STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FARM FAMILY LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2002

DATE OF REPORT:	JUNE 26, 2003
EXAMINER:	PHARES CATON

TABLE OF CONTENTS

STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

George E. Pataki
Governor

Gregory V. Serio
Superintendent

June 26, 2003

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21989, dated January 21, 2003 and annexed hereto, an examination has been made into the condition and affairs of Farm Family Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 344 Route 9W, Glenmont, New York 12077.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

On April 10, 2001, Farm Family Holdings, Inc. ("FFH"), the Company's immediate parent, was acquired by American National Insurance Company ("ANICO"), a Texas domiciled insurance company. (See item 3A of this report)

The Company erroneously reported a deferred tax asset in the amount of $12,872,971 as of December 31, 2002. This amount is included in "Federal and foreign income tax recoverable and interest thereon." The amount should have been $5,179,982. As a result, the Company overstated its assets and surplus by $7,692,989. The Company reported the correction in the first quarterly statement of 2003. (See item 5 of this report)

The Company violated Section 3201(b)(1) of the New York Insurance Law when it used policy forms that were not filed with and approved by the Superintendent. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1999. This examination covers the period from January 1, 2000 through December 31, 2002. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2002 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2002 to determine whether the Company's 2002 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York State on October 20, 1953, and was licensed and commenced business on January 20, 1954. The Company was formerly sponsored and entirely owned by ten farm bureaus.

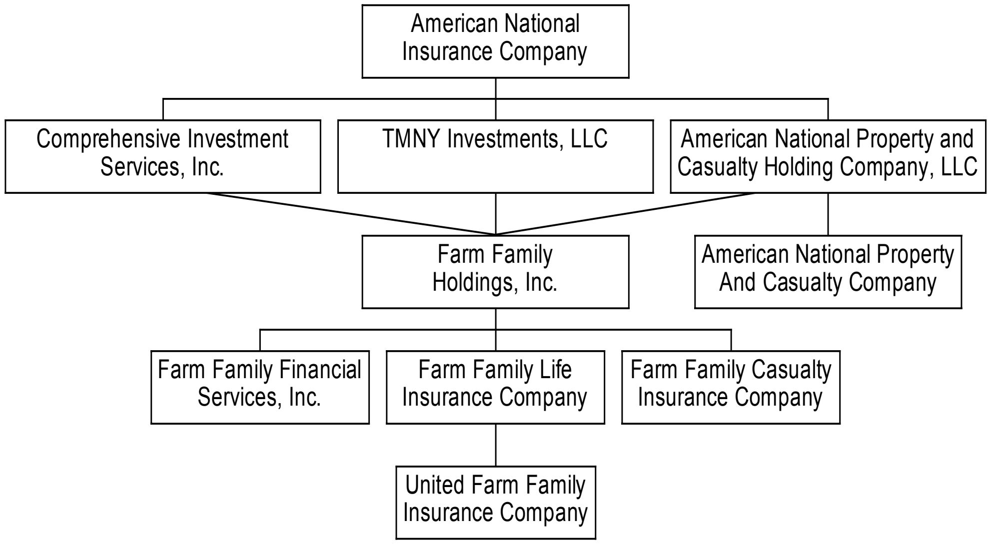
On July 26, 1996, pursuant to a Plan of Reorganization and Conversion, Farm Family Mutual Insurance Company, an affiliated property and casualty insurer, converted from a mutual company to a stock company and changed its name to Farm Family Casualty Insurance Company ("FFCIC"). The Company, FFCIC and UFFIC are domiciled in New York and had common management before the reorganization. Simultaneous with the reorganization and conversion of FFCIC, FFH, a holding company organized under the laws of the state of Delaware, was formed to acquire all of the capital stock of FFCIC. In addition, an option purchase agreement was entered into by FFH and the shareholders of the Company, pursuant to which FFH had an option to acquire the Company through an exchange of stock. The Company was acquired in 1999 by FFH.

On April 10, 2001, FFH was acquired by ANICO, a Texas domiciled insurance company. Farm Family retained its brand identity and will continue to focus on expanding the delivery of a wide array of financial services in its territory.

