

**Gulf Guaranty Life  
Insurance Company**

**STATUTORY FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**December 31, 2016 and 2015**



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**Gulf Guaranty Life Insurance Company**  
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**December 31, 2016 and 2015**

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## ACCOUNTANTS' LETTER OF QUALIFICATIONS

To the Board of Directors and Stockholders  
Gulf Guaranty Life Insurance Company  
Jackson, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of Gulf Guaranty Life Insurance Company ("Company") for the years ended December 31, 2016 and 2015, and have issued our report thereon dated May 26, 2017. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to the Company and conform to the standards of the accounting profession, as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants and the Rules of Professional Conduct of the Mississippi State Board of Public Accountancy.
- b. The engagement partner and concurring partner, who are certified public accountants, each have over 20 years of experience in public accounting, insurance examinations or related experience and are experienced in auditing insurance enterprises. Members of the engagement team, most of whom have experience in auditing insurance enterprises and approximately 70% of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Company intends to file its audited statutory financial statements and our report thereon with the Mississippi Insurance Department and other state insurance departments in states in which the Company is licensed, and that the insurance commissioners of those states will be relying on that information in monitoring and regulating the statutory financial condition of the Company.

While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Company and insurance commissioners should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities and capital and surplus, results of operations and cash flows in

conformity with accounting practices prescribed or permitted by the Mississippi Insurance Department. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. An audit also embodies the concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, and has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documents (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatement may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of the Company to adopt sound accounting policies, to maintain an adequate and effective system of accounts and to establish and maintain internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Mississippi Insurance Department.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely on the independent auditors' report.

- d. We will retain the workpapers prepared in the conduct of our audits until the Mississippi Insurance Department has filed a Report of Examination covering 2016, but no longer than seven years. After notification to the Company, we will make the working papers available for review by the Mississippi Insurance Department at the offices of the Company, at our offices, at the Mississippi Insurance Department or at any other reasonable place designed by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Mississippi Insurance

Department, photocopies of pertinent audit workpapers may be made (under the control of Carr, Riggs & Ingram, LLC), and such copies may be retained by the Mississippi Insurance Department.

- e. The engagement partner has served in this capacity with respect to the Company since fiscal year 2014, is licensed by the Mississippi Board of Public Accountancy and is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of Section 7 of the National Association of Insurance Commissioner's *Model Rule (Regulation) Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Board of Directors and management of the Company and for filing with the Mississippi Insurance Department and other state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
May 26, 2017



Carr, Riggs & Ingram, LLC  
282 Commerce Park Drive  
Ridgeland, MS 39157

Mailing Address:  
P.O. Box 2418  
Ridgeland, MS 39158-2418

(601) 853-7050  
(601) 853-9331 (fax)  
[www.cricpa.com](http://www.cricpa.com)

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders  
Gulf Guaranty Life Insurance Company  
Jackson, Mississippi

We have audited the accompanying financial statements of Gulf Guaranty Life Insurance Company ("the Company"), which comprise the statutory-basis statements of admitted assets, liabilities, and capital and surplus as of December 31, 2016 and 2015, and the related statutory-basis statements of operations, changes in capital and surplus and cash flows for the years then ended, and the related notes to the statutory-basis financial statements.

### **Management's Responsibility for the Statutory-Basis Financial Statements**

Management is responsible for the preparation and fair presentation of these statutory-basis financial statements in accordance with the financial reporting provisions of the Mississippi Insurance Department. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these statutory-basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory-basis financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the statutory-basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory-basis financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of Gulf Guaranty Life Insurance Company as of December 31, 2016 and 2015, and the results of its operations, changes in its capital and surplus and its cash flows for the years then ended, in accordance with the financial reporting provisions of the Mississippi Insurance Department as described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the statutory-basis financial statements, which describes the basis of accounting. As described in Note 1 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by the Company using accounting practices prescribed or permitted by the Mississippi Insurance Department, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Mississippi Insurance Department. Our opinion is not modified with respect to that matter.

### **Other Matter**

Our 2016 audit was conducted for the purpose of forming an opinion on the 2016 statutory-basis financial statements as a whole. The supplemental schedule of selected statutory financial data, the supplemental schedule of investment risk interrogatories and the supplemental schedule of investments, as of and for the year ended December 31, 2016, are presented for the purpose of additional analysis and are not a required part of the 2016 statutory-basis financial statements. These supplemental schedules are the responsibility of Company management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. Such supplemental schedules have been subjected to the auditing procedures applied in our audit of the 2016 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such supplemental schedules directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplemental schedules are fairly stated, in all material respects, in relation to the 2016 statutory-basis financial statements as a whole.

## Restriction on Use

This report is intended solely for the information and use of the board of directors and management of Gulf Guaranty Life Insurance Company and for filing with the Mississippi Insurance Department and other state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi

May 26, 2017

**Gulf Guaranty Life Insurance Company**  
**Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus**

<i>December 31,</i>	<b>2016</b>	2015
<b>Admitted Assets</b>		
Cash and invested assets:		
Bonds and fixed maturities	\$ 2,768,284	\$ 3,196,314
Common stocks	6,752,721	6,291,436
Preferred stocks	125,000	125,000
Mortgage and collateral loans	1,407,167	715,360
Investment in real estate	1,967,284	1,472,086
Property occupied by the Company - at cost, less accumulated depreciation of \$2,464,239 and \$2,464,239 in 2016 and 2015	50,000	50,000
Other invested assets	167,867	75,000
Policy loans	984	1,383
Cash, cash equivalents and short-term investments	4,261,791	3,692,493
<b>Total cash and invested assets</b>	<b>17,501,098</b>	15,619,072
Accrued investment income	52,213	36,933
Premiums due and uncollected	176,338	185,189
Due from reinsurers	129,932	109,368
Receivable from subsidiaries	18,795	149,714
Electronic data processing equipment, net of accumulated depreciation of \$715,341 in 2016 and \$710,183 in 2015	7,002	5,228
	<b>384,280</b>	486,432
<b>Total admitted assets</b>	<b>\$ 17,885,378</b>	\$ 16,105,504

