



## MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

MARK HAIRE  
Deputy Commissioner of Insurance

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June 18, 2012

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

Mr. Jack Carlton Williams, Jr., President & CEO  
Mississippi Farm Bureau Casualty Insurance Company  
6311 Ridgewood Road  
Ridgeland, MS 39211

**RE: Report of Examination as of December 31, 2010**

Dear Mr. Williams:


In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is a copy of 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. 2011), 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 of Insurance will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY   
Christina J. Kelsey  
Senior Attorney

GD/CJK/bs  
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF MISSISSIPPI**

**IN RE: REPORT OF EXAMINATION OF MISSISSIPPI  
FARM BUREAU CASUALTY INSURANCE COMPANY      CAUSE NO. 12-6528**

**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. 2011). 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. 2011).

**II.**

That Mississippi Farm Bureau Casualty Insurance Company is a Mississippi-domiciled company licensed to write Automobile Physical Damage/Liability; Boiler and Machinery; Casualty/Liability; Fire/Allied Lines; Home/Farm Owners; Inland Marine; and Plate Glass coverages.

## FINDINGS OF FACT

### III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of Mississippi Farm Bureau Casualty Insurance Company and appointed Dale Miller, Examiner-In-Charge, to conduct said examination.

### IV.

On or about May 3, 2012, the draft Report of Examination concerning Mississippi Farm Bureau Casualty Insurance Company for the period of January 1, 2008, through December 31, 2010, was submitted to the Department by the Examiner-In-Charge, Dale Miller.

### V.

That on or about May 10, 2012, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company until June 4, 2012, to submit any rebuttal to the draft report. No response or rebuttal to the exam report was submitted by the Company.

## CONCLUSIONS OF LAW

### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), 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 and all relevant examiner work papers, that the Report of Examination of Mississippi Farm Bureau Casualty 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. 2011).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, Mississippi Farm Bureau Casualty 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 Mississippi Farm Bureau Casualty Insurance Company take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

**SO ORDERED**, this the 18<sup>th</sup> day of June 2012.

  
\_\_\_\_\_  
J. MARK HAIRE  
DEPUTY COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 18<sup>th</sup> day of June 2012, to:

**Mr. Jack Carlton Williams, Jr., President & CEO  
Mississippi Farm Bureau Casualty Insurance Company  
6311 Ridgewood Road  
Ridgeland, MS 39211**



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**

**MISSISSIPPI FARM BUREAU CASUALTY  
INSURANCE COMPANY**

**as of**

**December 31, 2010**

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

State of Mississippi,

County of Madison,

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

1. I have authority to represent the Mississippi Insurance Department in the examination of Mississippi Farm Bureau Casualty Insurance Company.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Mississippi Farm Bureau Casualty Insurance Company was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

The affiant says nothing further.

R. Dale Miller

R. Dale Miller, CPA, CFE, CFF  
Examiner -in-charge

Subscribed and sworn before me by R. DALE MILLER on this 12<sup>TH</sup> day of JUNE, 20 12.

(SEAL)

Debbie Byrd

Notary Public



My commission expires 9-10-14 [date].



**MIKE CHANEY**  
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April 02, 2012

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2010, of the affairs and financial condition of:

**MISSISSIPPI FARM BUREAU CASUALTY INSURANCE COMPANY**

6311 Ridgewood Road  
Jackson, Mississippi 39211

License #	NAIC Group #	NAIC #	FEETS#	ETS#
8600022	0483	27669	MS029-F6	MS120-M3

This examination was commenced in accordance with Miss. Code Ann. §83-5-201 *et seq.* and was performed primarily at the statutory home office of the Company. The report of examination is herewith submitted.

## **SCOPE OF EXAMINATION**

We have performed our full-scope financial examination of Mississippi Farm Bureau Casualty Insurance Company (“MFBCIC” or “Company”). For purposes of this examination report, the examination date is defined as December 31, 2010. The examination period is defined as January 1, 2008 through December 31, 2010, including material transactions and/or events occurring subsequent to the examination date through April 2, 2102. The last examination was completed as of December 31, 2007.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

There were no comments and/or recommendations made by the Mississippi Insurance Department (“MID”) examination team in the previous examination report, which covered the period from January 1, 2005 through December 31, 2007.