B. Holding Company

The Company is a wholly owned subsidiary of FFH, a Delaware holding company. FFH is in turn 94.3% owned by American National Property and Casualty Holding Company, LLC ("ANPCC"), a Nevada limited liability company, 5% owned by TMNY Investments, LLC, and 0.7% owned by Comprehensive Investment Services, Inc. ANPCC is 94% owned by ANICO and 6% owned by Comprehensive Investment Services, Inc. The ultimate parent of the Company is ANICO, a Texas Insurance Company. The Company formed a property and casualty subsidiary, United Farm Family Insurance Company ("UFFIC") in 1989 primarily to provide reinsurance to Farm Family Casualty Insurance Company. The Company owns 100% of the stock of UFFIC.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2002 follows:



The Company had seven service agreements in effect as of December 31, 2002.

1. An expense sharing agreement among the Company, FFH and FFCIC effective October 30, 2001. The agreement provides for the sharing of certain expenses such as, salaries, directors' expenses, office space, advertising and the use of certain fixed assets.
2. A lease agreement between the Company and FFCIC, effective January 1, 1999, whereby the Company leases space to FFCIC.
3. An Inter-Company Borrowing Agreement with FFH, effective July 1, 2002, wherein the Company established a revolving line of credit with a maximum balance of $2,000,000 from FFH.
4. An Administrative Service Agreement between the Company and ANICO dated April 10, 2001, wherein the Company can receive general insurance and administration support, data processing and consulting services, record maintenance, accounting services, cash management, tax related services, actuarial services, legal services, corporate secretarial services, printing and reproduction services, underwriting, claim and policy administration services and payroll and human resource services. The examiner noted that none of these services are currently being provided to the Company.
5. An Investment Management Agreement between the Company and ANICO was entered into on August 1, 2001, whereby ANICO provides the Company with all investment management

services, except mortgage and real estate services. These services are provided under a separate service agreement.

6. An Administrative Service Agreement between the Company and American National Property And Casualty Company ("ANPAC"), dated April 10, 2001, whereby ANPAC can provide telecommunication services, data processing, agent licensing and training, record maintenance, accounting services, printing and reproduction services, and payroll and human resource services. The examiner noted that none of these services are currently being provided to the Company.
7. A Mortgage Loan and Real Estate Investment Service Agreement between the Company and ANICO, dated June 1, 2001, whereby ANICO manages the real estate portfolio.

A Tax Allocation Agreement in effect between the Company and UFFIC, wherein the Company prepared and filed a consolidated tax return was terminated effective December 7, 2001.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 25 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2002, the board of directors consisted of 13 members. Meetings of the board were held in February, April, July, October and December during the examination period.

The 13 board members and their principal business affiliation, as of December 31, 2002, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
G. Richard Ferdinandtsen Galveston, TX	Director, President and Chief Operating Officer American National Insurance Company	2001
Stephen J. George* Gladstone, NJ	President Friendship Business Ventures, LLC.	1989
Irwin M. Herz, Jr. Galveston, TX	Partner/Attorney Greer, Herz, Adams, LLP.	2001
Clark W. Hinsdale III* Charlotte, VT	President and Director Vermont Farm Bureau	1993
John W. Lincoln* Bloomfield, NY	President and Director New York Farm Bureau	1984
A. Ingrid Moody* Kemah, TX	Volunteer worker and former farmer	2001
Ross R. Moody* Austin, TX	President and Director National Western Life Insurance Company	2001
Edward J. Muhl* Alexandria, VA	Partner Pricewaterhouse Coopers, LLP.	2001
Gregory V. Ostergren Springfield, MO	Director, Chairman, President and Chief Executive Officer American National Property And Casualty Company	2001
James E. Pozzi Galveston, TX	Executive Vice President of Corporate Planning American National Insurance Company	2001
Timothy A. Walsh W. Coxsackie, NY	Executive Vice President, Chief Financial Officer and Treasurer Farm Family Life Insurance Company	2001
Philip P. Weber Albany, NY	President and Chief Executive Officer Farm Family Life Insurance Company	2001

Name and Residence	Principal Business Affiliation	Year First Elected
Ronald J. Welch Galveston, TX	Executive Vice President and Chief Actuary American National Insurance Company	2001

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2002:

