



## MISSISSIPPI INSURANCE DEPARTMENT

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MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

June 26, 2008

### CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. Larry Bernard Wooten  
Chairman of the Board & President  
Southern Farm Bureau Life Insurance Company  
1401 Livingston Lane  
Jackson, MS 39213

**RE: Report of Examination as of December 31, 2006**

Dear Mr. Wooten:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is 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 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 J. Mark Haire  
Mark Haire  
Special Assistant Attorney General

MC/JMH/bs  
Encls. Order w/exhibit

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

**IN RE: REPORT OF EXAMINATION OF SOUTHERN  
FARM BUREAU LIFE INSURANCE COMPANY**

**CAUSE NO. 08-5773**

**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 Southern Farm Bureau Life Insurance Company is a Mississippi-domiciled Company licensed to write Life; Accident and Health (Life); and Variable Contract 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 Southern Farm Bureau Life Insurance Company and appointed Joseph R. May, Examiner-In-Charge, to conduct said examination.

### **IV.**

That on or about April 22, 2008, the draft Report of Examination concerning Southern Farm Bureau Life Insurance Company for the period of January 1, 2004, through December 31, 2006 was submitted to the Department by the Examiner-In-Charge, Joseph R. May.

### **V.**

That on or about May 19, 2008, 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 30-day period to submit any rebuttal to the draft report. On or about June 18, 2008, the Company responded to the draft report, 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. 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 Southern Farm Bureau Life 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, Southern Farm Bureau Life 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 Life 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 26<sup>th</sup> day of June, 2008.



LEE HARRELL  
DEPUTY COMMISSIONER  
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 26<sup>th</sup> day of June, 2008, to:

**Mr. Larry Bernard Wooten  
Chairman of the Board & President  
Southern Farm Bureau Life Insurance Company  
1401 Livingston Lane  
Jackson, MS 39213**

  
\_\_\_\_\_  
J. Mark Haire  
Special Assistant Attorney General

J. Mark Haire  
Special Assistant Attorney General  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 2065



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

**Southern Farm Bureau Life Insurance Company  
1401 Livingston Lane  
Jackson, Mississippi 39213**

**As of December 31, 2006**

**NAIC Group Code 0893  
NAIC Company Code 68896  
NAIC ETS No. MS029-C37**

# Southern Farm Bureau Life Insurance Company

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December 31, 2006

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

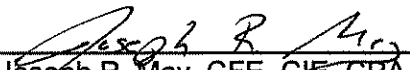
State of Mississippi,

County of Madison,

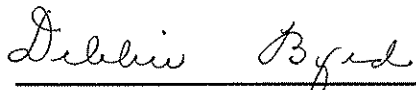
Joseph R. May being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Southern Farm Bureau Life 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 Life 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 R. May on this 25th day of June, 2008.

  
\_\_\_\_\_  
Notary Public

My commission expires 9-10-2010







## MISSISSIPPI INSURANCE DEPARTMENT

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March 24, 2008

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

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

Dear Sirs:

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, 2006, has been conducted of the affairs and financial condition of:

**SOUTHERN FARM BUREAU LIFE INSURANCE COMPANY  
(NAIC COMPANY CODE 68896; NAIC-ETS No. MS029-C37)**

Statutory Home Office:  
1401 Livingston Lane  
Jackson, Mississippi 39213

This examination was commenced in accordance with Miss. Code Ann. § 83-1-201 et seq., and the report of examination is herewith submitted.

## **INTRODUCTION**

This examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered Southern Farm Bureau Life Insurance Company (SFBLIC or Company) operations and financial condition from January 1, 2004 through December 31, 2006, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The MID engaged Carr, Riggs & Ingram, LLC (CRI) to perform the financial and market conduct sections of the examination and Taylor, Walker & Associates (TWA) to perform the actuarial section of the examination.

For purposes of this examination report, the examination period is defined as January 1, 2004 through December 31, 2006, and the examination date is defined as December 31, 2006. The Company was previously examined by the MID as of December 31, 2003.

