

REPORT ON EXAMINATION

OF

FLORIDA FARM BUREAU

CASUALTY INSURANCE COMPANY

GAINESVILLE, FLORIDA

AS OF

DECEMBER 31, 2003

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

December 3, 2004

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 (FS), 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, 2003, of the financial condition and corporate affairs of:

**FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
5700 S.W. 34th STREET
GAINESVILLE, FLORIDA 32608-5300**

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

SCOPE OF EXAMINATION

This examination covered the period of July 1, 2002 through December 31, 2003. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of June 30, 2002. This examination commenced, with planning at the Office, on July 8, 2004, to July 16, 2004. The fieldwork commenced on July 19, 2004, and was concluded as of December 3, 2004. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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 (FAC), with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

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 report, 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) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are 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 June 30, 2002, along with resulting action taken by the Company in connection therewith.

Reinsurance

The Company failed to prepare 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 failed to comply with SSAP Number 62, Paragraph 14, and did not provide cash flow analysis for reinsurance contracts entered into after June 30, 2002.

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.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2003 (Some of the below lines are for reinsurance only):

Fire	Allied Lines
Inland Marine	Other Liability
PPA Physical Damage	Fidelity
Private Passenger Auto Liability	Glass
Commercial Automobile Liability	Burglary and Theft
Commercial Auto Physical Damage	Homeowners Multi Peril
Commercial Multi Peril	Mobile Home Multi Peril

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2003, 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, who owned 100 percent of the stock issued by the Company, who in turn was owned equally by the members of the Farm Bureau Federations of Arkansas, Mississippi, Texas, Louisiana, and South Carolina.

Profitability of Company

The Company had underwriting gains of \$8,317,621 for the year 2003 and an overall net income of \$22,649,036 for that year. For the year 2002, the Company had underwriting losses of (\$17,276,555) and an overall net loss of (\$3,104,022).

Dividends to Stockholders

The Company did not pay dividends to its stockholder during the period of this examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2003, were:

Directors

Name and Location	Principal Occupation
Ronald Roy Anderson Ethel, Louisiana	Chairman of the Board; Farm Bureau Casualty Ins. Co.
Carl Bowie Loop, Jr. Jacksonville, Florida	President; Florida Farm Bureau Casualty Ins. Co.
John Lawrence Hoblick, Sr. DeLeon Springs, Florida	Secretary; Florida Farm Bureau Casualty Ins. Co.
David Webster Hillman Almyra, Arkansas	Director
David Whitmire Waide West Point, Mississippi	Director
David Melton Winkles, Jr. Sumter, South Carolina	Director
Michael Howell Waring Madison, Florida	Director
Kenneth William Dierschke San Angelo, Texas	Director
Raymond Richard Roth, Jr. Belle Glade, Florida	Director

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

Senior Officers

Name	Title
Ronald R. Anderson	Chairman of the Board
Carl Bowie Loop, Jr.	President
Robert Paul Jarratt	Vice President
Raymond Richard Roth, Jr.	Vice President
Rade Thomas Musulin	Vice President
Stuart Thomas Wheeler	Vice President
John Lawrence Hoblick, Sr.	Secretary
Michael Howell Waring	Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2003:

Investment Committee

Carl Loop, Jr.
Roderick Moore
Stuart Wheeler
Dennis Griffin
Gerald Garnett
Robert Jarratt
Harry Hyslop

Audit Committee

Carl Loop, Jr. Chairman
David Winkles, Jr.
David Waide
Ronald Anderson

Conflict of Interest Procedure

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the Shareholder, Board of Directors, and Investment and Audit Committee meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented meetings and approval of Company transactions in

accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

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

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

Surplus Debentures

The Company had no outstanding surplus debentures.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on June 16, 2004, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

Reinsurance Agreement

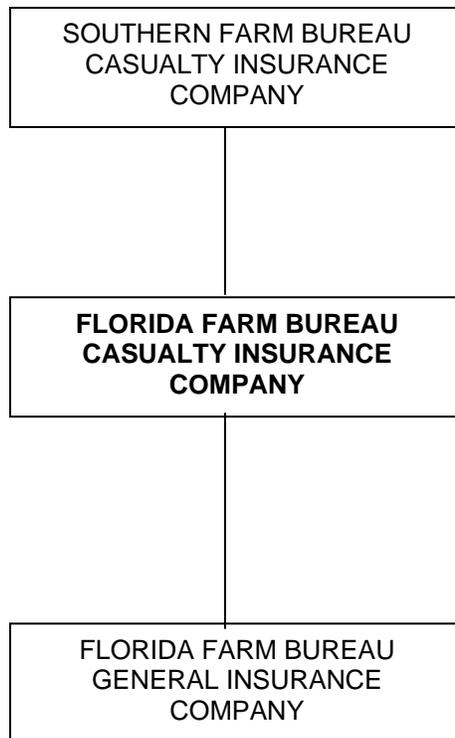
The Company had an agreement with its subsidiary, Florida Farm Bureau General Insurance Company (FFBGIC) to assume all risk on the premiums written by FFBGIC. The agreement stated that all losses, loss adjustment expenses, acquisitions expenses, general expenses, and all taxes arising out of premiums assumed shall be reimbursed or paid by the Company.

