COPY

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 Nodaway 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 Nodaway 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 Nodaway 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 4th day of January 2013.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS MUTUAL INSURANCE COMPANY OF NODAWAY COUNTY

AS OF
DECEMBER 31, 2011

FILED
JAN 0 4 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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September 24, 2012
Maryville, 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 NODAWAY COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 311 East Summit Drive, (P.O. Box 394), Maryville, Missouri 64468, telephone number (660) 582-4511. This examination began on September 4, 2012, and was concluded on September 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, 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.

HISTORY

General

The Company was organized on May 15, 1891, and incorporated on April 1, 1895, as The Farmers Mutual Fire and Lightning Insurance Company of Nodaway County. The Company subsequently changed its name to Farmers Mutual Insurance Company of Nodaway County. On January 1, 2007, Barry County Mutual Insurance Company merged with the Company, with Farmers Mutual Insurance Company of Nodaway County being the surviving entity.

The Company has a Certificate of Authority dated July 1, 1991, 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 Saturday in April 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. The Articles of Incorporation do not address quorum requirements of membership meetings. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. The Articles of Incorporation state that the Board of Directors shall be comprised of 6 members. All directors must be policyholders of the Company. The Board of Directors meet approximately every month. Directors are compensated $10 for each meeting attended and the President receives an additional $200 monthly.

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

Name and Address	Occupation	Term
Steve Miller 21146 400th Street Graham, Missouri	Farmer/Agent	2008-2011
Robert Hall P.O. Box 86 Maryville, Missouri	Bank Executive/Agent	2008-2011
Terry Nicholas 19903 Bobcat Dr. Burlington Junction, Missouri	Farmer/Agent	2009-2012

Patricia Wiederholt 27643 State Highway MM Ravenwood, Missouri	Agent	2008-2011
Ron Howard 14196 Fairway Road Clearmont, Missouri	Farmer/Agent	2010-2013
Onedia Wolverton 10003 Noble Road Hopkins, Missouri	Agent	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:

Steve Miller	President
Terry Nicholas	Vice-President
Pam Spire	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. It was disclosed as potential conflict of interest in the statements that all Directors are also agents of the Company.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Effective January 1, 2007, Barry County Mutual Insurance Company was merged into the Company with Farmers Mutual Insurance Company of Nodaway County being the surviving entity. On May 7, 2005, the Articles of Incorporation were amended to change the number of Board members from 6 to 7. On June 7, 2010, the Articles of Incorporation were amended to change the number of Board members from 7 to 6. The Bylaws were not amended during the examination period. The Company is following the guidelines established in the Articles of Incorporation and Bylaws.

The minutes of the membership and the Board of Directors' meeting were reviewed for the period under examination. Attendance at the Board and annual membership meetings appeared satisfactory. 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 $100,000 and $125,000 in coverage.

The Company carries directors and officers liability coverage with a $3,000,000 limit of liability and requires its agents to purchase their own errors and omission coverage.

The Company carries property insurance on its home office and contents, as well as business liability and workers compensation insurance. The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three full-time employees. The Company provides health, life, and disability insurance benefits for all employees. The employees are allowed one to four weeks of paid vacation per year, depending upon years of service and five personal days per year. In addition, the Company contributes a percentage of each employee's annual salary into a Simplified Employee Pension account on behalf of each employee. The Company appears to have reported adequate provisions for the benefits in the financial statements.

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 of the State of Missouri. The Company writes fire, wind, and liability coverage. The Company's policies are sold through eleven licensed agents, six of which are Directors of the Company.

