EXAMINATION REPORT
on
VIRGINIA FARM BUREAU MUTUAL INSURANCE COMPANY
Richmond, Virginia
as of
December 31, 2008

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
http://www.scc.virginia.gov/division/boi

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Virginia Farm Bureau Mutual Insurance Company as of December 31, 2008, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed to the original the seal of the Bureau at the City of Richmond, Virginia this 21st day of December, 2009

Alfred W. Gross
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

September 4, 2009
Richmond, Virginia

Honorable Alfred W. Gross
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and in accordance with the requirements of § 38.2-1317 of the Code of Virginia, an examination of the affairs and financial condition of the

VIRGINIA FARM BUREAU MUTUAL INSURANCE COMPANY

Richmond, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a mutual property and casualty insurer and was last examined by representatives of the Virginia State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2005. The current examination covers the three-year period from that date through December 31, 2008.

HISTORY

The Company was granted a charter by the Virginia State Corporation Commission (Commission) on November 28, 1949, and commenced business on September 15, 1950. The Company was organized without capital stock and is not for profit. According to the charter, the purpose for which the Company was formed, in part, is as follows:

> To engage in and conduct the business of a mutual insurance company, and to that end to issue insurance policies as may be permitted by the laws of Virginia...

On August 10, 1994, the Company transferred $4,500,000 in cash to Virginia Farm Bureau Town and Country Insurance Company (VFBTCIC) in exchange for all outstanding shares of common capital stock of VFBTCIC. On October 31, 1994, the Company transferred $953,620 in cash, 100% of the common capital stock of VFBTCIC and 100% of the common capital stock of Virginia Farm Bureau Fire and Casualty Insurance Company (VFBFCIC) to Farm Bureau Holdings of Virginia, Inc. (Holdings) in exchange for 100% of the common capital stock of Holdings.

In 1998, Holdings issued 4,150 shares of its common stock to Southern Farm Bureau Life Insurance Company (SFBLIC) for $9,900,000 in cash. This resulted in the Company owning 70.7% of Holdings and SFBLIC owning the remaining 29.3%. In connection with this purchase of voting stock of Holdings, SFBLIC filed with the Bureau a disclaimer of affiliation which was accepted by the Bureau. In December 2006, the Company paid $10,000,000 in cash to purchase the 29.3% interest in Holdings held by SFBLIC. The Company now owns 100% of Holdings.

On May 29, 2002, the Company entered into an Affiliation Agreement with Smyth County Mutual Insurance Company (Smyth County). The purpose of this arrangement was to provide financial and underwriting stability to Smyth County. The agreement required that Smyth County enter into a Net Premium Reinsurance Agreement with the Company, pursuant to which Smyth County will cede 95% of its premiums written and losses to the Company. Smyth County also entered into a Administrative Services Agreement with the Company to provide administrative and other related services. The Company provided additional capital of $100,000 to Smyth County through the issuance of a subordinated surplus debenture. On May 30, 2002, the Bureau approved the Company's application to assume control of Smyth County. In 2004, the subordinated surplus debenture was paid back in full following Bureau approval.

MANAGEMENT AND CONTROL

The bylaws of the Company provide for its affairs to be managed by a Board of Directors consisting of one or more individuals, but the number of directors shall be the same as the number of elected directors of Virginia Farm Bureau Federation (Federation). None of the members of the Board of Directors need be a member or policyholder of the Company, but all must be members of the Board of Directors of the Federation. A majority of the members of the board shall constitute a quorum for the transaction of business.

The bylaws also provide that the Company's officers shall be a president, first vice president, executive vice president, secretary and a treasurer, and may include one or more vice presidents and such other officers as the board may deem necessary. Any two or more offices may be held by the same person except the offices of president and secretary.