*The accompanying notes are an integral part of these financial statements.*

**Gulf Guaranty Life Insurance Company**  
**Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus**

<i>December 31,</i>	<b>2016</b>	2015
<b>Liabilities, Capital and Surplus</b>		
Liabilities:		
Policy reserves:		
Life insurance	\$ 4,454,621	\$ 4,397,203
Accident and health	1,055,761	1,149,551
	<b>5,510,382</b>	5,546,754
Policy and contract claims	677,702	535,195
Advanced premiums	31,528	29,152
Accrued general expenses and taxes	192,714	193,115
Commissions payable	29,031	22,205
Other liabilities	48,307	11,056
Asset valuation reserve	1,288,250	1,138,498
Total liabilities	<b>7,777,914</b>	7,475,975
Commitments and contingencies (Notes 6, 8 and 10)		
Capital and surplus:		
Common stock, \$2 par value, 1,000,000 shares authorized, 906,856 shares issued in 2016 and 2015	1,813,712	1,813,712
Class 2 common stock, \$1 par value, 50,000 shares authorized, 105 shares issued in 2016 and 105 in 2015	105	105
Additional paid-in capital	1,921,769	1,921,769
Unassigned surplus	15,124,745	13,646,810
	<b>18,860,331</b>	17,382,396
Less common stock in treasury - at cost, 542,114 shares in 2016 and 542,114 shares in 2015	<b>(8,752,867)</b>	(8,752,867)
Total capital and surplus	<b>10,107,464</b>	8,629,529
Total liabilities and capital and surplus	<b>\$ 17,885,378</b>	\$ 16,105,504

*The accompanying notes are an integral part of these financial statements.*

## Gulf Guaranty Life Insurance Company Statutory Statements of Operations

<i>Years ending December 31,</i>	<b>2016</b>	2015
<b>INCOME:</b>		
Premium income	<b>\$ 6,336,178</b>	\$ 6,200,991
Commissions and expense allowances on reinsurance	<b>54,708</b>	83,039
Net investment income	<b>386,816</b>	317,025
Loan tracking income	<b>249,767</b>	269,866
Reinsurance experience refund	<b>158,539</b>	103,497
Miscellaneous income, net	<b>25,974</b>	47,033
<b>TOTAL INCOME</b>	<b>7,211,982</b>	7,021,451
<b>BENEFITS AND OPERATING COSTS:</b>		
Benefits to policyholders and beneficiaries:		
Death and other benefits	<b>2,258,765</b>	2,060,692
Increase (decrease) in aggregate reserves	<b>(36,372)</b>	163,927
	<b>2,222,393</b>	2,224,619
Operating costs:		
Commissions	<b>2,252,997</b>	2,449,274
General insurance expenses	<b>2,008,126</b>	1,954,309
Insurance, taxes, licenses and fees	<b>216,415</b>	224,692
(Increase) decrease in loading on deferred and uncollected premiums	<b>(27,195)</b>	1,253
	<b>4,450,343</b>	4,629,528
<b>TOTAL BENEFITS AND OPERATING COSTS</b>	<b>6,672,736</b>	6,854,147
<b>INCOME BEFORE FEDERAL INCOME TAXES AND REALIZED GAINS</b>	<b>539,246</b>	167,304
<b>NET REALIZED CAPITAL GAINS</b>	<b>751,917</b>	764,933
<b>NET INCOME</b>	<b>\$ 1,291,163</b>	\$ 932,237

*The accompanying notes are an integral part of these financial statements.*

## Gulf Guaranty Life Insurance Company Statutory Statements of Changes in Capital and Surplus

	Common Stock	Class 2 Common Stock	Additional Paid-in Capital	Unassigned Surplus	Treasury Stock	Total
BALANCE AT JANUARY 1, 2015	\$ 1,813,712	\$ 103	\$ 1,921,711	\$ 13,426,679	\$ (8,584,704)	\$ 8,577,501
Net income	-	-	-	932,237	-	932,237
Adjustment to paid In surplus	-	-	58	-	-	58
Change in paid In capital	-	2	-	-	-	2
Net change in unrealized capital losses	-	-	-	(495,488)	-	(495,488)
Decrease in asset valuation reserve	-	-	-	(322,830)	-	(322,830)
Increase in non-admitted assets and related items	-	-	-	186,908	-	186,908
Dividends and corporate allocations to stockholders	-	-	-	(80,696)	-	(80,696)
Treasury stock repurchase	-	-	-	-	(168,163)	(168,163)
<b>BALANCE AT DECEMBER 31, 2015</b>	<b>1,813,712</b>	<b>105</b>	<b>1,921,769</b>	<b>13,646,810</b>	<b>(8,752,867)</b>	<b>8,629,529</b>
Net income	-	-	-	<b>1,291,163</b>	-	<b>1,291,163</b>
Net change in unrealized capital losses	-	-	-	<b>156,215</b>	-	<b>156,215</b>
Increase in asset valuation reserve	-	-	-	<b>(149,751)</b>	-	<b>(149,751)</b>
Decrease in non-admitted assets and related items	-	-	-	<b>250,279</b>	-	<b>250,279</b>
Dividends and corporate allocations to stockholders	-	-	-	<b>(69,971)</b>	-	<b>(69,971)</b>
<b>BALANCE AT DECEMBER 31, 2016</b>	<b>\$ 1,813,712</b>	<b>\$ 105</b>	<b>\$ 1,921,769</b>	<b>\$ 15,124,745</b>	<b>\$ (8,752,867)</b>	<b>\$ 10,107,464</b>

*The accompanying notes are an integral part of these financial statements.*

**Gulf Guaranty Life Insurance Company**  
**Statutory Statements of Cash Flows**

<i>Years ending December 31,</i>	<b>2016</b>	2015
<b>Cash from operations:</b>		
Premiums collected, net of reinsurance	\$ 6,374,599	\$ 6,178,450
Investment income	372,479	354,530
Commissions and expense allowances	54,708	83,039
Loan tracking revenue	249,767	269,866
Reinsurance experience refund	158,539	103,497
Miscellaneous income	16,260	47,808
Death and other benefits	(2,116,258)	(2,039,919)
General insurance expenses and commissions	(4,478,723)	(4,646,777)
Net cash provided by operations	631,371	350,494
<b>Cash from investments:</b>		
Purchase of bonds and fixed maturities	(299,824)	(250,000)
Purchase of preferred and common stocks	(244,934)	(835,240)
Cost of improvements on real estate	(505,181)	-
Proceeds from sale or maturity of bonds and fixed maturities	727,000	443,000
Proceeds from sale of common stocks	866,317	1,209,693
Proceeds from sale of real estate	163,142	-
Cost of mortgage and collateral loans acquired	(773,716)	(425,101)
Payments received on mortgage and collateral loans	26,146	10,381
Miscellaneous proceeds (disbursements)	(87,630)	(251,362)
Amounts received from other assets	57,133	-
Net cash used in investments	(71,148)	(98,630)
<b>Cash from financing and miscellaneous sources:</b>		
Capital and paid in surplus	-	(168,103)
Dividends paid to stockholders	(69,971)	(80,696)
Other proceeds, net	79,046	72,534
Net cash provided by (used in) financing and miscellaneous sources	9,075	(176,265)
NET CHANGE IN CASH AND CASH EQUIVALENTS	569,298	75,599
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,692,493	3,616,894
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,261,791	\$ 3,692,493

*The accompanying notes are an integral part of these financial statements.*

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 1: ORGANIZATION AND FINANCIAL STATEMENT PRESENTATION

#### *Nature of Operations and Basis of Presentation*

Gulf Guaranty Life Insurance Company ("Company"), a Mississippi corporation, is a stock life insurance company which primarily underwrites credit life and credit accident and health insurance policies in Mississippi, Alabama, Louisiana, Tennessee and Arkansas. The primary market for the Company's insurance products is the banking and lending industry.