## **SCOPE OF EXAMINATION**

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with the law. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

This examination was conducted in accordance with procedures recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

## **HISTORY OF THE COMPANY**

In 1946, the State Farm Bureau Federations in the states of Alabama, Arkansas, Kentucky, Mississippi, and Texas organized individual investment corporations for the sole purpose of organizing the Company. On October 31, 1946, and with authorized capital of \$200,000, SFBLIC was incorporated under the laws of the state of Mississippi as a life insurance company, with business officially commencing on December 18, 1946. On July 15, 1947, those five State Farm Bureau Federations and their investment corporations entered into an Agreement and Declaration of Trust (the "Charter Treaty"), which, among other provisions, contains certain restrictions on transfers of the capital stock of the Company.

In 1972, the articles of association were amended, increasing the Company's authorized capital to \$1,000,000; divided into 10,000 shares of \$100 par value common capital stock. Also, the Alabama Farm Bureau withdrew from the American Farm Bureau Federation and, during this same year, the Company reacquired and later cancelled the stock issued to Alabama Farm Bureau Investment Corporation, and the Charter Treaty was amended to reflect this change. In addition, during 1973, the Company issued shares of its capital common stock to companies controlled by State Farm Bureau Federations in the states of Georgia, Louisiana, North Carolina, South Carolina, and Virginia, and the Charter Treaty was again amended to reflect this change.

On December 23, 1981, the Company formed and incorporated Southern Farm Bureau Universal Life Insurance Company (SFBULIC), a wholly owned insurance subsidiary. In December 1998, the commissioner of insurance for the state of Mississippi approved SFBULIC to be merged into the Company.

Pursuant to a stockholder vote on February 21, 1983, the articles of association were further amended, increasing the Company's authorized capital to \$2,000,000; divided into 20,000 shares of \$100 par value common stock.

On October 29, 1984, Florida Farm Bureau Holding Company purchased 400 shares of the Company's common stock and, as a stock dividend, the Company issued 960 shares of its common stock to same. The Charter Treaty was again amended to reflect this change. Florida Farm Bureau Life Insurance Company merged into SFBULIC effective January 1, 1985.

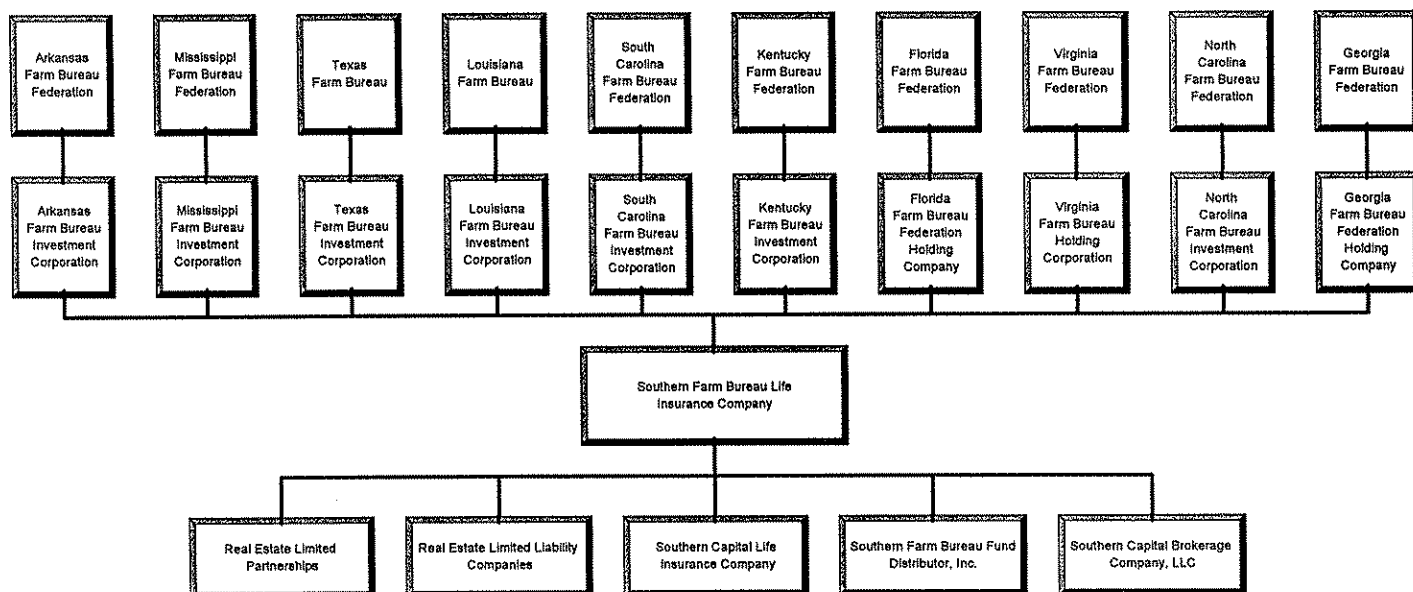
On March 17, 1994, the Company disclaimed control by and affiliation with its shareholders and their parent companies pursuant to Miss. Code Ann. §83-6-17, which was approved by the commissioner of insurance for the state of Mississippi. On October 19, 2004, the Charter Treaty was amended and its stated term was extended to perpetuity.