Name	Title
Philip P. Weber	President and Chief Executive Officer
James J. Bettini	Executive Vice President, Operations
Victoria Stanton*	Executive Vice President, General Counsel and Secretary
Timothy A. Walsh	Executive Vice President, Chief Financial Officer and Treasurer
Sharon T. DiLorenzo	Senior Vice President, Life Operations
Patrick A. Wejrowski	Senior Vice President, Information Services
Kathryn Lentivech	Vice President, Life Actuarial Services

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

In January of 2003, Philip P. Weber's title changed to Executive Regional Director and Timothy A. Walsh's title changed to President, Chief Executive Officer, Chief Financial Officer and Treasurer. The position of Senior Vice President, Life Operations was terminated effective January 3, 2003. Effective February 25, 2003, Timothy A. Walsh's title changed to President, Chief Executive Officer and Chief Financial Officer and the office held by Michele M. Bartkowski was changed from Vice President - Treasury Services to Vice President and Treasurer.

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in 12 states, located primarily in the Northeast United States. In 2002, 36% of life premiums, 44% of accident and health premiums, 37% of annuity considerations and 60% of deposit type funds were received from New York. Policies are written on a participating and non-participating basis.

The Company's principal products sold during the examination period were whole life and term life insurance. The Company also issues universal life insurance, single premium and deferred annuities.

The Company's agency operations are conducted on a general agency basis.

E. Reinsurance

As of December 31, 2002, the Company had reinsurance treaties in effect with 11 companies, of which ten were authorized or accredited. The Company's individual life, group life and disability income policies are ceded on a coinsurance and/or yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $400,000. The total face amount of life insurance ceded, as of December 31, 2002, was $874,459,741, which represents 20% of the total face amount of life insurance in force.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, 1999	December 31, 2002	Increase (Decrease)
Admitted assets	$788,456,004	$866,400,803	$77,944,799
Liabilities	$678,082,139	$740,009,760	$61,927,621
Common capital stock	$ 3,000,550	$ 3,000,550	$ 0
Gross paid in and contributed surplus	300,471	300,471	0
Group life contingency reserve	76,372	85,608	9,236
Unassigned funds (surplus)	106,996,472	123,004,414	16,007,942
Total capital and surplus	$110,373,865	$126,391,043	$16,017,178
Total liabilities, capital and surplus	$788,456,004	$866,400,803	$77,944,799

The Company's invested assets as of December 31, 2002, were mainly comprised of bonds (81%), and stocks (6%).

The majority (94%) of the Company's bond portfolio, as of December 31, 2002, was comprised of investment grade obligations.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2000	2001	2002
Ordinary:			
Life insurance	$4,669,133	$3,428,657	$6,095,051
Individual annuities	1,329,952	2,864,265	2,186,595
Supplementary contracts	191,542	282,402	489,788
Total ordinary	$6,190,627	$6,575,324	$8,771,434
Group:			
Life	$ 66,255	$ 65,186	$ 79,790
Annuities	112,439	181,849	131,041
Total group	$ 178,694	$ 247,035	$ 210,831
Accident and health:			
Group	$ (23,400)	$ (2,435)	$ (22,483)
Other	(243,476)	369,921	276,070
Total accident and health	$ (266,876)	$ 367,486	$ 253,587
Total	$6,102,445	$7,189,845	$9,235,852

The large increase in the gain from 2001 to 2002 in the individual life line is mainly due to errors made in allocating net investment income. The Company erroneously added policy loans to the life reserves, and also double counted the reserves for supplementary contracts by including such reserves in the life and the supplementary contract lines of business. The cumulative effect of the errors resulted in an additional $1.86 million of income allocated to the individual life line, which should have been allocated to the other lines of business.

