reported by the Company of $9,398,960 is accepted as reasonably stated for purposes of the balance sheet per the examination.

COMMENTS AND RECOMMENDATIONS

1. It is recommended that the Company obtain fidelity coverage in an amount of $150,000 to $175,000 to comply with the NAIC *Financial Condition Examiners Handbook.* Additionally, it is noted that this recommendation was included in the examination report as of December 31, 2002. (Page 4)

2. GulfPak signed an agreement on or about January 1, 2005 to pay a fee to GGLIC on a monthly basis until December 25, 2005. This agreement was not signed by a representative of GGLIC and appeared to be ambiguous regarding the responsibilities and duties of either party. It is recommended that the Company revise the agreement to clarify the responsibilities and duties of each party. (Page 7)

3. It was noted in the examination that the Company did not maintain written data security policies and procedures nor a written data processing disaster recovery plan in compliance with the criteria established in Part 1, Section IV, Subsection B of the NAIC *Financial Condition Examiners Handbook.* It is recommended that the Company develop and implement written data security policies and procedures and a data processing disaster recovery plan, in accordance with Part 1, Section IV of the NAIC *Financial Condition Examiners Handbook.* (Page 8)

4. It was noted that the Company was not appropriately escheating abandoned property (outstanding checks) in compliance with the Unclaimed Property Act (Miss. Code Ann. §§ 89-12-1 et seq.). It is recommended that the Company comply with the Unclaimed Property Act (Miss. Code Ann. §§ 89-12-1 et seq.). (Page 8)

5. It was noted that the custodial agreements with Trustmark National Bank, Renasant Bank, Pulaski Bank, and UBS Financial Services, Inc. did not exist or did not comply with the requirements of the NAIC *Financial Condition Examiners Handbook.* It is recommended that the Company obtain or modify custodial agreements to comply with all provisions set forth by the NAIC *Financial Condition Examiners Handbook.* (Page 8)

6. It is recommended that the balance of the debenture in Vesta Insurance Corporation be treated as a non-admitted asset on all financial statements filed with the MID subsequent to June 28, 2006. (Page 16)

SUBSEQUENT EVENT

During the course of the examination, it was noted that the Company had an unsecured 10-year debenture in Vesta Insurance Corporation in the amount of $469,277. Subsequent to the examination date, the Company received a schedule principal payment in the amount of $147,766, leaving a balance of $321,151. On June 28, 2006, the Texas Department of Insurance filed for and obtained an Agreed Order of Rehabilitation and Permanent injunction, placing Vesta Fire Insurance Corporation and its affiliates, (which included Vesta Insurance Corporation) into rehabilitation. Based upon the fact that the Texas Department of Insurance filed for and obtained an Agreed Order of Rehabilitation and Permanent injunction, on Vesta Fire Insurance Corporation and its affiliates, which included Vesta Insurance Corporation, it is recommended that the balance of the debenture in Vesta Insurance Corporation be treated as a non-admitted asset on all financial statements filed with the MID subsequent to June 28, 2006.

ACKNOWLEDGMENT

The examiners representing the MID and participating in this examination were:

Examiner:	Amy M. Deer
Automation:	J. Scott Joyner, CISA, AES
Manager:	Joseph R. May, CPA, CMA, CFE, CIE
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

Mitch Rayborn, CFE, FLMI
Examiner-in-charge