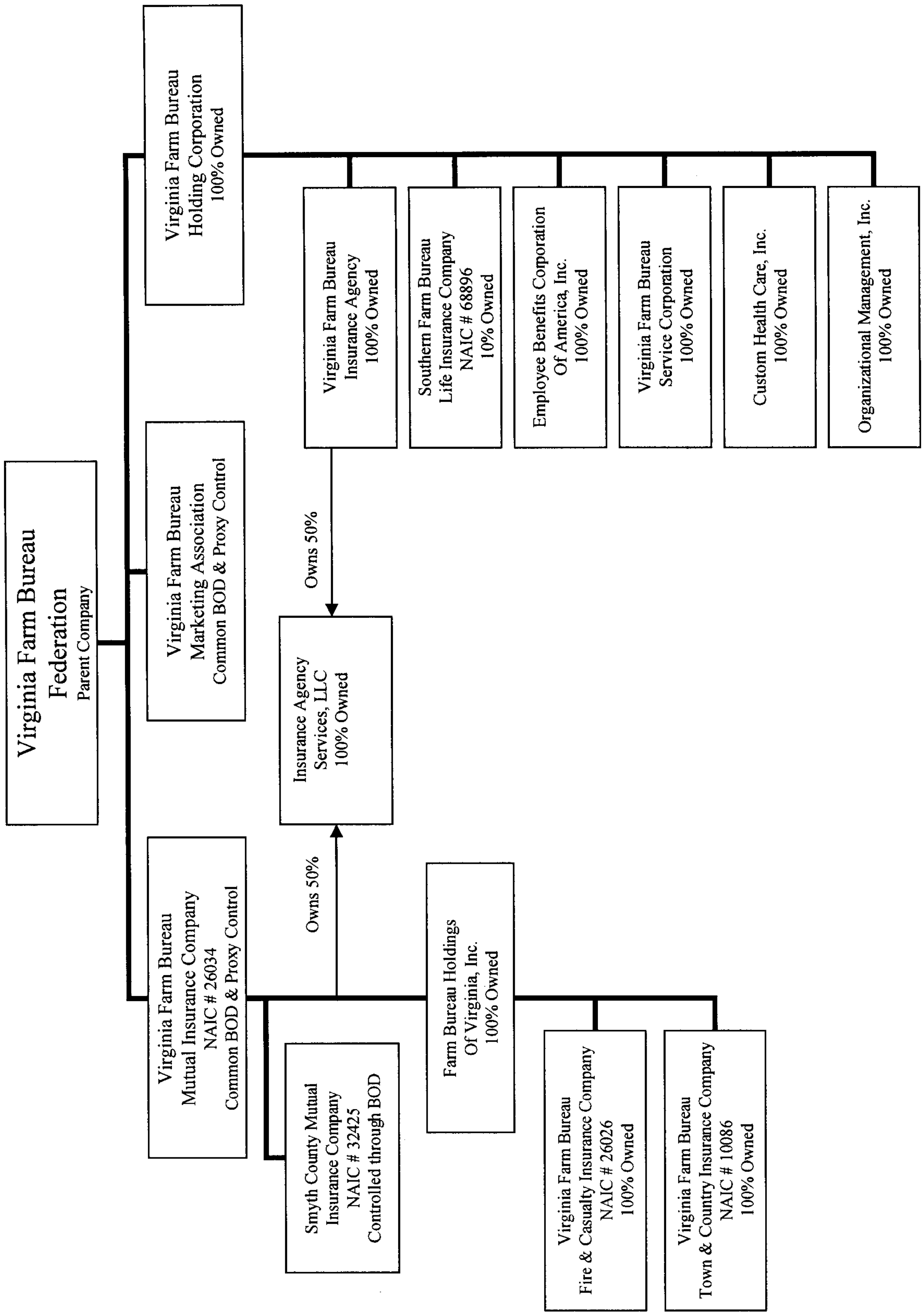
At December 31, 2008, the directors and officers of the Company were as follows:

Directors	Business or Affiliation	County of Residence
Wayne F. Pryor	Farmer/President of the Company	Goochland
Archie B. Atwell	Farmer	Smyth
Janice A. Burton	Farmer	Halifax
Martin L. Everett	Farmer	Southampton
Emily F. Edmondson	Farmer	Tazewell
Thomas E. Graves, Jr.	Farmer	Orange
Robert E. Hall	Farmer	Northumberland-Lancaster
David L. Hickman	Farmer	Accomack
Evelyn H. Janney	Farmer	Montgomery
Jordan M. Jenkins, Jr.	Farmer	Lunenburg
Gordon R. Metz, Jr.	Farmer	Henry
Stephen L. Saufley	Farmer	Rockingham
Edward A. Scharer	Farmer	Albemarle
Howard C. Tinder, Sr.	Farmer	Albemarle
Joseph H. Williams	Farmer	Pittsylvania
Henry E. Wood, Jr.	Farmer	Buckingham
James A. Yankey	Farmer	Prince William/Fairfax
John R. Zirkle, Sr.	Farmer	Shenandoah

Officers	
Wayne F. Pryor	President, Administrative Officer and Chief Executive Officer
Richard L. Rivers	Executive Vice President and General Manager
Edward A. Scharer	First Vice President
Vacant	Treasurer
Jonathan S. Shouse	Secretary
Peggy L. McClelland	Assistant Treasurer
David A. Priddy	Assistant Treasurer

The Company is a member of a holding company system as defined by the Code of Virginia. The Company is controlled by the Federation by means of a common board of directors and through proxy control. The Company owns 100% of the outstanding shares of Holdings, which owns all of the outstanding shares of VFBFCIC and VFBTCIC. Virginia Farm Bureau Holding Corporation owns 10% of SFBLIC, thereby making SFBLIC a member of the holding company.

The following organizational chart illustrates this relationship at December 31, 2008:


Virginia Farm Bureau
Federation
Parent Company
Virginia Farm Bureau
Holding Corporation
100% Owned
Virginia Farm Bureau
Marketing Association
Common BOD & Proxy Control
Virginia Farm Bureau
Mutual Insurance Company
NAIC # 26034
Common BOD & Proxy Control
Virginia Farm Bureau
Insurance Agency
100% Owned
Southern Farm Bureau
Life Insurance Company
NAIC # 68896
10% Owned
Employee Benefits Corporation
Of America, Inc.
100% Owned
Virginia Farm Bureau
Service Corporation
100% Owned
Custom Health Care, Inc.
100% Owned
Organizational Management, Inc.
100% Owned
Owns 50%
Insurance Agency
Services, LLC
100% Owned
Owns 50%
Smyth County Mutual
Insurance Company
NAIC # 32425
Controlled through BOD
Farm Bureau Holdings
Of Virginia, Inc.
100% Owned
Virginia Farm Bureau
Fire & Casualty Insurance Company
NAIC # 26026
100% Owned
Virginia Farm Bureau
Town & Country Insurance Company
NAIC # 10086
100% Owned

RELATED PARTY TRANSACTIONS

The Company has separate administrative services agreements with VFBFCIC and VFBTCIC. Pursuant to the agreements, the Company provides accounting, financial, investment, actuarial, underwriting, claims and computer services to each entity. In consideration of the services rendered, the entities shall pay the Company a quarterly service fee equal to the actual costs incurred by the Company in providing such services. The service fee shall be paid within 10 days of the receipt of the Company's accounting of the incurred expenses. VFBFCIC incurred expenses of $7,518,040, $8,137,691 and $8,308,817 for 2006, 2007 and 2008, respectively. VFBTCIC incurred expenses of $12,577,885, $13,730,213 and $15,099,293 for 2006, 2007 and 2008, respectively.

In 1994, the Company entered into a sale/leaseback agreement with the Federation for the Company's home office building. The Company sold the building to the Federation for $16,250,000, and contemporaneously entered into a lease agreement with the Federation for the same amount. The term of this lease was for 30 years and was accounted for as a capital lease. As a result of the adoption of the NAIC Accounting Practices and Procedures Manual, the lease was converted to an operating lease in 2002 in order to comply with Statutory Accounting Principles. The conversion resulted in an increase to surplus of approximately $4.3 million. The Company's lease payments for 2006, 2007 and 2008 were $1,488,316 each year.

