



MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001
WOOLFOLK BUILDING
JACKSON, MISSISSIPPI 39201
www.mid.state.ms.us

MAILING ADDRESS
Post Office Box 79
Jackson, Mississippi 39205-0079
TELEPHONE: (601) 359-3569
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WATS: 1-800-562-2957 (Incoming - USA)

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

July 18, 2008

CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. Hugh S. Potts, Jr., President
First M & F Insurance Company
221 East Washington Street
Kosciusko, MS 39090

RE: Report of Examination as of December 31, 2007

Dear Mr. Potts:


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,

MIKE CHANEY
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 FIRST
 M & F INSURANCE COMPANY**

CAUSE NO. 08-5784

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 First M & F Insurance Company is a Mississippi-domiciled Company licensed to write 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 First M & F Insurance Company and appointed Brian Spong, Examiner-In-Charge, to conduct said examination.

IV.

That on or about May 4, 2008, the draft Report of Examination concerning First M & F Insurance Company for the period of January 1, 2004, through December 31, 2007, was submitted to the Department by the Examiner-In-Charge, Brian Spong.

V.

That on or about June 16, 2008, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. On or about June 18, 2008, the Company responded in a letter to the Department stating there were no objections to the draft report.

CONCLUSIONS OF LAW

VI.

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

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

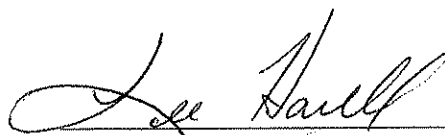
IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

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, First M & F 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 First M & F 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 18th day of July, 2008.




LEE HARRELL
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 18th day of July, 2008, to:

**Mr. Hugh S. Potts, Jr., President
First M & F Insurance Company
221 East Washington Street
Kosciusko, MS 39090**



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

First M & F Insurance Company

**221 East Washington Street
Kosciusko, Mississippi 39090**

As of December 31, 2007

**NAIC Company Code 63117
NAIC ETS No. MS029-C41**

**FIRST M & F INSURANCE COMPANY
EXAMINATION REPORT TABLE OF CONTENTS
DECEMBER 31, 2007**

| | |
|--|----|
| Examiner Affidavit | 1 |
| Salutation | 2 |
| Introduction..... | 2 |
| Scope of Examination | 3 |
| History of the Company..... | 3 |
| Holding Company Structure | 3 |
| Management and Control..... | 4 |
| Corporate Records | 6 |
| Fidelity Bonds..... | 6 |
| Directors', Officers', Employees', and Agents' Welfare..... | 6 |
| Reinsurance..... | 6 |
| Accounts and Records..... | 6 |
| Statutory Deposits..... | 6 |
| Financial Statements: | |
| Introduction..... | 7 |
| Statement of Admitted Assets, Liabilities, Surplus and Other Funds | 8 |
| Statement of Income | 9 |
| Reconciliation of Capital and Surplus..... | 10 |
| Reconciliation of Examination Changes to Surplus and Other Funds | 11 |
| Market Conduct Activities..... | 12 |
| Acknowledgement | 13 |

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

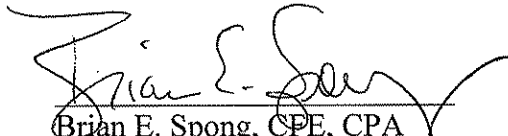
State of Mississippi,

County of Hinds,

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

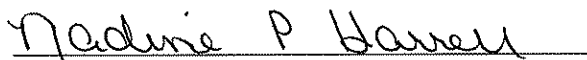
1. I have authority to represent the State of Mississippi in the examination of First M & F Insurance Company as of December 31, 2007.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners' Financial Regulation Accreditation Standards.
3. I have prepared the examination report, and the examination of First M & F Insurance Company, as of December 31, 2007, 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 E. Spong on June 24, 2008

(SEAL)


Notary Public

My commission expires at my death



OFFICIAL SEAL
MADINE P. HARRELL
NOTARY PUBLIC NO. 50910
STATE OF LOUISIANA
Parish of East Baton Rouge
My Commission is for Life



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MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

April 30, 2008

Honorable Mike Chaney
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

Dear Mr. Chaney:

Pursuant to your instructions and authorization, and in compliance with statutory provisions, an examination as of December 31, 2007 has been conducted of the affairs and financial condition of:

FIRST M & F INSURANCE COMPANY

(NAIC COMPANY CODE: 63117)

Statutory Home Office:
221 East Washington Street
Kosciusko, Mississippi 39090

The examination was performed at the Mississippi Insurance Department (MID) and at First M & F Insurance Company's (FMFIC or Company) Statutory Home Office, and was conducted in accordance with Miss. Code Ann. §83-5-201 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, 2004 through December 31, 2007, and the examination date is December 31, 2007. The examination was performed by examiners representing the MID and covered FMFIC'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, 2003, and the previous report of examination was dated March 16, 2005.

