



MISSISSIPPI INSURANCE DEPARTMENT

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MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

September 9, 2010

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Mr. Richard J. Hale, President
Bluebonnet Life Insurance Company
3545 Lakeland Drive
Flowood, MS 39232

RE: Report of Examination as of December 31, 2008

Dear Mr. Hale:

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 cursive script, 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
BLUEBONNET LIFE INSURANCE COMPANY**

CAUSE NO. 10-6170

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 Bluebonnet Life Insurance Company is a Mississippi-domiciled company licensed to write Life; 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 Bluebonnet Life Insurance Company and appointed Joseph A. Rome, Examiner-In-Charge, to conduct said examination.

IV.

That on or about March 31, 2010, the draft Report of Examination concerning Bluebonnet Life Insurance Company for the period of January 1, 2006, through December 31, 2008, was submitted to the Department by the Examiner-In-Charge, Joseph A. Rome.

V.

That on or about April 6, 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 rebuttal in writing on or about September 3, 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 Bluebonnet 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 information 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, Bluebonnet 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 Bluebonnet Life Insurance Company take the necessary actions and implement the necessary procedures to properly and promptly comply with all recommendations contained in the Report of Examination.

SO ORDERED, this the 9th day of September 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 9th day of September 2010, to:

**Mr. Richard J. Hale, President
Bluebonnet Life Insurance Company
3545 Lakeland Drive
Flowood, MS 39232**



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

BLUEBONNET LIFE INSURANCE COMPANY

**3545 Lakeland Drive
Flowood, Mississippi 39232**

As of December 31, 2008

**NAIC Group Code 1126
NAIC Company Code 68535
NAIC ETS No. MS029-C56**

State of Louisiana,
Parish
County of East Baton Rouge,

Joseph Rome, being duly sworn, states as follows:

1. I have authority to represent Mississippi in the examination of Bluebonnet Life Insurance Company as of December 31, 2008.
2. Mississippi is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Bluebonnet Life Insurance Company 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.



Examiner's Signature

Subscribed and sworn before me by Joseph Rome on this 27th day of August, 20 10.

(SEAL)



Notary Public Cathy J. Moss ID# 61622

My commission expires at my death [date].

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MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

April 1, 2010

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

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

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

Dear Sirs:

Pursuant to Commissioner Chaney's 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:

BLUEBONNET LIFE INSURANCE COMPANY
COMPANY LICENSE # 8700018
NAIC COMPANY CODE 68535
3545 Lakeland Drive
Flowood, Mississippi 39232

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Flowood, 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 Bluebonnet Life Insurance Company's ("BBL" or "Company") 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. The Company 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 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.

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.

We conducted this examination in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which 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. This 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 Statements of Statutory Accounting Principles ("SSAP") and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. These key function areas were identified, and risk and controls relating to these functions were included as part of our risk mitigation and residual risk assessment process. On a limited basis, and where appropriate, the examiners relied upon audit work performed by the Company's independent public accountants and work performed by the Company's internal audit department as part of its Model Audit Rule compliance work.

All recommendations made in the prior report of statutory examination have been adequately addressed by the Company.

HISTORY OF THE COMPANY

The Company was incorporated under the laws of the State of Louisiana on June 11, 1984, and commenced business on that same date. The Company was originally capitalized by Louisiana Health Service Indemnity Company, d/b/a Blue Cross & Blue Shield of Louisiana (“BCBSLA”), with 100,000 shares of \$1.00 par value capital stock and \$1,000,000 of gross paid in and contributed surplus.

Per the Articles of Incorporation, the Company was formed to enter into forms of insurance contracts insuring perils similar to those described within Miss. Code Ann. § 83-19-1 “Class Two (2)(a)(b) – Life and Accident and Health”, and to carry on any other business activities that an insurance company can lawfully conduct under the laws of the State of Louisiana.

On October 13, 1989, the Company was acquired by Capstone Corporation, a Mississippi for-profit holding company. Capstone is a wholly-owned subsidiary of Blue Cross & Blue Shield of Mississippi, a Mutual Insurance Company (“BCBSMS”). Shares are not actively traded and neither management nor members of the Board of Directors hold any shares of BBL or Capstone Corporation.