The Company paid $1,457,051, $1,203,983 and $994,999 in 2006, 2007 and 2008 respectively, to the Federation to be transmitted to certain county Farm Bureaus as compensation for providing office space and insurance-related services in their respective counties. This compensation is based on a percentage of premiums written by the Company in each county.

During 2002, the Company contributed $1,000,000 toward the formation of a limited liability company, Insurance Agency Services, LLC, representing a 50% interest in the membership of the limited liability company. The remaining 50% is owned by Virginia Farm Bureau Insurance Agency.

The Company has management and office services agreements with certain affiliated non-insurance Virginia Farm Bureau companies. Pursuant to these agreements, the Company either provides services to or receives services in the normal course of its business. The companies are listed below, along with their respective fees for 2008:

	2008
Virginia Farm Bureau Federation	$1,519,542
Virginia Farm Bureau Marketing Association	541
Virginia Farm Bureau Holding Corp.	11,541
Farm Bureau Holdings of Virginia, Inc.	5,413
Virginia Farm Bureau Service Corporation	585,052
Insurance Agency Services, LLC	50,572
Custom HealthCare, Inc.	12,345
Employee Benefits Corporation of America	579,126
Smyth County Mutual Insurance Company	84,181
Virginia Farm Bureau Insurance Agency	1,624
Total	$2,849,937

Effective January 1, 2007, the Company entered into a federal income tax allocation agreement with VFBFCIC and VFBTCIC. The purpose of this agreement is to provide for the filing of consolidated federal income tax returns for the allocation of federal income tax liability and savings among the companies. The method of allocation between the companies is made primarily on a separate return basis. The intercompany tax balances are settled quarterly. The final settlement shall be made within 30 days after the filing of the consolidated income tax return.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2008, the Company had a fidelity bond in force with a $2,000,000 policy limit and a $20,000 deductible. In addition, the Company had the following insurance policies in force at December 31, 2008: Fleet Automobile, Workers' Compensation and Employers' Liability, Directors' and Officers' Liability, Professional Liability, Blanket Building and Business Personal Property and Commercial Umbrella Liability.

TERRITORY AND PLAN OF OPERATION

The Company confines its operations to Virginia where it is licensed to transact the business of accident and sickness, fire, miscellaneous property, farmowners' multiple peril, homeowners' multiple peril, commercial multiple peril, ocean marine, inland marine, workers' compensation and employers' liability, liability other than automobile, automobile liability, automobile physical damage, aircraft liability, aircraft physical damage, fidelity, surety, glass, burglary and theft, boiler and machinery, animal and water damage insurance.

Business is produced by approximately 265 agents, who are compensated based on the amount of premiums written plus bonuses which are dependent upon a combination of the growth and profitability of the agent's book of business plus the companies' net income before taxes. Office space and clerical help are furnished to the agents in their territories by county Farm Bureaus under a Memorandum of Agreement with the Federation, which are compensated by the Company based upon a percentage of premium income, or under a Joint Operations Agreement.

Beginning in 2004, the Company offered to all 88 county Farm Bureaus (110 offices) the option to enter into a Joint Operations Agreement. Under that agreement, the Company would incur all operational costs of the office, including the employment of the office staff, in lieu of compensation based on written premium. As of December 31, 2008, 83 of the 110 county offices had entered into this agreement.

Risks are bound by the agents when applications are accepted in the field from qualified applicants, after which policies are issued from the Richmond office. If an insured is subsequently found not to meet the Company's underwriting requirements, the policyholder may be notified that his coverage will be canceled.

Losses are reported to the county Farm Bureau through which the application was taken. Claims are confirmed and adjusted by the Company's salaried personnel where practicable, otherwise independent professional adjusters or Farm Bureau insurance companies in other states are used.

GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau and from this and previous examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2008:

Year	Admitted Assets	Liabilities	Unassigned Surplus
1999	$186,615,590	$120,443,611	$66,171,979
2000	183,173,723	113,685,622	69,488,101
2001	194,090,160	126,283,129	67,807,031
2002	192,250,679	120,679,581	71,571,098
2003	199,769,808	135,562,249	64,207,559
2004	218,521,140	141,218,644	77,302,496
2005	229,490,400	133,976,847	95,513,553
2006	256,736,841	147,292,785	109,444,056
2007	269,462,629	148,189,031	121,273,598
2008	266,575,832	145,336,214	121,239,618

Year	Premiums Earned	Loss and Loss Adjustment Expenses Incurred	Other Underwriting Expenses	Net Underwriting Gain or (Loss)
1999	$78,340,285	$58,968,448	$19,729,643	($357,806)
2000	78,199,531	60,030,781	22,063,427	(3,894,677)
2001	93,059,972	68,136,893	27,076,232	(2,153,153)
2002	99,080,913	74,575,630	25,458,869	(953,586)
2003	107,682,034	92,216,718	30,223,492	(14,758,176)
2004	111,293,486	72,698,524	29,496,310	9,098,652
2005	106,987,973	61,841,446	29,229,280	15,917,247
2006	134,840,138	84,043,107	41,327,523	9,469,508
2007	135,225,957	82,469,084	45,044,005	7,712,868
2008	135,660,212	86,712,210	45,279,718	3,668,284

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2008:

Ceded:

Type of Agreement	Class of Business	Company Retention	Reinsurers' Limits
Surplus Share	Property (except auto physical damage)	$300,000 each risk	$40,000,000; occurrence cap of $10,000,000
Quota Share	Property (except auto physical damage)	60% of net subject premium and net retained insurance liability	$6,000,000 per occurrence
Excess of Loss	Property (Catastrophe)	12% of subject net earned premium with a 5% participation	$170,000,000
Excess of Loss	Property (Catastrophe -Terrorism)	$3,050,000	$6,100,000
Over Other Protections	Property		$100,000,000 for any one occurrence; $200,000,000 annually
Excess of Loss	Liability	$550,000	$22,000,000; occurrence cap of $1,200,000
	Workers' Compensation	$500,000	$30,000,000 ($1,200,000 maximum employers' liability limit)

Type of Agreement	Class of Business	Company Retention	Reinsurers' Limits
Quota Share	Casualty (Umbrella Liability)	10% of $1,000,000	90% of first $1,000,000; 100% up to $15,000,000
Excess of Loss	Insurance Agents Professional Liability (Claims Made)	$100,000 each loss event; $100,000 aggregate	$1,900,000 aggregate limit
Excess of Loss	Farm Pollution Liability (Claims Made)	$500 each incident	$1,000,000
Quota Share	Flood	None	100% of loss

All of the above agreements contain an insolvency clause.

Assumed:

On March 24, 1966, the Company's Board of Directors approved a Net Premiums Reinsurance Agreement with VFBFCIC (then Early Settlers Insurance Company). The agreement, as amended, provides for reinsurance of 100% of VFBFCIC's net losses and underwriting expenses incurred for which the Company receives 100% of earned premiums, less a commission of one half of one percent of premiums ceded. The Bureau approved the original agreement and subsequent amendments. On December 13, 1995, the Company entered into a Net Premiums Reinsurance Agreement with VFBFCIC, to be effective January 1, 1995. The agreement provides for reinsurance of 95% of VFBFCIC's net losses and underwriting expenses incurred, for which the Company receives 95% of earned premiums less a commission of one half of one percent of premiums ceded. The Bureau approved this agreement. The Net Premiums Reinsurance Agreement dated March 24, 1966 between the parties shall remain in full force and effect for all net premium earned, net losses incurred, and net underwriting expenses incurred for accident years 1994 and prior.

On September 20, 1994, the Company entered into a Net Premiums Reinsurance Agreement with VFBTCIC, to be effective September 1, 1994. The agreement provides for reinsurance of 95% of VFBTCIC's net losses and underwriting expenses incurred, for which the Company receives 95% of earned premiums less a commission of one half of one percent of premiums ceded. The Bureau approved this agreement.

On December 19, 1997, the Company entered into a separate Net Premiums Reinsurance Agreement with VFBFCIC and with VFBTCIC. These agreements amend the Net Premiums Reinsurance Agreements as discussed above to provide for the reinsurance by the Company of 100% of the business, excluding any automobile business, written by VFBFCIC and VFBTCIC, effective beginning with accident year 1998. The Bureau approved the agreements.