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. A full scope market conduct examination was not performed, however, limited procedures were performed on certain areas of the Company's market conduct. The financial statements for the Company's related entities were reviewed but not made part of this examination, and any related party transactions between the Company and its related entities were fully examined.

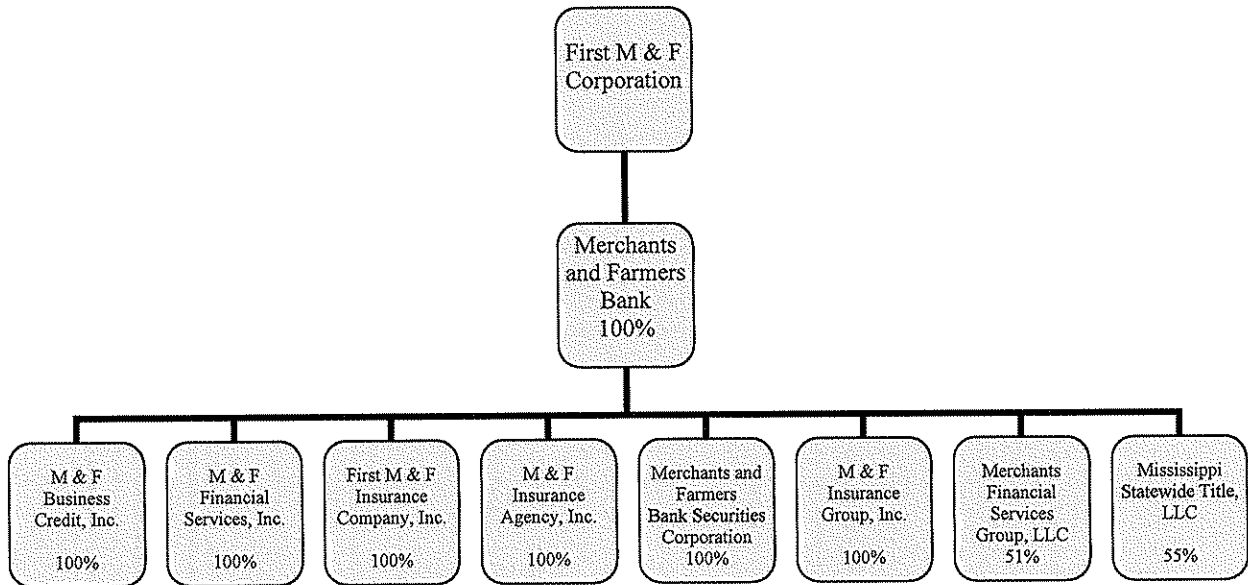
HISTORY OF THE COMPANY

The Company was incorporated in May 1990 under the laws of the State of Mississippi, and was formed to conduct life and health and accident insurance business on a stock plan, as well as to enter contracts for the payment of endowments and annuities. On January 1, 1991, the Company was licensed to issue credit life and credit accident and health insurance.

HOLDING COMPANY STRUCTURE

Organizational Structure

The Company, as defined within Miss. Code Ann. §83-6-1, is a member of a insurance holding company system. For each year under examination, the Company appropriately filed Holding Company Registration Statements (HCRS), in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9, with the MID. The ultimate controlling entity for the Company was First M & F Corporation. First M & F Corporation (FMFC) is a one bank holding company chartered and organized in 1979 under the laws of the State of Mississippi. FMFC was engaged in the banking business through its wholly owned subsidiary, Merchants and Farmers Bank (the Bank). The Bank was chartered and organized in 1890 under the laws of the State of Mississippi and accounted for substantially all the assets and revenues of FMFC. The Bank, reportedly, is the seventh largest bank in the State of Mississippi, having total assets, at December 31, 2007, in excess of \$1.6 billion. The Bank offered a complete range of commercial and consumer services at its main office and at its branch offices located in the states of Mississippi, Tennessee, Alabama, and Florida. FMFC is a publicly traded company whose major direct stockholders included Mr. Hugh S. Potts, Jr., who is also the Chairman and CEO of FMFC and the Bank as well as the President of the Company. The organizational chart for FMFC, as of December 31, 2007, follows:



Related Party Transactions

- At December 31, 2007, the Company had a checking account, a money market account, and a certificate of deposit, which had a combined total of \$1,705,512 on the examination date, with its direct parent company, Merchants and Farmers Bank. As part of a consolidated audit, Merchants and Farmers Bank received an unqualified opinion as of December 31, 2007 from the independent public accounting firm of Shearer, Taylor & Company, P.A.
- The Company, and after receiving approval from the MID dated February 26, 2007, paid a \$1,000,000 extraordinary dividend to its parent company.

