



MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

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MARK HAIRE
Deputy Commissioner of Insurance

June 18, 2012

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Mr. Robert Paul Jarratt, President & CEO
Southern Farm Bureau Casualty Insurance Company
1800 East County Line Road
Ridgeland, MS 39157

RE: Report of Examination as of December 31, 2010

Dear Mr. Jarratt:

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

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

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 SOUTHERN
FARM BUREAU CASUALTY INSURANCE COMPANY CAUSE NO. 12-6530**

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

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of Southern 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 Southern 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. On or about June 4, 2012, the Company responded by e-mail and in response thereto, minor revisions were made to the report.

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 Southern 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, Southern 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 Southern 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 18th day of June 2012.



J. MARK HAIRE
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 18th day of June 2012, to:

**Mr. Robert Paul Jarrett, President & CEO
Southern Farm Bureau Casualty Insurance Company
1800 East County Line Road
Ridgeland, MS 39157**



Christina J. Kelsey
Senior Attorney

Christina J. Kelsey
Senior Attorney
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 9853



MISSISSIPPI INSURANCE DEPARTMENT

Report of Examination

of

**SOUTHERN 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 Southern 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 Southern 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 11TH day of JUNE, 20 12.

(SEAL)

Debbie Byrd

Notary Public



My commission expires 9-10-2014 [date].



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Commissioner of Insurance
State Fire Marshal

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Insurance

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April 2, 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:

SOUTHERN FARM BUREAU CASUALTY INSURANCE COMPANY

1800 East County Line Road
Ridgeland, MS 39157

License #	NAIC Group #	NAIC #	FEETS#	ETS#
7700932	0483	18325	MS029-F4	MS120-M4

This examination was commenced in accordance with Miss. Code Ann. §83-5-201 *et seq.* and was performed primarily in Ridgeland, Mississippi, 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 Southern Farm Bureau Casualty Insurance Company (“SFBCIC” 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, 2012. 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

In 1947, the Farm Bureau Federations located in the states of Arkansas, Florida, Mississippi and Texas organized individual investment corporations for the purpose of organizing the Company. On September 25, 1947, the Company was incorporated under the laws of the State of Mississippi as a property and casualty insurance company, with business commencing on September 30, 1947. Subsequently, the Louisiana, South Carolina and Colorado Farm Bureau Federations acquired equal shares of the Company’s capital stock and Florida sold its interest back to the Company.

Through December 31, 2008, the outstanding shares of the Company were owned by the Farm Bureau Federations in six states through the following investment/holding corporations: Arkansas Casualty Investment Corporation, Mississippi Farm Bureau Holding Corporation, Texas Farm Bureau Investment Corporation, Louisiana Farm Bureau Investment Corporation, South Carolina Farm Bureau Investment Corporation and Colorado Farm Bureau Investment

Company. Each entity held 666.6 shares or 16.67% of the 4,000 authorized shares of the Company.

The Texas parties withdrew from the Company as of December 31, 2008, and surrendered its 666.6 shares of the Company's stock in exchange for the shares of the Company's wholly-owned subsidiary operating in the state of Texas formed for purposes of the withdrawal. Because of the withdrawal of the Texas parties, the Company and its remaining shareholders desired to amend the Articles of Association, the Bylaws and the Amended Membership Treaty under which it had operated. On December 14, 2009, the Treaty was terminated and a new organization structure for the Company was created (the "reorganization"). In connection with the reorganization, the Company amended and restated its existing Articles and Bylaws and entered into a Shareholders Agreement with the Farm Bureau State Organizations (other than the Florida Farm Bureau Federation) and Investment Companies (other than Florida Farm Bureau Federation ("FFBF") Investment Corporation.) All existing shares of equity in the Company were exchanged for newly-issued shares of the Company in connection with the reorganization. At the time of the reorganization, shares were also issued to FFBF Investment Corporation pursuant to a Subscription Agreement between FFBF Investment Corporation and the Company under which FFBF Investment Corporation and Florida Farm Bureau Federation became parties to the Shareholder Agreement. Subsequent to the reorganization, there are currently 10,428,000 shares of \$1 par value common stock authorized and 1,082,842 issued. Of the issued shares, 2,640 shares are voting and 1,080,202 are non-voting shares.

