



## MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001  
WOOLFOLK BUILDING  
JACKSON, MISSISSIPPI 39201  
www.doi.state.ms.us

MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

MAILING ADDRESS  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
TELEPHONE: (601) 359-3569  
FAX: (601) 359-2474  
WATS: 1-800-562-2957 (Incoming - USA)

June 9, 2009

### CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. David Whitmire Waide, President & Chairman of the Board  
Mississippi Farm Bureau Casualty Insurance Company  
6311 Ridgewood Road  
Ridgeland, MS 39211

**RE: Report of Examination as of December 31, 2007**

Dear Mr. Waide:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), 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.

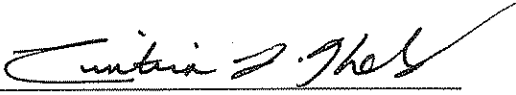
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department 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. 09-5920**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**I.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999).

**II.**

That 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. 1999), called for an examination of Mississippi Farm Bureau Casualty Insurance Company and appointed Joseph May, Examiner-In-Charge, to conduct said examination.

### IV.

On or about May 10, 2009, the draft Report of Examination concerning Mississippi Farm Bureau Casualty Insurance Company for the period of January 1, 2005, through December 31, 2007, was submitted to the Department by the Examiner-In-Charge, Joseph May.

### V.

That on or about May 20, 2009, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. On or about May 29, 2009, the Company responded by e-mail with no suggested rebuttal or revisions.

## CONCLUSIONS OF LAW

### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination 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. 1999).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, 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 9<sup>th</sup> day of June, 2009.

  
MIKE CHANEY  
COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 9<sup>th</sup> day of June, 2009, to:

**Mr. David Whitmire Waide, President & Chairman of the Board  
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**

**6311 Ridgewood Road  
Jackson, Mississippi 39211**

**As of December 31, 2007**

**NAIC Group Code 0483  
NAIC Company Code 27669  
NAIC ETS No. MS029-C45**

**Mississippi Farm Bureau Casualty Insurance Company**  
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**December 31, 2007**

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

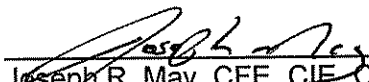
State of Mississippi,

County of Madison,

Joseph R. May being duly sworn, states as follows:

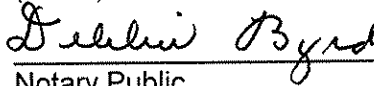
1. I have authority to represent the Mississippi Insurance Department in the examination of Mississippi Farm Bureau Casualty Insurance Company.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
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.

  
Joseph R. May, CFE, CIE, CPA, CMA, FAHM  
Examiner-in-charge

Subscribed and sworn before me by Joseph May on this 3<sup>RD</sup> day of JUNE, 2009.

(SEAL)

  
Notary Public

My commission expires SEPTEMBER 10, 2010







## MISSISSIPPI INSURANCE DEPARTMENT

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MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

May 1, 2009

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

Honorable James J. Donelon  
Secretary, Southeastern Zone  
Louisiana Department of Insurance  
Commissioner of Insurance  
1702 N. Third Street  
Baton Rouge, LA 70804

Honorable Alfred W. Gross  
Chair, Financial Condition (E) Committee  
Commissioner of Insurance  
State of Virginia  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Post Office Box 1157  
Richmond, Virginia 23218

Dear Sirs / Madam:

Pursuant to the instructions and authorization from the Commissioner of Insurance for the State of Mississippi, and in compliance with statutory provisions, an examination as of December 31, 2007, has been conducted of the affairs and financial condition of:

**SOUTHERN FARM BUREAU CASUALTY INSURANCE COMPANY  
(NAIC COMPANY CODE 18325; NAIC-ETS No. MS029-C43)**

Statutory Home Office:  
1800 East County Line Road  
Ridgeland, Mississippi 39157

This examination was performed at Southern Farm Bureau Casualty Insurance Company's (SFBCIC or Company) statutory home office located in Ridgeland, Mississippi, and was conducted in accordance with Miss. Code Ann. § 83-1-201 et seq., and the report of examination is herewith submitted for your review.

## INTRODUCTION

The examination period, for purposes of this report, is January 1, 2005 through December 31, 2007, and the examination date is December 31, 2007. The examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered MFBCIC's operations and financial condition through the examination period, including material transactions and/or events that occurred subsequent to the examination date and were noted during the course of the examination. The Company's previous examination was as of December 31, 2004, and the previous report of examination was dated December 30, 2005.

