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 Insurance Company of Marion County for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Marion County 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 Insurance Company of Marion County 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.

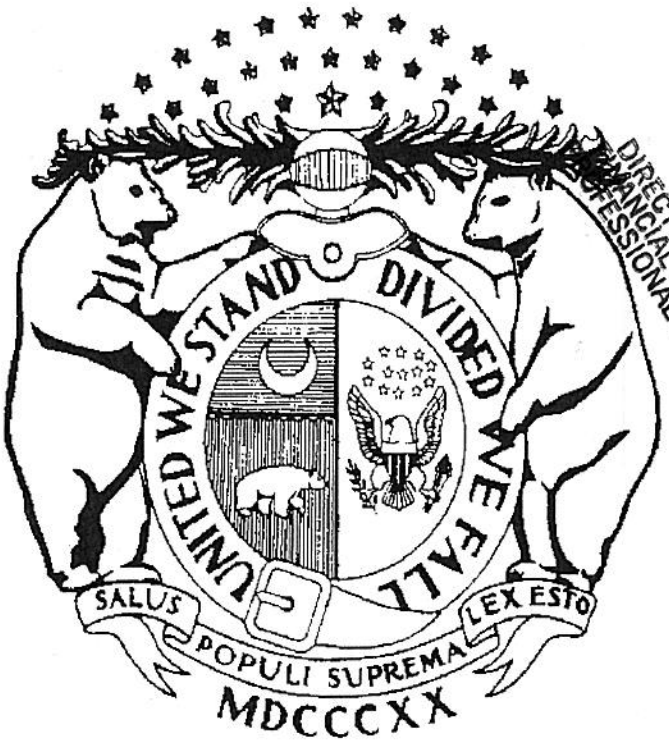
So ordered, signed and official seal affixed this 14th day of February 2013.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

Farmers Mutual Insurance Company of Marion County

AS OF
DECEMBER 31, 2011



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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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December 6, 2012
Palmyra, 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 Insurance Company of Marion County

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 621 South Main Street, Palmyra, Missouri 63461; telephone number (573) 769-4615. This examination began December 3, 2012, and concluded on December 5, 2012, 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/or Recommendations included in the previous examination report.

HISTORY

General

The Company was organized on October 1, 1907, as the Farmers Mutual Insurance Association of Marion County. On November 19, 1917, the Company filed for incorporation. The Company changed its name to Farmers Mutual Insurance Company of Marion County on January 15, 1981.

The Company has a Certificate of Authority dated December 1, 2003, and is operating under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies).

Management

The Company is managed by a board of seven directors, serving staggered, three-year terms. Directors are elected at annual membership meetings held on the fourth Thursday of every January. Eight members shall constitute a quorum at membership meetings. 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 and directors receive $125 per meeting. All directors are also policyholders.

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

Name / Address	Occupation	Term
Dennis Keim 5176 County Road #403 Hannibal, MO 63401	Farmer/Agent	2010-2013
Brian Obert 6689 County Road #320 Palmyra, MO 63461	Co-Op Manager/Farmer/Agent	2009-2012
Jason Plunkett 3195 County Road #173 Philadelphia, MO 63463	Farmer/Agent	2010-2013

Tina Bridgman 374 County Road #109 Ewing, MO 63440	Clerk/Agent	2009-2012
David Moss 7551 County Road #225 Monroe City, MO 63456	Farmer/Agent	2011-2014
James Behring 315 W. Church St. Palmyra, MO 63461	Retired Union Laborer	2009-2012
Cynthia Kruse 6433 County Road #258 Hannibal, MO 63401	Retired Medical Secretary	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:

Dennis Keim	President
Brian Obert	Vice President
David Moss	Secretary/Treasurer

Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers and directors. 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 17, 2007 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of $100,000 from Old Republic Surety 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 $3 million.

Each of the Company's captive agents carries Errors and Omissions Liability insurance through MAMIC Mutual Insurance Company with a minimum limit of liability of $300,000. Each of the independent agents used by the Company carries Errors and Omissions coverage of at least $1 million through various insurance carriers. The agents are responsible for purchasing their own coverage.

The Company has property and liability insurance coverage for its office building through Grinnell Mutual Reinsurance Company. The property coverage has limits of liability of $354,251 on the office building and $40,000 on business personal property and includes earthquake coverage. The liability coverage has limits of $1 million per occurrence and $2 million aggregate.