On October 16, 2007, the articles of association and the bylaws of the Company were amended and restated, and were approved by the commissioner of insurance for the state of Mississippi on January 7, 2008. Such approval did not include or extend to an approval, either in whole or in part, of the Charter Treaty or the terms and conditions thereof.

## HOLDING COMPANY STRUCTURE

The holding company structure of the organization is depicted in the following organizational chart with a brief description of each subsidiary immediately following the organizational chart.

### Organizational Chart



The following is information concerning the Company's wholly owned subsidiaries:

**Southern Capital Life Insurance Company;** On December 23, 1981, the Company formed and incorporated Southern Farm Bureau Annuity Insurance Company (SFBAIC), a wholly owned insurance subsidiary. SFBAIC was dormant except for investment activity until July 1983, when it was activated to reinsure annuities written by the Company. This relationship was later cancelled and all business was transferred back to the Company. After, the name Southern Farm Bureau Annuity Insurance Company was changed to Southern Capital Life Insurance Company, which is presently inactive.

**Southern Farm Bureau Fund Distributor, Inc.;** This company was incorporated on May 15, 1981 for the purpose of engaging in the buying, selling, and dealing in or with various securities. The company currently operates as the distributor and principal underwriter for the sale of variable products, where the company's representatives, who are also licensed insurance agents, are required to be registered with the Financial Industry Regulatory Authority (FINRA).

**Southern Capital Brokerage Company, LLC.;** This company was incorporated on November 25, 2002 and acts as an intermediary for the selling of insurance products not directly offered by the Company.

**Real Estate Limited Partnerships and Limited Liability Companies;** These numerous companies were established to hold the Company's real estate investments, which were reviewed without material exception.

## Related Party Transactions

The Company had various agreements with the Farm Bureau Federations and Farm Bureaus located in counties of the states in which business was conducted. According to management, these agreements provided the Company with greater operating efficiency and prompt service to its policyholders. These agreements provided reimbursement for the cost of office space and clerical assistance, as well as the use of the Farm Bureau name and logo within the related territory. The amounts paid in regard to these agreements were \$17,240,865, \$17,319,604 and \$14,547,312 in 2006, 2005 and 2004, respectively.

In addition, the Company allocated certain expenses to its subsidiaries, principally Southern Capital Life Insurance Company; such expenses approximated \$25,000 for each year under examination. The federal income taxes were allocated to the Company's subsidiaries as though separate tax returns were filed.

## MANAGEMENT AND CONTROL

### Stockholders

As reflected in the above organizational chart, the Company is owned by the Farm Bureau Investment Corporations in Arkansas, Kentucky, Mississippi, Texas, Louisiana, South Carolina, and North Carolina, and holding corporations in Virginia, Florida, and Georgia, which are controlled by the Farm Bureau Federation in each state respectively. Each shareholder owns 10% (1,500 shares at \$100 par value each) of the Company's 15,000 common shares issued and outstanding. The Company paid dividends to its stockholders during the examination period of \$119,000, \$123,200 and \$126,300 for 2006, 2005 and 2004, respectively.