The Company classifies contracted agents as either "Agents" or "Agents/Adjusters." "Agents" are authorized to adjust claims from their book of business for settlements up to $2,500, while "Agent/Adjusters" are authorized to adjust all claims from their book of business. "Agents" receive a 12% or 15% commission depending on product, while "Agent/Adjusters" receive an 18% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS, Grinnell Mutual Reinsurance Company, and custom policy forms. The policies are written on a continuous period with rates determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the agents and claim adjudication services are performed by agent/adjusters and independent adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessment	Gross Losses Incurred	Investment Income	Underwriting Income	Net Income
2011	7,426,990	1,711,922	4,272,984	19,544,402	281,947	(780,836)	(337,771)
2010	7,521,495	1,468,656	3,856,753	2,559,722	324,400	31,297	229,963
2009	7,233,921	1,411,045	3,636,961	2,024,768	316,809	243,634	371,795
2008	6,977,732	1,526,651	3,537,577	2,214,690	323,385	137,848	301,277
2007	6,750,793	1,600,989	3,489,189	2,432,269	310,344	(51,741)	162,529
2006	6,299,867	1,480,605	2,884,233	1,218,164	275,459	36,901	218,959

At year-end 2011, 5,472 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	$2,884,233	$3,489,189	$3,537,577	$3,636,961	$3,856,753	$4,272,984
Assumed	8,916	9,789	9,679	9,785	10,509	10,105
Ceded	(759,717)	(880,143)	(613,181)	(714,764)	(731,724)	(754,500)
Net	$2,133,432	$2,618,835	$2,934,075	$2,931,982	$3,135,538	$3,528,589

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 4% 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 excess with aggregate excess plan reinsurance agreement.

The individual occurrence of loss section of the agreement covers fire and wind risks. The Company retains $125,000 per occurrence and the reinsurer's limits are $1,000,000 for commercial and public property, livestock, poultry and horse operations, farm outbuildings, and dwellings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis. The annual adjusted premium rate paid to the reinsurer for individual occurrence of loss coverage in 2011 was $0.1799 for fire and $0.0413 for wind per $1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-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 $2,202,708 and the annual premium paid was $0.3434 per $1,000 of adjusted gross fire risks in force.

The Company also has an agency organizational agreement with the reinsurer. Under the terms of the agreement, the Company markets liability policies for the reinsurer, and receives a commission of 20% of premiums written.

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 CPA firm Harden, Cummins, Moss & Miller LLC prepares an annual compilation report, the Company's annual statement, and 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 (Note 1)	$ 4,706,922
Mutual Funds (Note 1)	418,561
Real Estate	176,538
Cash on Deposit	1,701,530
Other Investments	134,105
Computer Equipment (Hardware Only)	1,693
Federal Income Tax Recoverable	279,816
Interest Due & Accrued	7,825
Total Assets	$ 7,426,990

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Net Losses Unpaid	$ 59,730
Ceded Reinsurance Premium Payable	69,564
Unearned Premium	1,562,537
Payroll Tax Payable	(1,386)
Accounts Payable (Other)	16,128
Premium Taxes Payable	5,349
Total Liabilities	$ 1,711,922
Guaranty Fund	$ 150,000
Other Surplus	5,565,068
Total Surplus	5,715,068
Total Liabilities and Surplus	$ 7,426,990

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 3,361,366
Net Losses & Loss Adjustment Expenses Incurred	(3,024,159)
Other Underwriting Expenses Incurred	(1,118,043)

Net Underwriting Income (Loss)	$ (780,836)
Investment Income	281,947
Other Income	6,022

Gross Profit (Loss)	$ (492,867)
Federal Income Tax	(155,096)

Net Income (Loss)	$ (337,771)
	========

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 6,052,839
Net Income (Loss)	(337,771)

Policyholders' Surplus, December 31, 2011	$ 5,715,068
	========

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Bonds

The Company classified two bond mutual funds as bonds on the 2011 Annual Statement. An examination change was made to decrease Bonds by $418,561 with a corresponding increase of $418,561 to mutual funds. The examination change had no affect on the total policyholder surplus.

EXAMINATION CHANGES

As discussed above in Note 1, the examination change related to the classification of bond mutual funds resulted in no change to total policyholder surplus.

GENERAL COMMENTS AND RECOMMENDATIONS

None

SUBSEQUENT EVENTS

None

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) sr
County of Cole)

I, Scott 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 Rennick MBA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 18th day of October, 2012.

My commission expires:

04/14/2016

Notary Public

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

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
Missouri DIFP