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 stockholders, 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

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. Pursuant to these filings, the 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. Shares owned by each of the aforementioned entities are as follows:

Shares Outstanding:	Arkansas	Colorado	Florida	Louisiana	Mississippi	South Carolina	Total
Class A	220	220	220	220	220	220	1,320
Class B	370,765	1,316	--	321,893	229,104	157,124	1,080,202
Class C	550	--	--	440	220	110	1,320
Total	371,535	1,536	220	322,553	229,544	157,454	1,082,842

There are 10,428,000 shares of \$1 par value common stock authorized and 1,082,842 issued and outstanding. Of issued shares, 2,640 are voting and 1,080,202 are non-voting. The Company paid the following amounts as dividends to stockholders during the examination period.

2010	\$5,467,010
2009	\$ 44,000
2008	\$ 52,800

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 24 members, all of whom are chosen from among the states of Arkansas, Colorado, Florida, Louisiana, Mississippi or South Carolina (each a "State Farm Bureau"). Each State Farm Bureau President is a member of the Board. 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:

Name and Residence	Year Elected/Appointed	Principal Occupation
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
Mark Allen Byrd Apopka, FL	2007	Nursery Owner
Joe Wayne Christian Jonesboro, AR	2010	Farmer
Terry Glenn Dabbs Stuttgart, AR	2010	Farmer
Douglas Wayne Duty Monroe, LA	2010	Retired Senior Sales Specialist from Bayou Crop Scientist and Farmer
Alan Lee Foutz Akron, CO	2005	Farmer and President of Colorado Farm Bureau Federation

Donald Hubert Gant Merigold, MS	2007	Farmer
Ben Martin Gramling II Gramling, SC	1997	Agri-business / Development
Jim Toney Harper Cheneyville, LA	2010	Farmer
Rich Edward Hillman II Carlisle, AR	2009	Farmer and Vice President of Arkansas Farm Bureau Federation
Thomas Scott Jones Pottsville, AR	2010	Rancher
Randy Lee Knight Pelahatchie, MS	2007	Farmer
Billy Regionald Magee Mt. Olive, MS	2010 and 1999-2007	Self-Employed Farmer
Clinton Willie Sease Lexington, SC	2009	Farmer
Donald James Shawcroft Alamosa, CO	2010	Self-Employed Farmer
Russell McKinney Smith Des Arc., AR	2010	Farmer
Leo Carl Sutterfield, Jr. Mtn. View, AR	2010	Banker
Jackie Joseph Theriot St. Martinville, LA	2003	General Manager
Harry Randall 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
Scott McDonald Wiggers, Jr. Winnsboro, LA	2010	Farmer
David Melton Winkles, Jr. West Columbia, SC	1998	Farmer and President of South Carolina Farm Bureau Federation
Linda Zaunbrecher Gueydan, LA	1993	Farmer

Committees

During the time period covered by this examination, the following committees were utilized by the Company to carry out certain specified duties: Executive Committee, Audit Committee, Investment Committee and Compensation Committee.

Executive Committee:

The Executive Committee consists of the Presidents from each of the State Farm Bureaus who

serve on the Board. The Chairman of the Board is also the Chairman of the Executive Committee. The Executive Committee has the power to exercise, conduct and control the business of the Company between meetings of the Board. The Executive Committee has the sole and exclusive power and authority to declare additional dividends.

Audit Committee:

The Audit Committee has six members, all of whom are outside directors which meets the requirements set forth by the Model Audit Rule. 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.

Compensation Committee:

The Compensation Committee is comprised of the Presidents from each of the State Farm Bureaus. The Chairman of the Board is also the Chairman of the Compensation Committee. The Compensation Committee duties include reviewing and making recommendations to the Board with respect to compensation and to perform such other duties as appropriate for the committee or as delegated by the Board.

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

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

Officers

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

Name of Officer	Number of Years with Company	Title
Ronald Roy Anderson	25	Chairman of the Board
Robert Paul Jarratt	42	President and Chief Executive Officer
Dennis Ray Griffin	32	Senior Vice President - Chief Financial Officer
Steven Walter Ingram	28	Senior Vice President - Legal and Secretary
Judith Goodwin Blackburn	28	Senior Vice President and Treasurer
John Russell McCollough	15	Senior Vice President - Actuary
Mark Gerard Gianfrancesco	13	Senior Vice President - Marketing
Geoffrey Alan Mercer	25	Senior Vice President - Technology
Jack Carlton Williams, Jr.	22	Senior Vice President – State Manager – Mississippi
Blaine Vernon Briggs	25	Senior Vice President - State Manager – Louisiana
William O’Neil Courtney	26	Senior Vice President – State Manager – Florida
Robert Duff Wallace	27	Senior Vice President - State Manager – Arkansas
Phillip Eugene Love, Jr.	26	Senior Vice President - State Manager - South Carolina
Jack Pinkney Anderson	34	Senior Vice President – State Manager – Colorado

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

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 15 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 entity's decentralized structure and the 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.