### 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. The members of the duly elected board of directors, along with their state of residence and principal occupation, at December 31, 2006, are as follows:

#### Name and City of Residence

#### Principal Occupation

Mr. Ronald Ray Anderson  
Ethel, Louisiana

Farmer and President of Louisiana  
Farm Bureau Federation

Mr. Lloyd Arthur  
Ralls, Texas

Farmer and Vice President of Texas  
Farm Bureau Federation

Mr. William Donald Childs  
Commerce, Georgia

Farmer

Mr. Andrew Marshall Coyle  
Owingsville, Kentucky

Farmer, President of Kentucky Farm  
Bureau Federation

Mr. Kenneth Dierschke  
San Angelo, Texas

Farmer and President of Texas Farm  
Bureau Federation

**Name and City of Residence**

**Principal Occupation**

Mr. John Wayne Dollar  
Ochlocknee, Georgia

Farmer and President of Georgia  
Farm Bureau Federation

Mr. Ben Martin Gramling, II  
Gramling, South Carolina

Chairman of the Board of  
Gramling Brothers, Inc.

Mr. Mark Haney  
Nancy, Kentucky

Farmer

Mr. Bruce Lane Hiatt  
Cana, Virginia

Farmer and President of Virginia  
Farm Bureau Federation

Mr. Carl Bowie Loop, Jr.  
Jacksonville, Florida

Farmer, President of Florida  
Farm Bureau Federation and  
President and Chairman of the Board  
of Directors of SFBLIC

Mr. Kenneth M. Middleton II  
Glen Allen, Mississippi

Partner in Middleton Planting  
Company

Mr. Oliver Bryan Mitchell  
Doyline, Louisiana

Farmer

Mr. Wayne Franklin Pryor  
Goochland, Virginia

Farmer

Mr. Stanley Eldon Reed  
Marianna, Arkansas

Farmer, Attorney and President  
of Arkansas Farm Bureau Federation

Mr. Raymond Richard Roth, Jr.  
Wellington, Florida

President of Roth Farms, Inc. and  
Vice President of Florida Farm  
Bureau Federation

Mr. Randy Veach  
Manila, Arkansas

Farmer

Mr. David Whitmire Waide  
West Point, Mississippi

Farmer and President of Mississippi  
Farm Bureau Federation

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

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

**Name and City of Residence****Principal Occupation**

Mr. Larry Bernard Wooten  
Raleigh, North Carolina

Partner of Wooten Farming and  
Seed and President of North  
Carolina Farm Bureau Federation

Mr. John Milton Wright, Jr.  
Reidsville, North Carolina

Retired Farmer

**Officers**

The following are the officers that were duly elected by the board of directors and holding office at December 31, 2006.

**Name****Position**

Mr. Carl B. Loop, Jr.

Chairman of the Board and President

Mr. John Wayne Dollar

First Vice President

Mr. J. Joseph Stroble

Executive Vice President, CEO

Mr. Laurence E. Favreau

Senior Vice President, CFO

Mr. Gino Gianfrancesco

Senior Vice President, Marketing

Mr. Randy M. Johns

Senior Vice President, Policy Administration  
and Assistant Secretary

Mr. Joseph A. Purvis

Senior Vice President, General Counsel and  
Secretary

Mr. Sherrell Ballard

Vice President, Information Systems

Mr. Denny Blaylock

Vice President, Underwriting

Mr. Glen Castle

Vice President, Group, Pension and Variable  
Product

Dr. David N. Duddleston

Vice President, Medical Director

Mr. Richard Fielding

Vice President, Chief Actuary

Mr. Philip R. Hogue

Vice President, Realty Investments

Mr. Kenneth P. Johnston

Vice President, Product Development

Mr. Richard D. McClure

Vice President, Claims

Mr. Perry McGaugh

Vice President, Legal

**Name**

**Position**

|                         |  |
|-------------------------|--|
| Mr. Walter J. Olson III | Vice President, Chief Investment Officer |
| Mr. Billy Sims          | Vice President, Human Resources          |
| Mr. E.J. Trosclair      | Vice President, Agency                   |
| Mr. Robert E. Ward      | Vice President and Controller            |