The accompanying statutory financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Mississippi Insurance Department. The Mississippi Insurance Department requires that insurance companies domiciled in the State of Mississippi prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual. Such practices vary from accounting principles generally accepted in the United States of America ("GAAP"). The more significant variances from GAAP are as follows:

- Eligible bonds, including securities characterized as available-for-sale and carried at fair value under GAAP, are generally carried at amortized cost for statutory purposes. Non-investment grade and other than temporarily impaired bonds are generally carried at the lower of amortized cost or fair value, using valuations established by the NAIC.
- Unrealized gains and losses in admitted common stocks are credited and charged directly to unassigned surplus rather than to a separate surplus account.
- The Asset Valuation Reserve, which is determined by a NAIC prescribed formula, is reported as a liability rather than as a valuation allowance or an appropriation of surplus.
- Commissions and other costs of acquiring insurance are expensed when incurred rather than capitalized and amortized over the terms of the related policies as required by GAAP.
- Certain assets are designated as "non-admitted assets" and their carrying value has been charged directly to unassigned surplus.
- Life policy reserves are calculated based on statutory required interest and mortality assumptions rather than on estimated expected experience and actual account balances.
- Deferred income taxes are provided as required by Statement of Statutory Accounting Principle ("SSAP") 101, *Income Taxes*, and not as required by Financial Accounting Standards Board Accounting Standards Codification ("ASC") 740, *Income Taxes*.
- The statements of cash flows are presented in the required statutory format. This format differs from the format specified by GAAP which requires a reconciliation of net income to net cash flow from operating activities and supplemental schedules of non-cash financing and investing activities.
- Comprehensive income and its components are not presented in the financial statements as is required ASC 220, *Comprehensive Income*.
- Majority-owned insurance subsidiaries are not consolidated but are carried at statutory equity.

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### **NOTE 1: ORGANIZATION AND FINANCIAL STATEMENT PRESENTATION (Continued)**

The effects on the financial statements of variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

The term “admitted assets” means assets stated at values which are permitted to be reported to the Mississippi Insurance Department for purposes of the statements of admitted assets, liabilities, and capital and surplus in accordance with the rules and regulations of the Department. The term “non-admitted assets” means assets other than assets which are so permitted to be reported. The non-admitted assets of the Company were \$2,447,847 and \$2,800,629 at 2016 and 2015, respectively. Non-admitted assets consist principally of investments in common stock. Statutory requirements impose certain limitations, including the amount of admitted common stock carried as a percentage of total admitted assets.

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Use of Estimates***

The preparation of statutory basis financial statements in conformity with principles and practices prescribed or permitted by the Mississippi Insurance Department requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The Company considers all checking and money market accounts and highly liquid investments with an original maturity of one year or less when purchased to be cash and cash equivalents. Also, in accordance with NAIC guidelines, the Company considers all non-negotiable certificates of deposit to be cash and cash equivalents.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Management manages the risk associated with these deposits by using institutions considered to be of high credit worthiness.

#### ***Investments***

Bonds and fixed maturities are generally carried at amortized cost; unaffiliated common stocks at estimated fair value; and preferred stocks in good standing at cost. Affiliated stocks are booked utilizing the equity method, pursuant to SSAP 97.

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond premiums and discounts are amortized by the interest method from date of acquisition to first call date or redemption date. Unrealized gains and losses on investments in common stocks held are carried in surplus. Unrealized losses are monitored by management, and, if deemed to be other than temporary, are charged to operations rather than directly to surplus.

In its determination of whether an investment's unrealized loss is other than temporary, management uses a systematic methodology that considers, among other things, the magnitude and duration of the decline in fair value, the financial health of and business outlook of the issuer and the Company's ability and intent to hold the investment until it recovers its fair value. The adjusted cost of investments sold is determined by the specific identification method. With respect to corporate agencies, there are no geographic or industry concentrations.

The Company makes direct investments in real estate and mortgage loans collateralized by real estate. Mortgage loans are stated at the aggregate unpaid balance. Investments in real estate are carried at cost, less accumulated depreciation. The return on and ultimate recovery of these investments and loans are generally dependent on the successful operation, sale or refinancing of the real estate. The Company monitors the effects of current and expected market conditions and other factors on the reliability of the Company's direct real estate investments and the collectability of real estate loans. When, in management's judgment, these assets are impaired, appropriate losses will be recorded by a charge to operations. Such estimates necessarily include assumptions, which may include anticipated improvements in market conditions for real estate, which may or may not occur.

Other invested assets are stated at the lower of cost or fair value and consist of various subordinated debentures.

#### ***Properties Occupied by the Company***

Properties occupied by the Company are carried at cost less depreciation. Depreciation is charged to operations over the estimated useful lives of the depreciable assets by the straight-line method for real property and by accelerated methods for personal property as permitted by statutory practices. Depreciation expense on admitted assets, including real estate, was \$5,159 and \$27,635 for 2016 and 2015, respectively. Depreciation expense on non-admitted assets was \$22,634 and \$13,660 for 2016 and 2015, respectively.

#### ***Policy Reserves***

The aggregate reserve for credit life policies has been actuarially determined using primarily the net level premium method based on estimated future investment yield and mortality. Assumptions used were: 1958 CET and 1958 CSO mortality tables with interest at 3.5% for policies issued before 1996. In 1997, the Company began computing life policy reserves for policies issued after 1996 using the 1958 CSO mortality tables with interest at 3.5% in accordance with a change approved by the Mississippi Insurance Department. The aggregate reserve for industrial life policies has been

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

actuarially determined using the CRVM method based on the 1961 CSI mortality table with interest at 4%. The aggregate reserve for accident and health policies includes an unearned premium reserve which recognizes premiums as earned during each year that a policy is in force in proportion to the ratio of the amount of insurance in force each year to the total of the annual amounts in force over the life of the policy.