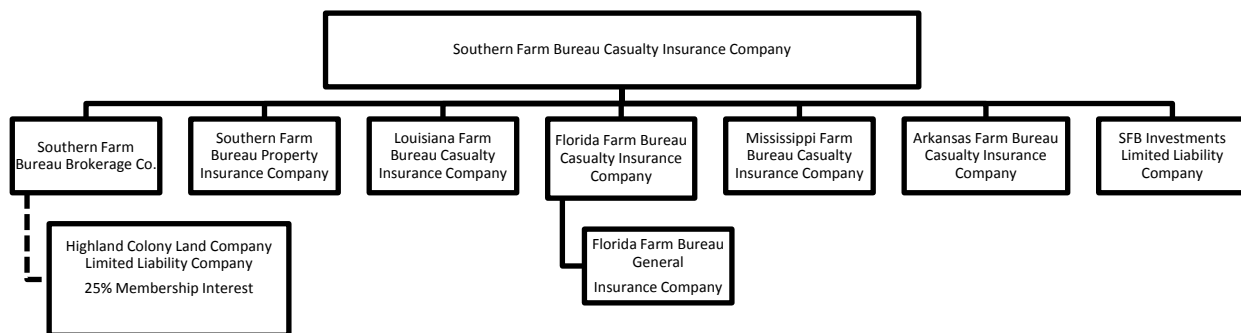
HOLDING COMPANY STRUCTURE

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

Pursuant to the Holding Company Registration Statements filed by the Company as of December 31, 2010, the organization chart below displays the identities of the members of the Company's holding company structure as reported by the Company, and is followed by a brief description of the Company's subsidiaries:



The Company reported SFBCIC as the ultimate controlling person in the Holding Company Registration Statements filed by the Company with the MID as of December 31, 2010. Pursuant to these filings, the 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.

Below is a description of the Company's wholly owned subsidiaries at December 31, 2010:

Southern Farm Bureau Property Insurance Company ("SFBPIC"): 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 ("MFBCIC"): This 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.

Florida Farm Bureau Casualty Insurance Company ("FFBCIC"): 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 ("LFBCIC"): 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.
- In order to protect its trade name the Company entered into a Limited Indemnity Agreement with the Mississippi Farm Mutual Insurance Company which had been significantly impacted by Hurricane Katrina. The beginning balance of the agreement was \$200,000,000, and as of the examination date, \$179,330,000 has been paid out since 2005. The balance remaining under the agreement as of the examination date was \$20,670,000, which has been extended to December 31, 2012.
- The Company had a management contract with SFBPIC in which SFBCIC provided services to SFBPIC in the areas of legal, accounting, claims, underwriting, information services, etc. During 2010, SFBCIC received \$315,000 as compensation for services rendered.
- The Company entered into a Surplus Contribution Agreement in which MFBCIC issued and sold to the Company a surplus note in the 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 Company had an expense agreement with MFBCIC and FFBCIC in which the companies share in certain overhead expenses that the companies deem mutually beneficial as they purport to allow for more efficient and economical operation.

The Company had 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 and a fiduciary liability policy with a \$10 million single loss limit of liability. These coverages exceeded the NAIC's suggested minimum amount for fidelity coverage.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided a noncontributory retirement plan, a 401(k) plan, a flexible spending plan, as well as various insurance coverages, which included group term life, medical and dental, accidental death, long-term disability and worker's compensation. Provisions were made within the financial statements for obligations in regard to the benefits and welfare programs provided.

TERRITORY AND PLAN OF OPERATION

The Company specializes in personal lines, primarily casualty insurance coverages with an emphasis on private passenger auto and farm general liability coverages. The Company is a multi-line regional property and casualty insurance company operating in six states: Arkansas, Colorado, Florida, Louisiana, Mississippi and South Carolina.

The Company direct writes the automobile business in the states of Arkansas, Louisiana and South Carolina. Additionally, the Company assumes the automobile business from Farm Bureau mutual companies in the states of Colorado, Louisiana and South Carolina. LFBCIC and MFBCIC have written policies on a direct basis and is ceding all general liability and automobile business to SFBCIC under a quota share agreement. No automobile business is written directly by SFBCIC in the state of Florida, nor is any automobile business assumed from Florida.