## **HISTORY OF THE COMPANY**

On May 19, 1986, the Company was formed under the laws of the State of Mississippi as a wholly owned subsidiary of Southern Farm Bureau Casualty Insurance Company (“SFBCIC”). The Company commenced business on September 1, 1986, and was capitalized through the sale of 12,000 shares of stock to its parent company. In order to meet capital and surplus requirements in other states where the Company wrote business on a surplus lines basis, further capital contributions of \$500,000 in 1986, \$2,870,000 in 1989, \$3,000,000 in 1990 and \$4,965,000 in 1991 were made by SFBCIC.

As a result of Gulf Coast hurricanes in August and September of 2005, SFBCIC entered into a financial assistance plan developed to protect the trade name of SFBCIC and its affiliates in the states in which it does business. The Company received \$67 million in additional capital from

SFBCIC. The Company used \$25 million of this cash contribution to purchase the renewal rights from Mississippi Farm Bureau Mutual Insurance Company (“MS Mutual”) on November 25, 2005. Under this agreement, the Company acquired the opportunity to offer coverage to the policyholders of MS Mutual at MFBCIC’s discretion.

On April 19, 2006, the Company issued a \$25,000,000 surplus note to its parent and a \$25,000,000 surplus note to Southern Farm Bureau Life Insurance Company. The notes are for a term of twenty years and interest accrues on the unpaid principal amount at a rate equal to the interest payable on twenty year U.S. Treasury Bonds as of the date of the note, which was 5.29% at April 19, 2006. The interest rate is adjusted every second anniversary date of the note to the then current interest rate payable on twenty year U.S. Treasury Bonds. Interest is due on the first anniversary date of the note, and annually thereafter. Interest and principal payments are subject to the approval of the MID and no interest accrual is necessary until approved.

On February 12, 2007, the Company issued a \$4,000,000 surplus note to Mississippi Farm Bureau Federation. The surplus note matures on February 12, 2027 and accrues interest on the unpaid amount at a rate equal to interest payable on twenty year U.S. Treasury Bonds as of the date of the note (which was approximately 5.00%). Interest is due on the first anniversary date of the note, and annually thereafter. Interest and principal payments are subject to the approval of the MID and no interest accrual is necessary until approved.

## **CORPORATE RECORDS**

The Articles of Incorporation, Bylaws and amendments thereto were reviewed and duly applied in other sections of this report where appropriate. Minutes of the meetings of the Members, Board of Directors (“Board”) and various committees, as recorded during the period covered by this examination, were reviewed and appeared to be complete and in order with regard to actions brought up at the meetings for deliberation and appropriate action, which included the approval and support of the Company’s transactions and events, as well as the review of the audit and examination report.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

The Company is a wholly owned subsidiary of SFBCIC which owns 100% of the 12,000 outstanding shares (20,000 authorized) of \$100 par value common stock issued and outstanding. The parent company’s outstanding shares are owned by the following: Arkansas Casualty Investment Corporation, Mississippi Farm Bureau Holding Corporation, Louisiana Farm Bureau Investment Corporation, South Carolina Farm Bureau Investment LLC, Colorado Farm Bureau Investment Company and FFBF Investment Corporation. No dividends were paid to stockholders 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. The Company's Board is comprised of six members, all of whom are president of the State Farm Bureaus in Arkansas, Colorado, Florida, Louisiana, Mississippi and South Carolina. The members of the duly elected Board, along with their place of residence, year elected/appointed, and principal occupation, at December 31, 2010, were as follows:

<b>Name and Residence</b>	<b>Year Elected/Appointed</b>	<b>Principal Occupation</b>
Ronald Roy Anderson Chairman of the Board Ethel, LA	1985	Farmer and President of Louisiana Farm Bureau Federation
John Lawrence Hoblick, Sr., Vice Chairman of the Board DeLeon Springs, FL	2000	Farmer and President of Florida Farm Bureau Federation
Alan Lee Foutz Akron, CO	2005	Farmer and President of Colorado Farm Bureau Federation
Harry Randal Veach Manila, AR	2004	Farmer and President of Arkansas Farm Bureau Federation
David Whitmire Waide West Point, MS	1995	Farmer and President of Mississippi Farm Bureau Federation
David Melton Winkles, Jr. West Columbia, SC	1998	Farmer and President of South Carolina Farm Bureau Federation

## **Committees**

During the time period covered by this examination, the following committees were utilized by the Company to carry out certain specified duties: Audit Committee and Investment Committee. The Company has no employees and as such all compensation decisions are performed by the Compensation Committee and/or Board of SFBCIC.