The examiner recommends that the Company take greater care when allocating net gain (loss) by line of business in future annual statements.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2002, as contained in the Company's 2002 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2002

Admitted Assets

Bonds	$678,430,359
Stocks:	
Preferred stocks	3,174,843
Common stocks	46,689,895
Mortgage loans	
First liens	31,627,016
Real estate:	
Properties occupied by the company	5,172,031
Properties held for the production of income	166,000
Properties held for sale	149,719
Policy loans	33,319,965
Cash and short term investments	27,165,899
Other invested assets	6,844,548
Reinsurance ceded	81,886
Amounts recoverable from reinsurers	40,418
Electronic data processing equipment and software	1,534,811
Federal and foreign income tax recoverable and interest thereon	13,660,166
Life insurance premiums and annuity considerations	
Deferred and uncollected on in force business	5,857,957
Accident and health premiums due and unpaid	94,616
Investment income due and accrued	12,390,674
Total admitted assets	$866,400,803

The Company reported a deferred tax asset in the amount of $12,872,971 as of December 31, 2002. This amount is included in "Federal and foreign income tax recoverable and interest thereon." The Company informed the Department that the amount was incorrect and should have been $5,179,982. The Company explained that the non-admitted portion of the asset should have been $8,310,459. As a result, the Company overstated its assets and surplus by $7,692,989. The Company reported the correction in the first quarterly statement of 2003.

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$640,521,419
Aggregate reserve for accident and health policies	8,084,920
Liability for deposit-type contracts	66,879,684
Policy and contract claims:	
Life	1,624,708
Accident and health	105,927
Provision for policyholders' dividends and coupons	
Payable in following calendar year – estimated amounts:	
Dividends apportioned for payment	10,738,247
Premiums and annuity considerations for life and accident and health	
Policies and contracts received in advance	186,131
Policy and contract liabilities	
Interest maintenance reserve	3,189,739
Commissions to agents due or accrued	730,259
General expenses due or accrued	619,340
Taxes, licenses and fees due or accrued	174,717
Unearned investment income	765,474
Remittances and items not allocated	187,362
Miscellaneous liabilities:	
Asset valuation reserve	2,487,711
Payable to parent, subsidiaries and affiliates	754,553
Uncashed check reserve	5,771
Pension plan minimum liability	2,493,463
Post retirement health plan liability	460,335
Total liabilities	$740,009,760
Common capital stock	$ 3,000,550
Gross paid in and contributed surplus	300,471
Aggregate write-ins for special surplus funds	85,608
Unassigned funds (surplus)	123,004,414
Total capital, surplus and other funds	$126,391,043
Total liabilities, capital, surplus and other funds	$866,400,803

B. CONDENSED SUMMARY OF OPERATIONS

	2000	2001	2002
Premiums and considerations	$ 60,542,513	$ 54,685,771	$ 66,159,219
Investment income	52,598,182	56,426,788	56,699,759
Commissions and reserve adjustments On reinsurance ceded	574,513	613,742	570,235
Miscellaneous income	307,601	165,403	101,483
Total income	$114,022,809	$111,891,704	$123,530,696
Benefit payments	$ 66,267,986	$ 46,216,735	$ 41,917,732
Increase in reserves	9,335,150	26,534,725	39,748,286
Commissions	3,841,138	4,001,941	4,480,657
General expenses and taxes	12,262,359	12,119,148	11,572,875
Increase in loading on deferred and Uncollected premium	121,049	(21,224)	31,052
Miscellaneous deductions	0	0	753,442
Total deductions	$ 91,827,682	$ 88,851,325	$ 98,504,044
Net gain (loss)	$ 22,195,127	$ 23,040,379	$ 25,026,652
Dividends	10,664,355	11,183,013	10,449,219
Federal and foreign income taxes incurred	5,428,327	4,667,521	5,341,581
Net gain (loss) from operations Before net realized capital gains	$ 6,102,445	$ 7,189,845	$ 9,235,852
Net realized capital gains (losses)	574,770	(191,393)	(9,834,377)
Net income	$ 6,677,215	$ 6,998,452	$ (598,525)

In 2002, the net loss reported of $(598,525) was mainly due to the write-down of 11 securities totaling $11,026,789.