**Committees**

During the time period covered by this examination, the following committees were utilized by the Company to carry out the certain specified duties: investment committee, executive committee, audit committee and compensation committee. The minutes to these committees were reviewed and appeared to be in order and the committees appeared to be provided appropriate oversight by the Board of Directors.

The Investment Committee is authorized by Section 2, Article V of the by-laws to buy and sell certain investments for and on behalf of the Southern Farm Bureau Life Insurance Company. The committee generally meets weekly.

The following officers and directors served on the Investment Committee at December 31, 2006.

|                                 |                        |
|---------------------------------|------------------------|
| Mr. J. Joseph Stroble, Chairman | Mr. Gino Gianfrancesco |
| Mr. Laurence E. Favreau         | Mr. Richard Fielding   |
| Mr. Walter J. Olson III         | Mr. Joseph A. Purvis   |

The Executive Committee's purpose is to review, receive, and file the reports of the Executive Vice President, CEO, Marketing and Investment Committee and the review of financial statements. The Committee generally meets twice a year.

The following directors served on the Executive Committee at December 31, 2006.

|                        |                                 |
|------------------------|---------------------------------|
| Mr. Marshall Coyle     | Mr. Carl B. Loop, Jr., Chairman |
| Mr. John Wayne Dollar  | Mr. Stanley Reed                |
| Mr. Ronald R. Anderson | Mr. David Waide                 |
| Mr. Larry Wooten       | Mr. David M. Winkles, Jr.       |
| Mr. Kenneth Dierschke  | Mr. Bruce Hiatt                 |

The Audit Committee's purpose is to review the report of the independent auditors, approve the independent auditors' report, pre-approve non-audit services from the Company's auditors, and recommend auditors for the following years. The Committee meets once a year.



The following directors served on the Audit Committee at December 31, 2006.

Mr. Ronald R. Anderson

Mr. Bruce Hiatt

Mr. Marshall Coyle

Mr. Carl B. Loop, Jr.

Mr. Larry Wooten

Mr. David Waide, Chairman

The Compensation Committee's purpose is to review and recommend changes to Compensation Program and the retirement program. They also approve recommendations to the Board for increases in officers' salaries. The Committee meets once a year.

The following directors served on the Compensation Committee at December 31, 2006.

Mr. Carl B. Loop, Jr., Chairman

Mr. Stanley Reed

Mr. Wayne Dollar

Mr. David Winkles

Mr. Kenneth Dierschke

#### Conflict of Interest

The Company has formal procedures whereby disclosure is made to the board of directors 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', AND EMPLOYEES' WELFARE

The Company provided a non-contributory defined benefit pension plan, a contributory defined contribution plan, a post-retirement benefit plan, and various other deferred compensation plans for its directors, officers, and employees. Provisions were made within the financial statements for obligations under such plans.

## REINSURANCE

In accordance with the NAIC Examiners' Handbook, the reinsurance program of the Company was reviewed and no material concerns were noted with the reinsurance cycle. Further, no treaties were noted that contained unusual provisions, transfer of risk issues or other relevant concerns. Based upon such, each treaty is not addressed independently within the body of this examination report.

## ACCOUNTS AND RECORDS

The Company's accounting and record keeping system is built around an IBM 3090 mainframe computer that included numerous software applications, such as Ingenium, the new policy administration system, as well as applications for payroll, cost/budget, inventory, and general accounting. The system is on-line and can be accessed by numerous IBM terminals. Also, wide use is made of personal computers in various areas of the Company where the specialized data is only applicable to the user's area.