### **Audit Committee:**

The Audit Committee has six members, all of whom are outside directors. The Audit Committee is responsible for reviewing the audit report prepared by the outside accounting firm and making recommendations to the Board regarding the audit report and the selection of an outside accounting firm. The Audit Committee is also responsible for overseeing the Company's compliance with the Annual Financial Reporting Model Regulation and for making sure management establishes, implements, and monitors the system of internal controls over financial reporting.

### Investment Committee:

The Investment Committee is comprised of Board and non-Board members; however, one member of the committee must be the Chairman of the Board. The committee delegates the authority to transact the routine day to day investment duties including, but not limited to, the sale, purchase, and transfer of stocks, bonds, securities, and other investments, both real and personal. The Investment Committee reports to the Board regarding the condition of the funds, securities and investments of the Company.

The following members served on the committees mentioned above at December 31, 2010.

<b>Audit</b>	<b>Investment</b>
John Lawrence Hoblick, Sr., Chairman	Dennis Ray Griffin, Chairman
Ronald Roy Anderson	Ronald Roy Anderson
Alan Lee Foutz	Thomas Arthur
Harry Randal Veach	Judith Goodwin Blackburn, Secretary
David Whitmire Waide	Robert Paul Jarratt
David Melton Winkles, Jr.	

### Officers

The officers of the Company at December 31, 2010 were:

<b>Name of Officer</b>	<b>Number of Years with Company</b>	<b>Title</b>
Ronald Roy Anderson	25	Chairman of the Board
John Lawrence Hoblick, Sr.	10	Vice Chairman of the Board
John Carlton Williams, Jr.	35	President and Chief Executive Officer
Steven Walter Ingram	28	Vice President – Legal and Secretary
John Russell McCollough	15	Vice President – Actuary
Billy Mack Stallings	32	Vice President – Operations
Robert Pearson Arnold	31	Vice President – Finance
David Brannan Hurt	11	Vice President – Sales
Jim Spurgeon Rowles	23	Vice President – Claims
Mamie McKinnon Douglas	28	Vice President – Human Resources

### Conflict of Interest

The Company has formal procedures whereby disclosures were made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a

conflict with their official duties.

### **Corporate Governance**

As stated elsewhere in this report, the Company is a wholly owned subsidiary of SFBCIC. While the executive management of MFBCIC is in charge of the day-to-day operations of the business, SFBCIC's senior officers serve as a resource for the Company to study, analyze and recommend strategic courses of actions to be undertaken. The ultimate authority regarding the direction of the Company's business rests with SFBCIC's senior management and Board. Therefore, the overall assessment of the Company's corporate governance was significantly affected by the assessment of the parent's corporate governance.

Upon review of the corporate governance structure, it was noted that the Company has a very stable and experienced management team with the vast majority of officers having at least 10 years of experience with the Company. There did not appear to be any compensation arrangements that caused unusual emphasis on earnings. Management records, such as Board minutes, appeared to be in order.

The Board's involvement and oversight was considered during the course of our examination. Other key variables in our consideration of the Board's involvement included but were not limited to factors such as: (1) the frequency of Board meetings and attendance of the directors, (2) the sufficiency and timeliness of information provided to the Board prior to meetings, (3) the topics discussed along with the depth and quality of discussions, (4) key communication channels between management and the Board, and (5) the Board's role in setting the overall "tone at the top". Information regarding the Board members, committees and other related information can be found in the Management and Control section of this report.

The appropriateness of the entity's organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining our understanding of the organizational structure. This includes consideration of the parent company's move toward a more centralized organization. Our consideration also encompassed understanding the assignment of authority and responsibility. Our consideration of corporate governance encompassed the risk management function through discussions with senior management and members of the Board and through gaining an understanding of the risk management function including inspection of relevant risk management documentation. Upon our review and consideration of these components and functions, there were no material concerns or exceptions noted.

Management competence is a consideration in overall assessment of corporate governance. In our review of this area, we considered factors such as management's experience level and management turnover. There were no material concerns noted upon our consideration of this area. As indicated in the Management and Control section of this report, key management has significant experience with the Company and the officer/employee turnover ratio was low.