MANAGEMENT AND CONTROL

Stockholders

The Company is a Mississippi domestic stock life insurance company that, at the examination date, had 400,000 shares (\$1 par value) of outstanding common capital stock that was 100% owned by Merchants & Farmers Bank.

Board of Directors

The Articles 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, as of the examination date, follows:

Name and Place of Residence

Mr. Hugh S. Potts, Jr.
Kosciusko, Mississippi

Principal Occupation

Chairman and CEO,
First M & F Corp. and M & F Bank

| <u>Name and Place of Residence</u> | <u>Principal Occupation</u> |
|--|--|
| Mr. Scott M. Wiggers Kosciusko, Mississippi | President and COO, First M & F Corp. and M & F Bank |
| Mr. Larry D. Terrell Kosciusko, Mississippi | President and CEO, Ivey Mechanical Company |
| Mr. Otho E. Pettit, Jr. Kosciusko, Mississippi | Attorney-at-law, Dorrill & Pettit |
| Mr. Charles W. Ritter, Jr. Kosciusko, Mississippi | President, JRS, Inc. |
| Mr. Toxey Hall, III Canton, Mississippi | Investing |
| Mr. Jeffrey A. Camp Kosciusko, Mississippi | Executive Vice President, M & F Bank |
| Mr. Jon A. Crocker Canton, Mississippi | Investing |
| Mr. J. Marlin Ivey Kosciusko, Mississippi | President, Ivey National Corp. |
| Mr. Hollis C. Cheek Kosciusko, Mississippi | President, Cheek Companies |

Officers

The following officers were duly elected by the Board and held the following offices as of December 31, 2007:

| <u>Name</u> | <u>Title</u> |
|------------------------|----------------|
| Mr. Hugh S. Potts, Jr. | President |
| Mr. Scott M. Wiggers | Vice President |
| Mr. John G. Copeland | Treasurer |
| Mrs. Evelyn G. Atwood | Secretary |

Committees

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

Conflict of Interest

The Company's officers and directors prepared conflict of interest statements that covered the examination period, and no material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with their official duties was noted.

CORPORATE RECORDS

The minutes of the meetings of the Stockholders and Board, prepared during the period under examination, were reviewed and appeared to be complete with regard to the recording of actions on the matters brought up at the meetings for deliberation and/or approval.

FIDELITY BONDS

The Company was a covered entity under First M & F Corporation's fidelity coverage, which, with its \$10 million single loss limit of liability, exceeded the coverage amount recommended by the NAIC.

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

The Company, during the examination period, did not provide any benefits or welfare programs for its directors or officers, and did not have any direct personnel.

REINSURANCE

The Company, effective December 8, 1995, entered into a credit life and disability reinsurance treaty with Life Insurance Company of Mississippi (LICOM), which is currently part of American Bankers Life Assurance Company of Florida Group, where the Company agreed to reinsure all credit life and credit accident and health insurance policies written through LICOM on or after October 1, 1990 by agents affiliated with First M & F Corporation and its subsidiaries or affiliates. As previously mentioned, the Company, during the examination period, did not write or reinsure any new business. The business inforce and its related reserve, at December 31, 2007, amounted to \$13,000 and \$117, respectively.

ACCOUNTS AND RECORDS

The Company's financial statements and tax calculations, pursuant to a service agreement dated June 1, 2001, were prepared by Inver Grove Financial Services, Inc., which utilized Fiserv's AS2000 to prepare the Company's annual statement, with ATX used to prepare the Company's tax returns. The Company, during the examination period, was exempt from having an annual audit by an independent certified public accounting firm.

STATUTORY DEPOSITS

At the examination date, the Company's statutory deposits with the State of Mississippi, as displayed individually below, complied with applicable laws and the values of these deposits were examined without significant exception.

| Description of Security | Book Value | Fair Value |
|--------------------------------|-------------------|-------------------|
| Federal Farm Credit Bank Bond | \$539,231 | \$562,891 |
| Certificate of Deposit | <u>149,571</u> | <u>149,571</u> |
| Totals | \$688,802 | \$712,462 |

FINANCIAL STATEMENTS

The following financial statements consist of a Statement of Admitted Assets, Liabilities, Surplus and Other Funds at December 31, 2007, a Statement of Income for year ended December 31, 2007, a Reconciliation of Capital and Surplus for examination period ended December 31, 2007, and a Reconciliation of Examination Changes to Surplus and Other Funds for Year Ended December 31, 2007.

