TEXAS FARM BUREAU GROUP

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BEST'S RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Rating of A- (Excellent). The group's Financial Size Category is Class VIII.

RATING UNIT MEMBERS

Texas Farm Bureau Group (AMB# 18452):

AMB#	COMPANY	RATING
00892	Texas Farm Bureau Mutual Ins	A- g
04359	Texas Farm Bureau Underwriters	A- r

RATING RATIONALE

Rating Rationale: The rating reflects the group's excellent risk-adjusted capitalization, solid operating performance and strong market presence as one of the leading personal lines insurance organizations in the state. These positive rating attributes are partially offset by the group's business concentration as a single state writer as evident in its variable underwriting performance. The rating is supported by improved underwriting performance and comprehensive reinsurance protection. The rating applies to Texas Farm Bureau Mutual Insurance Company and its fully reinsured affiliate, Texas Farm Bureau Underwriters.

The group's positive rating attributes are derived from management's conservative operating philosophy and disciplined underwriting guidelines. The group maintains a comprehensive reinsurance program designed to limit the impact catastrophic weather events have on its financial strength. In addition, the group maintains a sustainable competitive advantage due to its exclusive agency network, local market knowledge and low cost structure. The rating also acknowledges the improvement in the group's operating results in recent years, driven by underwriting performance initiatives in response to mold claims. The group further benefits from its sponsorship by the Texas Farm Bureau Organization, which enhances its customer loyalty and affinity. Finally, the rating recognizes the group's increased focus on risk management and catastrophic loss mitigation.

The offsetting rating attributes includes the group's business concentration as a Texas only writer, which subject its earnings to the impact of weather-related events, competitive pressures and regulatory concerns. In addition, the group experienced a deterioration in operating earnings in prior years, driven by weather-related losses and a significantly heightened frequency and severity of mold claims. Further, operating results have been recently dampened by catastrophe losses, including Hurricane Rita, as well as increased reinsurance costs. However, the group's catastrophe risk exposure is partially mitigated by its well managed spread of risk throughout the state and quality reinsurance protection.

Best's Rating: A- **Outlook: Stable**

FIVE YEAR RATING HISTORY

Date	Best's Rating
06/06/08	A-
05/10/07	A-
04/11/06	A-
03/04/05	A-
06/24/04	A-
12/23/03	A-
06/10/03	A-

KEY FINANCIAL INDICATORS

Period Ending	Statutory Data ($000) Direct Premiums Written	Net Premiums Written	Pretax Operating Income
2003	161,131	82,468	10,332
2004	182,313	92,329	30,916
2005	192,745	92,078	12,565
2006	217,116	99,986	9,061
2007	252,013	103,675	16,582
09/2007	191,160	82,460	8,945
09/2008	235,158	91,559	2,783

Period Ending	Statutory Data ($000) Net Income	Total Admitted Assets	Policy-holders' Surplus
2003	8,127	190,307	85,151
2004	20,680	216,957	106,725
2005	8,484	230,009	113,467
2006	6,496	257,177	120,111
2007	10,932	280,115	135,977
09/2007	5,770	289,673	131,139
09/2008	1,520	343,703	137,966

	Profitability			Leverage			Liquidity	
Period Ending	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev	Overall Liq (%)	Oper. Cash-flow (%)
2003	96.4	4.3	12.4	2.5	1.0	2.2	181.0	94.0
2004	73.5	4.1	35.3	2.7	0.9	1.9	196.8	121.2
2005	97.1	4.7	14.1	4.4	0.8	1.8	197.4	101.0
2006	99.6	4.8	10.2	6.0	0.8	2.0	187.6	133.1
2007	96.1	4.9	16.6	5.4	0.8	1.8	194.3	110.8
5-Yr Avg	92.7	4.6	17.7	…	…	…	…	…
09/2007	99.7	XX	12.0	XX	0.8	2.0	182.7	107.2
09/2008	107.6	XX	3.3	XX	0.8	2.3	167.1	94.7

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

Within several financial tables of this report, this group is compared against the Property Composite.

