

REPORT ON EXAMINATION

OF

FLORIDA FARM BUREAU CASUALTY

INSURANCE COMPANY

GAINESVILLE, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

July 23, 2009

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2008, of the financial condition and corporate affairs of:

**FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
5700 S.W. 34th STREET
GAINESVILLE, FLORIDA 32608**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced with planning at the Office on April 6, 2009, to April 9, 2009. The fieldwork commenced on April 20, 2009, and concluded as of July 23, 2009.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed 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 and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and

assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

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

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Company in connection therewith.

Accounts and Records

The accounts and records maintained by the Company did not clearly and accurately disclose the precise nature and details of the advance premium transactions in the premium cycle.

Resolution: The Company provided sufficient records to support the balance reported at December 31, 2008.

Custodial Agreement

The Company did not have a custodial agreement with Merrill Lynch Trust Company.

Resolution: The Company entered into a custodial agreement with Merrill Lynch Trust Company effective June 29, 2005. The agreement was filed with the Office.

Reinsurance

A repeat finding during the examination as of December 31, 2003, the Company failed to prepare a cash flow analysis that evaluated whether a reinsurance contract indicated a significant loss from its transactions as provided by SSAP Number 62, paragraph 14.

Resolution: The Company provided sufficient evidence that the required documentation pursuant to SSAP Number 62, Paragraph 14 was maintained for all reinsurance contracts.

HISTORY

General

The Company was incorporated in Florida on April 16, 1974, and commenced business on July 1, 1974, as Florida Farm Bureau Casualty Insurance Company

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Homeowners multi peril	Glass
Commercial multi peril	Burglary and theft
Private passenger auto physical damage	Accident and health
Other liability	Mobile home multi peril
Private passenger auto liability	Multi peril crop
Commercial automobile liability	Fidelity
Commercial auto physical damage	

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	3,000,000
Number of shares issued and outstanding	500,000
Total common capital stock	\$500,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Southern Farm Bureau Casualty Insurance Company (SFBCIC), a Mississippi corporation, which owned 100% of the stock

issued by the Company, which was owned equally by the members of the Farm Bureau Federations of Arkansas, Mississippi, Texas, Louisiana, and South Carolina.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2008	2007	2006	2005	2004
Premiums Earned	174,650,344	168,037,712	158,279,882	178,215,873	183,307,358
Net Underwriting Gain/(Loss)	4,107,578	(1,842,420)	9,079,925	(36,394,512)	(60,768,680)
Net Income	16,075,298	16,186,669	19,515,862	(13,499,867)	(23,920,708)
Total Assets	417,204,565	397,725,770	396,952,058	379,475,321	409,215,330
Total Liabilities	219,435,531	216,310,719	228,760,440	228,953,718	248,195,203
Surplus As Regards Policyholders	197,769,034	181,415,051	168,191,619	150,521,603	161,020,126

Dividends to Stockholders

The Company did not pay dividends to its stockholders during the period under examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

Directors

Name and Location

Ronald Roy Anderson
Ethel, Louisiana

Principal Occupation

President
Louisiana Farm Bureau

Mark Allen Byrd Apopka, Florida	Owner Mark Byrd Geenhouses
Jon Wallace Deas Jennings, Florida	Farmer
Kenneth William Dierschke # San Angelo, Texas	President Texas Farm Bureau
Alan Lee Foutz Akron, Colorado	President Colorado Farm Bureau
John Lawrence Hoblick DeLeon Spring, Florida	President Florida Farm Bureau Federation
Stanley Eldon Reed * Marianna, Arkansas	President Arkansas Farm Bureau Federation
David Whitmire Waide Brandon, Mississippi	President Mississippi Farm Bureau
David Melton Winkels, Jr. Sumter, South Carolina	President South Carolina Farm Bureau

Mr. Dierschke was no longer a director at the time of the examination report as Texas is no longer part of the holding company system.

* Mr. Reed retired and was replaced by Randy Veach effective February 16, 2009.

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
John L. Hoblick	President
William O. Courtney, Jr.	Executive Vice President & CEO
Mark A. Byrd	Secretary
Jon W. Deas	Treasurer

The Company's board appointed an audit committee and an investment committee in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2008:

Investment Committee	Audit Committee
John Hoblick	Ronald Anderson, Chairman
Roderick Moore	David Winkles
Dennis Griffin	John Hoblick
Mike Hill	Alan Foutz
Judy Blackburn	David Waide
William O. Courtney, Jr.	Stanley Reed
Harry Hyslop	Kenneth Dierschke

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance during the period covered by this examination.

Surplus Debentures

The Company had no outstanding surplus debentures at December 31, 2008.