Tax Allocation Agreement

The Company, along with its parent and subsidiary, filed a consolidated federal income tax return. On December 31, 2003, the method of allocation between the Company and its affiliates was on a separate return basis.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, is shown below. Schedule Y of the Company's 2003 annual statement provided a list of all related companies of the holding company group.

**FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

The Company, along with several affiliated companies, 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.

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.

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	Consol Ed, 8.125%, 5/1/10	\$1,000,000	\$1,224,090
FL	Consol Ed, 8.125%, 5/1/10	<u>\$1,000,000</u>	<u>\$1,215,000</u>
Total Special Deposits		<u>\$2,000,000</u>	<u>\$2,439,090</u>

CERTIFICATION OF COMPLIANCE WITH EXECUTIVE ORDER 13224

The Company established and implemented procedures and guidelines for complying with Executive Order 13224 Blocking Property and Prohibiting Transactions with Persons Who Permit, Threaten to Commit, or Support Terrorism.

INSURANCE PRODUCTS AND RELATED PRACTICES

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

Territory and Plan of Operation

The Company was authorized to transact insurance in the State of Florida, in accordance with Section 624.401(2), FS.

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The reinsurance agreements reviewed were found to comply with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines. The reinsurance agreements were entered into to cover catastrophic

exposures as well as ordinary risks. For those agreements entered into only to cover ordinary risks, the Company failed to prepare cash flow analysis that evaluated whether a reinsurance contract indicated a significant loss from its transactions as provided by SSAP Number 62, Paragraph 14.

Assumed

The Company assumed one hundred percent of the premiums written by its subsidiary, FFBGIC.

Ceded

The Company ceded risk on a quota share and excess of loss basis to authorized and unauthorized reinsurers. The primary reinsurers included two authorized affiliates, Southern Farm Bureau Casualty Insurance Company (SFBC) and Southern Farm Bureau Property Insurance Company (SFBP), as well as American Agricultural Insurance Company, Continental Casualty Insurance Company, General Reinsurance Corporation and North Star Reinsurance Corporation, all authorized unaffiliated insurers.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2002 and 2003, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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

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

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company's investments were held by Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPFS) and Wachovia Bank.

MLPFS is a broker-dealer and does not meet the requirements of a custodian as defined in Rule 69O-143.041(2), FAC. A custodian must be a national bank, state bank or trust company which has at all times aggregate capital, surplus and undivided profits of not less than \$500,000 and

which is regulated by the state banking laws or is a member of the Federal Reserve System and is legally qualified to accept custody of securities in accordance with the standards set forth in Rule 69O-143.042, FAC. The Company stated they moved the account and the custodial agreement held with MLPFS to Merrill Lynch Trust Company, a New Jersey Limited Purpose Trust Company. Merrill Lynch Trust Company meets the requirements of a custodian as defined in Rule 69O-143.041(2), FAC. However, the Company's custodial agreement with Merrill Lynch Trust Company was signed by MLPFS.

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 services in the State of Florida. In return for this agreement, the Company and FFBGIC pay 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.