On May 29, 2002, the Company entered into a Net Premiums Reinsurance Agreement with Smyth County. Under the terms of this agreement, Smyth County agrees to cede to the Company, and the Company agrees to assume, 95% of Smyth County's net premiums earned during the term of this agreement. The Company will assume 95% of the net losses incurred and will reimburse Smyth County for 95% of the net underwriting expenses incurred during the term of this agreement. The Company will also pay Smyth County a ceding commission of one half percent of the net premiums ceded by Smyth County.

Effective March 1, 2000, the Company entered into a Non-Standard Automobile Reinsurance Pool Contract. Western Agricultural Insurance Company (Western), an Iowa domiciled insurance company, writes non-standard automobile insurance business in various states on behalf of the Farm Bureau Insurance companies that write preferred automobile business in those states. All such non-standard automobile insurance premiums written or assumed by Western are combined and placed into a series of pools. Each Farm Bureau Insurance company participating in the pool shall reinsure a share of the pool. The pool share percentage is calculated as the amount of direct written premium in the Farm Bureau Insurance company's state of operation divided by the pools total written premium for the calendar year. A separate pool is formed for each calendar year. The Company pays Western a service fee equal to one percent of the net written premium ceded under this agreement.

The Company also participates in the following retrocession agreements with its principal reinsurer, American Agricultural Insurance Company (AAIC):

1. Occurrence Property and Auto Catastrophe Pool
2. Occurrence Property Catastrophe (Terrorism) Pool
3. Multi-Line Pool
4. Over Other Protections Pool

Reinsurance Pooling Agreement:

Effective January 1, 1998, the Company entered into a Reinsurance Pooling Agreement with VFBFCIC and VFBTCIC for automobile policies. Each of the companies is an insured as well as a participant in the agreement. Pursuant to this agreement, each of the companies will cede 100% of their direct automobile business earned and assumed, after deduction for any reinsurance that is ceded to all other companies except for Country Mutual Insurance Company, after the effective date of this agreement. For the 1998 accident year, each Participant will assume an initial retrocession from the Pool in the percentage as indicated below:

Virginia Farm Bureau Mutual Insurance Company	60%
Virginia Farm Bureau Fire and Casualty Insurance Company	20%
Virginia Farm Bureau Town and Country Insurance Company	20%

Each participant will assume their proportionate share of the net premiums earned, net losses and loss adjustment expenses incurred, and underwriting expenses incurred that are ceded to the Pool, but shall not be liable for any amounts beyond said proportionate share, irrespective of the inability of other participants or reinsureds to meet their respective obligations.

The cession under the quota share agreement occurs after the cessions to the Pool and before the retrocessions back to the Pool participants.

For the 1999 accident year and each subsequent accident year, each participant will assume a retrocession from the Pool in a percentage that will be determined by the Board of Directors of the participating companies in January of the applicable year. For the accident years 2006 through 2008, the Board elected to retain the percentages indicated above.

PREMIUM ESCROW SECURITY FUND AGREEMENT

The Company is a party to an Escrow Agreement effective September 26, 1988, with AAIC (its reinsurer) and a bank to secure premium amounts due AAIC for IBNR claim reserves. According to the Agreement, the purpose of the escrow is to provide a fund in lieu of cash, the principal of which is owned by the reinsurer while the earnings are payable to the Company.

The bank was holding bonds with a par value of $1,650,644 under the escrow agreement at December 31, 2008. The Company reported a liability of $1,471,362 in its balance sheet for reinsurance funds held under the agreement at December 31, 2008.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2006, through December 31, 2008. Assets were verified and liabilities were established at December 31, 2008. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the NAIC *Financial Condition Examiners Handbook*. Analytical review procedures were applied for non-SRA items.