## 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, 2006.

| Description           | State Deposited | Par Value           | Fair Value          |
|-----------------------|-----------------|---------------------|---------------------|
| U.S. Treasury         | Mississippi     | \$ 4,550,000        | \$ 4,752,247        |
| U.S. Treasury         | North Carolina  | 1,200,000           | 614,004             |
| U.S. Treasury         | Arkansas        | 130,000             | 109,866             |
| Treasury Money Market | Georgia         | 50,000              | 50,000              |
| Total                 |                 | <u>\$ 5,930,000</u> | <u>\$ 5,526,117</u> |

**SOUTHERN FARM BUREAU LIFE INSURANCE COMPANY  
FINANCIAL STATEMENTS  
EXAMINATION AS OF DECEMBER 31, 2006**

**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, 2006, a Summary of Operations for the year ended December 31, 2006, and a Reconciliation of Surplus as Regards Policyholders for the examination period ended December 31, 2006.

# Southern Farm Bureau Life Insurance Company

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

| December 31,   | 2006                    |
|--|-------------------------|
| <b>Admitted Assets</b>                                     |                         |
| Bonds  | \$ 6,422,113,666        |
| Preferred stocks   | 18,659,680              |
| Common stocks  | 531,400,827             |
| Mortgage loans   | 1,241,471,516           |
| Real estate occupied by the company                        | 13,843,796              |
| Properties held for sale                                   | 815,467                 |
| Cash and short-term investments (cash (\$5,262,225))       | 252,393,569             |
| Contract loans   | 363,509,545             |
| Other invested assets                                      | 444,588,170             |
| Receivable for securities                                  | 9,866,506               |
| Investment income due and accrued                          | 96,675,701              |
| Uncollected premiums                                       | 4,484,378               |
| Deferred premiums  | 135,965,212             |
| Amounts due from reinsurers                                | 595,118                 |
| Net deferred tax assets                                    | 22,998,210              |
| Guaranty funds receivable or on deposit                    | 3,720,518               |
| Electronic data processing equipment and software          | 1,288,353               |
| Receivable from affiliate                                  | 1,829,440               |
| Separate account assets                                    | 114,612,835             |
| Aggregate write-in: other assets                           | 500                     |
| <b>Total admitted assets</b>                               | <b>\$ 9,680,833,007</b> |
| <b>Liabilities, Capital and Surplus</b>                    |                         |
| Aggregate reserve for life policies                        | \$ 6,845,899,906        |
| Aggregate reserve for accident and health policies         | 55,765,141              |
| Liability for deposit-type contracts                       | 803,480,956             |
| Life claims payable  | 25,152,149              |
| Accident and health claims payable                         | 2,299,820               |
| Policyholders' dividends                                   | 266,177                 |
| Dividends apportioned for payment                          | 47,777,423              |
| Premiums received in advance                               | 1,020,571               |
| Provision for experience rating refunds                    | 6,407,654               |
| Commissions to agents due or accrued                       | 5,946,986               |
| General expenses due or accrued                            | 24,434,116              |
| Transfers to separate accounts                             | (4,021,246)             |
| Taxes, licenses and fees due or accrued                    | 5,255,822               |
| Current federal income taxes                               | 12,752,560              |
| Amounts withheld or retained by the Company                | 1,399,688               |
| Amounts held for agents                                    | 345                     |
| Remittances and items not allocated                        | 7,693,295               |
| Liabilities for benefits for employees and agents          | 4,816,593               |
| Borrowed money   | 31,201,451              |
| Asset valuation reserve                                    | 174,930,415             |
| Payable to parent, subsidiaries and affiliates             | 11,282,558              |
| Payable for securities                                     | 7,826,077               |
| Separate account liabilities                               | 114,612,835             |
| Aggregate write-in: accounts payable and other liabilities | 11,405,178              |
| <b>Total liabilities</b>                                   | <b>8,197,606,470</b>    |
| Common capital stock                                       | 1,500,000               |
| Gross paid in and contributed surplus                      | 400,000                 |
| Unassigned funds   | 1,481,326,537           |
| <b>Total capital and surplus</b>                           | <b>1,483,226,537</b>    |
| <b>Total liabilities, capital and surplus</b>              | <b>\$ 9,680,833,007</b> |