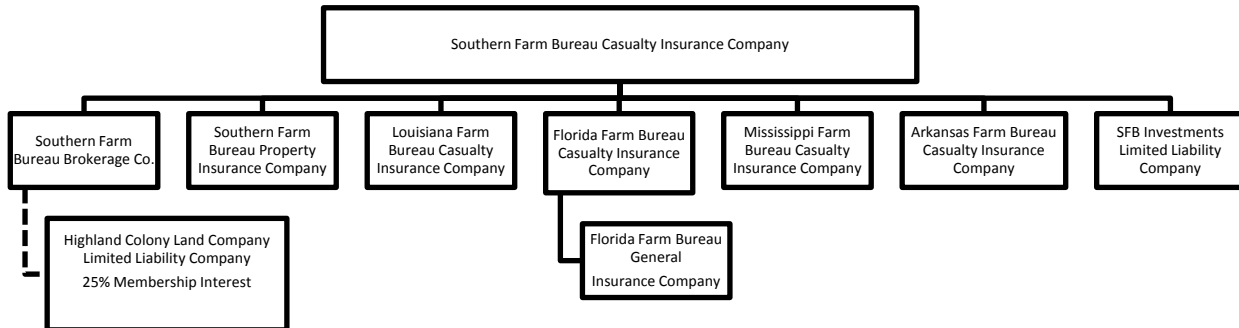
## HOLDING COMPANY STRUCTURE

During the time period covered by this examination, the Company reported as a member of an insurance company holding system as defined by Miss. Code Ann. §83-6-1. Holding Company Registration Statements, for the period under examination, were filed with the MID in accordance with Miss. Code Ann. §83-6-5 and §83-6-9.

On April 2, 2012, the MID gave notice that it would conduct an examination of SFBCIC and other Farm Bureau related entities pursuant to §83-6-27, Mississippi Code of 1972 (the “Code”) and other applicable laws and regulations of the MID including, but not limited to, §83-6-1, *et seq.* of the Code (the “Holding Company Act”). The examination will include a review of the relationships between SFBCIC and other associated companies and entities to determine compliance with applicable Mississippi laws and MID regulations.

### Organizational Chart

The organizational chart below displays the identities of the members of the holding company structure that included the Company, and is followed by a brief description of SFBCIC’s other subsidiaries and interests:



SFBCIC was reported as the ultimate controlling person in the Holding Company Registration Statements filed with the MID as of December 31, 2010.

Below is a description of SFBCIC’s wholly owned subsidiaries at December 31, 2010:

**Southern Farm Bureau Property Insurance Company:** This company was incorporated on August 1, 1994, under the laws of the State of Mississippi. Effective January 1, 2007, the Company no longer conducted any active underwriting activities and essentially became inactive. The sole reinsurance activities of SFBPIC consist of runoffs associated with reinsurance contracts entered into and terminated prior to January 1, 2007. No new contracts have been executed subsequent to January 1, 2007.

**Southern Farm Brokerage Company:** This company was incorporated on June 20, 1994, under the laws of the State of Mississippi, and its principal business is compiling, organizing and



analyzing insurance related data and statistics; soliciting, brokering, negotiating and/or placing all forms of insurance contracts (except life, health and accident insurance); engaging in real estate transactions, joint ventures, and real estate development; and engaging in any other lawful activities of a Mississippi business corporation.

**Mississippi Farm Bureau Casualty Insurance Company:** The Company was incorporated on May 19, 1986, under the laws of the State of Mississippi, and its principal business is providing casualty insurance coverage (principally automobile and homeowner) and property coverage in the State of Mississippi. For more information see the History of the Company section of this report.

**Florida Farm Bureau Casualty Insurance Company:** This company was incorporated on April 16, 1974, under the laws of the State of Florida, and its principal business, in association with its wholly owned subsidiary, Florida Farm Bureau General Insurance Company, is providing casualty insurance coverage (principally automobile, property and general liability) in the State of Florida.

**Louisiana Farm Bureau Casualty Insurance Company:** This company was incorporated on February 16, 1981, under the laws of the State of Louisiana, and its principal business is providing casualty insurance coverage (principally automobile) and processing claims in the State of Louisiana.