## SCOPE OF EXAMINATION

The examination of the Company was a full scope financial examination conducted in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, as amended, as well as the MID, and included the assessment of the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations and compliance with applicable laws. A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct. The examiners tested the underlying data for the Company's loss reserve provisions; however, the amounts reported within this report for loss reserves, including any related items and reinsurance, were based on the review and opinion of the actuary who was assigned to the examination by the MID.

## HISTORY OF THE COMPANY

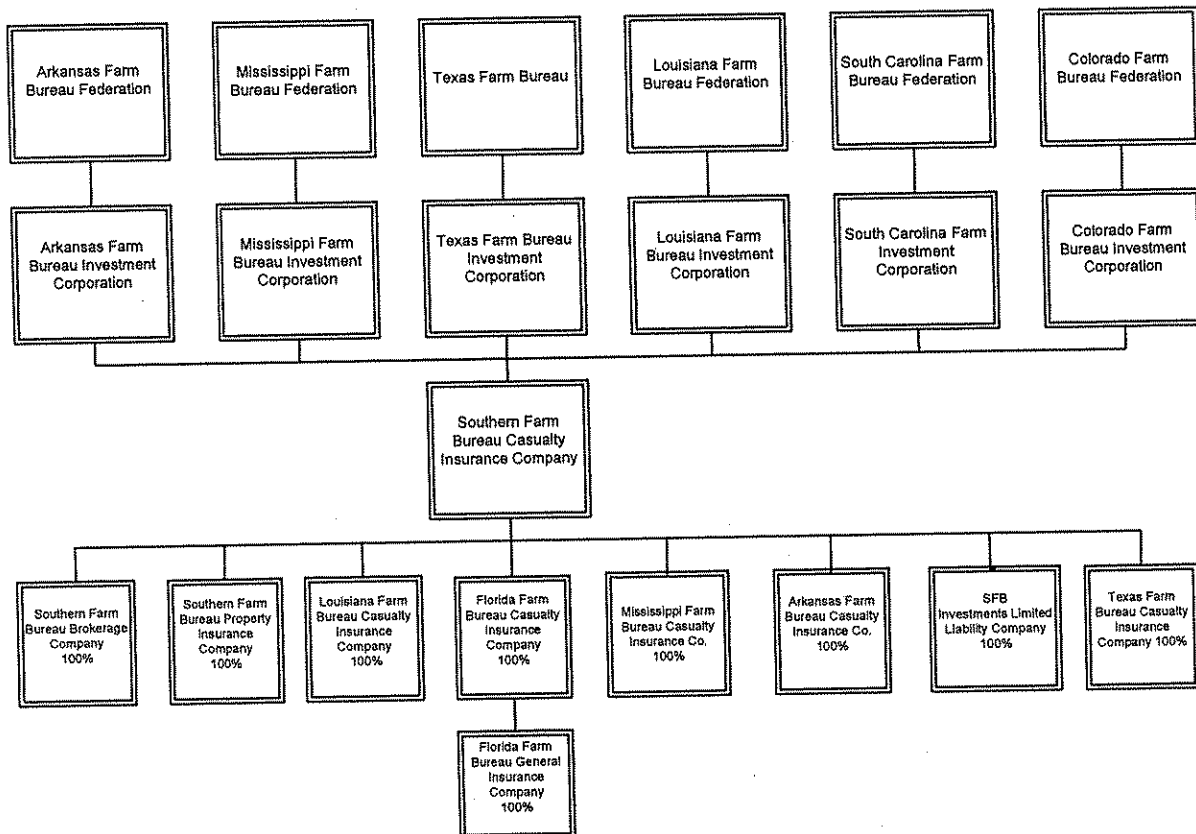
On May 19, 1986, the Company was formed under the laws of the State of Mississippi as a wholly-owned subsidiary of Southern Farm Bureau Casualty Insurance Company (SFBCIC). The Company commenced business on September 1, 1986, and was capitalized through the sale of 12,000 shares of stock to its parent 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.

## HOLDING COMPANY STRUCTURE

The Company is a member of an insurance holding company system as defined within 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. These filed statements and applicable amendments were reviewed and it appeared that any changes and material transactions by and between the Company and its affiliates were disclosed appropriately.

## 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:



**Southern Farm Bureau 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.

**Southern Farm Bureau Property Insurance Company:** This company was incorporated on August 1, 1994 under the laws of the State of Mississippi, and during much of the examination period, its principal business was providing reinsurance services to related and associated Farm Bureau companies. Effective January 1, 2007, the Company no longer conducted any active underwriting activities and essentially became inactive.

