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STATE OF MISSOURI

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DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Arnsberg Farmers Mutual Insurance Company for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Arnsberg Farmers Mutual Insurance Company for the period ended December 31, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

Based on such findings and conclusions, I hereby ORDER Arnsberg Farmers Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations, if any, section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) submit a signed copy of the minutes of the meeting which reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

So ordered, signed and official seal affixed this 14th day of February 2013.

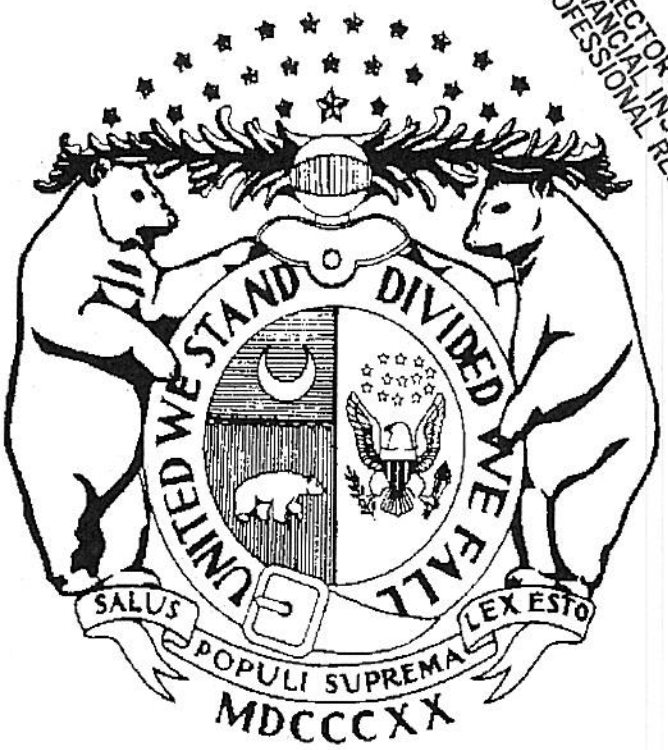
John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

Arnsberg Farmers Mutual Insurance Company

AS OF
DECEMBER 31, 2011

FILED
FEB 14 2013
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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November 29, 2012
Uniontown, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

Arnsberg Farmers Mutual Insurance Company

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 11994 South Highway 61, Uniontown, Missouri 63783; telephone number (573)788-2304. This examination began November 13, and concluded on November 15, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination was made as of December 31, 2006, and was conducted by an examiner from the State of Missouri. The current full-scope examination covers the period from January 1, 2007 through December 31, 2011, and was conducted by an examiner from the Missouri Department of Insurance, Financial Institutions and Professional Registration.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth by the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

There were no general comments and recommendations listed in the previous examination report.

HISTORY

General

The Company was organized October 1, 1880 as The Arnsberg Mutual Fire Insurance Company. During the period 1890 to 1916 the Company underwent two name changes. The first change was to Arnsberg Fire and Lightning Insurance Company and then to Arnsberg Farmers Mutual Fire and Lightning Insurance Company. The Company adopted its name of Arnsberg Farmers Mutual Insurance Company in October 1969.

Management

The Company is managed by a board of five directors, serving staggered, three-year terms. Directors are elected at annual member meetings held on the first Monday of every March. Special meetings of the members may be called by the Board of Directors or upon petition of one-fourth of the members. The board meets monthly. Directors receive $150 per meeting. All directors are also policyholders.

The Board consisted of the following members as of December 31, 2011:

Name / Address	Occupation	Term
Dennis E. Lohmann 28 Spring Lake Road Perryville, MO 63775	Retired	2011-2014
Antonia M. Ponder 197 PCR 528 Perryville, MO 63775	Cook	2009-2012
Keith D. Shrum Route 1 Box 106E Millersville, MO 63766	Production Paint Engineer	2011-2014
Donald O. Telle 12571 S Highway 61 Uniontown, MO 63783	Retired	2010-2013

Roger C. Thomas Route 7 Box 261 Perryville 63775	Farmer	2010-2013

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2011 were as follows:

Roger C. Thomas	President
Dennis E. Lohmann	Vice President
Donald A. Hemmann	Secretary/Treasurer
Karen L. Kohlfield	Assistant Secretary/Treasurer

Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers, directors and full-time employees. No potential material conflicts were disclosed during the examination period.

Corporate Records

The Articles of Incorporation, Bylaws, and minutes from the annual member meetings and Board of Directors meetings were reviewed. The Company is following the guidelines established in the Articles of Incorporation and Bylaws.

Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. Attendance at the Board and annual meetings appeared satisfactory. The Board formally acknowledged the previous examination report during its July 9, 2007 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of $100,000 from St. Paul Fire and Marine Insurance Company. This coverage meets the minimum amount recommended in the NAIC Financial Examiners Handbook for the Company's level of exposure.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company with an aggregate limit of liability of $2 million.

Each of the Company's agents carries Errors and Omissions Liability insurance. Captive agents have a minimum limit of liability of $300,000 while the independent agency has a $2 million limit of liability. The agents are required to purchase their own coverage.

The Company maintains Commercial General Liability coverage through Grinnell Mutual on its office building. The limits of liability are $500,000 per occurrence and $1 million aggregate.

The Company has a workers compensation and employers liability policy with Missouri Employers Mutual Insurance Company. The workers compensation insurance applies to the workers compensation laws of the state of Missouri. The employers liability insurance has a limit of liability for bodily injury by accident of $500,000 each accident and limits of liability for bodily injury by disease of $500,000 per employee and a policy limit of $500,000.

The Company's insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time employees and three part-time employees. Full-time employees receive life, health and disability insurance benefits as well as paid vacation, sick leave and holidays. There is also a 401(k) retirement plan with a Company match up to 4% of the employees' salaries.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company has a Certificate of Authority dated December 1, 1988 and is operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies). The Company is authorized to write fire, windstorm and liability coverage in all Missouri counties. The majority of the Company's business is concentrated in Perry and surrounding counties. Insurance is provided on a non-assessable basis. Advertising is done through local newspaper, through the Yellow Pages and giveaways of promotional items. The Company has a web site at www.arnsbergins.com.

Policy Forms and Underwriting Practices

The Company writes policies on a continuous basis. Policy rates are approved by the Board of Directors based on internal recommendations. The Company uses policy form from AAIS and from Grinnell Mutual Reinsurance Company. Insurance products are sold by five captive agents and one insurance agency. Agents receive 15% commissions on all new and renewal business.

An onsite inspection is made prior to the issuance of policies. Renewals are inspected every third year. Inspections are performed by the agents. Adjusting of fire and windstorm claims is performed by independent adjustors. Grinnell Mutual performs claims adjusting on liability claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	$5,193,658	$ 1,072,050	$ 2,658,442	$ 2,892,006	$ 219,453	$ (834,323)	$(614,870)
2010	5,814,525	1,078,047	2,549,244	1,157,440	217,150	(6,873)	210,277
2009	5,454,488	928,287	2,331,768	9,591,213	203,825	(651,254)	(447,429)
2008	5,809,724	834,094	2,125,157	2,219,887	248,940	(537,074)	(288,134)
2007	6,113,448	851,648	1,972,136	1,132,820	266,488	(86,958)	179,530

At year-end 2011, there were 3,778 policies in-force.

The Company has experienced significant operating losses throughout the examination period. The Company's average underwriting loss during the examination period was $423,296. Underwriting losses in excess of $500,000 were experienced in 2008, 2009 and 2011. The underwriting losses were offset somewhat by consistent investment gains. However, total surplus declined nearly 20% during the examination period from $5.1 million to $4.1 million.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	2007	2008	2009	2010	2011
Direct	$ 1,952,253	$ 2,105,439	$ 2,311,833	$ 2,527,644	$ 2,635,546
Assumed	19,883	19,718	19,935	21,600	22,896
Ceded	(676,783)	(713,164)	(806,048)	(890,453)	(941,430)
Net	$ 1,295,353	$ 1,411,993	$ 1,525,720	$ 1,658,791	$ 1,717,012

Assumed

The Company participates in the MAMIC Mutual Insurance Company D/O and E/O reinsurance pool. An immaterial amount of assumed premiums and losses is reported due to the Company's participation in this pool.

Ceded

The Company has a reinsurance agreement with Grinnell Mutual Reinsurance Company (the reinsurer). The following coverage is provided under this agreement.

Aggregate Excess
This coverage provides unlimited aggregate excess coverage above an attachment point that is calculated yearly. The attachment point for the 2011 contract year was $1,841,833. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind risk in force per $1,000 at the end of each month during the contract year.

Facultative Reinsurance
The Company has the option to cede all or part of each specific risk to the reinsurer by means of facultative reinsurance. Rates are determined by the reinsurer on a case-by-case basis, and the reinsurer determines which risks are acceptable for facultative coverage.

Earthquake Reinsurance
Under this section the Company cedes all earthquake premiums to the reinsurer, who in turn is responsible for all earthquake losses. The ceding commission is built into the premium formula.

