



## MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001  
WOOLFOLK BUILDING  
JACKSON, MISSISSIPPI 39201  
www.doi.state.ms.us  
March 18, 2010

MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

MAILING ADDRESS  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
TELEPHONE: (601) 359-3569  
FAX: (601) 359-2474  
WATS: 1-800-562-2957 (Incoming - USA)

### CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. James Hilbun Robertson, President  
Gulf Guaranty Insurance Company  
Post Office Box 12409  
Jackson, MS 39236-2409

**RE: Report of Examination as of December 31, 2008**

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,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY

A handwritten signature in black ink, appearing to read "Christina J. Kelsey", written over a horizontal line.

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 OF  
          GULF GUARANTY INSURANCE COMPANY**

**CAUSE NO. 10-6038**

**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 Insurance Company is a Mississippi-domiciled company licensed to write automobile physical damage/liability; boiler and machinery; casualty/liability; fidelity; fire/allied lines; guaranty; home/farm owners; industrial fire; inland marine; mortgage guaranty; ocean marine; plate glass and surety 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 Insurance Company and appointed James Russo, Examiner-In-Charge, to conduct said examination.

### **IV.**

That on or about January 20, 2010, the draft Report of Examination concerning Gulf Guaranty Insurance Company for the period of January 1, 2006 through December 31, 2008 was submitted to the Department by the Examiner-In-Charge, James Russo.

### **V.**

That on or about February 3, 2010, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The Department received the Company's response on or about March 5, 2010, and in response thereto, no revisions were made to the report.

## **CONCLUSIONS OF LAW**

### **VI.**

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

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

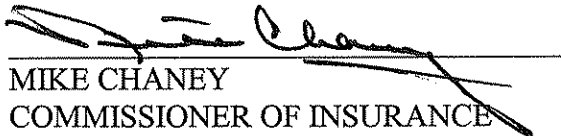
**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

**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 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 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.

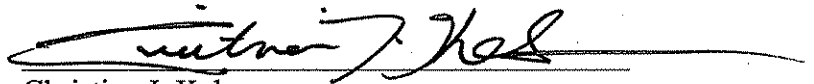
**SO ORDERED**, this the 18<sup>th</sup> day of March, 2010.

  
MIKE CHANEY  
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 18<sup>th</sup> day of March, 2010, to:

**Mr. James Hilbun Robertson, President  
Gulf Guaranty Insurance Company  
Post Office Box 12409  
Jackson, MS 39236-2409**



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 on Examination**

**of**

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

**As of December 31, 2008**

**NAIC Group Code 948  
NAIC Company Code 36765  
NAIC ETS No. MS029-C62**

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

State of Mississippi,

County of Hinds,

James Russo, CFE, CFE (Fraud), CPCU, FLMI, CIE, CFSA, being duly sworn, states as follows:

1. I have authority to represent the State of Mississippi in the examination of Gulf Guaranty Insurance Company as of December 31, 2008.
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 working papers, and the examination of Gulf Guaranty Insurance Company, as of December 31, 2008, 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.



James Russo, CFE, CFE (Fraud), CPCU, FLMI, CIE, CFSA  
Examiner-In-Charge

Subscribed and sworn before me by James Russo on February 1, 2010.

(SEAL)



Notary Public

My commission expires



ANI HALLAJIAN  
My Commission DD 63103:  
Expires Mar. 21, 2010

## TABLE OF CONTENTS

LETTER OF TRANSMITTAL .....	-
INTRODUCTION .....	1
SCOPE OF EXAMINATION .....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION .....	2
HISTORY OF THE COMPANY.....	2
MANAGEMENT AND CONTROL.....	3
MANAGEMENT .....	3
CORPORATE RECORDS .....	3
FIDELITY BOND AND OTHER INSURANCE .....	4
STATUTORY DEPOSITS.....	4
DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS WELFARE .....	4
CONFLICT OF INTEREST .....	5
TERRITORY AND PLAN OF OPERATION.....	5
GROWTH OF COMPANY .....	5
HOLDING COMPANY/RELATED PARTY TRANSACTIONS .....	5
COST SHARING AGREEMENT .....	7
TAX SHARING AGREEMENT .....	7
ACCOUNTS AND RECORDS .....	7
CUSTODIAL AGREEMENT .....	7
INDEPENDENT AUDITOR AGREEMENT .....	8
MARKET CONDUCT ACTIVITIES .....	8
FINANCIAL STATEMENTS PER EXAMINATION .....	8
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS.....	9
ASSETS.....	9
LIABILITIES, SURPLUS AND OTHER FUNDS.....	10
STATEMENT OF INCOME.....	11
RECONCILIATION OF CAPITAL AND SURPLUS .....	12
RECONCILIATION OF EXAMINATION CHANGES TO SURPLUS .....	13
COMMENTS ON FINANCIAL STATEMENTS.....	13
LIABILITIES .....	13
SUMMARY OF FINDINGS .....	14
CONCLUSION.....	16