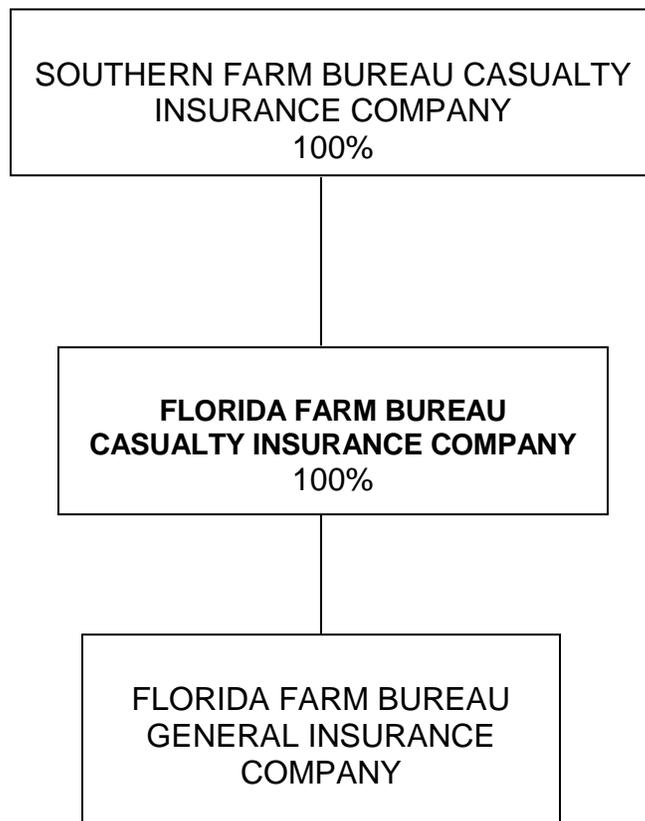
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 3, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

**FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2008



The following agreements were in effect between the Company and its affiliates:

Reinsurance Agreement

The Company was party to an agreement whereby all risks, less certain business ceded to the Florida Hurricane Catastrophe Fund, were assumed from its wholly owned subsidiary, Florida Farm Bureau General Insurance Company (FFBGIC). The agreement states all losses, loss adjustment expenses, acquisition expenses, general expenses, and all taxes arising out of the premiums assumed should be reimbursed or paid by the Company.

Tax Allocation Agreement

The Company, along with its parent and other affiliates, filed a consolidated federal income tax return. On December 31, 2008, the method of allocation between the Company and its parent was on a separate return basis.

Cost Sharing Agreement

The Company was party to a cost sharing agreement with its subsidiary FFBGIC and the Florida Farm Bureau Federation for services shared including management and operational support.

Line of Credit Agreements

The Company had available a \$50,000,000 line of credit from its parent Southern Farm Bureau. The Company provided a line of credit to its subsidiary in the amount of \$25,000,000. These lines of credit have not been drawn upon and there were no amounts outstanding at December 31, 2008.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$250,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company was a named insured on various other policies written in the name of Southern Farm Bureau.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company participated in a non-contributory benefit pension plan. In addition, the Company matched employee contributions that qualified for income tax deferral in a 401K-contribution plan. The Company also provided group life insurance, group accidental death, group hospitalization, and medical insurance for its employees and post retirement benefits for eligible retired employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Con Edison 8.125% 05/01/10	\$ 1,000,000	\$ 1,033,000
FL	Con Edison 8.125%, 05/01/10	<u>1,000,000</u>	<u>1,052,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 2,000,000</u>	<u>\$ 2,085,000</u>

INSURANCE PRODUCTS

The Company provided coverage of insurance to persons who were members of a county Farm Bureau agricultural organization. The Company along with its wholly owned subsidiary, maintained sales offices in each county of Florida, where business was marketed and serviced by a network of agents.

Territory

The Company was authorized to transact insurance exclusively in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed 100% of the premiums written, less the premium ceded to the Florida Hurricane Catastrophe Fund, of its subsidiary, FFBGIC.

Ceded

The Company ceded risk on a quota share and excess of loss basis to authorized and unauthorized reinsurers. The primary authorized reinsurers were Southern Farm Bureau Casualty Insurance Company, the parent, and American Agricultural Insurance Company. The Company had a list of unauthorized reinsurers, however, no losses or loss adjustment expenses had been ceded to these reinsurers. The Company participated in the Florida Hurricane Catastrophe Fund. The reinsurance contracts were reviewed by the Company's actuary and appointed actuary and were utilized in determining the ultimate loss opinion. The Company employed the service of Aon Benfield, Inc. as reinsurance intermediary (broker).

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Gainesville, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 2005, 2006, 2007 and 2008 in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts, were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Merrill Lynch Trust Company. The agreement was in compliance with the requirements of Rule 69O-143.042, Florida Administrative Code.