BUSINESS REVIEW

The Texas Farm Bureau Group, which consists of Texas Farm Bureau Mutual Insurance Company and its affiliate Texas Farm Bureau Underwriters, provides personal and commercial lines coverages exclusively to Farm Bureau members and their families. The mutual company assumes all property business from Texas Farm Bureau Underwriters through a 100% quota share reinsurance agreement. This business consists of homeowners, farm and ranchowners, fire and allied lines, inland marine (farm machinery, jewelry floaters and small boats) and commercial multiple peril coverages. All of the group's direct auto and umbrella business is ceded to a strategic affiliate, Southern Farm Bureau Casualty Insurance Company. All policies are non-assessable and are written on both a participating and non-participating basis. Business is marketed through approximately 740 exclusive agents. On July 1, 2002, the group entered into a 20% quota share reinsurance agreement with Southern Farm Bureau Casualty Insurance Company, whereby 20% of all business written by Texas Farm Bureau Mutual Insurance Company is ceded to and reinsured by Southern Farm Bureau Casualty Insurance Company. The group also participates in various assumed reinsurance arrangements with other Farm Bureau companies.

2007 BUSINESS PRODUCTION AND PROFITABILITY ($000)

Product	Premiums Written		% of	Pure	Loss
Line	Direct	Net	Total NPW	Loss Ratio	& LAE Reserves
Homeowners	138,627	61,027	58.9	63.7	16,077
Farmowners	36,717	15,337	14.8	65.0	7,465
Allied Lines	24,211	11,984	11.6	57.5	766
Priv Pass Auto Liab	9,524	…	…	…	…
Inland Marine	18,265	8,285	8.0	118.1	1,098
Auto Physical	7,396	…	…	…	…
Fire	10,604	5,197	5.0	49.6	266
Oth Liab Occur	5,170	…	…	…	…
All Other	1,498	1,845	1.8	30.8	3,231
Totals	252,013	103,675	100.0	66.0	28,903

Major 2007 Direct Premium Writings By State ($000): Texas, $252,013 (100.0%).

FINANCIAL PERFORMANCE

Overall Earnings: Texas Farm Bureau Group has generated favorable operating earnings, as evidenced by five year pre-tax returns on revenue and equity, both of which exceeded the property lines industry composite. Pre-tax operating earnings were driven by solid investment income, which was partially enhanced by modest underwriting gains for the period. The group's pre-tax operating earnings were dampened in prior years due to underwriting losses related to mold claims and heightened storm activity. However, the group's investment portfolio generated investment income that was sufficient enough to offset underwriting losses. Although operating results have significantly improved since the beginning of 2003, results were impacted by hurricane losses and reinsurance premiums in recent years.

PROFITABILITY ANALYSIS

	Company				Industry Composite			
Period Ending	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio
2003	12.4	10.5	96.4	88.2	15.6	21.0	90.4	82.1
2004	35.3	21.8	73.5	65.6	0.3	-1.2	105.8	97.8
2005	14.1	7.8	97.1	87.8	6.7	5.3	103.1	95.1
2006	10.2	6.1	99.6	89.3	34.1	34.2	81.7	73.2
2007	16.6	8.8	96.1	85.7	26.7	20.5	80.5	73.1
5-Yr Avg	17.7	10.6	92.7	83.4	18.0	17.0	91.2	83.2
09/2007	12.0	XX	99.7	89.0	XX	XX	XX	XX
09/2008	3.3	XX	107.6	98.4	XX	XX	XX	XX

Underwriting Income: Although favorable, Texas Farm Bureau Group's underwriting results have been variable, as evidenced by its fluctuating combined ratio. These results were driven by an above average loss and Loss Adjustment Expense (LAE) ratio that is offset by a below average underwriting expense ratio. The group's loss and LAE ratio was attributable to weather-related losses, as well as a heightened frequency and severity of mold claims in prior years. The expense ratio is derived from the group's cost-efficient exclusive agency network that provides it with a sustainable competitive advantage.

Prior to 2003, the group's gross underwriting results deteriorated significantly due to rising loss costs from mold claims. However, the group's combined ratio was capped at 108%, reduced approximately 40 points by the stop loss treaty it maintained with Southern Farm Bureau Casualty Insurance Company. In response, the group implemented a moderate rate increase for homeowners and farmowners Policy Form A, and a significant additional rate increase for Policy Form B. In addition, the group began non-renewing Form B policies and offering water peril and other perils on Form A policies with the replacement cost endorsement. Water peril was defined as sudden and accidental so that maintenance issues were reduced, and an "absolute" mold exclusion was included in the endorsement.