#### ***Unpaid Claims***

The liability for policy claims and related expenses represents the estimated liabilities on claims reported to the Company plus provision for claims incurred but not yet reported. The liabilities for unpaid claims are determined using both evaluations of each claim and statistical analyses and represent the estimated ultimate net cost of all claims incurred through December 31 of each year.

#### ***Retirement Plan***

The Company has a 401(k) plan covering substantially all employees. Contributions to the plan are made at the discretion of the Board of Directors. Contributions to the plan were approximately \$56,000 and \$58,000 in 2016 and 2015, respectively.

#### ***Reinsurance***

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance enterprises or reinsurers under excess coverage and coinsurance contracts. The Company retains a maximum amount of \$35,000 of coverage per individual life. Amounts paid or deemed to have been paid for reinsurance contracts are recorded as due from reinsurers. Premiums, policy claims and related expenses and policy reserves are reported net of reinsured amounts.

#### ***Income Taxes***

The Company files a consolidated federal and state income tax returns which includes its wholly-owned subsidiary pursuant to Subchapter C of the Internal Revenue Code. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between statutory financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates. Non-admitted deferred tax assets represent those items that will not be recognized within a three-year reversal period.

Tax accruals are recorded to address potential exposures involving tax positions taken that may be challenged by taxing authorities. The tax accrual contains assumptions based upon past experiences and judgments about potential actions by taxing jurisdictions. With minimum exceptions, the Company is no longer subject to income tax examinations prior to 2014.

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Guaranty Fund Assessments*

The Company is subject to periodic guaranty fund and other assessments by the State of Mississippi. Amounts assessed to each company are generally related to its proportion of business written. The Company's policy is to accrue assessments as the related written premium upon which the assessment is based is written.

#### *Advertising*

The Company expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2016 and 2015 were \$579 and \$1,200, respectively.

#### *Subsequent Events*

In connection with the preparation of the financial statements, management of the Company evaluated subsequent events through May 26, 2017.

### NOTE 3: INVESTMENTS

Bonds, fixed maturities, and preferred stocks are as follows:

<i>December 31, 2016</i>	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,198,031	\$ 25,931	\$ 1,230	\$ 1,222,733
Corporate debt securities	1,570,253	65,465	1	1,635,717
Total	\$ 2,768,284	\$ 91,396	\$ 1,231	\$ 2,858,450
Preferred stock	\$ 125,000	\$ 1,800	\$ -	\$ 126,800
Total	\$ 125,000	\$ 1,800	\$ -	\$ 126,800

**Gulf Guaranty Life Insurance Company**  
**Notes to Statutory Financial Statements**

**NOTE 3: INVESTMENTS (Continued)**

<i>December 31, 2015</i>	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,736,598	\$ 81,693	\$ 1,620	\$ 1,816,671
Mortgage backed securities	74,989	-	349	74,640
Corporate debt securities	1,384,727	71,820	4,853	1,451,694
<b>Total</b>	<b>\$ 3,196,314</b>	<b>\$ 153,513</b>	<b>\$ 6,822</b>	<b>\$ 3,343,005</b>

Preferred stock	\$ 125,000	\$ 4,450	\$ -	\$ 129,450
<b>Total</b>	<b>\$ 125,000</b>	<b>\$ 4,450</b>	<b>\$ -</b>	<b>\$ 129,450</b>

Common stocks are as follows:

<i>December 31, 2016</i>	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Common stocks - unaffiliated	\$ 2,011,594	\$ 2,203,763	\$ 80,373	\$ 4,134,984
Common stocks - affiliated	2,705,427	1,252,105	185,200	3,772,332
<b>Common stocks</b>	<b>\$ 4,717,021</b>	<b>\$ 3,455,868</b>	<b>\$ 265,573</b>	<b>7,907,315</b>
			Less non-admitted assets	<b>(1,154,594)</b>
				<b>\$ 6,752,721</b>

<i>December 31, 2015</i>				
Common stocks - unaffiliated	\$ 2,034,219	\$ 2,124,031	\$ 157,911	\$ 4,000,339
Common stocks - affiliated	2,705,427	1,253,173	185,200	3,773,400
<b>Common stocks</b>	<b>\$ 4,739,646</b>	<b>\$ 3,377,204</b>	<b>\$ 343,111</b>	<b>7,773,739</b>
			Less non-admitted assets	<b>(1,482,303)</b>
				<b>\$ 6,291,436</b>

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 3: INVESTMENTS (Continued)

The Company considers the impairment on bonds and common stocks that are in unrealized loss positions to be temporary. The Company believes that it will collect all amounts contractually due and recover its net investment, and that it has the intent and the ability to hold these securities until the fair value is at least equal to the carrying value.

The length of time temporarily impaired securities have been held in a loss position as of December 31, 2016 and 2015, is summarized below:

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>
<i>December 31, 2016</i>						
US government agencies	\$ 198,770	\$ 1,230	\$ -	\$ -	\$ 198,770	\$ 1,230
Mortgage backed securities	-	-	-	-	-	-
Corporate debt securities	49,825	1	-	-	49,825	1
<b>Total</b>	<b>\$ 248,595</b>	<b>\$ 1,231</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 248,595</b>	<b>\$ 1,231</b>
Common stock - unaffiliated	\$ 161,781	\$ 11,867	\$ 664,040	\$ 68,506	\$ 825,821	\$ 80,373
Common stock - affiliated	-	-	-	185,200	-	185,200
<b>Total</b>	<b>\$ 161,781</b>	<b>\$ 11,867</b>	<b>\$ 664,040</b>	<b>\$ 253,706</b>	<b>\$ 825,821</b>	<b>\$ 265,573</b>
<i>December 31, 2015</i>						
US government agencies	\$ 198,380	\$ 1,620	\$ -	\$ -	\$ 198,380	\$ 1,620
Mortgage backed securities	49,660	340	24,980	9	74,640	349
Corporate debt securities	195,137	4,853	-	-	195,137	4,853
<b>Total</b>	<b>\$ 443,177</b>	<b>\$ 6,813</b>	<b>\$ 24,980</b>	<b>\$ 9</b>	<b>\$ 468,157</b>	<b>\$ 6,822</b>
Common stock - unaffiliated	\$ 631,009	\$ 96,424	\$ 482,136	\$ 61,487	\$ 1,113,145	\$ 157,911
Common stock - affiliated	-	-	-	185,200	-	185,200
<b>Total</b>	<b>\$ 631,009</b>	<b>\$ 96,424</b>	<b>\$ 482,136</b>	<b>\$ 246,687</b>	<b>\$ 1,113,145</b>	<b>\$ 343,111</b>