Licensing Agreement

The Company, along with its subsidiary, FFBGIC, had an agreement with Florida Farm Bureau Federation, a member of the American Farm Bureau Federation, to use the "Farm Bureau" name and logo in connection with selling, placing and underwriting of property and casualty insurance products and service in the State of Florida. In return for the agreement, the Company and FFBGIC paid a royalty of eighty-two hundredths percent per year on adjusted direct premiums written, less premiums collected from assigned risk pool and dividends declared by the licensees.

Agency Agreement

The Company provided a payment after termination plan for eligible career agent whereby payments are made to agents after termination, equal to the renewal commission paid to the agent for the preceding twelve calendar months prior to termination less the agents' assured base commission. All payments after termination were subject to various eligibility requirements. The liability for these future payments was approximately \$6.36 million at December 31, 2008.

Independent Auditor Agreement

The Company engaged KPMG LLP to perform the statutory audits of its financial statements for each year during the examination period, as required by Section 624.424(8), Florida Statutes and Rule 69O-137.002, Florida Administrative Code.

Information Technology Report

Deanna Leyden, CFE, CISA, CICA performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this examination. There were no adjustments made as a result of the examination.

FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$290,239,331	\$0	\$290,239,331
Common stocks	11,762,385		11,762,385
Real estate - properties occupied	10,469,083		10,469,083
Cash and Short term investments	44,312,172		44,312,172
Investment income due and accrued	3,971,217		3,971,217
Uncollected premiums and agents balances in course of collection	6,468,184		6,468,184
Deferred premiums, agents' balances and installments booked but deferred and not yet due	31,792,849		31,792,849
Amounts recoverable from reinsurers	2,199,337		2,199,337
Net deferred tax asset	9,098,711		9,098,711
Electronic data processing equipment	638,238		638,238
Receivable from parent, subsidiaries and affiliates	338,568		338,568
Aggregate write ins for other than invested assets	5,914,491		5,914,491
Totals	<u>\$417,204,565</u>	<u>\$0</u>	<u>\$417,204,565</u>

FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$80,779,688	\$0	\$80,779,688
Loss adjustment expenses	13,563,826		13,563,826
Other expenses	3,077,831		3,077,831
Taxes, licenses and fees	234,740		234,740
Current federal and foreign income taxes	5,371,031		5,371,031
Unearned premium	81,427,102		81,427,102
Advance premiums	15,229,723		15,229,723
Ceded reinsurance premiums payable	4,864,900		4,864,900
Amounts withheld or retained by company for account of	817,640		817,640
Aggregate write-ins for liabilities	14,069,050		14,069,050
Total Liabilities	\$219,435,531	\$0	\$219,435,531
Aggregate write-ins for special surplus funds	\$ 1,155,656		\$1,155,656
Common capital stock	500,000		500,000
Gross paid in and contributed surplus	77,090,000		77,090,000
Unassigned funds (surplus)	119,023,378		119,023,378
Surplus as regards policyholders	\$ 197,769,034		197,769,034
Total liabilities, surplus and other funds	\$417,204,565	\$0	\$417,204,565

FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income

Premiums earned		\$174,650,344
	Deductions:	
Losses incurred		106,949,813
Loss expenses incurred		23,150,808
Other underwriting expenses incurred		40,442,865
Aggregate write-ins for underwriting deductions		(720)
Total underwriting deductions		\$170,542,766
Net underwriting gain or (loss)		\$4,107,578

Investment Income

Net investment income earned		\$14,957,506
Net realized capital gains or (losses)		(249,219)
Net investment gain or (loss)		\$14,708,287

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$106,877)
Finance and service charges not included in premiums		966,405
Aggregate write-ins for miscellaneous income		1,753,728
Total other income		\$2,613,256

Net income before dividends to policyholders and before federal & foreign income taxes		\$21,429,120
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$21,429,120
Federal & foreign income taxes		5,353,822
Net Income		\$16,075,298

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$181,415,051
Net Income		\$16,075,298
Net unrealized capital gains or losses		337,894
Change in non-admitted assets		70,758
Change in net deferred income tax		(129,966)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$16,353,984
Surplus as regards policyholders, December 31 current year		\$197,769,035

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$94,343,514

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The contracted actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$197,769,034, exceeded the minimum of \$20,993,429 required by Section 624.408(1)(a)(4), Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2008, per Annual Statement	\$197,769,034
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments			
LIABILITIES:			
No adjustments			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$197,769,034

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2008.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Farm Bureau Casualty Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$197,769,034, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Joanne Campanelli, CFE, Examiner in Charge, Randall Ross, ACAS, MAAA and Deanna Leyden, CFE, CISA, CICA of Examination Resources, LLC and Maurice Fuller, Financial Examiner/Analyst II, with the Florida Office of Insurance Regulation, participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation