STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

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

ORDER

After full consideration and review of the report of the financial examination of Billings 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 Billings 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 7th day of May 2013.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

BILLINGS MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2011

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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February 22, 2013
Billings, 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

BILLINGS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company" or "Billings Mutual." The Company's administrative office is located at 118 S.W. Highway 60 (P.O. Box 40) Billings, Missouri 65610, telephone number (417) 744-2717. This examination began on February 19, 2013, and was concluded on February 22, 2013, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2005, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2006, through December 31, 2011, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

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 in the Financial Examiners Handbook of 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 prior examination report comments or recommendations.

HISTORY

General

The Company was originally organized on May 9, 1891, as Farmers Mutual Insurance Company of Billings, and was incorporated on August 5, 1970. The Company changed its name to Billings Mutual Insurance Company in 1992. On January 1, 2004, Farmers Mutual Fire and Lightning Insurance Association of Phelps County merged with the Company, with Billings Mutual being the surviving Company.

The Company has a Certificate of Authority dated December 31, 1992, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Thursday in February at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately nine times per year, and each director receives an annual retainer of $3,500 and $500 per meeting attended.

Members serving on the Board of Directors as of December 31, 2011, were as follows:

Name and Address	Occupation	Term
Charles Smith Galena, Missouri	Manager – Billings Mutual Insurance Company	2008-2011

Harold Hodges Sparta, Missouri	Insurance Agent	2008-2011
Ron Welch Republic, Missouri	Realtor	2008-2011
Wayne Eutsler Galena, Missouri	Retired	2009-2012
Andy Reavis Marionville, Missouri	Agents Manager – Billings Mutual Insurance Company	2009-2012
Beverly Moore Memphis, Missouri	Insurance Agent	2009-2012
Connie Kennemer Springfield, Missouri	Retired	2010-2013
Andrew Bowles Miller, Missouri	Insurance Agent	2010-2013
Gary Fowler Sheldon, Missouri	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:

Harold Hodges	President
Wayne Eutsler	Vice-President
Charles Smith	Secretary-Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis. Three of the directors disclosed that they are also agents of the Company and/or other companies. Eight of the directors disclosed they are members of Missouri Insurance Services, LLC (MIS), a service company that primarily acts as a general agent for the Company's agency force to facilitate the writing of coverages not offered by the Company through its reinsurer. The company also provides off-site data storage for Billings Mutual and manages the out-sourcing of Billings Mutual adjusting services to other mutuals. No other significant disclosures were noted.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company, neither of which were amended during the examination period. The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of $150,000. The fidelity bond coverage of the Company does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is $200,000.

The Company carries liability coverage for its directors and officers. The Company utilizes an independent agency force and requires its agents to carry errors and omissions insurance. The Company also carries business owner's coverage on its home office and contents, as well as general and commercial umbrella liability, business automobile, employment practices and workers compensation coverages.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has twenty-two full-time employees. The benefits package offered to the employees includes life and health insurance, SEP retirement plan with employer matching, and paid time off.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company writes fire, wind, and liability coverages. The Company's policies are marketed by 211 independent agencies. Commissions are tiered based upon production levels and policy type, and range from 8% to 18% of premium written.

Policy Forms and Underwriting Practices

The Company utilizes AAIS, Grinnell Mutual Reinsurance Company, MAMIC and custom policy forms. Policies are renewed annually. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed by Company inspector/adjusters. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	$15,250,916	$ 4,735,800	$10,794,461	$7,103,511	$350,760	$(1,967,143)	$(650,835)
2010	16,356,209	5,162,141	9,476,948	3,140,963	353,536	43,803	360,835
2009	14,271,085	3,431,964	8,234,970	5,559,108	402,628	(698,037)	(105,153)
2008	13,799,965	2,889,697	7,052,510	6,592,921	536,009	(254,057)	250,927
2007	13,502,598	2,843,256	6,065,633	3,110,712	592,248	53,252	513,548
2006	12,520,255	2,374,462	5,818,531	5,058,859	482,779	110,844	444,734

At year-end 2011, 13,697 policies were in force.

REINSURANCE

General

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

	2006	2007	2008	2009	2010	2011
Direct	$5,818,531	$ 6,065,633	$ 7,052,510	$ 8,234,970	$ 9,476,948	$ 10,794,461
Assumed	18,289	20,081	19,853	20,072	0	0
Ceded	(982,769)	(1,054,425)	(1,234,044)	(1,608,598)	(2,242,384)	(2,825,659)
Net	$4,854,051	$ 5,031,289	$ 5,838,319	$ 6,646,444	$ 7,234,564	$ 7,968,802

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 89% of the first $2,000,000 each claim and in aggregate

on all insurance agent and broker errors and omissions policies and 89% of the first $3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 6% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss with aggregate excess plan reinsurance agreement for property risks.

Under the individual occurrence of loss excess section of the agreement, the Company retains $100,000 for each loss occurrence and the reinsurer's limits are $1,000,000 per exposure.

Under the aggregate excess section of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's five-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2011 was $5,505,342.