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 3: INVESTMENTS (Continued)

The following is an analysis of the carrying value and estimated fair value of bonds and fixed maturities by contractual maturity:

<i>December 31, 2016</i>	Carrying Value	Estimated Fair Value
Due in less than 1 year	\$ 940,910	\$ 957,054
Due in 1 to 5 years	1,106,128	1,162,399
Due in 5 to 10 years	721,246	738,997
	<b>\$ 2,768,284</b>	<b>\$ 2,858,450</b>

The components of net investment income were as follows:

<i>Years ended December 31,</i>	2016	2015
Bonds and fixed maturities	\$ 132,369	\$ 137,599
Common stocks	121,388	157,020
Preferred stocks	7,625	3,749
Real estate	270,651	279,217
Mortgage and collateral loans	1,993	13,512
Cash on hand and on deposit	8,155	4,731
Other invested and non-admitted assets	103,738	29,214
	<b>645,919</b>	<b>625,042</b>
Investment expense	<b>(259,103)</b>	<b>(308,017)</b>
Net investment income	<b>\$ 386,816</b>	<b>\$ 317,025</b>

Real estate income includes self-occupancy rent of \$140,688 for 2016 and 2015.

Proceeds from the sale of securities approximated \$1,340,000 and \$1,560,000 during the years ended December 31, 2016 and 2015, respectively. This resulted in realized gains of \$751,917 for 2016 and \$764,933 for 2015 (net of capital gains transferred to interest maintenance reserve of \$88 in 2016 and \$42 in 2015) and gross realized losses of \$25,989 and \$0 in 2016 and 2015, in such sales.

Bonds with an approximate carrying value of \$1,373,000 and \$1,373,000 and fair values of approximately \$1,399,000 and \$1,440,000 as of December 31, 2016 and 2015, respectively, were pledged to the respective states in which the Company transacts business for the security and benefit of policyholders. At December 31, 2016 and 2015, assets on deposit met minimum statutory requirements.

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 3: INVESTMENTS (Continued)

At December 31, 2016 and 2015, the Company's mortgage loan portfolio consisted of eight first lien mortgage loans. The loans, which were originated by the Company, do not have a readily determinable fair value but had a net admitted maximum loan-to-value ratio of 75% at the date of origination. The minimum and maximum interest rates of mortgage loans held as of December 31, 2016 were 4.50% and 6.50% and minimum and maximum interest rates were 4.50% and 5.25% for December 31, 2015. The admitted average loan balance as of December 31, 2016 and 2015 was approximately \$176,000 and \$179,000, respectively. The maturity dates for these loans were, November 2017, August 2019, November 2021, September 2031, December 2031, October 2035 and July 2046.

### NOTE 4: FAIR VALUE MEASUREMENTS

SSAP 100, Fair Value Measurements, utilizes a fair value hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The estimated fair values are significantly affected by assumptions used, principally the timing of future cash flows, the discount rate, judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. The three levels of inputs that are used to measure fair value are as follows:

- Level 1** Valuations based on unadjusted quoted prices for identical assets in active markets accessible at the measurement date.
- Level 2** Valuations derived for similar assets in active markets, or other inputs that are observable or can be corroborated by market data.
- Level 3** Valuations derived from unobservable (supported by little or no market activity) inputs that reflect an entity's best estimate of what hypothetical market participants would use to determine a transaction price at the reporting date.

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 4: FAIR VALUE MEASUREMENTS (Continued)

The carrying values and approximate fair values, by input level, of the Company's financial instruments at December 31, 2016 and 2015 were as follows:

<i>December 31, 2016</i>	Estimated Fair Value	Admitted Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and short term investments	\$ 4,261,791	\$ 4,261,791	\$ 4,261,791	\$ -	\$ -
Bonds	2,858,450	2,768,284	2,858,450	-	-
Preferred stocks	126,800	125,000	126,800	-	-
Common stock - unaffiliated	4,134,984	2,962,615	3,664,220	-	470,764
Mortgage and collateral loans	1,523,873	1,407,167	-	1,523,873	-
Other invested assets	167,867	167,867	-	167,867	-
Investment income due and accrued Receivable under reinsurance contracts	52,213	52,213	-	-	52,213
	129,932	129,932	-	-	129,932
Premium balance uncollected	176,338	176,338	-	-	176,338
Receivable from subsidiaries	18,795	18,795	-	-	18,795
Policy loans	984	984	-	-	984
<b>Financial Liabilities:</b>					
Advanced premiums	31,528	31,528	-	-	31,528
Accrued general expenses and taxes	192,714	192,714	-	-	192,714
Commissions payable	29,031	29,031	-	-	29,031
Other	48,307	48,307	-	-	48,307

**Gulf Guaranty Life Insurance Company**  
**Notes to Statutory Financial Statements**

**NOTE 4: FAIR VALUE MEASUREMENTS (Continued)**

<i>December 31, 2015</i>	Estimated Fair Value	Admitted Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and short term investments	\$ 3,692,493	\$ 3,692,493	\$ 3,692,493	\$ -	\$ -
Bonds	3,343,005	3,196,314	3,343,005	-	-
Preferred stocks	129,450	125,000	129,450	-	-
Common stock - unaffiliated	4,000,339	2,518,036	3,529,575	-	470,764
Mortgage and collateral loans	776,303	715,360	-	776,303	-
Other invested assets	75,000	75,000	-	75,000	-
Investment income due and accrued	36,933	36,933	-	-	36,933
Receivable under reinsurance contracts	109,368	109,368	-	-	109,368
Premium balance uncollected	185,189	185,189	-	-	185,189
Receivable from subsidiaries	149,714	149,714	-	-	149,714
Policy loans	1,383	1,383	-	-	1,383
<b>Financial Liabilities:</b>					
Advanced premiums	29,152	29,152	-	-	29,152
Accrued general expenses and taxes	193,115	193,115	-	-	193,115
Commissions payable	22,205	22,205	-	-	22,205
Other	11,056	11,056	-	-	11,056

**NOTE 5: LIABILITY FOR POLICY CLAIMS AND RELATED EXPENSES**

Activity in the liability for policy and contract claims is summarized below:

<i>Years ending December 31,</i>	<b>2016</b>	2015
Balance at January 1	\$ 535,195	\$ 514,422
Incurred related to:		
Current year	<b>2,401,271</b>	2,081,464
Prior years	<b>(142,508)</b>	(20,772)
Total incurred	<b>2,258,764</b>	2,060,692
Paid related to:		
Current year	<b>1,759,763</b>	1,635,850
Prior years	<b>356,495</b>	404,069
Total paid	<b>2,116,258</b>	2,039,919
Balance at December 31	<b>\$ 677,701</b>	\$ 535,195

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 6: REINSURANCE

The Company utilizes reinsurance to reduce its exposure to large losses in all aspects of its insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers. However, such reinsurance does not discharge the Company as direct insurer of the risks reinsured, accordingly, a contingent liability exists with respect to such reinsurance, which could become a liability of the Company in the event that such reinsurance companies were unable to meet their obligations under the existing reinsurance agreements.

The Company evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers. The reinsured portion of life reserves deducted in developing the net liability was approximately \$408,000 and \$507,000 for 2016 and 2015, respectively, relating to insurance in force of approximately \$26,000,000 and \$33,000,000 for 2016 and 2015, respectively.

The effect of reinsurance on premiums earned and incurred benefits for 2016 and 2015 is as follows:

<i>Year ended December 31, 2016</i>	<b>Direct &amp; Assumed Amount</b>	<b>Ceded to Other Companies</b>	<b>Net Amount</b>
Premiums:			
Credit life	\$ 2,047,160	\$ (140,651)	\$ 1,906,509
Credit accident and health	805,314	(27,977)	777,337
Group life	2,478,273	-	2,478,273
Group accident and health	9,289	-	9,289
Industrial/ordinary	1,164,770	-	1,164,770
	<b>\$ 6,504,806</b>	<b>\$ (168,628)</b>	<b>\$ 6,336,178</b>
<b>Incurred benefits</b>	<b>\$ 2,297,368</b>	<b>\$ (38,604)</b>	<b>\$ 2,258,764</b>
<i>Year ended December 31, 2015</i>			
Premiums:			
Credit life	\$ 2,507,543	\$ (197,515)	\$ 2,310,028
Credit accident and health	956,383	(47,825)	908,558
Group life	1,850,474	(80)	1,850,394
Group accident and health	8,878	-	8,878
Industrial/ordinary	1,123,133	-	1,123,133
	<b>\$ 6,446,411</b>	<b>\$ (245,420)</b>	<b>\$ 6,200,991</b>
<b>Incurred benefits</b>	<b>\$ 2,144,139</b>	<b>\$ (83,447)</b>	<b>\$ 2,060,692</b>

**Gulf Guaranty Life Insurance Company**  
**Notes to Statutory Financial Statements**

**NOTE 7: INCOME TAXES**

The components of the provision for federal income taxes reflected in the statements of income and the change in deferred income taxes charged directly to statutory capital and surplus were as follows:

<i>Years ending December 31,</i>	<b>2016</b>	<b>2015</b>
Income tax expense incurred:		
Federal income tax on operating income	\$ -	\$ -
Change in net deferred income taxes (recognized as a separate component of unassigned surplus)	-	-
Total statutory income taxes incurred and the changes in net deferred taxes	<u>\$ -</u>	<u>\$ -</u>

The Company files a consolidated income tax return with its 80% or greater owned subsidiaries.

Taxes are allocated based on taxable income. The current Federal income tax incurred was \$0 for 2016 and 2015, with no tax benefits or losses derived from capital gains or losses.

**Gulf Guaranty Life Insurance Company**  
**Notes to Statutory Financial Statements**

**NOTE 7: INCOME TAXES (Continued)**

The components of the net deferred tax assets were as follows:

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
<b>Deferred tax assets</b>		
Ordinary:		
Deferred acquisition cost	\$ 45,836	\$ 46,249
Net operating loss carryforward	56,968	84,176
Life and accident and health reserve	30,223	40,720
Unearned premiums	31,614	36,492
Accrued litigation expense	9,076	9,077
Capital:		
Unrealized loss on investment securities	136,607	127,705
Gross deferred tax assets	310,324	344,419
Statutory valuation allowance adjustment	(171,246)	(273,749)
Adjusted gross deferred tax assets	139,078	70,670
<b>Deferred tax liabilities</b>		
Capital:		
Unrealized gain on real estate held for sale	(3,447)	(2,935)
Unrealized gain on investment securities	(135,631)	(67,735)
Net deferred tax assets	-	-
Less non-admitted assets	-	-
Deferred tax assets, admitted	\$ -	\$ -
Net increase in non-admitted net deferred tax assets	\$ -	\$ -

As a result of cumulative operating losses in prior years, the Company fully reserved its net deferred tax asset through a statutory valuation allowance adjustment. There was no impact of tax-planning strategies on adjusted gross deferred tax assets or net admitted deferred tax assets in 2016 or 2015.

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 7: INCOME TAXES (Continued)

Income taxes incurred differs from the amounts computed by applying the U.S. Federal corporate tax rate of 35% to income before federal income taxes as follows:

	2016	2015
Computed "expected" tax expense (benefit)	\$ 451,907	\$ 326,283
Dividends received deduction	(25,261)	(31,036)
Change in valuation allowance	102,503	71,472
Net operating loss carryforward	(508,000)	(508,000)
Other	(21,149)	141,281
<hr/>		
Federal income taxes incurred and the changes in deferred taxes	\$ -	\$ -

There were no adjusted deferred tax assets admitted pursuant to SSAP No. 101, paragraph 11, as indicated above. Had there been an adjusted gross deferred tax asset, the Company's threshold information used to determine the amount of admitted deferred tax assets was as follows:

<i>December 31,</i>	2016	2015
Risk-based capital ratio percentage used to determine recovery period and threshold limitation amount	786%	1033%
Amount of adjusted capital and surplus used to determine recovery and threshold limitation	\$ 11,395,714	\$ 9,768,026

### NOTE 8: CAPITAL AND SURPLUS

Under Mississippi State Statutes, the Company is required to maintain minimum capital and surplus of \$1,500,000. Stockholders' dividends are payable out of statutory surplus. Dividends to stockholders are limited by the Laws of the State of Mississippi generally to the lesser of prior year's earnings, or 10% of capital and surplus without approval of the Commissioner of Insurance. The Company also pays corporate allocations pursuant to Miss. Code Ann. § 83-53-25(3)(b). The Company paid a corporate allocation totaling \$69,971 and \$80,696 during the years 2016 and 2015, respectively.

