



MISSISSIPPI INSURANCE DEPARTMENT

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MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

August 31, 2010

CERTIFIED MAIL RETURN RECEIPT REQUESTED

Thomas Eugene Wilcox, President
Magnolia Guaranty Life Insurance Company
102 Business Park Drive, Suite H
Ridgeland, MS 39157

RE: Report of Examination as of December 31, 2009

Dear Mr. Wilcox:

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


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 MAGNOLIA
 GUARANTY LIFE INSURANCE COMPANY**

CAUSE NO. 10-6160

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 Magnolia Guaranty Life Insurance Company is a Mississippi-domiciled Company licensed to write Industrial Life and Industrial Accident and Health coverage.

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 Magnolia Guaranty Life Insurance Company and appointed Dale Miller, Examiner-In-Charge, to conduct said examination.

IV.

That on or about June 22, 2010, the draft Report of Examination concerning Magnolia Guaranty Life Insurance Company for the period of January 1, 2006 through December 31, 2009, was submitted to the Department by the Examiner-In-Charge, Dale Miller.

V.

That on or about August 11, 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. On or about August 19, 2010, the Company submitted its rebuttal by letter to the Department, 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, all relevant examiner work papers and the Company's rebuttal, that the Report of Examination of Magnolia 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, Magnolia 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 Magnolia 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 31st day of August 2010.

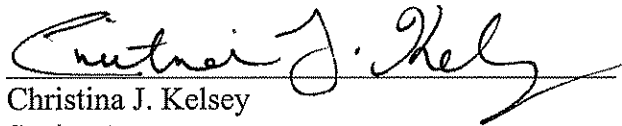


MIKE CHANEY
COMMISSIONER OF INSURANCE

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 31st day of August 2010, to:

**Thomas Eugene Wilcox, President
Magnolia Guaranty Life Insurance Company
102 Business Park Drive, Suite H
Ridgeland, MS 39157**


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

**Magnolia Guaranty Life Insurance Company
102 Business Park Dr, Suite H
Ridgeland, Mississippi 39157**

As of December 31, 2009

**NAIC Company Code 75208
NAIC ETS No. MS029-C66**

Magnolia Guaranty Life Insurance Company
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December 31, 2009

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EXAMINER AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION


State of Mississippi,

County of Madison,

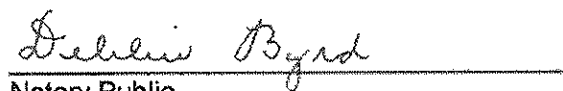
R. Dale Miller, CFE, CPA, CFF being duly sworn, states as follows:

1. I have authority to represent the State of Mississippi in the examination of Magnolia Guaranty Life Insurance Company as of December 31, 2009.
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 Magnolia Guaranty Life Insurance Company, as of December 31, 2009, 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.


R. Dale Miller, CPA, CFE, CFF
Examiner-In-Charge

Subscribed and sworn before me by Dale Miller on 8-26-, 2010.


Notary Public

My commission expires 9-10-14

(SEAL)





MISSISSIPPI INSURANCE DEPARTMENT

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June 10, 2010

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
501 N. West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079

Dear Commissioner Chaney:

Pursuant to your instructions and authorization, and in compliance with statutory provisions, an examination as of December 31, 2009 has been conducted of the affairs and financial condition of:

MAGNOLIA GUARANTY LIFE INSURANCE COMPANY
(NAIC COMPANY CODE 75208; NAIC-ETS No. MS029-C66)
Statutory Home Office
102 Business Park Drive
Suite H
Ridgeland, Mississippi 39157

This examination was performed at Magnolia Guaranty Life Insurance Company's ("Magnolia Guaranty" 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 Mississippi Insurance Department ("MID") engaged Carr, Riggs & Ingram, LLC ("CRI") to perform the financial and market conduct sections of the examination and Taylor, Walker & Associates, Inc. to perform the actuarial section of the examination.

The examination covered the Company's operations and financial condition from January 1, 2006 through December 31, 2009, 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, 2009, and the examination date is defined as December 31, 2009. Magnolia Guaranty was previously examined by the MID as of December 31, 2005.