FIRST M & F INSURANCE COMPANY
STATEMENT OF ADMITTED ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2007

Admitted Assets

| | |
|-----------------------------------|--------------------|
| Bond | \$539,231 |
| Cash and short term investments | 1,705,514 |
| Investment income due and accrued | <u>9,856</u> |
| Total Admitted Assets | <u>\$2,254,601</u> |

Liabilities, Surplus and Other Funds

| | |
|--|--------------------|
| Aggregate reserve for life contract | \$117 |
| Life claims payable | 38 |
| Interest maintenance reserve | 221 |
| General expenses due or accrued | <u>300</u> |
| Total Liabilities | <u>676</u> |
| | |
| Common capital stock | 400,000 |
| Gross paid in and contributed surplus | 700,000 |
| Unassigned funds | <u>1,153,925</u> |
| Total Capital and Surplus | <u>2,253,925</u> |
| Total Liabilities, Surplus and Other Funds | <u>\$2,254,601</u> |

**FIRST M & F INSURANCE COMPANY
STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2007**

INCOME:

| | |
|--|------------|
| Net investment income | \$34,055 |
| Amortization of interest maintenance reserve | <u>133</u> |
| Total Income | 34,188 |

DEDUCTIONS:

| | |
|---|------------------|
| Death benefits | 910 |
| General insurance expenses | 9,259 |
| Insurance taxes, licenses and fees | 3,233 |
| Increase in reserves for life contracts | <u>(378)</u> |
| Net gain before federal income taxes | 21,164 |
| Federal income taxes | <u>(5,778)</u> |
| Net income | <u>\$ 26,942</u> |

**FIRST M & F INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2007**

| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|--------------------|--------------------|--------------------|---------------------|
| Surplus as regards policyholders, beginning of year | \$3,007,034 | \$3,097,707 | \$3,199,751 | \$3,219,251 |
| Net income | 83,547 | 66,564 | 22,426 | 26,942 |
| Change in net deferred income tax | (626) | (163) | (25) | (8) |
| Change in non-admitted assets | 6,537 | 22,448 | (2,901) | 6,092 |
| Change in asset valuation reserve | 1,215 | 13,195 | 0 | 1,648 |
| Dividends | 0 | 0 | 0 | (1,000,000) |
| Examination adjustments | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Surplus as regards policyholders, end of year | <u>\$3,097,707</u> | <u>\$3,199,751</u> | <u>\$3,219,251</u> | <u>\$2,253,925*</u> |

*The Company's surplus, as determined by the examination, was in compliance with Miss. Code Ann. §83-19-31, which requires the Company to maintain \$400,000 in capital and \$600,000 in surplus.

**FIRST M & F INSURANCE COMPANY
RECONCILIATION OF EXAMINATION CHANGES TO SURPLUS AND OTHER FUNDS
FOR YEAR ENDED DECEMBER 31, 2007**

| <u>ASSETS</u> | <u>BALANCE PER ANNUAL STATEMENT</u> | <u>BALANCE PER EXAMINATION</u> | <u>INCREASE (DECREASE) IN SURPLUS</u> |
|---------------|---|--|---|
|---------------|---|--|---|

The examination did not produce any material adjustments to the asset amounts reported by the Company within the filed annual statement.

LIABILITIES

The examination did not produce any material adjustments to the liability amounts reported by the Company within the filed annual statement.

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. The particular areas reviewed, and any noted exceptions, follows:

Complaint Handling

The Company, during the examination period, did not have any registered complaints.

Marketing and Sales and Producer Licensing

The Company, during the examination period, did not issue or reinsure any new business.

Underwriting and Rating

The Company had appropriate licensure, and the previously issued policy forms/certificates were approved by the MID.

Claims

The Company did not, during the examination period, pay any direct claims.

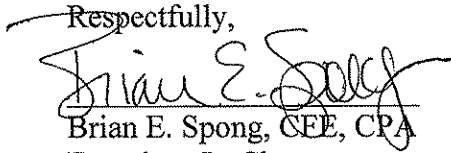
Territory and Plan of Operation

The Company was licensed to issue credit life and credit accident and health insurance in the State of Mississippi and, as previous mentioned, the Company, during the examination period, did not issue or reinsure any new business.

ACKNOWLEDGEMENT

In addition to the undersigned, Mr. David Browning, CFE, also participated in this examination as supervising examiner. Together, we hereby acknowledge the courteous cooperation extended by the Company during this examination.

Respectfully,


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