# Southern Farm Bureau Life Insurance Company

## Summary of Operations

For the Year Ended December 31,

2006

|  |                       |
|--|-----------------------|
| <b>Income</b>  |                       |
| Life premiums  | \$ 476,946,246        |
| Annuity premiums and other fund deposits   | 201,990,299           |
| Accident and health premiums   | 17,287,769            |
| Supplementary contracts and dividend accumulations   | 11,421,189            |
| Investment income, net of expenses   | 496,721,574           |
| Amortization of interest maintenance reserve   | (2,636,700)           |
| Commission and expense allowances on reinsurance ceded   | 8,260,722             |
| Miscellaneous other income   | 2,122,989             |
| <b>Total income, net of amortization of interest maintenance reserve</b>   | <b>1,212,114,088</b>  |
| <b>Benefits and reserve changes</b>  |                       |
| Death benefits   | 148,218,243           |
| Matured endowments   | 816,605               |
| Annuity benefits   | 47,392,326            |
| Disability benefits and benefits under accident and health contracts   | 10,714,904            |
| Surrender benefits and withdrawals for life contracts  | 360,098,518           |
| Interest on policy and contract funds  | 44,014,220            |
| Payments on supplementary contracts with life contingencies  | 14,367,238            |
| Increase in aggregate reserve for life and accident and health contracts   | 183,770,574           |
| <b>Total benefits and reserve changes, including interest on contract funds</b>                                      | <b>809,392,628</b>    |
| <b>Other operating expenses and transfers</b>  |                       |
| Commissions  | 53,386,554            |
| General insurance expenses   | 112,491,063           |
| Taxes, licenses and fees, excluding federal income taxes   | 16,256,339            |
| Increase in loading on deferred and uncollected premiums   | (1,276,637)           |
| Net transfers to separate accounts, net of reinsurance   | 18,744,665            |
| Aggregate write-ins: Increase in misc. expenses and experience rating refund reserve                                 | 1,106,170             |
| <b>Total other operating expenses and transfers</b>  | <b>200,708,154</b>    |
| Net gain from operations before dividends to policyholders and federated income taxes                                | 202,013,306           |
| Policyholders' dividends   | 46,610,736            |
| Net gain from operations after dividends to policyholders and before federal income taxes                            | 155,402,570           |
| Federal income taxes incurred  | 40,362,702            |
| Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains | 115,039,868           |
| Net realized capital gains, excluding transfers to interest maintenance reserve                                      | 49,920,571            |
| <b>Net income</b>  | <b>\$ 164,960,439</b> |

# Southern Farm Bureau Life Insurance Company

## Reconciliation of Surplus as Regards Policyholders

*For the examination period ended December 31, 2006*

|  | 2004                    | 2005                    | 2006                    |
|--|-------------------------|-------------------------|-------------------------|
| Capital and surplus, beginning of the year               | \$ 969,165,972          | \$ 1,116,381,790        | \$ 1,292,283,991        |
| Net income   | 136,308,101             | 194,084,869             | 164,960,439             |
| Change in net unrealized capital gains<br>(losses)       | 35,963,597              | (24,282,320)            | 56,828,186              |
| Change in foreign exchange capital gains<br>(losses)     | 246,718                 | -                       | -                       |
| Change in net deferred income tax                        | (10,991,923)            | 2,953,019               | (10,556,032)            |
| Change in non-admitted assets                            | 16,153,869              | (5,551,226)             | 15,144,774              |
| Change in asset valuation reserve                        | (30,338,244)            | 7,578,465               | 734,427                 |
| Cumulative effect of changes in accounting<br>principles | -                       | -                       | (36,050,248)            |
| Adjustment for prior year benefit accrual                | -                       | 1,242,594               | -                       |
| Dividends to stockholders                                | (126,300)               | (123,200)               | (119,000)               |
| <b>Capital and surplus, end of the year</b>              | <b>\$ 1,116,381,790</b> | <b>\$ 1,292,283,991</b> | <b>\$ 1,483,226,537</b> |