The Company has a workers compensation and employers liability policy with Grinnell Mutual Insurance Company. The workers compensation insurance complies with 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 bodily injury by disease of $500,000 per employee and a policy limit of $500,000.

The Company's insurance coverage appears adequate and in compliance with the requirements of Missouri Regulation 20 CSR 200-12.030.

EMPLOYEE BENEFITS

The Company currently has two full-time employees and one part-time employee. Full-time employees receive vacation, holidays, sick time, health insurance and a SEP IRA retirement plan with Company match. The President and Secretary/Treasurer also participate in the retirement plan.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company has a Certificate of Authority dated December 1, 2003 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 Marion and surrounding counties. Insurance is provided on a non-assessable basis. Advertising is done through local radio, billboards, newspapers and the yellow pages.

Policy Forms and Underwriting Practices

The Company uses policy forms supplied by its reinsurer, Grinnell Mutual Reinsurance Company. Policies are written for continuous one-year terms. Inspections are performed by the agents upon policy issuance and every five years thereafter. Claims under $1,000 are adjusted in-house, otherwise, independent adjustors are used. The Company's policies are marketed by eight captive agents and four independent agents who receive commissions of 20% on new business and 14% on renewals.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	$4,009,395	$ 629,120	$ 1,110,400	$ 1,226,045	$ 126,777	$ (197,965)	$ (55,355)
2010	4,179,965	744,355	1,089,406	523,422	126,434	(49,265)	99,243
2009	3,975,427	634,166	1,055,972	325,559	143,493	248,898	400,653
2008	3,502,535	544,518	1,012,758	769,203	143,463	(127,403)	33,517
2007	3,510,875	586,375	980,271	479,728	145,919	(21,602)	129,645

At year-end 2011, there were 2,099 policies 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	$ 980,271	$ 1,012,758	$ 1,055,972	$ 1,089,406	$ 1,110,400
Assumed	0	0	0	0	0
Ceded	(80,979)	(96,074)	(99,912)	(123,656)	(123,656)
Net	$ 899,292	$ 916,684	$ 956,060	$ 965,750	$ 981,378

Assumed

None.

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 $717,903. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire 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.

Pollution Clean-Up and Removal
Under this section the Company cedes 100% of the liability it assumes on coverage insured by the Pollution Clean-Up and Removal Endorsement.

Liability Reinsurance
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.

ACCOUNTS AND RECORDS

The Company's accounting records are maintained on a cash basis. Policyholder and financial records are maintained on a software package from IMT Computer Sales of Des Moines, Iowa. The CPA firm of Marberry & Eagle, P.C. prepares the Company's financial statements, Annual Statements and tax returns and performs an annual audit of the financial statements.

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	2,238,191
Real Estate	155,492
Cash on Deposit	1,299,116
Other Investments	2,500
Reinsurance Recoverable on Paid Losses	151,768
Computer Equipment	7,040
Federal Income Tax Recoverable	3,287
Interest Due & Accrued	26,519
Other Write-In Assets	125,482
Total Assets	$4,009,395

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Unpaid Losses	12,600
Ceded Reinsurance Premium Payable	20,155
Unearned Premium	570,244
Other Write-In Liabilities	26,121
Total Liabilities	$ 629,120
Guaranty Fund	$ 150,000
Other Surplus	3,230,275
Total Surplus	3,380,275
Total Liabilities and Surplus	$4,009,395

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 963,253
Other Insurance Income	6,930
Net Losses & Loss Adjustment Expenses Incurred	(765,302)
Other Underwriting Expenses Incurred	(402,846)
Net Underwriting Income (Loss)	$ (197,965)
Investment Income	$ 126,777
Other Income	15,027
Gross Profit (Loss)	$ (56,161)
Federal Income Tax	(806)
Net Income (Loss)	$ (55,355)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 3,435,630
Net Income (Loss)	(55,355)
Policyholders' Surplus, December 31, 2011	$ 3,380,275

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 Insurance Company of Marion County 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.

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

Sworn to and subscribed before me this 6th day of Dec., 2012.

My commission expires: May 11, 2016

Notary Public

ANDREA V. MOFFATT
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: May 11, 2016
Commission Number: 12552590

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