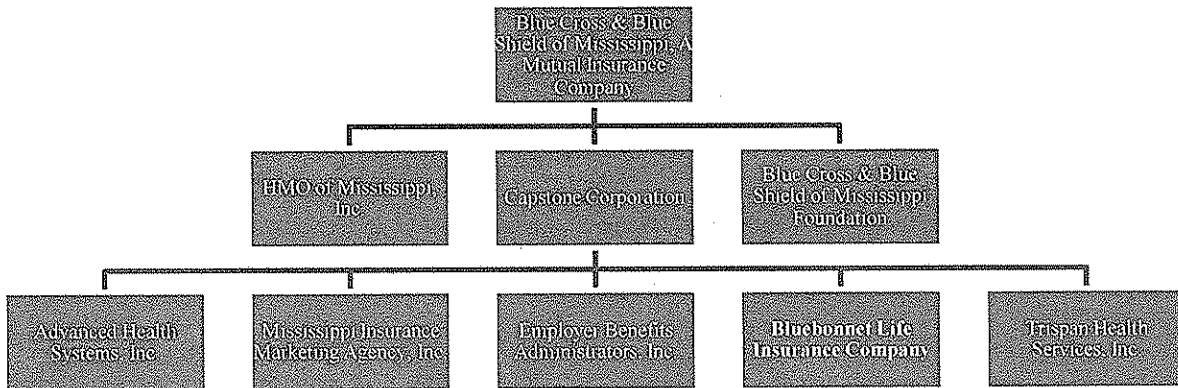
On February 18, 1997, the Board of Directors of BBL resolved to redomesticate from Louisiana to Mississippi, effective at the close of business on March 31, 1997. Amendments were made to the Bylaws and Articles of Incorporation, and approval was granted by the Commissioner of Insurance of the State of Mississippi for the Company to redomesticate to Mississippi.

HOLDING COMPANY STRUCTURE

The Company is a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company filed Holding Company Registration Statements, in conjunction with its parent and affiliates, with the MID in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. The statements and applicable amendments that were filed during the examination period were reviewed during the examination of the parent company, and it appeared that any changes and material transactions between the Company and its parent and affiliates were reported.

Organizational Chart

The following chart depicts the Company's organizational structure at December 31, 2008. A brief description of the Company's parent and affiliates, including their principal activities, follows the organizational chart.



Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company ("BCBSMS"): BCBSMS is the ultimate controlling entity and was incorporated in 1947 under the laws of the State of Mississippi. It provides hospitalization and other health care benefits under contract to subscribers. This company also performs administrative services and processes claims for other Blue Cross & Blue Shield plans and for certain other programs, such as Medicare.

HMO of Mississippi, Inc. ("HMOMS"): HMOMS, a wholly owned subsidiary of BCBSMS, was incorporated on June 21, 1995, under the laws of the State of Mississippi, as a health maintenance organization whose products are included within BCBSMS' managed care offerings. As of December 31, 2008, this entity had no enrollees.

Capstone Corporation ("Capstone"): Capstone, a wholly owned subsidiary of BCBSMS, was incorporated on November 2, 1984, under the laws of the State of Mississippi, as a for-profit holding company for the interests of BCBSMS.

Blue Cross & Blue Shield of Mississippi Foundation ("Foundation"): Foundation, a non-profit corporation, is a philanthropic affiliate of BCBSMS. It is a private, charitable foundation operated exclusively to fund and support 501(c)(3) organizations and programs that positively impact the health of Mississippians. BCBSMS is the sole source of contributions to the Foundation.

Advanced Health Systems, Inc. ("AHS"): AHS, a wholly owned subsidiary of Capstone Corporation, was incorporated on December 14, 1984, under the laws of the State of Mississippi, as Automated Health Systems, Inc., with its business being the facilitation of electronic submission of claims by providers. The company's name was changed to Advanced Health Systems, Inc., and, in 1994, its business purposes were expanded to include utilization management, managed care services for clients, employers and groups; the development and maintenance of provider networks; providing health care provider management and consulting; and providing computerized information management.