## MISSISSIPPI INSURANCE DEPARTMENT

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

MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

MAILING ADDRESS  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
TELEPHONE: (601) 359-3569  
FAX: (601) 359-2474  
WATS: 1-800-562-2957 (Incoming - USA)

January 19, 2010

Honorable Alfred Gross  
Financial Condition (E) Subcommittee  
State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, Virginia 23218

Honorable James J. Donelson  
Secretary, Southeastern Zone (II), NAIC  
Louisiana Department of Insurance  
1702 North Third Street  
Baton Rouge, Louisiana 70802

Mike Chaney  
Commissioner of Insurance  
State of Mississippi  
501 N. West Street, Suite 1001  
Woolfolk Building  
Jackson, Mississippi 39201

Dear Sir:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2008, of the affairs and financial condition of:

**GULF GUARANTY INSURANCE COMPANY**  
**(NAIC COMPANY CODE 36765)**  
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 respectfully submitted.

## INTRODUCTION

This examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered Gulf Guaranty Insurance Company's (GGIC) operations and financial condition from January 1, 2006 through December 31, 2008, 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, 2006 through December 31, 2008, and the examination date is defined as December 31, 2008.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2006 through December 31, 2008. The Company was last examined by representatives of the MID as of December 31, 2005. This examination commenced with a planning meeting at the MID on August 4, 2009. The fieldwork commenced on August 5, 2009 and concluded January 18, 2010.

This financial examination was a statutory financial examination conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual* and *Annual Statement Instructions* promulgated by the NAIC as adopted by Miss. Code Ann. § 83-5-207, with due regard to the statutory requirements of the insurance laws and rules of the State of Mississippi.

The NAIC Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing current and prospective inherent risks to which the Company is exposed, and evaluating its system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The general procedures of the examination followed rules established by the NAIC Financial Condition (E) Committee as set forth in the Financial Condition Examiners Handbook and included such other examination procedures as were considered necessary. All accounts and activities of the Company were considered in accordance with the risk surveillance examination process.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Company's independent audit reports and certain work papers prepared by the Company's

independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This Report on Examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

### **Status of Adverse Findings from Prior Examination**

The prior Report on Examination as of December 31, 2005 noted adverse findings for which recommendations were made for the Company to take corrective action. The Company took corrective measures to address those findings with the following exceptions:

It was recommended that the Actuarial Opinion be presented to the Board of Directors and that such action be recorded in the minutes of the Board of Directors meetings. Our review of those minutes for the period under examination indicated this was still not being performed.

It was recommended that the Company increase its Fidelity Bond coverage to at least the amount recommended by the NAIC. As of December 31, 2008, the Fidelity Bond coverage did not meet the minimum amount recommended by the NAIC.

It was recommended that the Company have custodial agreements with the custodians of its securities that contain the provisions recommended by the NAIC. As of December 31, 2008, the Company had not complied with this recommendation.

### **HISTORY OF THE COMPANY**

The Company was incorporated in Mississippi on January 15, 1981, as Three Rivers Insurance Company, a Mississippi insurance corporation and was licensed on August 1, 1981. The Company's name was changed to National General Insurance Company on October 12, 1981, and to National General Fire and Casualty Insurance Company (NGF&C) on March 21, 1983. On January 6, 1989, Gulf Guaranty Insurance Company (GGIC) was incorporated in Mississippi as an insurance corporation. On February 13, 1991, GGIC was merged into NGF&C with the latter the surviving corporation. NGF&C's name was changed to Gulf Guaranty Insurance Company effective February 13, 1991.