C. CAPITAL AND SURPLUS ACCOUNT

	2000	2001	2002
Capital and surplus, December 31, prior year	$110,373,865	$115,048,442	$113,243,380
Net income	$ 6,677,215	$ 6,998,452	$ (598,525)
Change in net unrealized capital gains (losses)	(4,820,536)	372,774	(7,527,214)
Change in net deferred income tax	0	0	13,108,109*
Change in non-admitted assets and related items	221,639	(590,547)	(581,446)
Change in reserve valuation basis	(2,621,239)	0	0
Change in asset valuation reserve	5,693,977	(1,757,400)	9,175,977
Cumulative effect of changes in accounting Principles	0	(2,136,202)	0
Dividends to stockholders	(1,020,187)	(3,999,733)	0
Adjustment of prior year's income tax	543,708	0	0
Pension plan minimum liability	0	(692,406)	0
Adjustment to post retirement plan	0	0	(429,238)
Net change in capital and surplus	$ 4,674,577	$ (1,805,062)	$ 13,147,663
Capital and surplus, December 31, current year	$115,048,442	$113,243,380	$126,391,043*

*The Company overstated the amount of its deferred tax asset in the 2002 filed annual statement and as shown above. The impact on surplus was an overstatement of $7,692,989. The Company reported the correction in the first quarter of 2003.

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Section 3201(b)(1) of the New York Insurance Law states, in part:

> "No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent . . . "

Policy form numbers 40-(16-NY) and NY AN 600 were approved for use, however the Company made changes to the forms and did not have the changed forms approved.

The Company violated Section 3201(b)(1) of the New York Insurance Law when it used policy forms that were not filed with and approved by the Superintendent.

The examiner recommends that the Company submit the changed policy forms to the Department for approval.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the "Supplement"), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company reported that it performed a number of tests to determine whether or not it had any business on the books for which race was used as a basis for premium rates, underwriting ratings, dividends, etc. In summary, the Company's findings were that, to the best of their knowledge, the Company has not historically engaged in marketing or selling business based on race-based underwriting. This includes policies issued directly by the Company and business previously acquired as a result of assumption, merger, acquisition, consolidation or purchase.

An analysis of the Company's response to the Supplement and other factors indicated that the Company's review of its past and present underwriting practices complied with the requirements of the Supplement.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The examiner recommended that the Company immediately file its service agreements in effect with affiliates, as well as any future amendments to such agreements or new agreements, pursuant to Section 1505 of the New York Insurance Law. The Company filed the agreements.
B	The Company violated Section 215.5(c)(5) of Department Regulation No. 34 by not including the required statement in its disability income product advertisements. The Company corrected the advertisements.
C	The Company violated Sections 215.6(b)(1) and (2) and Section 215.6(c)(1) of Department Regulation No. 34 by not including the required information in three advertisements. The Company corrected the advertisements.
D	The Company violated Section 215.17(a) of Department Regulation No. 34 by not indicating the manner and extent of distribution for six prospecting letters. The Company corrected the advertising file.
E	The Company violated Section 219.4(p) of Department Regulation No. 34-A by not including the name of the city of the Company's home office in six advertisements. The Company has corrected the advertisements.
F	The Company violated Section 219.5(a) of Department Regulation No. 34-A by not maintaining specimen copies of six advertisements in its advertising file. The Company maintains specimen copies of all of its advertisements.

Item	Description
G	The Company violated Section 3207(c) of the New York Insurance Law by issuing policies to juveniles with face amounts in excess of the amount allowed by law. The Company has modified its underwriting procedures with respect to juvenile policies.
H	The examiner recommended that the Company monitor its participating surplus on an on-going basis and be prepared to take additional action(s) as may be deemed necessary. The Company is monitoring surplus to help ensure that the limit set under Section 4219 of the New York Insurance Law is adhered to.

8. SUMMARY AND CONCLUSIONS

Following are the violation, recommendations and the comment contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that the Company take greater care when allocating net gain (loss) by line of business in future annual statements.	11
B	The Company erroneously reported a deferred tax asset as of December 31, 2002. As a result, the Company overstated its assets and surplus by $7,692,989. The Company reported the correction in the first quarterly statement of 2003.	12 – 13
C	The Company violated Section 3201(b)(1) of the New York Insurance Law when it used policy forms that were not filed with and approved by the Superintendent.	16
D	The examiner recommends that the Company submit the changed policy forms to the Department for approval.	16

Respectfully submitted,

/s/
Phares Caton
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Phares Caton, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/
Phares Caton

Subscribed and sworn to before me

this__________ day of ___________________

APPOINTMENT NO. 21989

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

PHARES CATON

as a proper person to examine into the affairs of the

FARM FAMILY LIFE INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 21st day of January, 2003

GREGORY V. SERIO
Superintendent of Insurance

Superintendent