GROWTH OF COMPANY

	2010	2009	2008
Total admitted assets	\$ 1,805,381,000	\$ 1,767,435,000	\$ 2,648,754,000
Total liabilities	\$ 741,719,000	\$ 730,696,000	\$ 1,062,990,000
Total capital and surplus	\$ 1,063,662,000	\$ 1,036,739,000	\$ 1,585,764,000
Net cash from operations	\$ 38,632,000	\$ (202,436,000)	\$ (34,669,000)
Total adjusted capital	\$ 1,063,662,000	\$ 1,036,740,000	\$ 1,585,764,000
Authorized control level risk-based capital	\$ 105,799,000	\$ 102,322,000	\$ 102,496,000
Direct premiums written	\$ 235,413,000	\$ 232,874,000	\$ 565,300,000
Assumed premiums written	\$ 588,233,000	\$ 594,637,000	\$ 798,535,000
Ceded premiums written	\$ 38,203,000	\$ 35,951,000	\$ 45,179,000
Net premiums written	\$ 785,443,000	\$ 791,560,000	\$ 1,318,656,000
Net underwriting loss	\$ (10,284,000)	\$ (50,418,000)	\$ (140,607,000)
Investment income	\$ 49,607,000	\$ 42,639,000	\$ 78,948,000
Net income (loss)	\$ 32,771,000	\$ (2,121,000)	\$ (29,784,000)
Net loss ratio	80.8%	86.5%	91.2%
Expense ratio	20.6%	20.0%	19.4%
Investment yield	2.8%	2.6%	3.6%

MORTALITY AND LOSS EXPERIENCE

The MID contracted with Merlino & 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 has various reinsurance agreements with their wholly owned subsidiaries and other companies. The effect of the agreements is for SFBCIC to carry only the casualty exposures on its books and the Farm Bureau entities in the respective states to carry the property exposures on their books, regardless of which company issues the policy.

Ceded:

The Company limits the maximum net loss that can arise from large risks or risks in concentrated

areas of exposure by reinsuring (ceding) certain levels of risk 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 lines. Ceded reinsurance is treated as the risk and liability of the assuming companies.

The liability for losses and loss adjustment expenses at December 31, 2010 has been reduced for reinsurance ceded of approximately \$23,790,000. 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
American Agricultural Insurance Company	\$ 14,805,000	\$ 25,751,000
National Flood Insurance Program	\$ 22,971,000	\$ 16,588,000
Platinum Underwriters RE, Inc.	\$ 171,000	\$ 361,000
Partner RE US	\$ 86,000	\$ 180,000
Berkley Insurance Company	\$ 86,000	\$ 18,000

Assumed:

SFBCIC assumes the following lines of business from its related parties, as defined in the Holding Company Registration Statements filed with the MID, and other Farm Bureau companies: 100% of automobile, umbrella, flood and a portion of the casualty piece of the property line (“excess casualty”). Excess casualty is the portion of the general liability coverage that is provided in a package policy that also provides property insurance. For the excess casualty piece, each had \$500,000 loss retention in 2010.

At the examination date, the principle companies with which business was assumed and respective premium amounts assumed at December 31, 2010 were as follows:

Mississippi Farm Bureau Casualty Insurance Company	\$ 190,776,000
Louisiana Farm Bureau Casualty Insurance Company	\$ 187,907,000
South Carolina Farm Bureau Mutual Insurance Company	\$ 111,213,000
Louisiana Farm Bureau Mutual Insurance Company	\$ 38,031,000
Colorado Farm Bureau Mutual Insurance Company	\$ 26,766,000
Farm Bureau Mutual Insurance Company of Arkansas	\$ 18,901,000
Florida Farm Bureau Casualty Insurance Company	\$ 10,546,000

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 the Company's state operations and senior staff from the 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	\$ 2,000,000	\$ 2,072,109	\$ 2,379,720
Total Held in Mississippi		2,000,000	2,072,109	2,379,720
State Bond	Arkansas	175,000	176,015	183,109
State Bond	South Carolina	200,000	200,992	213,386
Total Held in all Other States		375,000	377,007	396,495
Total of all States		<u>\$ 2,375,000</u>	<u>\$ 2,449,116</u>	<u>\$ 2,776,215</u>

SOUTHERN 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 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 as Regards Policyholders - Statutory for examination period ended December 31, 2010, and a Reconciliation of Examination Changes to Surplus - Statutory at December 31, 2010.