As of December 31, 2008, the Company was authorized to transact the following lines of business: Auto Physical Damage/Liability, Boiler & Machinery, Casualty/Liability, Fidelity, Fire/Allied Lines, Guaranty, Home/Farm Owners, Industrial Fire, Inland Marine, Mortgage Guaranty, Ocean Marine, Plate Glass and Surety.

## MANAGEMENT AND CONTROL

### Management

The Articles of Incorporation and the 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 serving as of December 31, 2008, were:

<u>Name and Place of Residence</u>	<u>Principal Occupation</u>
Jack Westbrook Robertson, Jr. Jackson, Mississippi	Chairman of the Board Gulf Guaranty Life Insurance Company
James Hilbun Robertson Madison, Mississippi	President Gulf Guaranty Life Insurance Company
John Westbrook Robertson, III Jackson, Mississippi	Executive Vice President Gulf Guaranty Insurance Company

The officers duly elected by the Board of Directors and serving as of December 31, 2008, were:

James Hilbun Robertson	President
Robert Morris Berry	Secretary/Treasurer
John Westbrook Robertson, III	Executive Vice President

The Company had authorized 2,000,000 shares of common stock with a par value of \$1.75 per share. As of December 31, 2008, 600,000 shares of common stock were issued and outstanding, with Gulf Guaranty Life Insurance Company (GGLIC) owning 100% of the outstanding shares.

## CORPORATE RECORDS

The minutes of meetings of the Company's sole stockholder and Board of Directors were reviewed for the period under examination. The Board addressed the matters presented for its consideration, which related mainly to approval of the Company's investment transaction and ratification of the actions of its officers and directors. Based on a review of the minutes, it appears that the Board does not provide adequate oversight related to the operational aspects of the Company as noted below:

- The minutes did not indicate that a qualified actuary had been appointed or that the Actuarial Opinion had been presented to the Board annually in compliance with NAIC *Annual Statement Instructions*.
- The minutes did reflect the activity of an Investment Committee, but did not reflect the establishment of an Investment Committee, or identify its members.
- The minutes did not address the change in external auditors in 2007 or the appointment of Carr, Riggs & Ingram as its external auditor for the years 2007 through 2009.
- The minutes did not mention the Board reviewing and accepting the Report on Examination as of December 31, 2005.
- The minutes did not consistently reflect the Board reviewing and accepting the annual CPA Audit Reports.

***Refer to the "Summary of Findings" section of this Report on Examination for related recommendations.***

### **FIDELITY BOND AND OTHER INSURANCE**

The Company had a comprehensive corporate insurance program in place, which included commercial general liability and commercial property as well as other policies deemed appropriate by management. At December 31, 2008, the Company and GGLIC were covered by a financial institutions bond with a \$75,000 single loss limit, which did not meet the minimum amount of fidelity coverage suggested by the NAIC for the two companies combined.

***Refer to the "Summary of Findings" section of this Report on Examination for related recommendations.***

### **STATUTORY DEPOSITS**

The Company's statutory deposits with the State of Mississippi complied with Miss.Code.Ann. § 83-19-31 (2). As of December 31, 2008, the Company had the following on deposit:

<u>State Deposited</u>	<u>Type of Security</u>	<u>Book Value</u>	<u>Fair Value</u>
Arkansas	Certificate of Deposit	\$150,000	\$150,000
Louisiana	Certificate of Deposit	\$100,000	\$100,000
Mississippi	Bonds	\$524,719	\$556,925

### **DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS WELFARE**

The Company had no employees. Pursuant to an expense allocation agreement, certain services associated with the administration and management of business written in GGIC were provided by employees of GGLIC.

## CONFLICT OF INTEREST

The Company has formal procedures for the disclosure of any material interest or affiliation on the part of any director or officer to the Board of Directors. Signed Conflict of Interest Statements were provided for members of the Board of Directors, President and Secretary/Treasurer.

## TERRITORY AND PLAN OF OPERATION

The Company marketed credit insurance to financial institution lenders. GGIC primarily wrote 'Vender Single Interest' (VSI) policies, which protect only the lender. There are two types of VSI policies; the first protects the lender against normal property damage risks on all collateral loans. The second type more broadly insures the lienholder's risk of default or credit loss. In addition to Mississippi, the Company was licensed to write business in Alabama, Arkansas, Louisiana and Tennessee.

## GROWTH OF COMPANY

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed Annual Statements.