Mississippi Insurance Marketing Agency, Inc. ("MIMA"): MIMA, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 19, 1986, under the laws of the State of Mississippi. The primary purpose of this company is that of a general insurance agency, which includes the selling and brokerage of insurance coverage and the administration of claims and other services.

Employer Benefits Administrators, Inc. ("EBA"): EBA, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 18, 1986, under the laws of the State of Mississippi, as a third party administrator for self-insured, partially insured and insured employee benefit plans. The name was changed from Bluestone Administrative Services, Inc. in February 1987. EBA is currently licensed as a third party administrator with the MID.

Trispan Health Services, Inc. ("THS"): THS, a wholly owned subsidiary of Capstone Corporation, was incorporated on April 21, 2005, under the laws of the State of Mississippi. The primary purpose of this company is to execute contracts related to federal and/or state government health care programs.

Related Party Transactions

Tax Sharing Agreement with BCBSMS:

Effective January 1, 1996, the Company was a party to a Tax Sharing Agreement with BCBSMS which provided for an allocation of tax liability based on the amount of taxable income or taxable loss. This agreement was in effect during the examination period.

Service Agreement with Capstone Corporation:

The Company entered into a Service Agreement on January 1, 1997, with Capstone Corporation. Under the terms of this agreement, Capstone agreed to provide business services as requested to BBL. The services were to be provided by Capstone's parent company, BCBSMS, in compliance with a service agreement between Capstone and BCBSMS.

Property Lease with Capstone Corporation:

The Company entered into a Property Lease Agreement on January 1, 1997, with Capstone Corporation. Under the terms of this agreement, Capstone agreed to lease or sublease to BBL certain office space, furniture, fixtures, and equipment business services, as requested. The property to be leased or subleased was provided by Capstone's parent company, BCBSMS, in compliance with a service agreement between Capstone and BCBSMS.

MANAGEMENT AND CONTROL

Stockholders

As of December 31, 2008, the Company had issued and outstanding two hundred fifty thousand (250,000) shares of common capital stock with a par value of \$4.00 per share. The common capital stock was owned 100% by Capstone Corporation, a for-profit holding company for the interests of BCBSMS. No dividends were paid to Capstone Corporation during the examination period.

Board of Directors

The Articles of Incorporation 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, number of years as Director, and principal occupation, at December 31, 2008, were as follows:

| Name and Residence | No. of Years as Director | Principal Occupation |
|--|--------------------------|--|
| Arthur Claiborne Kelly, Chairman Starkville, MS | 9 | Administrator/Chief Executive Officer, Oktibbeha County Hospital |
| Robert Mark Ledbetter, Vice Chairman Tupelo, MS | 5.5 | Vice President & General Manager, WTVA, Inc. |
| Carol Todd Puckett Jackson, MS | 5.5 | President, The Everyday Gourmet, Inc. |
| James Herbert Finley Morton, MS | 5 | President & Chief Executive Officer, Craft-Co Enterprises, Inc. |
| Richard John Hale Madison, MS | 9 | President & Chief Executive Officer, Blue Cross & Blue Shield of MS |
| Robin Young McCormick, CPA West Point, MS | 3 | Partner, Watkins, Ward & Stafford, CPAs, PLLC |
| Ralph Brooks Vance, M.D. Jackson, MS | 5 | Professor, University of MS Medical School |

Committees

The Board, by resolution adopted by a majority of the full Board, may designate from among its members, an executive committee to manage and handle the business, property, and affairs of the corporation during interims between meetings of the Board. The Board, by resolution, may also designate from among its members one or more other committees each of which, to the extent provided in such resolution, shall and may exercise the authority granted thereby.

Officers

The following officers were duly elected by the Board and held the following offices:

| | |
|-----------------------|---------------------------------------|
| Richard John Hale | President and Chief Executive Officer |
| Jeffery Thomas Leber | Chief Operating Officer and Treasurer |
| Mary Carol Pigott | Vice President |
| Robert Clark Williams | Corporate Secretary |

Conflict of Interest

The Company's parent maintained a policy whereby disclosure was made to the Board of BCBSMS of any material interest or affiliation on the part of any officer or director that was a conflict, or would likely be a conflict, with the official duties of such persons. This policy was approved by BBL. Written statements were signed annually by all officers and members of the Board.