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 applicable laws. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

The affairs, transactions, accounts, records, assets and liabilities of the Company were reviewed and tested by acceptable methods to the extent deemed necessary to comply with Miss. Code Ann. §83-5-205. We conducted our examination in accordance with the NAIC *Financial Condition Examiners 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. The procedures performed included a review of material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

HISTORY OF THE COMPANY

The Company was incorporated on November 18, 1991, under the laws of the State of Mississippi for the purpose of engaging in all forms of the insurance business as may be allowed in accordance with Miss. Code Ann. §83-19-201 et seq., as amended. The original Articles of Association authorized capital of \$500,000 (500,000 shares of common capital stock with a par value of \$1) and the Company commenced operations on January 1, 1992, with its principal office located in Jackson, Mississippi.

During 2002, after receiving approval from the MID, the Company declared a 2-for-1 stock dividend to all shareholders. This transaction facilitated a transfer of \$122,805 from the Company's surplus account to its capital stock account. During year 2005, after receiving approval from the MID, the Company declared a 1-for-2 stock dividend to all shareholders. This transaction facilitated a

transfer of \$122,630 from the Company's surplus account to its capital stock account. Also, during the period under examination the company issued two 10% stock dividends. The first was approved by the Board in September, 2007 and the second was approved by the Board in March, 2008. It was noted that the Company obtained approval from the MID to prior completing both transactions.

MANAGEMENT AND CONTROL

Stockholders

As of December 31, 2009, the Company had 500,000 shares of \$1 par value common stock authorized with 445,126 shares issued and outstanding. Members of the Board of Directors of the Company owned approximately 51% of the outstanding shares. The Company paid the following ordinary dividends during the examination period:

2006	\$	25,752
2007	\$	29,431
2008	\$	32,374
2009	\$	31,159

Board of Directors

The Articles of Association and Bylaws vest the management and control of the Company's business affairs with the Board of Directors ("Board"). The members of the duly elected Board, along with their place of residence and principal occupation, at December 31, 2009, follow:

<u>Name</u>	<u>Position</u>
Mr. Robert A. Beck, Sr. Carthage, Mississippi	Owner Beck Funeral Home
Mr. Keith T. Dean Brandon, Mississippi	Owner Dean Memorial Funeral Home
Mr. Henry H. Jordon, Jr. Jackson, Mississippi	Owner Jordon Funeral Home
Mr. Charles A. McClain, Jr. Philadelphia, Mississippi	Owner McClain-Hays Funeral Home
Mr. Terrell L. Smith, Sr. McComb, Mississippi	Retired
Mr. Robert H. Spell Flora, Mississippi	Chief Executive Officer Magnolia Guaranty Life Insurance Company
Mr. Thomas E. Wilcox Carthage, Mississippi	Owner Wilcox Funeral Home
Mr. Arthur N. Willis, Jr. Jackson, Mississippi	Owner Lakeover Memorial Funeral Home
Mr. James D. Winters, Jr. Kosciusko, Mississippi	Owner Winters Funeral Home

Officers

The following officers were duly elected by the Board and holding office at December 31, 2009:

<u>Name</u>	<u>Position</u>
Mr. Thomas E. Wilcox	President
Mr. Henry H. Jordon, Jr.	Secretary
Mr. Terrell L. Smith, Sr.	Treasurer
Mr. Robert H. Spell	CEO/COO, Vice-President
Mr. Charles A. McClain, Jr.	Vice-President
Mr. Arthur N. Willis, Jr.	Vice-President

Committees

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

Conflict of Interest

The directors and officers completed conflict of interest affidavits for the period under examination. These affidavits were reviewed, and no conflicts or exceptions to the Company's policies were noted.

CORPORATE RECORDS

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

FIDELITY BOND AND OTHER INSURANCE

The MID uses the NAIC's suggested minimum fidelity coverage amount as a basis for its recommendation regarding minimum fidelity coverage, which, for this company is \$100,000. During the examination period, the Company maintained a commercial crime policy in the amount of \$100,000 for employee theft. Also, the Company's other active insurance coverage maintained by the Company appeared adequate to protect its interests.

ACCOUNTS AND RECORDS

The Company's records and accounting processes were maintained on desktop computers. Policy administration was maintained in Microsoft Access while the Company's accounting records were maintained using QuickBooks Pro for Windows. The Company's income tax returns and annual statements were prepared by an outside accounting firm. The Company's reserves were calculated and opined by a consulting actuary.

STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. §83-19-31(2). The following chart displays the Company's deposits at December 31, 2009.

<u>Description of Security</u>	<u>Book Value</u>	<u>Fair Value</u>
U.S. States, Territories and Possessions - Issuer Obligations	\$ 170,000	\$ 174,623
Industrial and Miscellaneous - Issuer Obligations	100,000	95,823
Industrial and Miscellaneous - Preferred Stock	75,000	77,145
	<u>\$ 345,000</u>	<u>\$ 347,591</u>

**MAGNOLIA GUARANTY LIFE INSURANCE COMPANY
FINANCIAL STATEMENTS
EXAMINATION AS OF DECEMBER 31, 2009**

Introduction to Statutory Financial Statements

The following financial statements consist of a Statement of Admitted Assets, Liabilities, Surplus and Other Funds - Statutory at December 31, 2009, a Summary of Operations - Statutory for year ended December 31, 2009, a Reconciliation of Capital and Surplus - Statutory for examination period ended December 31, 2009 and a Reconciliation of Examination Adjustments to Surplus and Other Funds – Statutory at December 31, 2009.

Magnolia Guaranty Life Insurance Company

Statement of Admitted Assets, Liabilities, Surplus and Other Funds - Statutory

<u>December 31,</u>	<u>2009</u>
Admitted Assets	
Bonds	\$ 2,841,710
Preferred stocks	2,090,876
Common stocks	270,331
Cash and short-term investments	394,706
Investment income due and accrued	32,573
Life premiums deferred and uncollected	72,414
EDP equipment	9,477
Aggregate write-ins for other than invested assets	38,400
Total admitted assets	\$ 5,750,487
Liabilities, Capital and Surplus	
Life reserve	\$ 3,781,065
Life unpaid claims	65,000
Advance premiums	34,382
General expenses due or accrued	4,000
Federal income taxes payable	31,346
Amounts withheld by company	1,859
Asset valuation reserve	103,634
Total liabilities	4,021,286
Capital common stock	445,126
Gross paid in and contributed surplus	259,620
Unassigned funds	1,024,455
Total surplus and other funds	1,729,201
Total liabilities, surplus and other funds	\$ 5,750,487

Magnolia Guaranty Life Insurance Company

Summary of Operations - Statutory

<i>For the Year Ended December 31,</i>	2009
Income:	
Premiums and annuity considerations for life contracts	\$ 2,065,013
Net investment income	308,048
Aggregate write-ins for miscellaneous income	13,698
Total income	2,386,759
Benefits and Reserve Changes:	
Death benefits	434,642
Surrender benefits	11,078
Increase in aggregate reserves for life contracts	320,021
Total benefits and reserve changes	765,741
Other Operating Expenses:	
Commissions	635,990
General insurance expenses	421,191
Taxes, licenses and fees	38,919
Total other operating expenses	1,096,100
Net gain from operations before federal income taxes	524,918
Federal income taxes incurred	41,583
Net realized capital gains (losses)	(8,119)
Net income	\$ 475,216

Magnolia Guaranty Life Insurance Company

Reconciliation of Capital and Surplus - Statutory

For the examination period ended December 31, 2009

	2006	2007	2008	2009
Capital and surplus, beginning of year	\$ 826,653	\$ 922,150	\$ 1,213,179	\$ 1,210,722
Net income (loss)	122,820	322,005	93,238	475,216
Change in net unrealized capital gains or (losses)	(1,092)	701	(75,397)	39,243
Change in net deferred income tax	-	-	14,500	(14,500)
Change in non-admitted assets	3,166	12,350	(9,001)	111,933
Change in asset valuation reserve	(3,645)	(14,596)	6,577	(62,254)
Transferred from surplus (stock dividend)	-	36,782	40,454	-
Transferred to capital (stock dividend)	-	(36,782)	(40,454)	-
Dividends to stockholders	(25,752)	(29,431)	(32,374)	(31,159)
Capital and surplus, end of the year	\$ 922,150	\$ 1,213,179	\$ 1,210,722	\$ 1,729,201

Magnolia Guaranty Life Insurance Company

Reconciliation of Examination Adjustments to Surplus and Other Funds-Statutory

For the examination period ended December 31, 2009

There were no adjustments made to the admitted assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2009. The capital and surplus, which totaled \$1,729,201 as of the examination date, was in compliance with Miss. Code Ann. §83-19-31.