**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.

**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.

**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 coverage in the State of Arkansas. At the report date, this company was inactive.

**SFB Investments Limited Liability Company:** 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. During the examination period, the investments held by this company were sold and, at the report date, this subsidiary was inactive.

**Texas Farm Bureau Casualty Insurance Company:** This company was formed during 2007 in anticipation of the withdrawal of the Texas Farm Bureau and Texas Farm Bureau Investment Corporation from SFBCIC.

#### 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.
- During the examination period the Company's parent allocated certain expenses including payroll, benefits and other expenses to the Company. The allocation totaled \$10,437,049 in 2007 and \$6,146,31 in 2006.
- As a result of Gulf Coast hurricanes in August and September of 2005, SFBCIC entered into a financial assistance plan (the 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 (Mutual). Under this agreement, the Company acquired the opportunity to offer coverage to the policyholders of Mutual at MFBCIC's discretion. The renewal rights agreement was

treated as an intangible asset and nonadmitted on the financial statements of the Company, thus decreasing unassigned funds by \$25,000,000.

- 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. 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. The entire principal amount and the accrued but unpaid interest is due and payable on April 19, 2026. Interest and principal payments are subject to the approval of the MID and no interest accrual is necessary until approved. At December 31, 2006, the unapproved accrued interest related to both surplus notes was approximately \$1,852,000. In April 2007, the Department approved the annual interest payments on these notes which totaled \$2,640,000.
- 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.

## MANAGEMENT AND CONTROL

### Stockholders

The Company's parent company, SFBCIC, was owned by the Farm Bureau Investment Corporations in the States of Arkansas, Colorado, Louisiana, Mississippi, South Carolina and Texas which are controlled by the Farm Bureau Federation in each state, respectively. Each shareholder owned 666.67 shares (or 1/6th) of SFBCIC's 4,000 shares of common stock issued and outstanding.

### Board of Directors

The Articles of Association and Bylaws vest the management and control of the Company's business affairs with the Board of Directors (Board). The members of the duly elected Board, along with their place of residence and principal occupation, at December 31, 2007, were as follows:

**Name and Place of Residence**

**Principal Occupation**

Mr. Ronald Roy Anderson  
Ethel, Louisiana

Farmer and President of Louisiana  
Farm Bureau Federation

Mr. Kenneth William Dierschke  
San Angelo, Texas

Farmer and President of Texas Farm  
Bureau Federation

Mr. Stanley Eldon Reed  
Marianna, Arkansas

Farmer, Attorney and President of  
Arkansas Farm Bureau Federation

Mr. David Whitemire Waide  
West Point, Mississippi

Farmer and President of Mississippi  
Farm Bureau Federation

Mr. David Melton Winkles, Jr.  
Sumter, South Carolina

President of D.M. Winkles, Inc. and  
President of South Carolina Farm  
Bureau Federation

Mr. Randy Lee Knight  
Pelahatchie, Mississippi

Farmer

Mr. Alan Lee Foutz  
Akron, Colorado

Farmer

Mr. John Lawrence Hoblick, Sr.  
DeLeon Springs, Florida

Farmer

Mr. Donald Hubert Gant  
Merigold, Mississippi

Farmer

## Officers

The officers duly elected by the Board of Directors and holding office at December 31, 2007, were as follows:

<u>Name</u>	<u>Position</u>
Mr. David Whitmire Waide	President and Chairman of the Board
Mr. Roderick Algene Moore	Executive Vice President - Chief Executive Officer
Mr. Donald Hubert Gant	First Vice President
Mr. Dennis Ray Griffin	Senior Vice President - Chief Financial Officer
Mr. Steve Walter Ingram	Senior Vice President - Legal & Secretary
Mrs. Judy Goodwin Blackburn	Senior Vice President - Treasurer
Mr. John Russell McCullough	Senior Vice President - Actuary
Mr. Mickey Joseph Nugent	Senior Vice President - Operations
Mr. Mark Gerard Gianfrancesco	Senior Vice President - Marketing
Mr. Robert Paul Jarratt	Senior Vice President - State Manager

## Committees

The following officers and directors served on the Investment Committee at December 31, 2007.

Mrs. Judy Blackburn	Mr. Roderick Moore
Mr. Dennis Griffin	Mr. David Waide
Mr. Harry Hyslop	

The following directors served on the Audit Committee at December 31, 2007.

Mr. Ronald Anderson	Mr. Stanley Reed
Mr. Kenneth Dierschke	Mr. David Waide
Mr. Alan Foutz	Mr. David M. Winkles, Jr.
Mr. John Hoblick, Sr.	