**Arkansas Farm Bureau Casualty Insurance Company:** This company was incorporated on February 6, 2004, under the laws of the State of Arkansas and its principal business purpose is providing casualty insurance in the State of Arkansas. At the report date, this company was inactive.

**SFB Investments, LLC:** This company was incorporated on August 11, 1997, under the laws of the State of Mississippi and was formed to take advantage of certain investment opportunities. At the report date, this subsidiary was inactive. Subsequent to the examination date, this subsidiary was administratively dissolved.

### **Affiliated and Related Party Transactions**

The Company's transactions with its related parties were reviewed and the following items were deemed notable for purposes of this report:

- The Company filed consolidated federal income tax returns, which included the operating results of SFBCIC and its subsidiaries; income taxes were allocated to the subsidiaries as though separate tax returns had been filed.
- The Company entered into a Surplus Contribution Agreement with its parent in which it issued and sold a surplus note with a principal amount of \$25 million. The unpaid principle balance of the note accrues interest at the rate payable on a 20 year US Treasury Bond as of the date of the surplus note. The rate is adjusted every two years from the date

the note was issued to the current rate of a 20 year US Treasury Bond. The interest and principal payments were paid upon approval from the MID.

- The Company had expense sharing agreements with its parent in which the companies shared in certain overhead expenses that the companies deemed mutually beneficial as they purport to allow for more efficient and economical operation.

The Company has agreements with other Farm Bureau companies that provide for the rental of office facilities, equipment, automobiles, data processing, as well as the allocation of certain operating and underwriting expenses. Management believes these agreements are beneficial to the Company in providing greater operating efficiency and prompt service to its policyholders.

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

The Company was insured under various insurance policies to protect its interest. In particular, the Company maintained directors and officers coverage, professional liability coverage, electronic and computer crime coverage, and fidelity coverage. The Company had a financial institution bond with a \$5 million single loss limit of liability which exceeded the NAIC's suggested minimum amount for fidelity coverage.

### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees, and the administrative functions were performed by employees at SFBCIC through an expense sharing agreement.

### **TERRITORY AND PLAN OF OPERATION**

The Company writes various insurance lines, primarily automobile insurance and property lines in the state of Mississippi. The Company retains the premium and loss activity related to the property lines. All premium and loss activity related to automobile and other liability lines are ceded to the parent under various reinsurance agreements. Beginning January 1, 2011, the Company ceased writing earthquake coverage and began offering this coverage through a Lloyds company.

## **GROWTH OF COMPANY**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total admitted assets	\$ 304,002,452	\$ 294,894,569	\$ 278,384,239
Total liabilities	\$ 117,156,421	\$ 108,583,136	\$ 103,822,501
Total capital and surplus	\$ 186,846,031	\$ 186,311,433	\$ 174,561,738
Net cash from operations	\$ 8,141,436	\$ 17,067,776	\$ 6,233,497
Total adjusted capital	\$ 186,846,031	\$ 186,311,433	\$ 174,561,738
Authorized control level risk-based capital	\$ 8,247,543	\$ 7,517,750	\$ 5,728,620
Direct premiums written	\$ 355,662,603	\$ 358,480,116	\$ 374,134,668
Assumed premiums written	\$ -	\$ -	\$ (1,461)
Ceded premiums written	\$ 218,317,552	\$ 229,872,161	\$ 249,249,734
Net premiums written	\$ 137,345,051	\$ 128,607,955	\$ 124,883,473
Net underwriting gain (loss)	\$ (9,656,045)	\$ 3,637,369	\$ 9,880,788
Investment income (loss)	\$ 9,309,084	\$ 9,395,253	\$ 8,625,671
Net income (loss)	\$ 88,904	\$ 11,267,499	\$ 14,283,211
Net loss ratio	83.2%	74.1%	72.4%
Expense ratio	23.2%	22.2%	20.5%
Investment yield	3.3%	3.3%	3.3%

## **MORTALITY AND LOSS EXPERIENCE**

The MID contracted with Merlinos & Associates, Inc. to review the actuarial analysis supporting the Company's carried loss and loss adjustment expense reserves. Based on the examination actuarial evaluation, the Company's estimates for gross and net unpaid loss and loss adjustment expenses appear to be reasonably stated in all material aspects.