Note: The cumulative effect of changes in accounting principles in the amount of \$36,050,248 as reflected above and offset by the change in unrealized capital gains is the result of the Company adopting SSAP No. 93 (Accounting for Low-Income Housing Tax Credit Property Investments) effective January 1, 2006 in order to reflect the appropriate book values. Additionally, SSAP No. 93 allows the cost of the tax credits to be amortized over the investments useful life. The amount amortized during 2006 was \$14,593,429 and is reflected in net investment income.

**RECONCILIATION OF EXAMINATION ADJUSTMENTS  
DECEMBER 31, 2006**

As a result of this examination, there have been no changes affecting surplus, as regards to policyholders, made to the admitted assets, liabilities, and surplus balances reported by the Company in the December 31, 2006 annual statement as filed with the MID. The capital and surplus reported by the Company of \$1,483,226,537 is accepted as reasonably stated for purposes of the balance sheet per the examination.

## **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 and underwriting, territory and plan of operation, advertising and sales materials, treatment of policyholders, producer licensing and privacy compliance. 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, the Company appeared to have the appropriate licensure to issue its products, and the applicable policy forms appeared to be 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 insurance application was reviewed in order 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 is authorized to conduct ordinary life insurance business in the states of Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Texas, and Virginia. Wherein, the Company markets a portfolio of traditional interest-sensitive and variable life insurance products and single and flexible premium fixed and variable deferred annuity contracts through joint operations with ten property and casualty insurance companies that represent the Farm Bureau Federations throughout its territorial region. Through this captive distribution system, sales and services for a full line of insurance products were offered by approximately 4,200 career multi-line agents who worked through more than 1,300 offices located in every county within the territorial regions.

As a component of the examination testing of producer licensing, the examination team 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 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. Additionally, resisted claims, as reported on Schedule F of the NAIC annual statement, were reviewed during the time period covered by this examination without material exception 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 reinstatements were applied consistently and in accordance with policy provisions. Furthermore, the files were reviewed to ensure that any relevant information was 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, 2006, 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, 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**

During the course of the current examination, procedures were performed to test the Company's compliance with recommendations from the previous examination report, dated December 31, 2003. Upon review of the actions taken by the Company pursuant to the previous examination, it appears that adequate and appropriate actions were taken by the Company.

### **CURRENT EXAMINATION COMMENTS AND RECOMMENDATIONS**

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

### **SUBSEQUENT EVENTS**

The Company subsequently implemented a new claims system in 2007. The new claims system is a Windows Based Application, secured with Active Directory, and tied to SFBLIC's mainframe Accounting System, Document Management System (Onbase), and Policy Administration System (Ingenium and Life 70).

This system went into production on March 31, 2007 and went live on April 2, 2007. It appears to have been tested thoroughly in test and quality assurance environments by programmers and Quality Assurance staff.

The Company is also implementing a new agency compensation and incentive software that will replace their in-house developed agency compensation and incentive software.

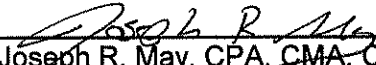
## ACKNOWLEDGMENT

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

|                       |   |
|-----------------------|---|
| Examiner-in-charge    | Joseph R. May, CPA, CMA, CFE, CIE, FAHM |
| Administrative Review | Randy Eure, CPA                         |
| Actuary               | Thomas L. Burger, FSA, MAAA             |
| Actuary               | Joseph J. Wallace, Jr., ASA, MAAA       |
| Automation Examiner   | J. Scott Joyner, AES, CISA, CGAP        |
| Examiner              | Rebecca Dennis, CPA                     |
| Examiner              | Whitney Craig, CPA                      |
| Examiner              | Francois Houde, CA                      |
| Examiner              | Angie Plunkett                          |
| Examiner              | Kim Scharl                              |

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

Respectfully submitted,

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