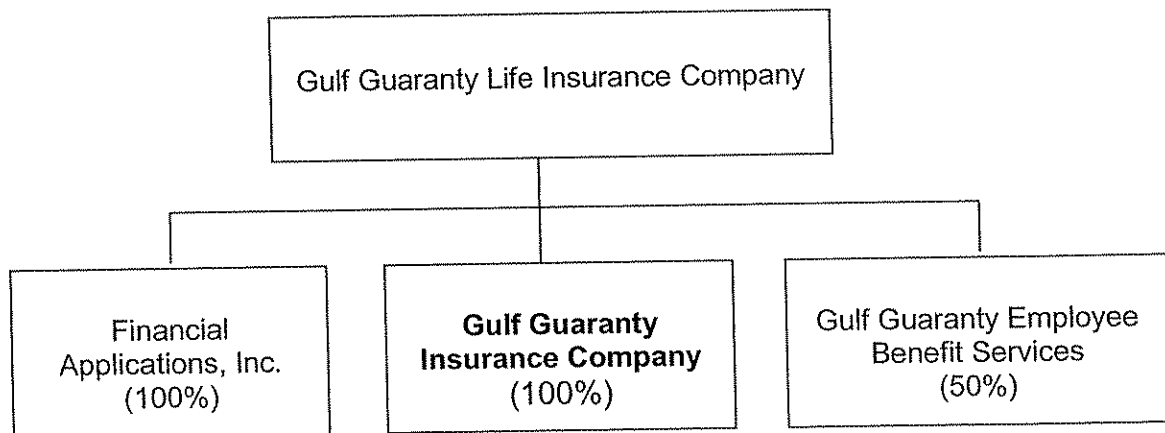
	2008	2007	2006
Premiums Earned	1,595,276	1,713,148	1,658,296
Net Underwriting Gain/(Loss)	(248,888)	(102,364)	(377,772)
Net Income	12,244	111,958	214,181
Total Assets	5,025,569	5,237,081	5,240,492
Total Liabilities	1,183,634	1,399,688	1,365,882
Surplus As Regards Policyholders	3,841,936	3,837,393	3,874,611

## HOLDING COMPANY/RELATED PARTY TRANSACTIONS

The Company is a member of an insurance holding company system as defined in Miss. Code Ann. § 86-6-1. The Company completed and filed with the MID the required documentation to comply with Miss. Code Ann. § 86-6-5 and § 83-6-9 for the period under examination. Statements and applicable amendments filed during the period of examination were reviewed.

The latest holding company registration statement was filed with the State of Mississippi on April 14, 2009, as required by Miss. Code Ann. § 86-6-5 and § 83-6-9.

The following abbreviated organizational chart depicts the ownership and affiliated companies at December 31, 2008:



The outstanding common stock of Gulf Guaranty Life Insurance Company (GGLIC) is owned by numerous individuals; however the Robertson family controls 53% of the shares, exclusive of the Treasury Stock. Jack W. Robertson, Jr. owned approximately 31% (116,498), Gwenette Robertson as owner or custodian owned 11% (41,000), and other family members owned a combined 11% as of December 31, 2008. The Company owns 7,365 shares of the GGLIC.

**Gulf Guaranty Life Insurance Company:** This company owns 100% of the outstanding shares of GGIC and Financial Applications, Inc. and 50% of the outstanding shares of Gulf Guaranty Employee Benefit Services. The sales and service of credit life insurance and credit accident and health products, sold through commercial banking institutions, are its principal activities.

**Financial Applications, Inc. (FAI):** This company was acquired on January 1, 1994, and is a wholly-owned subsidiary of GGLIC. Its principal activities include the development and marketing of loan origination system software that services the needs of certain financial institutions. GGLIC placed a \$0 value for this subsidiary in its filed 2008 Annual Statement.

**Gulf Guaranty Employee Benefit Services (GGEBS):** This company was formed on July 8, 1992 under the laws of Mississippi, with GGLIC having a 50% ownership. GGEBS' principal activities include providing administrative services for employee benefit plans for both life/health and property/casualty agents throughout Louisiana, Mississippi and Tennessee. GGLIC placed a \$0 value for this subsidiary in its filed 2008 Annual Statement.