## **REINSURANCE**

The Company attempts to limit the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring certain levels of risks with other insurers or reinsurers, either on an automatic basis, under general reinsurance contracts known as "treaties," or by negotiation for substantial individual risks. The Company maintains various forms of reinsurance on essentially all property and casualty lines. The effect of the agreements is for the Company to carry only the property exposure on its book and to cede the casualty business to its parent company. Ceded reinsurance is treated as the risk and liability of the assuming companies.

The liabilities for unearned premium and for losses and loss expenses have been reduced by reinsurance ceded of approximately \$143,692,000 and \$151,085,000 at December 31, 2010 and 2009, respectively, for amounts ceded to assuming companies. These amounts would represent a liability of the Company if the reinsurers were unable to meet their obligation for existing unpaid losses ceded under reinsurance agreements.

At the examination date, the principle reinsurers and respective premium amounts ceded and total amounts recoverable at December 31, 2010 were as follows:

	Ceded Premiums	Recoverable Premiums
Southern Farm Bureau Casualty Insurance Company	\$ 191,701,000	\$ 138,296,000
American Agricultural Insurance	\$ 14,343,000	\$ 5,396,000

### **ACCOUNTS AND RECORDS**

The Company utilized a computerized accounting system on which general ledger information was maintained. Detailed general ledger information was traced to the trial balance and the December 31, 2010 annual statement, without material exception.

The Company's accounting and record keeping system was built around an IBM 2064-1CM mainframe computer which administered server major application programs, as well as proprietary software packages. Detailed premium and loss information was maintained at the Farm Bureau state offices and was periodically uploaded to the Company's mainframe for financial reporting.

In lieu of a traditional internal audit function, employees from SFBCIC's state operations and senior staff from SFBCIC's home office perform peer reviews which examine and review methods and procedures utilized and standards followed in each state operation. The Company was audited annually by an independent CPA firm.

## STATUTORY DEPOSITS

The Company's statutory deposits with the state of Mississippi complied with Miss. Code Ann. §83-19-31(2). The following chart displays the Company's deposits at December 31, 2010.

Description	State Deposited	Par Value	Carrying Value	Fair Value
State Bond	Mississippi	\$ 1,310,000	\$ 1,336,898	\$ 1,365,499
Total Held in Mississippi		<u>1,310,000</u>	<u>1,336,898</u>	<u>1,365,499</u>
State Bond	Arkansas	180,000	180,826	186,631
State Bond	Louisiana	810,000	838,320	835,410
Total Held in all Other States		<u>990,000</u>	<u>1,019,146</u>	<u>1,022,041</u>
Total of all States		<u>\$ 2,300,000</u>	<u>\$ 2,356,044</u>	<u>\$ 2,387,540</u>

**MISSISSIPPI FARM BUREAU CASUALTY INSURANCE COMPANY  
FINANCIAL STATEMENTS  
EXAMINATION AS OF DECEMBER 31, 2010**

**Introduction**

The following financial statements reflect the same amounts reported by the Company and consist of a Statement of Admitted Assets, Liabilities, Surplus and Other Funds - Statutory at December 31, 2010, a Statement of Income - Statutory for year ended December 31, 2010, a Reconciliation of Capital and Surplus - Statutory for examination period ended December 31, 2010, and a Reconciliation of Examination Changes to Surplus - Statutory at December 31, 2010.

**Mississippi Farm Bureau Casualty Insurance Company**  
**Statement of Assets, Liabilities,**  
**Surplus and Other Funds – Statutory**

*December 31, 2010*

<b>Assets</b>	
Bonds	\$ 271,563,989
Common stocks	4,194,981
Cash, cash equivalents and short-term investments	13,708,187
Investment income due and accrued	4,022,109
Uncollected premiums and agents' balances in the course of collection	1,190,988
Amounts recoverable from reinsurers	901,490
Current federal and foreign income taxes recoverable and interest thereon	606,927
Net deferred tax asset	6,771,354
Receivable from parent, subsidiaries and affiliates	1,015,840
Other receivables	26,587
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Total admitted assets	<b>\$ 304,002,452</b>
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<b>Liabilities, Surplus and Other Funds</b>	
Losses	\$ 20,929,154
Reinsurance payable on paid losses and loss adjustment expenses	(40,567)
Loss adjustment expenses	4,160,797
Other expenses	657,116
Taxes, licenses and fees	1,434,701
Unearned premiums	76,522,011
Advanced premiums	2,901,451
Ceded reinsurance premiums payable (net of ceding commissions)	3,205,938
Amounts withheld or retained by the company for account of others	4,462,956
Remittances and items not allocated	1,009,888
Payable to parent, subsidiaries and affiliates	1,522,959
Accounts payable - other	390,017
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Total liabilities	<b>117,156,421</b>
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Capital common stock	1,200,000
Surplus notes	54,000,000
Gross paid in and contributed surplus	79,635,000
Unassigned funds (surplus)	52,011,031
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Surplus as regards policyholders	<b>186,846,031</b>
<hr/>	
Total liabilities and surplus as regards policyholders	<b>\$ 304,002,452</b>
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**Mississippi Farm Bureau Casualty Insurance Company**  
**Statement of Income - Statutory**