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

<i>December 31,</i>	2010
Assets	
Bonds	\$ 977,316,928
Preferred stocks	200,000
Common stocks	531,438,976
Mortgage loans on real estate	6,811,444
Real estate occupied by the company	15,601,303
Properties held for sale	2,381,491
Cash, cash equivalents and short-term investments	31,030,526
Other invested assets	63,284,707
Receivables for securities	4,671
Investment income due and accrued	12,829,461
Uncollected premiums and agents' balances in the course of collection	2,649,109
Deferred premiums, agents' balances and installments booked but deferred and not yet due	91,661,100
Amounts recoverable from reinsurers	211,478
Funds held by or deposited with reinsured companies	15,554,984
Current federal and foreign income taxes recoverable and interest thereon	1,308,630
Net deferred tax assets	40,317,806
Guaranty funds receivable or on deposit	4,946
Electronic data processing equipment and software	4,917,007
Receivable from parent, subsidiaries and affiliates	2,535,326
Received from associated companies and other	5,321,433
Total admitted assets	\$ 1,805,381,326
Liabilities, Surplus and Other Funds	
Losses	\$ 299,932,835
Reinsurance payable on paid losses and loss adjustment expenses	25,000
Loss adjustment expenses	55,083,001
Commissions payable, contingent commissions and other similar charges	7,568,108
Other expenses	1,876,155
Taxes, licenses and fees	1,944,053
Current federal and foreign income taxes	1,194,997
Borrowed money	18,708,242
Unearned premiums	218,746,051
Advanced premiums	20,187,824
Funds held by company under reinsurance treaties	(227,698)
Amounts withheld or retained by the company for account of others	63,421,082
Drafts outstanding	306,231
Payable to parent, subsidiaries and affiliates	1,098,050
Liability under limited indemnity agreement	20,670,000
Postretirement benefit - other underwriting accrual	12,728,810
Postretirement benefit - loss adjustment expense accrual	11,707,638
Postretirement transitional adjustment	3,755,124
Payable to associated companies and other	2,993,838
Total liabilities	741,719,341
Capital common stock	1,082,842
Gross paid in and contributed surplus	620,491
Unassigned funds (surplus)	1,061,958,652
Surplus as regards policyholders	1,063,661,985
Total liabilities and surplus as regards policyholders	\$ 1,805,381,326

Southern Farm Bureau Casualty Insurance Company
Statement of Income - Statutory

For the Year Ended December 31, 2010

Underwriting income

Premiums earned \$ 785,776,356

Deductions

Losses incurred 531,394,477

Loss adjustment expenses incurred 103,200,223

Other underwriting expenses incurred 161,465,244

Total underwriting deductions 796,059,944

Net underwriting gain (loss) (10,283,588)

Investment Income

Net investment income earned 44,059,596

Net realized capital gains 5,547,564

Net investment gain 49,607,160

Other income

Net gain or (loss) from agents' or premium balances charged off (122,400)

Finance and service charges not included in premiums 66,108

Assumed finance charges assumed under reinsurance contracts 3,448,544

Other miscellaneous income 1,660,834

Total other income 5,053,086

Net income before dividends to policyholders, after capital gains tax
and before all other federal and foreign income taxes 44,376,658

Federal and foreign income taxes incurred 11,605,274

Net income \$ 32,771,384

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

For the examination period ended December 31, 2010

	2008	2009	2010
Surplus as regards policyholders, beginning of the year	\$ 1,628,674,161	\$ 1,585,763,538	\$ 1,036,739,792
Net income (loss)	(29,783,575)	(2,120,835)	32,771,384
Change in net unrealized capital gains or (losses)	1,235,931	16,125,424	5,776,381
Change in net deferred income tax	11,447,550	8,088,038	3,745,841
Change in non-admitted assets	(25,757,729)	(8,234,979)	(9,904,403)
Capital changes paid in		(237,158)	
Surplus adjustments paid in		203,825	
Dividends to stockholders	(52,800)	(44,000)	(5,467,010)
Withdrawal of shareholder		(531,888,032)	
Distributions under reorganization		(30,916,029)	
Change in surplus for the year	(42,910,623)	(549,023,746)	26,922,193
Surplus as regards policyholders, end of the year	\$ 1,585,763,538	\$ 1,036,739,792	\$ 1,063,661,985

Southern 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 \$1,063,661,985 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,



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