As a result, the group's underwriting results began to improve in 2003 and continued into the first half of 2005, as homeowners rate increases became fully earned, new mold claims declined significantly and existing mold claims continued to runoff. In addition, mild weather and minimal hailstorm activity in 2004 resulted in the group's lowest combined ratio in years. Further, the group was minimally impacted by a state-mandated homeowners rate rollback, with a mandated overall rate reduction of 1.5%.

However, given its predominant property exposure and geographic concentration, the group's underwriting results are susceptible to catastrophe losses, particularly wind and hail storms, as well as hurricanes. This was evident in 2005, when Hurricane Rita adversely impacted loss experience by generating approximately 9,000 claims and $105 million in gross losses. In addition, although Hurricane Katrina did not generate claim activity in Texas, the group participated in a shared reinsurance program with other state mutual companies. As a result, the group was impacted by significant reinsurance reinstatement premium, as several of the program layers were exhausted by these hurricanes. However, the improvement in the group's underlying underwriting results, a favorable expense ratio and strong reinsurance program, mitigated these losses and the group was able to record a modest underwriting profit. The group has significantly reduced its exposure from shared reinsurance programs since 2005.

In 2006, the group again implemented several underwriting initiatives aimed at minimizing catastrophe losses and strengthened the reinsurance program. However, as a result of increased reinsurance costs and coverage amounts, as well as in increase in hail storm losses, the group experienced a modest underwriting loss. In 2007, a modest underwriting profit was realized due to milder weather and modestly lower reinsurance costs.

UNDERWRITING EXPERIENCE

	Net Undrw	Loss Ratios			Expense Ratios				
	Income	Pure		Loss &	Net	Other	Total	Div.	Comb
Year	($000)	Loss	LAE	LAE	Comm	Exp.	Exp.	Pol.	Ratio
2003	3,143	73.0	9.2	82.2	-2.2	16.4	14.2	…	96.4
2004	22,611	50.9	11.2	62.1	-5.3	16.7	11.4	…	73.5
2005	2,035	66.1	14.6	80.7	-1.0	17.4	16.4	…	97.1
2006	-1,904	70.1	10.0	80.1	1.8	17.7	19.5	…	99.6
2007	3,210	66.0	12.8	78.8	-2.7	20.0	17.3	…	96.1
5-Yr Avg	…	65.2	11.6	76.8	-1.8	17.7	15.9	0.0	92.7
09/2007	-1,040	72.9	11.6	84.5	XX	XX	15.2	…	99.7
09/2008	-7,309	80.9	13.6	94.5	XX	XX	13.1	…	107.6

Investment Income: Texas Farm Bureau Group maintains a conservative investment strategy with the majority of its invested assets held in long-term bonds, consisting primarily of tax-exempt municipals and government agency securities. In recent years, the group increased its holdings of tax-exempt municipal bonds to minimize its tax liability and maximize its after-tax yield. However, the group reviews its underwriting and investment correlation to avoid an event loss that produces both a severe insurance loss and investment loss.

The group's net investment income remained relatively constant over the previous five year period, driven by a stable non-affiliated invested asset base and consistent investment yields. However, net investment income declined moderately in 2003, driven by a decreased investment yield due to lower market interest rates and greater cash holdings, as well as a reduction in non-affiliated invested assets. Investment income has rebounded in recent years, with modestly higher yields and an increased invested asset base. The group's five year net investment yield compared favorably to the property lines industry composite. Five year total return on invested assets was only slightly higher due to the group's conservative investment mix, which resulted in modest capital gains for the period.

INVESTMENT INCOME ANALYSIS ($000)

	Company		
	Net	Realized	Unrealized
	Inv	Capital	Capital
Year	Income	Gains	Gains
2003	6,925	20	375
2004	6,975	3	219
2005	8,325	2	52
2006	9,170	2	624
2007	10,339	10	308
09/2007	7,962	0	258
09/2008	7,892	101	466

	Company			Industry Composite	
	Inv Inc	Inv	Total	Inv Inc	Inv
	Growth	Yield	Return	Growth	Yield
Year	(%)	(%)	(%)	(%)	(%)
2003	-15.3	4.3	4.5	0.1	3.8
2004	0.7	4.1	4.3	5.1	3.7
2005	19.4	4.7	4.7	6.6	3.9
2006	10.2	4.8	5.2	20.8	4.3
2007	12.7	4.9	5.1	-0.1	3.8
5-Yr Avg	5.5	4.6	4.8	6.4	3.9
09/2007	XX	XX	3.8	XX	XX
09/2008	XX	XX	4.0	XX	XX

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2007 Inv Assets ($000)	% of Invested Assets 2007	2006	Annual % Chg
Long-Term bonds	178,712	80.2	74.4	15.1
Stocks	4,036	1.8	1.9	3.9
Affiliated Investments	6,217	2.8	2.9	4.3
Other Inv Assets	33,768	15.2	20.9	-22.6
Total	222,733	100.0	100.0	6.7

2007 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt Val to Stmt Val(%)	Avg. Maturity (Yrs)	Class 1 - 2 (%)	Class 3 - 6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments	2.1	5.2	3.2	100.0	…	…	…
States, terr & poss	91.8	1.6	7.9	100.0	…	2.1	2.7
Corporates	6.1	1.5	2.7	85.5	14.5	…	…
Total all bonds	100.0	1.7	7.5	99.1	0.9	2.0	2.7

CAPITALIZATION

Texas Farm Bureau Group maintains excellent risk-adjusted capitalization, as indicated by Best's Capital Adequacy Ratio (BCAR), which supports its rating. The group's capitalization reflects its moderate underwriting leverage and conservative investment risk profile, which are partially offset by inconsistent loss reserve development in prior years and a single state geographic concentration.

As a property writer in Texas, the group's overall capitalization is susceptible to aggregate losses resulting from a major hurricane as well as frequent and severe hailstorm and tornadic activity. This was evident in 2005, when hurricanes Katrina and Rita hampered surplus growth. Hurricane Rita generated over $100 million in gross losses which resulted in a after-tax net impact of approximately $9 million. Although Hurricane Katrina did not generate claim activity in Texas, reinsurance reinstatement premium due to the shared nature of the group's prior catastrophe reinsurance program with other state Mutual Farm Bureau companies also impacted surplus. The group has significantly reduced its exposure from shared reinsurance programs since 2005. Despite the high level of potential gross catastrophe exposure arising from the group's geographic concentration, this risk has been reduced to a conservative level on a net retained basis through strict underwriting controls and a comprehensive reinsurance program which was significantly strengthened in recent years and substantially lessens the impact on its surplus. Considering low probability high severity events, overall capitalization remains supportive of the rating.

The group has demonstrated moderate surplus growth over the previous five year period. Surplus growth was driven primarily by operating earnings, as capital gains played a minimal role in surplus generation due to the group's conservative investment profile. Prior to 2003, surplus growth was tempered by reduced operating earnings, reflective of increased underwriting losses including losses related to mold claims. However, the group experienced solid surplus growth in 2003 and 2004, driven by improved underwriting results, partially offset by reduced investment income. Surplus growth moderated in 2005 and 2006 as a result of catastrophe losses and the significant increase in reinsurance costs.

CAPITAL GENERATION ANALYSIS ($000)

Year	Source of Surplus Growth: Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital
2003	10,332	395	…
2004	30,916	223	…
2005	12,565	54	…
2006	9,061	626	…
2007	16,582	319	3,000
5-Yr Total	79,456	1,617	3,000
09/2007	8,945	258	3,000
09/2008	2,783	567	…

Year	Source of Surplus Growth: Other, Net of Tax	Change in PHS	PHS Growth (%)
2003	-2,872	7,855	10.2
2004	-9,565	21,574	25.3
2005	-5,877	6,742	6.3
2006	-3,044	6,644	5.9
2007	-4,034	15,867	13.2
5-Yr Total	-25,392	58,681	…
09/2007	-1,175	11,028	9.2
09/2008	-1,361	1,989	1.5

QUALITY OF SURPLUS ($000)

		% of PHS			Dividend Requirements		
Year	Year-End PHS	Cap Stk/ Contrib. Cap.	Other	Un-assigned Surplus	Stock-holder Divs	Div to POI (%)	Div to Net Inc. (%)
2003	85,151	…	…	100.0	…	…	…
2004	106,725	…	…	100.0	…	…	…
2005	113,467	…	…	100.0	…	…	…
2006	120,111	…	…	100.0	…	…	…
2007	135,977	2.2	…	97.8	…	…	…
09/2007	131,139	2.3	…	97.7	…	…	…
09/2008	137,966	2.2	…	97.8	…	…	…