## Conflict of Interest

The Company has formal procedures whereby disclosure is made to the Board of any material interest or affiliation on the part of any officer or director that is, or would likely be, a conflict with their official duties. These procedures were reviewed, and no conflicts or exceptions to the Company's policies were noted.

## CORPORATE RECORDS

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

## FIDELITY BOND AND OTHER INSURANCE

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

## DIRECTORS', OFFICERS', EMPLOYEES' AND AGENTS' WELFARE

The Company did not have any employees of its own during the period under examination. The employees of SFBCIC performed all work for the Company and any related benefits were provided by the same.

## REINSURANCE

The Company utilized reinsurance to limit exposure to large and concentrations of risk. The Company maintained various forms of reinsurance on essentially all property and casualty lines with 100% of the automobile and other liability premiums written reinsured with its parent.

A summary of the most significant reinsurance transactions, including transactions with associated and affiliated companies, follows:

	<u>2007</u>
Reinsurance:	
Assumptions:	
Premiums written	\$ (17,500)
Premiums earned	6,171,453
Losses incurred	3,284,807
Liability for losses	434,664
Ceding:	
Premiums written	257,657,199
Premiums earned	256,386,339
Losses incurred	154,275,214
Liability for losses	75,416,829



## ACCOUNTS AND RECORDS

The Company used its parent company's computer hardware and software for the maintenance of its books and records. SFBCIC's computer system is built around an IBM 2064-1CM mainframe computer that included several major application programs, as well as several proprietary software packages. The Company also used Millennium 3.50.50 GEAC Enterprise Solution as its general ledger package.

## 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, 2007.

Description	State Deposited	Par Value	Fair Value
Bond: Gautier, MS Utility District	Arkansas	\$ 180,000	\$ 193,023
Bond: Gautier, MS Utility District	Mississippi	315,000	338,420
Bond: Gautier, MS Utility District	Mississippi	220,000	235,917
Bond: Hornlake MS	Mississippi	775,000	826,553
Bond: New Orleans Expressway	Louisiana	100,000	103,421
Total		<u>\$ 1,590,000</u>	<u>\$ 1,697,334</u>

**MISSISSIPPI FARM BUREAU CASUALTY INSURANCE COMPANY  
FINANCIAL STATEMENTS  
EXAMINATION AS OF DECEMBER 31, 2007**

**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 at December 31, 2007, a Statement of Income for year ended December 31, 2007, a Reconciliation of Surplus as Regards Policyholders for examination period ended December 31, 2007, and a Reconciliation of Examination Changes to Surplus at December 31, 2007.

# Mississippi Farm Bureau Casualty Insurance Company

## Statement of Admitted Assets, Liabilities, Surplus and Other Funds

December 31, 2007

<b>Admitted Assets</b>		
Bonds	\$	175,564,629
Cash and short-term investments		80,919,316
Investment income due and accrued		2,598,983
Uncollected premiums		1,221,623
Amounts recoverable from reinsurers		1,549,402
Net deferred tax asset		6,036,821
Receivables from parent, subsidiaries and affiliates		1,030,108
Other receivables		14,454
<b>Total admitted assets</b>	<b>\$</b>	<b>268,935,336</b>
<b>Liabilities, Surplus and Other Funds</b>		
Losses	\$	10,954,176
Reinsurance payable in paid loss and LAE		30,328
Loss adjustment expenses		2,226,000
Other expenses		753,443
Taxes, licenses and fees		1,693,032
Current federal income taxes		12,845,561
Unearned premiums		72,089,086
Advanced premiums		2,288,368
Ceded reinsurance premiums payable		154,873
Amounts withheld or retained by the Company		3,392,288
Remittances and items not allowed		906,348
Payable to parent, subsidiaries and affiliates		1,093,997
Accounts payable		54,059
<b>Total liabilities</b>		<b>108,481,559</b>
Common capital stock:		
(par value \$100 per share; 20,000 shares authorized; 12,000 shares issued and outstanding)		1,200,000
Surplus notes		54,000,000
Gross paid in and contributed surplus		79,635,000
Unassigned funds		25,618,777
<b>Surplus as regards policyholders</b>		<b>160,453,777</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$</b>	<b>268,935,336</b>

# Mississippi Farm Bureau Casualty Insurance Company

## Statement of Income

*For the Year Ended December 31, 2007*

<b>Underwriting income</b>	
Premiums earned	\$ 122,971,555
Losses and LAE incurred	67,146,202
Other underwriting expenses incurred	26,689,186
<b>Net underwriting gain</b>	<b>29,136,167</b>
Net investment income	9,555,081
Net realized investment gain	1,283
Net gain (loss) from agents' or premium balances charged off	(1,176)
Miscellaneous income (expense)	(2,831)
<b>Net income before income taxes</b>	<b>38,688,524</b>
Federal income tax expense	12,844,318
<b>Net income</b>	<b>\$ 25,844,206</b>