The NAIC measures the adequacy of a company's capital by its risk based capital ratio (the ratio of its total capital, as defined, to its risk based capital). The requirements provide a measurement of minimum capital appropriate for an insurance company to support its overall business operations based upon its size and risk profile which considers (i) asset risk, (ii) insurance risk, (iii) interest rate

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 8: CAPITAL AND SURPLUS (Continued)

risk and (iv) business risk. An insurance company's risk based capital is calculated by applying a defined factor to various statutory based assets, premiums and reserve items, wherein the factor is higher for items with greater underlying risk.

The NAIC has provided levels of progressively increasing regulatory action for remedies when an insurance company's risk based capital ratio falls below a ratio of 2 to 1. As of December 31, 2016, the Company was in compliance with the minimum capital requirements, as follows:

Total adjusted capital	\$ 11,395,714
Authorized control level risk-based capital	1,450,225
Ratio of adjusted capital to risk based capital	7.86:1

### NOTE 9: INVESTMENTS IN, BALANCES WITH AND TRANSACTIONS WITH RELATED PARTIES

The Company owns 100% of the outstanding shares of Gulf Guaranty Insurance Company (GGIC), which operates as a property and casualty insurer. GGIC operates under common management and operates under a cost allocation agreement for the allocation of direct operating expenses.

The investment in GGIC is reflected in common stocks at approximately \$3,772,000 and \$3,773,000 at December 31, 2016 and 2015, respectively, which represents the statutory capital and surplus of GGIC for those years ended. GGIC's shares in the Company were repurchased on January 1, 2015 at book value per share and treated as treasury stock. Summarized statutory basis financial information of GGIC as of and for the years ended December 31, 2016 and 2015, is as follows:

<i>December 31,</i>	<b>2016</b>	2015
Invested assets and cash	<b>\$ 4,228,000</b>	\$ 4,354,000
Other assets	<b>18,000</b>	20,000
Total admitted assets	<b>\$ 4,246,000</b>	\$ 4,374,000

**Gulf Guaranty Life Insurance Company**  
**Notes to Statutory Financial Statements**

**NOTE 9: INVESTMENTS IN, BALANCES WITH AND TRANSACTIONS WITH RELATED PARTIES**  
**(Continued)**

<i>December 31,</i>	<b>2016</b>	2015
Unearned premiums	\$ 366,000	\$ 349,000
Other liabilities	89,000	102,000
Payable to affiliates	19,000	150,000
Capital and surplus	3,772,000	3,773,000
<b>Total liabilities, capital and surplus</b>	<b>\$ 4,246,000</b>	<b>\$ 4,374,000</b>

<i>Years ended December 31,</i>	<b>2016</b>	2015
Net underwriting loss	\$ (410,000)	\$ (322,000)
Net investment income	120,000	109,000
Other income	193,000	174,000
<b>Net gain (loss)</b>	<b>\$ (97,000)</b>	<b>\$ (39,000)</b>

Gulf Guaranty Employee Benefit Services (GGEBS) is a 100% owned subsidiary of the Company, which provides administrative services for employee benefit plans and serves as an agent in providing reinsurance for excess losses. The investment in GGEBS is reflected at \$0 in the Company's financial statements.

100% of the group health insurance written by GGLIC for the statement periods ending December 31, 2016 and 2015, relates to the following health plans administered by GGEBS:

- Specific and Aggregate Stop Loss on partially self-funded health insurance plans
- Aggregate Stop Loss on partially self-funded limited pay plans; and
- Fully insured limited pay plans which are designed to cover the deductible and certain other out-of-pocket expense under an employer's primary health insurance coverage. GGLIC and GGEBS refer to this policy as a "GAP" policy. For this coverage, GGEBS is paid by GGLIC a monthly fee per employee to pay claims.

## Gulf Guaranty Life Insurance Company Notes to Statutory Financial Statements

### NOTE 9: INVESTMENTS IN, BALANCES WITH AND TRANSACTIONS WITH RELATED PARTIES (Continued)

Transactions with related parties include allocated expenses for computer services, income from the rental of office space and administrative and management services to or from affiliates. A summary of the transactions was as follows:

<i>Years ended December 31,</i>	<b>2016</b>	2015
Direct operating costs allocated to GGIC	\$ <b>275,033</b>	\$ 317,878
Rental of office space - GGEBS	<b>18,000</b>	18,000
Receivable from GGIC	<b>18,795</b>	149,714
Administrative fees paid to GGEBS	<b>277,391</b>	185,768

### NOTE 10: CONTINGENCIES

At December 31, 2016, the Company and its subsidiary were involved as a defendant in various litigation matters incurred in the normal course of business relative to contested claims and related punitive damages. Damages sought are unspecified in most cases, and punitive damages are likely to be requested by the plaintiffs. The Company intends to contest these claims and believes that meritorious defenses exist against these claims.

The ultimate outcome of all cases cannot presently be determined; however, an allowance of approximately \$65,000 is recorded in the financial statements as of December 31, 2016 and 2015, respectively, which reflects management's best estimate of probable claims expense and estimated defense cost that will ultimately be incurred in the resolution of these matters. Given the nature of various claims, the general litigation environment, and unpredictable jury verdicts, actual amounts could exceed management's estimates by material amounts.

## **Supplemental Information**

**Gulf Guaranty Life Insurance Company**  
**Schedule I – Supplemental Schedule of Selected Statutory Financial Data**  
**December 31, 2016**

<i>As of and for the year ended December 31, 2016</i>	<b>As Reported in the Annual Statement</b>
<b>Investment Income Earned</b>	
Government bonds	\$ 69,285
Other bonds (unaffiliated)	63,084
Preferred stocks (unaffiliated)	7,625
Common stocks (unaffiliated)	121,388
Mortgage loans	47,844
Real estate	270,651
Cash/short-term investments	8,155
Other invested assets	57,886
<hr/>	
Gross investment income	\$ 645,918
<hr/>	
Real estate owned - book value less encumbrances	\$ 2,017,284
<hr/>	
Other long-term assets - statement value	\$ 167,867
<hr/>	
Bonds and stocks of parents, subsidiaries and affiliates - book value:	
Common stock	\$ 3,772,332
<hr/>	
Bonds and short-term investments by class and maturity:	
Bonds by maturity - statement value:	
Less than 1 year	\$ 940,910
Over 1 year through 5 years	1,106,128
Over 5 years through 10 years	721,246
<hr/>	
Total by maturity	\$ 2,768,284
<hr/>	
Bonds by class - statement value:	
Class 1	\$ 2,030,580
Class 2	737,704
<hr/>	
Total by class	\$ 2,768,284
<hr/>	
Total bonds publicly traded	\$ 2,768,284
<hr/>	
Common stocks - market value	\$ 7,907,315
<hr/>	
Cash on deposit	\$ 3,590,921
<hr/>	
Short-term investments	\$ 670,870
<hr/>	