Underwriting Leverage: Texas Farm Bureau Group's net underwriting leverage has improved over the last five years, driven by surplus growth that outpaced growth in net premiums written and associated liabilities. As a result, net underwriting leverage is now lower than the property industry composite. Prior to 2003, underwriting leverage had been on a gradually increasing trend, driven by moderate growth in liabilities that outpaced the growth in surplus. The increase in liabilities was primarily attributable to significant growth in loss reserves stemming from an increased frequency and severity of mold claims. Leverage measures were further influenced by mold, as surplus growth was dampened and net premiums written increased, driven by large homeowners rate increases. The group's net premiums written decreased moderately in 2003, reflective of the implementation of a 20% quota share reinsurance agreement in July 2002 with Southern Farm Bureau Casualty Insurance Company. In 2005, net premiums written growth was impacted by catastrophe reinsurance reinstatement premium. Absent the additional catastrophe reinsurance premiums, net premiums written growth would have been moderate.

LEVERAGE ANALYSIS

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev
2003	1.0	0.3	2.2	3.0	1.0	0.8	2.9	4.0
2004	0.9	0.2	1.9	2.6	1.1	1.0	3.3	4.5
2005	0.8	0.2	1.8	2.7	1.2	1.0	3.4	5.0
2006	0.8	0.2	2.0	2.9	1.0	0.7	2.9	3.9
2007	0.8	0.2	1.8	2.8	0.9	0.6	2.5	3.3
09/2007	0.8	0.2	2.0	XX	XX	XX	XX	XX
09/2008	0.8	0.3	2.3	XX	XX	XX	XX	XX

Current BCAR: 271.2

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period	DPW		GPW	
Ending	($000)	(% Chg)	($000)	(% Chg)
2003	161,131	2.3	161,855	2.4
2004	182,313	13.1	183,038	13.1
2005	192,745	5.7	193,447	5.7
2006	217,116	12.6	217,909	12.6
2007	252,013	16.1	252,933	16.1
5-Yr CAGR	…	9.9	…	9.9
5-Yr Change	…	60.1	…	60.0
09/2007	191,160	13.0	365,879	9.2
09/2008	235,158	23.0	400,063	9.3

Period	NPW		NPE	
Ending	($000)	(% Chg)	($000)	(% Chg)
2003	82,468	-12.3	83,643	-13.7
2004	92,329	12.0	87,514	4.6
2005	92,078	-0.3	88,930	1.6
2006	99,986	8.6	88,484	-0.5
2007	103,675	3.7	99,750	12.7
5-Yr CAGR	…	2.0	…	0.6
5-Yr Change	…	10.3	…	2.9
09/2007	82,460	3.5	74,241	15.1
09/2008	91,559	11.0	85,604	15.3

Reserve Quality: Texas Farm Bureau Group's loss reserve development has been mixed, with adverse development reported in prior calendar and accident years. Given its predominant property book, the group's loss reserve development patterns are generally short-tailed. The homeowners / farmowners line of business constitutes approximately 80% of total loss reserves.

The group reported moderate adverse development for the 1999 through 2002 accident years due to an increased frequency and severity of water damage losses related to mold claims. As a result, the group significantly strengthened both case and IBNR loss reserves, and segregated mold claims from other causes of loss and evaluated independently. As a result, loss reserve development patterns have been favorable since the 2002 calendar and accident year. In addition, the group maintains modest exposure to asbestos and environmental claims arising from occurrence excess products liability reinsurance.

LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2007	Develop. to Orig.(%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/2007	Unpaid Resrv. to Dev.(%)
2002	42,937	32,434	-24.5	-13.6	33.5	2,524	7.8
2003	27,893	20,644	-26.0	-8.5	24.7	2,824	13.7
2004	23,311	19,784	-15.1	-3.3	22.6	3,909	19.8
2005	23,618	19,779	-16.3	-3.4	22.2	6,667	33.7
2006	24,866	24,100	-3.1	-0.6	27.2	12,307	51.1
2007	26,665	26,665	…	…	26.7	26,665	100.0

LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2007	Develop. to Orig.(%)	Unpaid Reserves @12/2007	Acc Yr. Loss Ratio	Acc Yr. Comb Ratio
2002	26,660	17,238	-35.3	186	68.1	90.8
2003	13,497	8,477	-37.2	300	88.1	102.3
2004	11,183	9,606	-14.1	1,085	66.3	77.7
2005	12,964	10,903	-15.9	2,758	80.0	96.3
2006	14,463	13,930	-3.7	5,640	84.1	103.6
2007	14,358	14,358	…	14,358	79.0	96.3

ASBESTOS & ENVIRONMENTAL (A&E) RESERVES ANALYSIS

	Company		
Year	Net A&E Reserves ($000)	Reserve Retention (%)	Net IBNR Mix (%)
2003	945	100.0	84.7
2004	1,001	100.0	79.9
2005	1,024	100.0	74.3
2006	997	100.0	72.2
2007	912	100.0	74.6

	Company			Industry Composite		
Year	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)
2003	…	0.0	…	…	1.9	…
2004	…	0.1	…	…	1.4	…
2005	29.9	0.1	0.1	8.5	1.0	1.4
2006	20.5	0.0	0.1	7.9	0.5	0.9
2007	10.4	0.0	0.1	8.6	0.7	0.7

Reinsurance Utilization: Given its significant property exposure and geographic concentration, Texas Farm Bureau Group is susceptible to catastrophes related to hail storms, tornadoes and hurricanes. The group maintains a comprehensive reinsurance program, which is structured to preserve capital, protect policyholders and enable it to withstand a major catastrophe as well as multiple events. All business is placed with high quality reinsurers. Management has also taken numerous actions to reduce the group's concentration of property exposures, which include controlled growth in specific areas, monthly monitoring of business expansion by county and the increased utilization of deductibles as well as wind exclusions. Based on the group's most recent catastrophe risk analysis, the gross probable maximum loss (PML) for a 100-year hurricane is significant. Net of reinsurance, including reinstatement costs, the group's PML is reduced to less than 10% of surplus.

The group's business retention ratio is distorted by its long-standing reinsurance agreement with Southern Farm Bureau

Casualty Insurance Company. The group's reinsurance recoverable and ceded reinsurance leverage measures trended upward with the implementation of the 20% quota share reinsurance agreement with Southern Farm Bureau Casualty Insurance Company in 2002, and increased considerably in 2005 as a result of losses from Hurricane Rita and reinstatement premium from both hurricanes Katrina and Rita. The group also maintains a stop loss treaty with Southern Farm Bureau Casualty Insurance Company. Until 2006, the treaty provided coverage between a combined ratio of 106% and 150%. However, this program was changed in 2006 to provide coverage on direct claim costs between 74% and 120% of earned premium.

CEDED REINSURANCE ANALYSIS ($000)

	Company				Industry Composite		
Year	Ceded Reins Total	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS (%)	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS(%)
2003	64,324	51.0	29.4	75.5	74.5	72.7	108.9
2004	76,697	50.4	28.1	71.9	70.9	78.6	126.0
2005	94,946	47.6	37.2	83.7	70.0	110.3	164.1
2006	116,391	45.9	29.0	96.9	70.1	62.3	108.2
2007	135,324	41.0	30.1	99.5	69.1	42.3	85.2

2007 REINSURANCE RECOVERABLES ($000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates	41,818	15,417	128,473	…	185,707
US Insurers	10,468	416	30,029	…	40,913
Total (ex US Affils)	10,468	416	30,029	…	40,913
Grand Total	52,285	15,834	158,502	…	226,620

* Includes Commissions less Funds Withheld

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affl Inv. Lev.	Affil Inv.	Class 3-6 Bonds	Common Stocks
2003	…	…	…	2.5	2.5	6.4	4.6	34.3
2004	…	…	…	2.7	2.7	5.2	3.5	41.2
2005	1.2	…	…	3.2	4.4	5.0	3.2	47.4
2006	1.4	…	1.4	3.2	6.0	5.0	2.0	39.7
2007	1.2	…	1.2	3.0	5.4	4.6	2.4	32.7

LIQUIDITY

Texas Farm Bureau Group maintains sound overall liquidity, as non-affiliated invested assets significantly exceed overall liabilities. The group's quick liquidity ratio continues to lag the industry composite due to its large allocation of invested assets to long-term bonds. The group's liquidity position was enhanced by solid operating cash flows generated over the previous five year period. In 2003, operating cash flow was adversely impacted by negative underwriting cash flow, driven by a decline in net premiums written, the result of its quota share agreement with Southern Farm Bureau Casualty.