# Mississippi Farm Bureau Casualty Insurance Company

## Reconciliation of Surplus as Regards Policyholders

*For the examination period ended December 31, 2007*

	2005	2006	2007
Surplus as regards policyholders, beginning of the year	\$ 32,078,116	\$ 74,005,469	\$ 129,854,920
Net income (loss)	(2,245,339)	2,846,889	25,844,206
Change in net deferred income tax	10,248,891	3,202,164	(387,888)
Change in nonadmitted assets	(33,076,199)	(199,602)	1,142,539
Change in surplus notes	-	50,000,000	4,000,000
Paid-in surplus	67,000,000	-	-
Change in surplus for the year	41,927,353	55,849,451	30,598,857
Surplus as regards policyholders, end of the year	\$ 74,005,469	\$ 129,854,920	\$ 160,453,777

**RECONCILIATION OF EXAMINATION ADJUSTMENTS  
DECEMBER 31, 2007**

There were no changes made to the admitted assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2007. The surplus as regards policyholders, which totaled \$160,453,777 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 policy forms, agents' licensing, advertising and complaints. No significant exceptions with regard to the limited procedures performed were noted.

### **Policy Forms and Underwriting**

Based upon the procedures performed during the course of the examination, no exceptions were noted regarding the Company's appropriate licensure to issue its products, and the applicable policy forms examined were appropriately approved by the MID. As a component of the liability testing associated with the related sample items selected, and in conjunction with both the controls and substantive testing, the information on the face of the insurance application was reviewed to ensure that all pertinent information on the applications appeared complete and accurate. No material concerns were noted.

### **Territory and Plan of Operation**

The Company was authorized to write Fire and Allied, Casualty/Liability, Inland Marine and Auto Physical Damage/Liability coverage in the State of Mississippi, as well as surplus lines of business in the States of Florida, Louisiana, South Carolina and Texas. The Company's sales force consisted of 320 independent agents.

As a component of the examination testing of producer licensing, the examination team's lead automation examiner obtained from the Company an electronic version of agents paid and compared this information to an electronic file obtained from the MID in order to ensure that those agents receiving commissions were appropriately licensed and appointed by the Company. An electronic file comparison was performed using ACL (file interrogation software) and those items that could not quickly be identified via electronic means were individually reviewed without material exception noted.

### **Advertising and Sales Material**

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

### **Treatment of Policyholders**

The Company maintained a complaint log during the period under examination, and all complaints appeared to have been resolved amicably and no policyholder abuse or undesirable patterns were noted.

As a component of the liability testing associated with the related sample items selected, and in conjunction with both the controls and substantive testing, the claim files were reviewed to ensure that treatment was afforded in accordance with policy provisions. Furthermore, the files were reviewed to ensure that any relevant items were appropriately and timely communicated to the policyholder without material exception.

## **Privacy**

The Company had a privacy policy in place for the protection of its policyholders, and based upon the procedures performed during the course of the examination, the policy appeared to be in compliance with applicable laws and standards.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

At December 31, 2007, the Company was involved as a defendant in various litigation matters. Although the outcome of such legal actions cannot be predicted, in the opinion of management and its legal counsel, the resolution of any currently pending or threatened actions should not have a material adverse effect on the surplus position of the Company.

## **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

There were no comments and/or recommendations noted in the previous examination performed by MID examiners.

## **CURRENT EXAMINATION COMMENTS AND RECOMMENDATIONS**

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



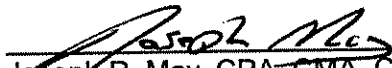
**ACKNOWLEDGMENT**

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

Administrative Examiner	Elton Sims, CPA
Examiner-In-Charge	Joseph R. May, CPA, CMA, CFE, CIE, FAHM
Examiner	Rebecca Dennis, CPA
Examiner	Whitney Craig, CPA
Examiner	D'Anna White, CPA
Examiner	Miller Woods
Examiner	Angie Plunkett
Examiner	Kim Scharl
Examination Actuary	Robert Daniels, ACAS, MAAA
Automation Specialist	Francois Houde, CA, CISA

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

Respectfully submitted,

  
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Joseph R. May, CPA, CMA, CFE, CIE, FAHM  
Examiner-in-charge