Liability Reinsurance
Under this section the Company cedes all liability premiums to the reinsurer, who in turn pays all liability losses. The Company receives a ceding commission equal to 20% of the subject net written premiums.

The Company has changed reinsurers for the 2013 contract year from Grinnell Mutual to Wisconsin Reinsurance Corporation. Features of the new agreement include $125,000 retention on all property risks, $5,000 retention on all liability risks and an estimated attachment point of $2,053,954. Losses above the attachment point are paid 100% by the reinsurer.

The Company's reinsurance program appears to be adequate and in compliance with Missouri Regulation 20 CSR 200-12.030.

ACCOUNTS AND RECORDS

The Company uses the accrual basis method of accounting. Accounting records for premiums, claims and financial reporting are maintained on a personal computer based package developed by Rural Computers Consultants. The CPA firm Brown & Thomas, P.C. prepares financial statements and tax returns and compiles the Company's Annual Statement.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2011, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2011

Bonds (Note 1)	4,018,019
Real Estate	15,424
Cash on Deposit	875,928
Other Investments	172,745
Reinsurance Recoverable on Paid Losses	58,975
Interest Due and Accrued	52,567
Total Assets	$5,193,658

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Ceded Reinsurance Premiums Payable	55,676
Unearned Premium	1,012,174
Other Liabilities	4,200
Total Liabilities	$ 1,072,050
Guaranty Fund	$ 150,000
Other Surplus	3,971,608
Total Surplus	4,121,608
Total Liabilities and Surplus	$5,193,658

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 1,669,254
Other Insurance Income	94,063
Net Losses & Loss Adjustment Expenses Incurred	(1,876,005)
Other Underwriting Expenses Incurred	(721,635)
Net Underwriting Income (Loss)	$ (834,323)
Investment Income	$ 219,453
Other Income	0
Gross Profit (Loss)	$ (614,870)
Federal Income Tax	0
Net Income (Loss)	$ (614,870)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 4,736,478
Net Income (Loss)	(614,870)
Policyholders' Surplus, December 31, 2011	$ 4,121,608

NOTES TO THE FINANCIAL STATEMENTS

Note 1-Bonds

The investment limitations imposed by 20 CSR 12.020 include a requirement that no more than 20% of an extended Missouri mutual's admitted assets may be invested in the aggregate in 1) Corporate bonds; 2) Bonds of any state or other political subdivision of any state other than Missouri; and 3) Commercial paper. The Company's investments in these items was more than 25% of admitted assets as of December 31, 2011.

The Company should monitor its investment positions in the future to ensure compliance with 20 CSR 12.020.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

Notes to the Financial Statements

The Company should monitor its investment positions in the future to ensure compliance with 20 CSR 12.020.

SUBSEQUENT EVENTS

The significant operating losses experienced by the Company during the examination period have continued in 2012. Total Underwriting Loss in 2012 through October was $731,255, with a total Net Loss of $548,716.

The Company has changed reinsurers for the 2013 contract year from Grinnell Mutual to Wisconsin Reinsurance Corporation. Features of the new agreement include $125,000 retention on all property risks, $5,000 retention on all liability risks and an estimated attachment point of $2,053,954. Losses above the attachment point are paid 100% by the reinsurer.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Arnsberg Farmers Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, John M. Boczkiewicz on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

ARIADNE ASHFORD
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: May 14, 2016
Commission Number: 12341768

John M. Boczkiewicz, CPA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 29 day of Nov, 2012.

My commission expires:

5/14/16

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael Shadowens, CFE
Audit Manager-St. Louis
Missouri DIFP

Arnsberg Farmers Mutual Insurance Co.

Donald A. Hemmann, Manager/Secretary/Treasurer

January 30, 2013

Tammy Rodieck, Exam Coordinator
Missouri Department of Insurance
PO Box 690
Jefferson City MO 65102-0690

Re: Examination Report

Dear Ms. Rodieck:

At our Board of Directors meeting on January 21, 2013, The Board reviewed and accepted the examination report from the Department of Insurance.

In regards to the investment portfolio of the company, I intend to sell enough of the non-Missouri bonds to get into compliance with 20 CSR 12.020 and reinvest the funds in US Government or Missouri bonds or bank certificates of deposit. I also intend to monitor these totals more closely.

I appreciate Mr. Boczkiewicz bringing this to my attention.

Sincerely,

Donald A. Hemmann

Donald A. Hemmann
Secretary/Treasurer

COME HOME

11994 S. Hwy 61 • Uniontown, Missouri 63783 • Phone/Fax (573) 788-2304 • arnsberg@powrup.net