LIQUIDITY ANALYSIS

	Company				Industry Composite			
Year	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gros Agents Ba to PHS(%
2003	48.9	175.9	181.0	3.1	48.7	121.2	153.8	16.
2004	34.5	191.0	196.8	3.0	47.8	114.7	146.4	21.
2005	35.4	175.5	197.4	2.3	45.5	114.7	145.3	21.
2006	47.5	175.0	187.6	1.9	52.2	122.3	154.2	22.
2007	39.8	183.0	194.3	1.9	55.3	129.6	162.0	22.
09/2007	XX	140.6	182.7	1.9	XX	XX	XX	X
09/2008	XX	100.9	167.1	1.9	XX	XX	XX	X

CASH FLOW ANALYSIS ($000)

	Company					Industry Composite	
Year	Underw Cash Flow	Oper Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper Cash Flow (%)	Underw Cash Flow (%)	Oper Cash Flow (%)
2003	-11,229	-5,421	21,269	87.3	94.0	112.1	116.3
2004	18,180	17,577	-9,956	124.5	121.2	113.7	116.9
2005	229	1,043	676	100.3	101.0	106.2	112.3
2006	15,643	27,531	14,168	118.8	133.1	118.0	131.3
2007	2,420	10,991	-9,681	102.5	110.8	124.5	128.6
09/2007	-536	5,923	-2,661	99.3	107.2	XX	XX
09/2008	-10,593	-5,864	-15,405	90.0	94.7	XX	XX

HISTORY

Texas Farm Bureau Mutual Insurance Company was originally incorporated on January 18, 1950 as a stock fire company under the laws of Texas with the title Texas Farm Bureau Insurance Company and began business on February 4, 1950. Conversion to a mutual operation was completed on January 1, 1959. Concurrently, the title was changed to its present form. Texas Farm Bureau Underwriters, a reciprocal, was organized under the laws of Texas and began business on May 14, 1964.

MANAGEMENT

The group consists of Texas Farm Bureau Mutual Insurance Company and Texas Farm Bureau Underwriters (a reciprocal organized in 1964), which provide property insurance to members of the Texas Farm Bureau. Other companies owned by the membership of the same organization in conjunction with Farm Bureau members in other southern states are the Southern Farm Bureau Life Insurance Company of Jackson, Mississippi and the Southern Farm Bureau Casualty Insurance Company of Ridgeland, Mississippi, both of which were formed in 1947.

Management is directed by Michael F. Gerik, executive vice president and state manager, who has been with the Farm Bureau Insurance Companies since 1980. Kenneth Dierschke is president of the Texas Farm Bureau and the Texas Farm Bureau Mutual Insurance Company and also serves as a director of the Southern Farm Bureau Life Insurance Company and the Southern Farm Bureau Casualty Insurance Company. The affairs of the Texas Farm Bureau Mutual Insurance Company, Texas Farm Bureau Underwriters and the Southern Farm Bureau Casualty Insurance Company for operations conducted in Texas are administered by the same management, support staff, field personnel and agents.

REINSURANCE PROGRAMS

The largest net amount insured in any one property risk is $175,000. A property surplus share treaty provides coverage above $175,000 with a capacity of $5.75 million. Excess of loss reinsurance provides coverage on the liability portion of multiple peril contracts for losses in excess of $500,000. A stop loss treaty with Southern Farm Bureau Casualty Insurance Company provides coverage on losses of direct claim costs between 74% to 120% of earned premium. Facultative reinsurance is also maintained on property risks in excess of $5.75 million. All auto, other liability and umbrella risks are reinsured, as written, by Southern Farm Bureau Casualty Insurance Company. Property catastrophe reinsurance provides coverage on 95% of $400 million in excess of $16 million and surplus share coverage of $15 million. The group participates in a 20% quota share reinsurance agreement with Southern Farm Bureau Casualty Insurance Company, whereby 20% of all business written by Texas Farm Bureau Mutual Insurance Company is ceded to and reinsured by Southern Farm Bureau Casualty Insurance Company.