Independent Auditor Agreement

The Company engaged KPMG LLP to perform the statutory audits of its 2003 and 2002 financial statements, as required by Section 624.424(8), FS, and Rule 69O-137.002, FAC.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$331,575,670		\$331,575,670
Stocks:			
Common	18,776,049		18,776,049
Real Estate:			
Properties occupied	10,641,815		10,641,815
Cash & Short-term investments	3,815,357		3,815,357
Investment income due and accrued	4,756,271		4,756,271
Agents' Balances:			
Uncollected premium	6,634,033		6,634,033
Deferred premium not due	28,934,680		28,934,680
Reinsurance:			
Recoverable from reinsurers	271,182		271,182
Net deferred tax asset	10,140,843		10,140,843
EDP Equipment & Software	886,570		886,570
Receivable from parent, subsidiaries & affiliates	401,439		401,439
Aggregate write-ins for other than invested assets	1,484,354		1,484,354
	<hr/>		<hr/>
Totals	\$418,318,263	\$0	\$418,318,263
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FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$106,254,900		\$106,254,900
Loss adjustment expenses	17,693,174		17,693,174
Commissions payable	(554,738)		(554,738)
Other expenses	3,891,595		3,891,595
Taxes, licenses and fees	285,970		285,970
Current federal income taxes	5,565,822		5,565,822
Unearned premiums	76,116,061		76,116,061
Advance premiums	13,454,961		13,454,961
Ceded reinsurance premiums payable	1,136,470		1,136,470
Funds held by company under reinsurance treaties	173,099		173,099
Amounts withheld by company for account of others	58,899		58,899
Payable for securities	2,001,947		2,001,947
Aggregate write-in for liabilities	6,462,392		6,462,392
Total liabilities	<u>\$232,540,552</u>		<u>\$232,540,552</u>
Aggregate write-in for special surplus funds	(\$868,412)		(\$868,412)
Common capital stock	500,000		500,000
Gross paid in and contributed surplus	77,090,000		77,090,000
Unassigned funds (surplus)	109,056,123		109,056,123
Surplus as regards policyholders	<u>\$185,777,711</u>		<u>\$185,777,711</u>
Total liabilities, capital and surplus	<u>\$418,318,263</u>	<u>\$0</u>	<u>\$418,318,263</u>

FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY

Statement of Income

DECEMBER 31, 2003

Underwriting Income

Premiums earned	\$184,847,429
DEDUCTIONS:	
Losses incurred	116,555,955
Loss expenses incurred	21,684,575
Other underwriting expenses incurred	38,279,033
Aggregate write-ins for underwriting deductions	10,245
Total underwriting deductions	<u>\$176,529,808</u>
Net underwriting gain or (loss)	\$8,317,621

Investment Income

Net investment income earned	\$15,994,305
Net realized capital gains or (losses)	468,132
Net investment gain or (loss)	<u>\$16,462,437</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$188,934)
Finance and service charges not included in premiums	974,515
Aggregate write-ins for miscellaneous income	1,165,914
Total other income	<u>\$1,951,495</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$26,731,553
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$26,731,553</u>
Federal & foreign income taxes	4,082,517
Net Income	<u>\$22,649,036</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$162,456,277
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Gains and (Losses) in Surplus

Net Income	\$22,649,036
Net unrealized capital gains or losses	507,325
Change in net deferred income tax	(1,585,393)
Cumulative effect of changes in accounting principles	0
Change in nonadmitted assets	1,750,466
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$23,321,434</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$185,777,711</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$123,948,074

The Company's actuary appointed by the Board of Directors rendered an opinion that the amounts carried in the balance sheet as of December 31, 2003, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

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

Advanced Premiums \$13,454,961

The Company stated Codification, effective January 1, 2001, resulted in accounting changes to the reporting of advanced premiums. Their accounting records were maintained on a computerized system. The system was unable to separate the advanced premium transactions. Consequently, the Company could not provide documentation to support the amount of advanced premiums reported in the annual statement balance sheet as of December 31, 2003.

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

DECEMBER 31, 2003

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 per December 31, 2003, Annual Statement	\$185,777,711
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No adjustments necessary.			
LIABILITIES:			
No adjustments necessary.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$185,777,711

SUMMARY OF FINDINGS

Compliance with previous directives

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.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2003.

Accounts and Records

The accounts and records maintained by the Company did not clearly and accurately disclose the precise nature and details of the advanced premium transactions in the premium cycle. **It is recommended that the Company maintain accounts records in accordance with Rule 690-143.047, FAC on all future annual and quarterly statement filings.**

Custodial Agreement

The Company did not have a custodial agreement with Merrill Lynch Trust Company as required by Rule 690-143.042, FAC. **It is recommended that the Company enter into a custodian agreement with Merrill Lynch Trust Company as required by Rule 690-143.042, FAC. The Company is to provide documentation of compliance to the Office within 90 days after the report is issued.**

Reinsurance

Again for this examination, the Company failed to prepare cash flow analysis that evaluated whether a reinsurance contract indicated a significant loss from its transactions as provided by SSAP Number 62, Paragraph 14. **It is recommended that the Company comply with SSAP Number 62, Paragraph 14, and maintain cash flow analysis for reinsurance contracts entered into after December 31, 2003.**

CONCLUSION

The customary 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, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$185,777,711, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CFE, CPA, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor and March Fisher, Senior Actuarial Analyst, participated in the examination.

Respectfully submitted,

Donna Letterio, CFE, CPA, MS
Financial Specialist
Florida Office of Insurance Regulation