(Continued)

**Gulf Guaranty Life Insurance Company**  
**Schedule I – Supplemental Schedule of Selected Statutory Financial Data**  
**December 31, 2016**

Life insurance in force:	
Credit life	\$ 184,919,025
Industrial life	\$ 25,173,930
Ordinary life	\$ 8,240,000

Accident and health insurance premiums in force:	
Credit	\$ 1,055,761

Claim payments:	
Group accident and health:	
2016	\$ 1,035,272
2015	188,239
2014	799
2013	-
2012	-
2011	-

Other accident and health (credit):	
2016	\$ 43,645
2015	49,181
2014	21,602
2013	3,836
2012	123
2011	1,047

Claims liability:	
Group and other accident and health:	
2016	\$ 476,631
2015	7,844
2014	466
2013	320
2012	-
2011	-

(Concluded)

**Gulf Guaranty Life Insurance Company**  
**Schedule II – Supplemental Schedule of Investments**  
**December 31, 2016**

	<b>Gross investment holdings</b>		<b>Admitted assets as reported in the annual statement</b>	
	<b>Amount</b>	<b>Percentage</b>	<b>Amount</b>	<b>Percentage</b>
<b>Bonds:</b>				
U.S. treasury securities	\$ 1,098,031	5.6%	\$ 1,098,031	6.3%
U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
Issued by U.S. government agencies	100,000	0.5%	100,000	0.6%
<b>Other debt and other fixed income securities (excluding short-term):</b>				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	1,570,253	8.0%	1,570,253	9.0%
<b>Equity interests:</b>				
Preferred stocks				
Unaffiliated	125,000	0.6%	125,000	0.7%
Publicly traded equity securities (excluding preferred stocks):				
Unaffiliated	3,754,529	19.2%	2,980,389	17.0%
Other equity securities:				
Affiliated	3,772,332	19.3%	3,772,332	21.6%
Unaffiliated	380,454	1.9%	-	0.0%
<b>Mortgage loans:</b>				
Single family residential properties	1,493,932	7.6%	1,377,226	7.9%
Commercial loans	29,941	0.2%	29,941	0.2%
<b>Real estate investments:</b>				
Property occupied by company	50,000	0.3%	50,000	0.3%
Property held for production of income (includes \$0 of property acquired in satisfaction of debt)	1,967,284	10.1%	1,967,284	11.2%
Policy loans	984	0.0%	984	0.0%
Cash, cash equivalents and short-term investments	4,261,791	21.8%	4,261,791	24.4%
Other invested assets	927,609	4.7%	167,867	1.0%
<b>Total invested assets</b>	<b>\$ 19,532,140</b>	<b>100.0%</b>	<b>\$ 17,501,098</b>	<b>100.0%</b>

**Gulf Guaranty Life Insurance Company**  
**Schedule III – Supplemental Schedule of Investment Risk Interrogatories**  
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The following is a summary of certain statutory financial data included in the supplemental investment risk interrogatories.

1. Total admitted assets as reported on the statutory statement of admitted assets, liabilities, capital and surplus \$17,885,378
  
2. By investment category, the ten largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual*, as exempt, (ii) property occupied by the Company, and (iii) policy loans.

Issuer	Investment category	Amount	Percentage of total admitted assets
Gulf Guaranty Insurance Company	Common Stock	\$ 3,772,332	21.09%
Parcels of Land 74.2% of 842 acres, Madison County, MS	Property Held for Production of Income	955,556	5.34%
Renasant Corp	Common Stock	894,269	5.00%
Parcels of Land 240 acres, Sharkey County, MS	Property Held for Production of Income	505,181	2.82%
Turstmark Corp	Common Stock	459,885	2.57%
Residential Mortgage	Mortgage Loan	300,000	1.68%
Residential Mortgage	Mortgage Loan	293,477	1.64%
Parcels of Land 12+ Acres, Rankin County, MS	Property Held for Production of Income	279,686	1.56%
Residential Mortgage	Mortgage Loan	276,750	1.55%
Parcels of Land 119.8 acres, Madison County, MS	Property Held for Production of Income	226,862	1.27%

(Continued)

**Gulf Guaranty Life Insurance Company**  
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3. The amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

**Bonds**

NAIC - 1	\$ 2,030,580	11.35%
NAIC - 2	737,704	4.12%

**Preferred Stock**

P/RP - 1	\$ 125,000	0.70%
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Interrogatories 4 through 12 are not applicable.

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

- 13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? No

Investment in common stocks	Amount	Percentage of total admitted assets
Gulf Guaranty Insurance Company	\$ 3,772,332	21.09%
Renasant Corp	894,269	5.00%
Trustmark Corp	459,885	2.57%
Pace Investment Funds	175,205	0.98%
UBC Pace Large Co Value Equity	136,148	0.76%
Hancock Holding Company	124,904	0.70%
UBS Pace Large Co Growth Equity	116,096	0.65%
UBS Pace Small /Medium Co Value	76,533	0.43%
UBS Pace Small /Medium Co Growth	57,874	0.32%
Exxon Mobil Corp	55,600	0.31%

Interrogatories 13 through 15 are not applicable.

(Continued)

**Gulf Guaranty Life Insurance Company**  
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16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? No.

<b>Investment in mortgage loans</b>	<b>Amount</b>	<b>Percentage of total admitted assets</b>
Residential Mortgage Loan, Chattanooga TN	\$ 300,000	1.68%
Residential Mortgage Loan, Flora MS	293,477	1.64%
Residential Mortgage Loan, Jackson MS	276,750	1.55%
Residential Mortgage Loan, Yazoo City MS	180,000	1.01%
Residential Mortgage Loan, Madison MS	177,000	0.99%
Residential Mortgage Loan, Madison MS	105,000	0.59%
Residential Mortgage Loan, Jackson MS	45,000	0.25%
Commercial Mortgage Loan, Jackson MS	29,941	0.17%

(Continued)

**Gulf Guaranty Life Insurance Company**  
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18. The amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

Investment in real estate	Amount	Percentage of total admitted assets
Parcels of Land, 74.2% of 842 acres, Madison County	\$ 955,556	5.34%
Parcels of Land, 240 acres, Sharkey County	505,181	2.82%
Parcels of Land, 12+ acres, Rankin County	279,686	1.56%
Parcels of Land, 119.8 acres, Madison County	226,862	1.27%

Interrogatories 19 through 23 are not applicable.

(Concluded)