CONSOLIDATED BALANCE SHEET ($000)

ADMITTED ASSETS	12/31/2007	12/31/2006	2007 %	2006 %
Bonds	178,712	155,222	63.8	60.4
Common stock	4,036	3,884	1.4	1.5
Cash & short-term invest	29,964	39,645	10.7	15.4
Other non-affil inv asset	1,672	1,672	0.6	0.7
Investments in affiliates	6,217	5,960	2.2	2.3
Total invested assets	220,601	206,383	78.8	80.2
Premium balances	36,747	30,832	13.1	12.0
Accrued interest	2,132	2,292	0.8	0.9
All other assets	20,635	17,670	7.4	6.9
Total assets	280,115	257,177	100.0	100.0

LIABILITIES & SURPLUS	12/31/2007	12/31/2006	2007 %	2006 %
Loss & LAE reserves	28,903	27,000	10.3	10.5
Unearned premiums	69,724	65,799	24.9	25.6
All other liabilities	45,510	44,268	16.2	17.2
Total liabilities	144,137	137,067	51.5	53.3
Total policyholders' surplus	135,977	120,111	48.5	46.7
Total liabilities & surplus	280,115	257,177	100.0	100.0

CONSOLIDATED SUMMARY OF 2007 OPERATIONS ($000)

STATEMENT OF INCOME	12/31/2007
Premiums earned	99,750
Losses incurred	65,867
LAE incurred	12,730
Undrw expenses incurred	17,943
Net underwriting income	3,210
Net investment income	10,339
Other income/expense	3,033
Pre-tax oper income	16,582
Realized capital gains	10
Income taxes incurred	5,660
Net income	10,932

FUNDS PROVIDED FROM OPERATIONS	12/31/2007
Premiums collected	99,227
Benefit & loss related pmts	68,118
LAE & undrw expenses paid	28,689
Undrw cash flow	2,420
Investment income	10,513
Other income/expense	3,033
Pre-tax cash operations	15,967
Income taxes pd (recov)	4,975
Net oper cash flow	10,991

INTERIM BALANCE SHEET ($000)

ADMITTED ASSETS	03/31/2008	06/30/2008	09/30/2008
Cash & short term invest	30,046	9,560	14,559
Bonds	189,653	176,569	184,294
Common stock	10,297	10,362	11,107
Other investments	1,672	1,672	1,672
Total investments	231,667	198,163	211,632
Premium balances	40,748	45,698	47,170
Reinsurance funds	11,204	55,799	35,712
Accrued interest	2,843	3,135	2,269
All other assets	11,821	10,444	46,919
Total assets	298,284	313,238	343,703

LIABILITIES & SURPLUS	03/31/2008	06/30/2008	09/30/2008
Loss & LAE reserves	30,069	39,888	40,314
Unearned premiums	69,320	73,404	75,678
All other liabilities	57,522	57,002	89,745
Total liabilities	156,911	170,295	205,737
Capital & assigned surp	3,000	3,000	3,000
Unassigned surplus	138,373	139,944	134,966
Policyholders' surplus	141,373	142,944	137,966
Total liabilities & surplus	298,284	313,238	343,703

INTERIM INCOME STATEMENT ($000)

	Period Ended 09/30/2008	Period Ended 09/30/2007	Increase/ Decrease
Premiums earned	85,604	74,241	11,364
Losses incurred	69,280	54,114	15,165
LAE incurred	11,638	8,645	2,992
Underwriters expenses incurred	11,996	12,520	-525
Net underwriting income	-7,309	-1,040	-6,269
Net investment income	7,892	7,962	-70
Other income/expenses	2,200	2,023	178
Pre-tax operating income	2,783	8,945	-6,162
Realized capital gains	101	0	101
Income taxes incurred	1,364	3,175	-1,812
Net income	1,520	5,770	-4,250

INTERIM CASH FLOW ($000)

	Period Ended 09/30/2008	Period Ended 09/30/2007	Increase/ Decrease
Premiums collected	95,141	78,348	16,793
Benefit & loss related pmts	84,195	55,873	28,322
Undrw expenses paid	21,538	23,010	-1,472
Underwriting cash flow	-10,593	-536	-10,058
Investment income	7,752	7,911	-159
Other income/expense	2,200	2,023	178
Pre-tax cash operations	-641	9,398	-10,039
Income taxes pd (recov)	5,223	3,475	1,748
Net oper cash flow	-5,864	5,923	-11,787