Corporate Governance

The examiner's assessment of the Company's corporate governance was considered moderate. The examiners found that oversight of operational processes, business planning, non-routine transactions, and material events are vetted through appropriate levels of management and the Board. Management maintains effective controls over its IT environment and maintains frequent correspondence with its external auditors, Carr, Riggs & Ingram LLC. The audit committee members are independent from management. The management structure of the Company shows clear assignment of responsibilities within the Company and authorization for transactions is clearly established at appropriate levels.

The cause for the examiner's moderate assessment was that the parent company is a mutual insurance company and is owned by its policyholders yet membership signs its application indicating that they accept the President, Executive VP and Secretary, as their proxies to cast their votes, thereby providing all the proxy ballots to the President and Secretary of BCBSMS. An Executive Vice President was not elected during the period of our examination; thereby the President and Secretary are the proxy voters. This process provides the management of BBL, BBL's parent and other affiliates a higher degree of control.

Enterprise Risk Management

The Company's enterprise risk management is informal. Risk management is practiced by all levels of management. Risk management is discussed in regular meetings by management and plans are developed to manage and mitigate those risks. Departments interact and communicate with each other frequently. Management reports are sufficiently detailed to allow management to make sound decisions.

Internal Audit

This unit performs the normal functions of an internal audit department including operational audits, Model Audit Rule testing, audit coordination with external auditors and other audits.

The Director of Internal Audit presents the testing plan and results to the finance committee, which is active in its input into the scope and results of the work. The Board and the Finance Committee have an active role in overseeing the Company's operations and results.

CORPORATE RECORDS

The minutes of the meetings of the Stockholder and Board, 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's parent maintained a comprehensive corporate insurance program. This program included commercial general liability, and commercial property, as well as other policies, as deemed appropriate by BCBSMS' management. BBL was a named insured on a financial institution bond with a \$2,000,000 aggregate limit of liability, which exceeded the minimum fidelity coverage suggested by the NAIC for a company of this size.

OFFICERS', EMPLOYEES' AND AGENTS' WELFARE

The directors and officers of the Company that served in similar capacities for BCBSMS participate in the retirement plan and benefits provided by BCBSMS. The Company also established an irrevocable Rabbi Trust for the benefit of directors of BBL not serving as directors of BCBSMS in which BancorpSouth Bank serves as Trustee and the Company pays all administrative and Trustee's fees and expenses.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to write life and accident and health insurance products in the states of Alabama, Arkansas, Louisiana, Mississippi and Tennessee. The majority of the business was written in Mississippi. The Company exited the voluntary dental and third party administrator markets during 2002 and concentrated primarily on group life and accident and health insurance during the examination period. The Company's products were marketed with BCBSMS' health products and almost all of the Company's revenues were generated by BCBSMS' agency force.

GROWTH OF COMPANY

The Company's total revenues and benefits and reserve increases for the three year period as a percentage of capital and surplus is as follows:

| Year | Total Revenues | Percentage of Surplus | Total Benefit and Reserve Increase | Percentage of Surplus | Capital and Surplus |
|------|----------------|-----------------------|------------------------------------|-----------------------|---------------------|
| 2008 | 7,401,187 | 21.95% | 2,098,415 | 6.22% | 33,719,100 |
| 2007 | 7,684,694 | 25.38% | 2,519,441 | 8.32% | 30,282,405 |
| 2006 | 7,752,711 | 28.87% | 2,735,367 | 10.19% | 26,851,636 |

REINSURANCE

The Company utilized reinsurance agreements to minimize its exposure to large losses. A review of the reinsurance agreements and records revealed that the terms of the reinsurance agreements were being followed.

Reinsurance Intermediary:

The Company utilized the services of Innovative Reinsurance Group, a reinsurance intermediary, to place reinsurance with various reinsurers. Innovative Reinsurance Group was licensed and authorized by the Mississippi Insurance Department and had the authority to procure placement certificates from various reinsurers in the Company's reinsurance ceded program.