Under the facultative reinsurance portion of the agreement the Company may cede to the reinsurer risks that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

The agreement also provides reinsurance for liability coverages. The Company cedes 100% of liability premiums and losses to the reinsurer and receives a 20% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Company utilizes Rural Computer Consultants, Inc. accounting and policy maintenance software. The CPA firm of Marberry & Eagle, PC, performs an annual audit of the Company's financial statements and prepares the annual statement and tax filings.

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.

ASSETS
December 31, 2011

Bonds	$ 6,284,539
Mutual Funds	490,045
Real Estate	469,540
Cash on Deposit	6,503,095
Other Investments	190,484
Premiums Uncollected	1,860
Reinsurance Recoverable on Paid Losses	395,147
Computer Equipment	498,344
Federal Income Taxes Recoverable	407,164
Prepaid Insurance	10,698
Total Assets	$ 15,250,915

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Ceded Reinsurance Premium Payable	$	298,094
Unearned Premium		4,142,450
Accounts Payable to Agents		134,280
Accounts Payable – Other		89,846
Employee SEP Payable		71,130
Total Liabilities	$	4,735,800
Guaranty Fund	$	150,000
Other Surplus		10,365,115
Total Surplus		10,515,115
Total Liabilities and Surplus	$	15,250,915

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 7,454,478
Other Insurance Income	104,273
Net Losses & Loss Adjusting Expenses Incurred	(5,624,273)
Other Underwriting Expenses Incurred	(3,901,621)
Net Underwriting Income (Loss)	$ (1,967,143)
Net Investment Income	350,760
Other Income	609,488
Gross Profit (Loss)	$ (1,006,895)
Federal Income Tax	356,060
Net Income (Loss)	$ (650,835)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 11,194,068
Net Income (Loss)	(650,835)
Mutual Funds Market Over Cost	(28,118)
Policyholders' Surplus, December 31, 2011	$ 10,515,115

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

SUMMARY OF RECOMMENDATIONS

Fidelity Bond (Page 4)

It is recommended the Company increase its fidelity bond coverage to a minimum of $200,000, in accordance with the NAIC guidelines.

SUBSEQUENT EVENTS

Effective January 1, 2012, the Company entered into an assumption agreement with North Central Mutual Insurance Company (North Central). Under the terms of the agreement, the Company assumed all of the liabilities and policies from North Central in exchange for all the assets of North Central. The Company assumed responsibility from North Central for all policy coverage, payment collection, policy endorsement processing, and handling of all outstanding claims existing prior to January 1, 2012. All claims reported after January 1, 2012, are to be assumed and paid by Billings Mutual. As of December 31, 2011, North Central reported approximately 700 policies and $84 million of coverage in force, assets of $1,083,096, liabilities of $17,833 and total policyholder surplus of $1,065,263. Effective January 31, 2013, North Central was administratively dissolved as a corporate entity.

Effective July 1, 2012, Scott County Farmers Mutual Insurance Company (Scott County) was merged into the Company, with Billings Mutual being the surviving entity. As of December 31, 2011, Scott County reported approximately 1,200 policies and $116 million of coverage in force, assets of $285,517, liabilities of $31,763 and total policyholder surplus of $253,754.

Effective January 1, 2013, The Mutual Insurance Company (The Mutual) was merged into the Company, with Billings Mutual being the surviving entity. As of December 31, 2012, The Mutual

reported approximately 2,500 policies and $235 million of coverage in force, assets of $2,647,330, liabilities of $623,802 and total policyholder surplus of $2,023,528.

Also effective January 1, 2013, The Missouri State Mutual Insurance Company (MO State) was merged into the Company, with Billings Mutual being the surviving entity. As of December 31, 2012, MO State reported approximately 3,000 policies and $354 million of coverage in force, assets of $6,337,773, liabilities of $386,582 and total policyholder surplus of $5,951,191.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Cole)

I, Shannon W. Schmoeger 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.

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 19th day of March 2013.

My commission expires:

May 18.2016

Notary Public

KIMBERLY LANDERS
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: May 18, 2016
Commission Number: 12558402

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.

Mark Nance, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP

BMI
BILLINGS MUTUAL INSURANCE
P.O. Box 40
Billings, Missouri 65610

Charles J. Smith
General Manager

Serving Our Policyholders
Since 1891

April 19, 2013

Tammy Rodieck, Exam Coordinator
Department of Insurance
Email: tammy.rodieck@insurance.mo.gov
301 West High Street, Room 530
P.O. Box 690
Jefferson City, Missouri 65102-0690

Dear Ms. Rodieck,

Per recommendations on page 11 of the Department of Insurance Examination Report regarding increase of fidelity bond coverage to $200,000, please find the attached copies of Surety Bond No. 05617516 issued by Western Surety Company in the amount of $300,000. Billings Mutual Insurance Company has purchased an extra $100,000 for anticipated growth.

For further information, please contact me.

Charles J. Smith CEO
Billings Mutual Insurance Company
CJS/dkr
ENCL:

Toll Free: (800) 310-2717
Fax: (417) 744-2762

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