COMMENTS ON FINANCIAL STATEMENTS

The examination actuary had the following recommendations resulting from his actuarial testwork:

- The Company should correct its inventories of uncollected premiums, life insurance policies and accidental death benefit coverage.
- The Company should modify the formulas used to calculate uncollected premiums and advance premiums.
- The Company should correct certain reserve factors used to calculate its life insurance reserves.
- The Company should report a net unearned premium reserve for premiums collected after the valuation date, but before the next policy anniversary.
- The Company should file an actuarial opinion that appropriately describes the methodology utilized by the appointed actuary to test the adequacy of the reported reserves.

MARKET CONDUCT ACTIVITIES

A full scope market conduct examination in accordance with the NAIC's *Market Regulation Handbook* 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: policy forms and underwriting, territory and plan of operations, advertising and sales, treatment of policyholders, privacy and agents' licensing. Exceptions in regard to agents licensing are discussed below.

Policy Forms and Underwriting

Based upon procedures performed during the course of the examination, the Company appeared to be utilizing policy forms appropriately approved by the MID and to have the appropriate licensure to issue its products. As a component of the life reserve liability testing associated with the related sample items selected, and in conjunction with both the controls and substantive testing, the information on the face of the application was reviewed in order to ensure that all pertinent information on the applications appeared complete and accurate.

Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to transact business in the State of Mississippi. During the examination period, the Company issued industrial life insurance coverage through independent agents.

Advertising and Sales

The Company's advertising and sales materials that were utilized during the time period covered by this examination were reviewed with no material concerns noted.

Treatment of Policyholders

The Company maintained a complaint log during the period under examination and all complaints appeared to have been appropriately resolved. Additionally, claim files were reviewed for general indicators of policyholder treatment concerns without material exception.

Privacy

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

Agents' Licensing

Agents' licensing was reviewed during the examination with the following exceptions noted:

- 5 agents, representing 3% of the agents, were not properly licensed at the end of 2009.
- 14 agents, representing 8% of all agents, were not properly appointed by the Company at the end of 2009.

It is recommended that the Company ensure that all agents are appropriately licensed and appointed and closely review its internal policies and procedures for monitoring agents' licensing and appointments to ensure continued compliance with MID licensure and appointment requirements.

**COMMENTS, DIRECTIVES AND RECOMMENDATIONS
EXAMINATION AS OF DECEMBER 31, 2009**

1. The examination actuary had the following recommendations resulting from his actuarial testwork: (page 12)
 - The Company should correct its inventories of uncollected premiums, life insurance policies and accidental death benefit coverage.
 - The Company should modify the formulas used to calculate uncollected premiums and advance premiums.
 - The Company should correct certain reserve factors used to calculate its life insurance reserves.
 - The Company should report a net unearned premium reserve for premiums collected after the valuation date, but before the next policy anniversary.
 - The Company should file an actuarial opinion that appropriately describes the methodology utilized by the appointed actuary to test the adequacy of the reported reserves.

2. Agents' licensing was reviewed during the examination with the following exceptions noted: (Page 13)
 - 5 agents, representing 3% of the agents, were not properly licensed at the end of 2009.
 - 14 agents, representing 8% of all agents, were not properly appointed by the Company at the end of 2009.

It is recommended that the Company ensure that all agents are appropriately licensed and appointed and closely review its internal policies and procedures for monitoring agents' licensing and appointments to ensure continued compliance with MID licensure and appointment requirements.

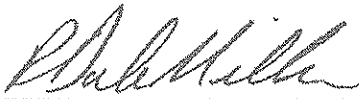
ACKNOWLEDGMENT

Key engagement team members representing the Mississippi Insurance Department and participating in this examination were:

Administrative Supervisor	Joseph R. May, CPA, CMA, CFE, CIE, FAHM
Examiner-in-charge	R. Dale Miller, CPA, CFE, CFF
Examiner	Francois Houde, CA, CISA
Examination Actuary	Thomas L. Burger, FSA, MAAA

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