Ceded Reinsurance Agreements:

The following reinsurance agreements were active during the examination period and are summarized as follows:

Agreements with Swiss Re Life & Health of America, Inc. ("Swiss Re"): The Company was a party to a Yearly Renewable Term Reinsurance Agreement with Swiss Re of Stamford, Connecticut, on life insurance ceded for all ages and ratings, with maximum limits of retention by the Company of \$30,000. The reinsurer's maximum limits of automatic reinsurance cessions of life insurance, ages 0-75, shall not exceed \$70,000. Provisions were also available for facultative reinsurance. This agreement was terminated for new business effective July 1, 2006.

The Company was a party to an Automatic Reinsurance Agreement with Swiss Re of Stamford, Connecticut, covering cessions by the Company of Group Term Life, Voluntary Group Term Life, Group Accidental Death and Dismemberment and Voluntary Accidental Death and Dismemberment reinsurance. Group life retention by the Company for automatic reinsurance was \$30,000.

Agreement with London Life Reinsurance Company ("LLRC"):

The Company was a party to a Group Long-Term Disability Facultative Reinsurance Agreement with LLRC of Blue Bell, Pennsylvania, whereby LLRC facultatively reinsured 100% of group long-term disability policies with zero retention by BBL. LLRC transferred its rights under the agreement to Union Security Insurance Company effective April 1, 2007.

Agreement with American National Insurance Company ("ANIC"):

The Company was a party to a Cancer Excess of Loss Reinsurance Agreement with ANIC, of Galveston, Texas, whereby ANIC accepted liability for the ultimate net loss in excess of \$20,000, not to exceed \$230,000 per insured.

Agreement with UNUM Life Insurance Company ("UNUM"):

The Company was a party to a Yearly Renewal Term Group Life agreement with UNUM, Portland, Maine, effective 1984, whereby UNUM accepted 100% liability for the Group Long Term Disability business. The contract is in runoff and BBL hasn't written this type of business in over 10 years.

ACCOUNTS AND RECORDS

The 2008 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 maintained its accounting records electronically through the utilization of an IBM As400 model 520 mainframe that was running the IBM z/OS operating system. The primary applications used during the examination period were: IMS for claims processing; MABIL and BBIM for membership; CARMS for billing; WALKER for financial systems; and AIMS for agent record and commissions transactions processing.

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 statutory deposits as of December 31, 2008:

| <u>Arkansas</u> | <u>Book Value</u> | <u>Par Value</u> | <u>Fair Value</u> |
|--------------------------|-----------------------|----------------------|----------------------|
| Certificate of Deposit | \$ 100,000 | \$ 100,000 | \$ 100,000 |
| <u>Mississippi</u> | | | |
| Federal Farm Credit Bank | 498,033 | 500,000 | 500,155 |
| Federal Home Loan Bank | 276,117 | 277,083 | 277,169 |
| Money Market Fund | 22,738 | 22,738 | 22,738 |
| Cash | 73,197 | 73,197 | 73,197 |
| Accrued Interest | <u>5,030</u> | <u>5,030</u> | <u>5,030</u> |
| Mississippi Total | <u>\$ 875,116</u> | <u>\$878,049</u> | <u>\$878,290</u> |
| <i>Total</i> | <u>\$ 975,116</u> | <u>\$978,049</u> | <u>\$978,290</u> |

FINANCIAL STATEMENTS

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2008, a Summary of Operations for year ended December 31, 2008, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2008, and a Reconciliation of Examination Adjustments to Surplus at December 31, 2008.

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2008**

ASSETS

| | |
|---|-----------------------------|
| Bonds | \$ 30,364,140 |
| Cash, cash equivalents and short-term investments | 7,041,424 |
| Other invested assets | 152,294 |
| Investment income due and accrued | 310,281 |
| Uncollected premiums in the course of collection | 102,360 |
| Deferred premiums, agents' balances booked but deferred and not yet due | 6,119 |
| Amounts recoverable from reinsurers | 119,410 |
| Net deferred tax asset | 241,607 |
| Receivable from parent, subsidiaries and affiliates | 22,247 |
| Aggregate write-in for other than invested assets | 35,545 |
| Total Assets | <u>\$ 38,395,427</u> |