The following agreements were in effect between the Company and its affiliates:

## **Cost Sharing Agreement**

The Company receives administrative services under the terms of an Expense Allocation Agreement in effect with its parent, GGLIC. The agreement, which was originally effective November 3, 1994, was amended and replaced on July 14, 2008. The purpose for the amendment was to update the agreement and to bring it into compliance with SSAP 96. SSAP 96 requires that intercompany transactions be settled in a timely manner. Pursuant to the terms of the amended Agreement:

1. Each month GGIC shall make a payment to GGLIC for expenses expected to be allocated during that month;
2. At the end of each quarter, a calculation will be made of the actual expenses that were allocable during that quarter;
3. Any overpayment or underpayment of allocable expenses for the prior quarter will be settled between the parties within 2 months following the end of the prior quarter.

## **Tax Sharing Agreement**

GGLIC and its subsidiaries, GGIC and GGEBS, entered into an Intercompany Tax Sharing Agreement effective on January 9, 2004. Pursuant to terms of the Agreement, GGLIC will file a consolidated tax return and pay any taxes due on or before the due date. GGLIC will be reimbursed by GGIC and GGEBS for their individual share of the affiliated group's consolidated tax liability. Annually, amounts due to or from a member of the group will be settled, no later than the extended due date for the return.

## **ACCOUNTS AND RECORDS**

The Company's general ledger trial balance was reconciled to the balance sheet of the filed 2008 Annual Statement without exception. The Company is audited annually by an independent CPA firm.

The Company maintained its principal operational offices in Jackson, Mississippi, where this examination was conducted.

The Company's accounting records were maintained on a computerized system. The balance sheet accounts were verified with the line items of the filed Annual Statement.

The Company has the following third party agreements in effect at December 31, 2008:

## **Custodial Agreement**

The Company's securities were held by Trustmark National Bank (Trustmark) and UBS Financial Services, Inc, (UBS). The Company had a custodial agreement with Trustmark. However, it did not conform to NAIC guidelines.



The Company did not have a custodial agreement with UBS.

***Refer to the "Summary of Findings" section of this Report of Examination for related recommendations.***

### **Independent Auditor Agreement**

The Company had an agreement with Carr, Riggs and Ingram, LLP to audit the Company's statutory financial statements for the years 2007 through 2009.

### **MARKET CONDUCT ACTIVITIES**

A full scope market conduct examination was not performed; however, limited procedures were performed in these specific areas: claims, complaints, policy forms and premiums. No significant exceptions were noted.

### **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Reconciliation of Examination Changes to Surplus."

## STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

### Assets December 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$3,693,791		\$3,693,791
Stocks:			
Common stocks	317,933		317,933
Mortgage loans on real estate:			
First liens	187,500		187,500
Real estate:			
Property occupied by the company	146,067		146,067
Cash	602,543		602,543
Other invested assets	12,861		12,861
Investment income due and accrued	46,213		46,213
Premiums and considerations:			
Uncollected premiums	18,662		18,662
Totals	\$5,025,570	\$0	\$5,025,570

## Liabilities, Surplus and Other Funds

December 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$142,428		\$142,428
Loss adjustment expenses	14,243		14,243
Commissions payable, contingent commissions and other similar charges	7,245		7,245
Other expenses	139,586		139,586
Taxes, licenses and fees	23,406		23,406
Unearned premiums	739,619		739,619
Payable to parent, subsidiaries and affiliates	117,107		117,107
Total liabilities	1,183,634		1,183,634
Common capital stock	1,050,000		1,050,000
Gross paid in and contributed surplus	1,302,033		1,302,033
Unassigned funds (surplus)	1,489,903		1,489,903
Surplus as regards policyholders	\$3,841,936		\$3,841,936
Total liabilities, surplus and other funds	\$5,025,570	\$0	\$5,025,570

## STATEMENT OF INCOME

For the year ended December 31, 2008

### Underwriting Income

Premiums earned		\$1,595,276
	<b>Deductions:</b>	
Losses incurred		583,986
Loss adjustment expenses incurred		30,252
Other underwriting expenses incurred		1,229,926
Total underwriting deductions		<u>\$1,844,164</u>
Net underwriting gain or (loss)		(\$248,888)

### Investment Income

Net investment income earned		\$150,220
Net realized capital gains (losses)		20,824
Net investment gain (loss)		<u>\$171,044</u>

### Other Income

Aggregate write-ins for miscellaneous income		<u>\$90,088</u>
Total other income		\$90,088
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		\$12,244
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		\$12,244
Federal & foreign income taxes incurred		<u>0</u>
Net Income		\$12,244

### Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$3,837,392
Net Income		12,244
Change in unrealized capital gains or (losses)		(13,140)
Change in nonadmitted assets		5,440
Change in surplus as regards policyholders for the year		<u>\$4,544</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$3,841,936</u></u>

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR THE EXAMINATION PERIOD ENDED DECEMBER 31, 2008**

	2006	2007	2008
Capital and surplus, beginning of year	\$3,639,196	\$3,874,611	\$3,837,392
Net income	214,181	111,958	12,244
Change in net unrealized capital gains (losses)	50,982	(158,201)	(13,140)
Change in nonadmitted assets	(29,748)	9,025	5,440
Examination adjustments	0	0	0
Capital and surplus, end of year	<u>\$3,874,611</u>	<u>\$3,837,393</u>	<u>\$3,841,936</u>

## RECONCILIATION OF EXAMINATION CHANGES TO SURPLUS

No changes have been made to the capital and surplus total of \$3,841,936 as reported by the Company in its filed 2008 Annual Statement.

### COMMENTS ON FINANCIAL STATEMENTS

#### Liabilities

Losses	\$142,428
Loss adjustment expenses	14,243

An outside actuarial firm, appointed by the Company, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, made a reasonable provision for the above liabilities of the Company under the terms of its policies and agreements.

Merlinos and Associates, Inc. (Merlinos) was retained by the MID to conduct a review of the Company's reserves for the above liabilities as of December 31, 2008, in conjunction with the financial condition examination. Merlinos found the Company's reserves at December 31, 2008 to be reasonably stated.

## SUMMARY OF FINDINGS

### Corporate Records

Based on a review of the minutes, it appears that the Board does not provide adequate oversight related to the operational aspects of the Company as noted below:

- The minutes did not indicate that a qualified actuary had been appointed or that the Actuarial Opinion had been presented to the Board annually in compliance with the NAIC Annual Statement Instructions. This same finding was noted in the prior Report on Examination.
- The minutes did reflect the activity of an Investment Committee. However, the minutes did not indicate the establishment of an Investment Committee or the identity of its members.
- The minutes did not address the change in external auditors in 2007 or the appointment of Carr, Riggs & Ingram as the external auditors for the years 2007 through 2009.
- The minutes did not mention the Board reviewing and accepting the Report on Examination as of December 31, 2005.
- The minutes did not consistently reflect the Board of Directors reviewing and accepting the annual CPA Audit Reports.

**We recommend that the Board of Directors provide greater oversight over the operations of the Company and that the meeting minutes reflect all activity and pertinent decisions including all of the activities noted above.**

### Fidelity Bond and Other Insurance

At December 31, 2008, the Company and its parent, Gulf Guaranty Life Insurance Company, were covered by a financial institutions bond with a \$75,000 single loss limit. The amount recommended by the NAIC for just the Company was \$75,000.

**It is noted that a recommendation to increase the fidelity insurance was made in each of the last two Reports on Examination of the Company.**

**We again recommend that the fidelity coverage be increased to provide adequate protection for both companies.**

### Custodial Agreements

The Company's securities were held by Trustmark National Bank (Trustmark) and UBS Financial Services, Inc, (UBS). The Company had a custodial agreement with Trustmark. However, it did not conform to NAIC guidelines.

The Company did not have a custodial agreement with UBS.

**The prior Report on Examination noted the same findings.**

**We again recommend that the Company have custodial agreements with all custodians of its investments and that those agreements comply with NAIC guidelines.**



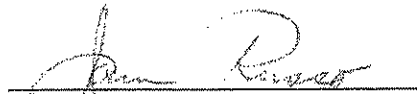
## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Gulf Guaranty Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Mississippi.

In addition to the undersigned, the following participated in the examination:

Robert Rodack CPA, Supervising Insurance Examiner, INS Regulatory Insurance Services, Inc.; Beverly Dale, CFE, CPA, FLMI, CIE, Insurance Examiner, INS Regulatory Insurance Services, Inc.; Robert P. Daniel, ACAS, MAAA, Actuary, Merlinos & Associates, Inc.; and Lawrence R. Lentini, CPA, President, INS Services, Inc.

Respectfully submitted,



James Russo  
CFE, CFE (Fraud), CPCU, FLMI, CIE, CFSA  
Examiner-in-Charge