The services of Oliver Wyman Actuarial Consulting, Inc. were engaged pursuant to the provisions of Code of Virginia § 38.2-1318 E. This engagement was made to provide an actuarial report as to the reasonableness of the Company's total loss and loss adjustment expense reserves as of December 31, 2008.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Corporate Records
Management and Control
Fidelity Bond
Conflict of Interest
Territory and Plan of Operation
Reinsurance
Contracts and Underwriting
Special Reserves and Deposits
Growth of the Company
Accounts and Records
Financial Statements
Subsequent Events

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2008, a statement of income for the period ending December 31, 2008, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2008. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$133,055,741		$133,055,741
Preferred stocks	1,373,100		1,373,100
Common stocks	78,401,287		78,401,287
Properties held for the production of income	3,938,756		3,938,756
Cash, cash equivalents and short-term investments	615,254		615,254
Other invested assets	1,810,577		1,810,577
Investment income due and accrued	1,941,017		1,941,017
Uncollected premiums and agents' balances in course of collection	4,036,108	199,592	3,836,516
Deferred premiums, agents' balances and installments booked but deferred and not yet due	18,669,515	76,631	18,592,884
Amounts recoverable from reinsurers	8,901,477		8,901,477
Current federal income tax recoverable and interest thereon	2,855,598		2,855,598
Net deferred tax asset	5,003,427		5,003,427
Guaranty funds receivable or on deposit	466,862		466,862
Electronic data processing equipment	1,732,880	1,732,880	
Furniture and equipment	59,461	59,461	
Receivables from parent, subsidiaries and affiliates	4,626,132		4,626,132
Aggregate write-ins for other than invested assets	25,779,994	24,622,790	1,157,204
Totals	$293,267,186	$26,691,354	$266,575,832

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$52,306,314
Reinsurance payable on paid losses and loss adjustment expenses		4,456,906
Loss adjustment expenses		9,207,922
Commissions payable, contingent commissions and other similar charges		3,703,949
Other expenses		8,575,977
Taxes, licenses and fees		1,250,512
Unearned premiums		51,334,281
Advance premium		2,324,183
Ceded reinsurance premiums payable		9,044,626
Funds held by company under reinsurance treaties		1,471,362
Amounts withheld or retained by company for account of others		311,568
Remittances and items not allocated		286,517
Payable to parent, subsidiaries and affiliates		256,271
Aggregate write-ins for liabilities		805,826
Total liabilities		$145,336,214
Unassigned funds	$121,239,618	
Surplus as regards policyholders		121,239,618
Totals		$266,575,832

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	$135,660,212
Deductions:	
Losses incurred	$74,752,633
Loss adjustment expenses incurred	11,959,577
Other underwriting expenses incurred	45,279,718
Total underwriting deductions	$131,991,928
Net underwriting gain	$3,668,284

INVESTMENT INCOME

Net investment income earned	$7,401,330
Net realized capital losses	(1,416,624)
Net investment gain	$5,984,706

OTHER INCOME

Net loss from agents' or premium balances charged off	($93,612)
Finance and service charges not included in premiums	775,117
Total other income	$681,505
Net income before federal income taxes	$10,334,495
Federal income taxes incurred	3,357,262
Net income	$6,977,233

RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

	2006	2007	2008
Surplus as regards policyholders, December 31, previous year	$95,513,553	$109,444,056	$121,273,598
Net income	$13,569,727	$12,580,356	$6,977,233
Change in net unrealized capital gains or (losses)	1,826,793	871,875	(4,415,791)
Change in net deferred income tax	(1,944,529)	1,021,693	54,891
Change in nonadmitted assets	478,512	(2,644,382)	(2,650,313)
Change in surplus as regards policyholders for the year	$13,930,503	$11,829,542	($33,980)
Surplus as regards policyholders, December 31, current year	$109,444,056	$121,273,598	$121,239,618

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	$134,768,892
Net investment income	6,843,518
Miscellaneous income	681,505
Total	$142,293,915
Benefit and loss related payments	$76,841,012
Commissions, expenses paid and aggregate write-ins for deductions	56,934,268
Federal income taxes paid	5,381,975
Total	$139,157,255
Net cash from operations	$3,136,660

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$85,041,968
Stocks	108,414,238
Total investment proceeds	$193,456,206
Cost of investments acquired (long-term only):	
Bonds	$87,059,748
Stocks	117,161,315
Real estate	75
Total investments acquired	$204,221,138
Net cash from investments	($10,764,932)

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	($3,050,849)
Net cash from financing and miscellaneous sources	($3,050,849)
Net change in cash and short-term investments	($10,679,121)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$11,294,375
End of year	615,254
Net change in cash and short-term investments	($10,679,121)

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. During 2008, the Company discovered that its claims attorney had embezzled $2.1 million over an extended period of time. The employee was immediately terminated and was subsequently convicted of the crime. The Company employed the use of a forensic accountant, who determined that the employee had circumvented the internal control procedures that were designed to prevent such activities from occurring.

   The Examiners recommend that the Company should ensure that its internal control procedures are adequate, adhered to and tested on a regular basis.

2. The Company receives investment management services from AAIC. AAIC purchases bonds and stocks for the Company's investment portfolio pursuant to the investment policy established by the Company's Board of Directors. However, the Company and AAIC have not executed a contract to provide for such services.

   The Examiners recommend that the Company and AAIC execute an agreement for AAIC to provide investment management services to the Company.

Accounts and Records

3. During the review of unclaimed property, the Examiners noted the Company did not perform the necessary due diligence to ascertain the whereabouts of the unclaimed property owners as outlined in Code of Virginia § 55-210.12 E, which states:

   > All holders shall exercise due diligence, as defined in § 55-210.2, at least 60 days prior to the submission of the report to ascertain the whereabouts of the owner if (i) the holder has in its records an address for the apparent owner which the holder's records do not disclose to be inaccurate and (ii) the property has a value of $100 or more.

   The unclaimed property report was submitted without confirming the whereabouts of all owners during the period allowed for the completion of due diligence. The Examiners recommend the Company update its internal procedures to ensure due diligence is performed for all unclaimed property at least 60 days prior to the submission of the report.

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Crawley, CFE, Mario A. Cuellar, CFE, Gina M. Gainer, and Theresa C. Lewis, CFE of the Bureau participated in the work of the examination.

Respectfully submitted,

T. Bradford Earley, Jr., CFE, CPCU, AIAF
Insurance Principal Financial Analyst

VIRGINIA FARM BUREAU INSURANCE SERVICES

12580 West Creek Parkway • P.O. Box 27552 • Richmond, Virginia 23261 • 804-290-1000 • www.vafb.com

November 20, 2009

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, Virginia 23218

Dear Mr. Smith:

RE: Virginia Farm Bureau Mutual Insurance Co.
Examination Report as of December 31, 2008

The following is in response with respect to the recommendations for corrective action in the above referenced examination report.

Management and Control

1. As a result of the embezzlement discovered in 2008, the Company contracted with Keiter, Stephens, Hurst, Gary & Shreaves (Keiter) in October of 2008 to perform an internal audit of all claim processes. The objectives were to evaluate controls surrounding the entire claims process including a review of the process workflow, effectiveness of controls, and review of transactions processed between April and September of 2008. Management agreed with the recommendations and began the implementation process. In July 2009, Keiter performed a follow up internal audit covering the period May 2008 to July 2009, specifically testing for the implementation of their initial recommendations. While a few recommendations remained open due to the significance and complexity of the required changes, the Company was in compliance with the majority of the recommendations.

2. Virginia Farm Bureau Mutual Insurance Company receives investment management services from American Agricultural Insurance Company. We agreed that the terms and services provided should be more formalized, and therefore a written agreement between the parties describing the service, fees, and terms was executed on September 10, 2009.

Accounts and Records

3. The Company will revise its internal procedures to ensure that due diligence is performed for all unclaimed property in complete compliance with the Code of Virginia.

We appreciate the guidance and cooperation extended by all participating throughout the course of the examination. We would appreciate receiving five copies of the final report.

Sincerely,

VIRGINIA FARM BUREAU MUTUAL INSURANCE COMPANY

Jeff Dillon

Jeff Dillon
Senior Vice President and Treasurer