LIABILITIES, SURPLUS AND OTHER FUNDS

| | |
|--|-----------------------------|
| Aggregate reserve for life contracts | \$ 425,482 |
| Aggregate reserve for accident and health contracts | 10,746 |
| Contract claims: Life | 767,513 |
| Contract claims: Accident and Health | 2,000 |
| Premiums for accident and health contracts received in advance | 42,980 |
| Interest maintenance reserve | 80,027 |
| Commissions to agents due or accrued | 63,843 |
| General expenses due or accrued | 550,134 |
| Taxes, licenses and fees due or accrued | (44,306) |
| Current federal and foreign income taxes | 1,873,399 |
| Amounts withheld or retained by company as agent or trustee | 2,000 |
| Asset valuation reserve | 63,666 |
| Payable to parent, subsidiaries and affiliates | 215,411 |
| Payable for securities | 408,324 |
| Aggregate write-ins for liabilities | 215,108 |
| Total Liabilities | <u>4,676,327</u> |
| Common capital stock | 1,000,000 |
| Gross paid in and contributed surplus | 899,660 |
| Unassigned funds (surplus) | 31,819,440 |
| Total Liabilities, Surplus and Other Funds | <u>\$ 38,395,427</u> |

**SUMMARY OF OPERATIONS
FOR YEAR ENDED DECEMBER 31, 2008**

| | |
|--|---------------------|
| Premiums and annuity considerations | \$ 7,401,187 |
| Net investment income | 1,535,901 |
| Amortization of interest maintenance reserve | 11,545 |
| Aggregate write-ins for miscellaneous income | <u>54,259</u> |
| Total Income | <u>9,002,892</u> |
| Death benefits | 2,124,738 |
| Disability benefits and benefits under accident and health contract | 38,041 |
| Increase in aggregate reserves for life and accident and health policies and contracts | <u>(64,364)</u> |
| Total Policy Benefits | <u>2,098,415</u> |
| Commissions on premiums and annuity considerations | 769,143 |
| General insurance expenses | 534,218 |
| Insurance taxes, licenses, and fees | <u>286,166</u> |
| Total Expenses | <u>3,687,942</u> |
| Net gain (loss) from operations before federal income taxes | 5,314,950 |
| Less: federal income taxes incurred | <u>1,652,716</u> |
| Net income (loss) | <u>\$ 3,662,234</u> |

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

| | 2006 | 2007 | 2008 |
|--|--------------|--------------|--------------|
| Capital and surplus, beginning of the year | \$23,688,134 | \$26,851,636 | \$30,282,405 |
| Net income | 3,139,076 | 3,444,454 | 3,662,234 |
| Change in net unrealized capital gains(loss) | -0- | -0- | (137,290) |
| Change in net deferred income tax | (17,326) | 10,914 | (56,997) |
| Change in non-admitted assets | 53,284 | (14,511) | (35,850) |
| Change in asset valuation reserve | (11,532) | (10,088) | 4,598 |
| Examination Adjustments | -0- | -0- | -0- |
| Capital and surplus, end of the year | \$26,851,636 | \$30,282,405 | \$33,719,100 |

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2008**

As a result of this examination, there have been no adjustments made to the admitted asset, liability, and surplus balances reported by the Company in the 2008 annual statement. The surplus reported by the Company of \$33,719,100 is accepted as reasonably stated for purposes of the balance sheet per the examination.

SUBSEQUENT EVENTS

As of the end of field work, the examiner did not identify any material transactions that could be identified as a significant subsequent event.

COMMENTS AND RECOMMENDATIONS

The examination did not identify any material comments and recommendations. All items were addressed in a management letter.


ACKNOWLEDGMENT

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

| | |
|-----------------------|--|
| Examiner: | Richard McKnight, CFE |
| Examiner: | Don Sanders, CFE |
| Supervising Examiner: | Don Carbone, CPA, CFE |
| Actuary: | Joseph C. Higgins, FSA, MAAA, INS Consultants, Inc. |

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

Respectfully submitted,



Joseph A. Rome, CFE, CIE
Examiner-in-charge