STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

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

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Fire & Lightning 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 Farmers Mutual Fire & Lightning 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 8th day of April, 2013.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS MUTUAL FIRE & LIGHTNING INSURANCE COMPANY

AS OF
DECEMBER 31, 2011

FILED
APR 0 8 2013
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

Subject	Page
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	3
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting Practices	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	6
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	6
FINANCIAL STATEMENTS:	
Analysis of Assets	8
Liabilities, Surplus and Other Funds	8
Statement of Income	9
Capital and Surplus Account	9
NOTES TO THE FINANCIAL STATEMENTS	10
EXAMINATION CHANGES	10
SUMMARY OF RECOMMENDATIONS	10
SUBSEQUENT EVENTS	10
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	11

October 24, 2012
Mound City, 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

FARMERS MUTUAL FIRE & LIGHTNING INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 505 State Street (P.O. Box 206), Mound City, Missouri 64470, telephone number (660) 442-5445. This examination began on October 22, 2012, and was concluded on October 24, 2012, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2006, and was conducted by examiners 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 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

The comments, recommendations, and notes of the previous examination report dated December 31, 2006, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Territory and Plan of Operation

Comment: It was recommended the Company amend its agent agreements to set time limits for the delivery of fully completed applications and forms to the home office and to add provisions which address the responsibility for obtaining errors and omissions insurance.

Company Response: The Company has amended its agent agreements to establish time limits for the delivery of completed applications and to address the responsibility for obtaining errors and omissions insurance.

Current Findings: The Company amended its agent agreements to establish a two day limit for the delivery of completed applications and agent responsibility for errors and omissions coverage.

Accounts and Records

The Company was directed to review its expense structure and take the actions necessary to reduce its operating expense ratios to reasonable levels.

Company Response: The Company has developed an action plan to reduce its operating expense ratios.

Current Findings: The Company has significantly decreased its operating expense ratios during the examination period through expense reduction and premium growth.

HISTORY

General

The Company was originally established in 1891 and was incorporated on September 8, 1896, as Farmers Mutual Fire and Lightning Insurance Company of Holt County, Missouri. In 1979, the Company changed its name to Farmers Mutual Fire and Lightning Insurance Company.

The Company has a Certificate of Authority dated August 28, 2001, 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 first Tuesday after the first Monday in March at the home office of the Company or at such place designated by the Board of Directors. Special meetings 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 not 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 seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and directors are compensated $115 per each meeting attended.

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

Name and Address	Occupation	Term
Hugh Wallace Mound City, Missouri	Farmer	2010-2013
Thomas Hare Oregon, Missouri	Retired	2010-2013
Kirby Rosier Mound City, Missouri	Farmer	2010-2013
Phillip Morris Oregon, Missouri	Farmer	2011-2014
Clint Killin Craig, Missouri	Farmer	2011-2014
James Loucks Mound City, Missouri	Farmer	2009-2012
Wayne Voltmer Craig, Missouri	Farmer	2009-2012

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:

Phillip Morris	President
Hugh Wallace	Vice-President
Jayson Johnson	Secretary
Jeremy Johnson	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, and no potential conflicts of interest were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws of the Company were amended during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's written policies and procedures were reviewed. The minutes and records of the Company appear to properly reflect the 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 $100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between $50,000 and $75,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of $1,000,000 and a $5,000 deductible in aggregate for each claim.

The Company provides errors and omissions coverage for its Company Manager, while requiring other agents to purchase their own errors and omission coverage.

The Company also carries property insurance on its home office and contents, as well as business liability insurance.