*For the Year Ended December 31, 2010*

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**Underwriting income**

Premiums earned \$ 132,907,425

**Deductions**

Losses incurred 99,139,781

Loss adjustment expenses incurred 11,500,404

Other underwriting expenses incurred 31,923,285

Total underwriting deductions 142,563,470

Net underwriting gain (loss) (9,656,045)

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**Investment Income**

Net investment income earned 9,309,117

Net realized capital gains (losses) (33)

Net investment gain 9,309,084

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**Other income**

Net gain or (loss) from agents' or premium balances charged off (841)

Miscellaneous income (344)

Total other income (1,185)

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Net income before dividends to policyholders, after capital gains tax  
and before all other federal and foreign income taxes (348,146)

Federal and foreign income taxes incurred (437,050)

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Net income \$ 88,904

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**Mississippi Farm Bureau Casualty Insurance Company**  
**Reconciliation of Capital and Surplus - Statutory**

*For the examination period ended December 31, 2010*

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Surplus as regards policyholders beginning of the year	\$ 160,453,777	\$ 174,561,738	\$ 186,311,435
Net income	14,283,210	11,267,500	88,904
Change in net deferred income tax	(738,588)	(31,228)	2,614,817
Change in non-admitted assets	563,339	513,425	(2,169,125)
<b>Change in surplus for the year</b>	<b>14,107,961</b>	<b>11,749,697</b>	<b>534,596</b>
Surplus as regards policyholders end of the year	\$ 174,561,738	\$ 186,311,435	\$ 186,846,031

**Mississippi Farm Bureau Casualty Insurance Company**  
**Reconciliation of Examination Adjustments to Surplus - Statutory**

There were no changes made to the assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2010. The surplus as regards policyholders, which totaled \$186,846,031 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.

## **MARKET CONDUCT ACTIVITIES**

A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct. The areas in which limited procedures were performed included operations/management, complaint handling, producer licensing, underwriting and rating, and claims. No significant exceptions with regard to the limited procedures performed were noted.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

During and subsequent to the examination period, the Company was not involved in litigation outside the normal course of business.

## **SUBSEQUENT EVENTS**

On April 2, 2012, the MID gave notice that it would conduct an examination of SFBCIC and other Farm Bureau related entities pursuant to §83-6-27, Mississippi Code of 1972 (the "Code") and other applicable laws and regulations of the MID including, but not limited to, §83-6-1, *et seq.* of the Code (the "Holding Company Act"). The examination will include a review of the relationships between SFBCIC and other associated companies and entities to determine compliance with applicable Mississippi laws and MID regulations.

## **COMMENTS AND RECOMMENDATIONS**

There were no comments and/or recommendations deemed necessary for purposes of this examination report.

## ACKNOWLEDGMENT

The examiners representing the MID and participating in this examination were:

Examiner-in-charge:	R. Dale Miller, CPA, CFE, CFF
Supervising Examiner:	Joseph R. May, CPA, CMA, CEF, CIE, FAHM
Lead Actuary:	Robert P. Daniel, ACAS, MAAA
IT Specialist	David Mills, CISA, CTGA, CGEIT, MCSE
IT Specialist	Francois Houde, CA, CISA, AES, AFE
Examiner	Ashley Sanders, CPA
Examiner	Angie Plunkett
Examiner	Andrea Harbison, CPA
Examiner	Amanda Annison, CPA
Examiner	Cole Durant, CPA
Examiner	Sara Schumacher

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

Respectfully submitted,



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R. Dale Miller, CPA, CFE, CFF  
Examiner-in-charge