EMPLOYEE BENEFITS

The Company has three part-time employees. The Company offers its employees a benefit package which includes health insurance and two weeks of paid vacation per year.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the DIFP as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by 2 licensed agencies, who receive a 15% commission. The agents are also eligible for a bonus commission of up to 3.5% if certain loss ratio requirements are met.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are written on a continuous period, with properties inspected at least every three years. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the agents. Independent adjusters are also utilized by the Company.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	$2,489,191	$12,169	$573,361	$541,546	$44,860	($124,135)	($79,275)
2010	2,573,230	16,933	546,746	244,693	56,471	127,877	184,348
2009	2,440,700	68,751	503,766	910,385	88,513	(257,043)	(168,530)
2008	2,555,290	14,811	487,756	211,335	105,352	(42,931)	64,128
2007	2,489,950	13,599	476,693	71,962	115,330	30,920	148,250

At year-end 2011, 655 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:

	2007	2008	2009	2010	2011
Direct	$476,280	$483,988	$501,184	$539,842	$570,211
Assumed	0	0	0	0	0
Ceded	(97,370)	(92,503)	(100,043)	(128,993)	(144,243)
Net	$378,910	$391,485	$401,141	$410,849	$425,968

Assumed

The Company does not reinsure other companies.

Ceded

The Company has a property per risk excess of loss reinsurance contract and an unlimited aggregate excess of loss reinsurance contract with numerous reinsurers (the reinsurers) brokered by Guy Carpenter.

Under the property per risk excess of loss reinsurance contract, the Company retains $40,000 per risk and the reinsurer's limit is $100,000 each loss, each risk and $600,000 per occurrence.

The unlimited aggregate excess of loss reinsurance contract pertains to property risks. The reinsurer is liable for 95% of losses in excess of 75% of the Company's earned premium, with no annual loss limit.

The Company has a liability quota share contract with Cameron Mutual Insurance Company for liability risks. The Company cedes 100% of the liability risks and premium to Cameron Mutual and receives a 22% 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 prepares its annual statement and statutory filings. Helen Taylor, CPA, prepares the Company's federal 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.

ANALYSIS OF ASSETS
December 31, 2011

Bonds	$ 68,745
Cash on Deposit	2,184,064
Reinsurance Recoverable on Paid Losses	225,492
Assessments Receivable	10,773
Interest Due & Accrued	117
Total Assets	$ 2,489,191

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Net Losses Unpaid	$ 4,500
Net Loss Adjusting Expense Unpaid	649
Ceded Reinsurance Premium Payable	1,376
Commissions Payable	5,002
Payroll Tax Payable	642
Total Liabilities	$ 12,169
Guaranty Fund	$ 150,000
Other Surplus	2,327,022
Total Surplus	2,477,022
Total Liabilities and Surplus	$ 2,489,191

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 425,968
Other Insurance Income	2,250
Net Losses & Loss Adjustment Expenses Incurred	(330,344)
Other Underwriting Expenses Incurred	(222,009)
Net Underwriting Income (Loss)	$ (124,135)
Investment Income	44,860
Gross Profit (Loss)	$ (79,275)
Federal Income Tax	(0)
Net Income (Loss)	$ (79,275)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 2,556,297
Net Income (Loss)	(79,275)
Policyholders' Surplus, December 31, 2011	$ 2,477,022

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
County of Jackson)

I, Scott L. Rennick, 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.

Scott L. Rennick

Scott L. Rennick MBA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 23rd day of January, 2013.

BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070

My commission expires:

04-14-2016

Beverly M. Webb

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

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 CPA, CFE
Audit Manager – Kansas City
Missouri DIFP

March 25, 2013

Farmers Mutual Fire & Lightning Insurance Company (NAIC #13844)
505 State Street
PO Box 206
Mound City, MO 64470

Department of Insurance, Financial Institutions
And Professional Registration
Attn. Mr. Frederick G. Heese
Chief Financial Examiner & Division Director
PO Box 690
Jefferson City, MO 65102-0690

Dear Mr. Heese:

Please accept this letter as confirmation that Farmers Mutual Fire & Lightning Insurance Company has received a copy of our company's Financial Examination Report for the period ending December 31, 2011. Farmers Mutual Fire & Lightning Insurance Company looks forward to a constructive working relationship with the Department of Insurance, Financial Institutions and Professional Registration for many years to come. You are welcome to include this letter in the Financial Examination Report as a public document.

Sincerely,

Jeremy Johnson
Treasurer/Company Manager
Farmers Mutual Fire & Lightning Insurance Company