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 Farmers Mutual Insurance Company of Livingston 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 Livingston 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 Livingston 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 27th day of December 2012.

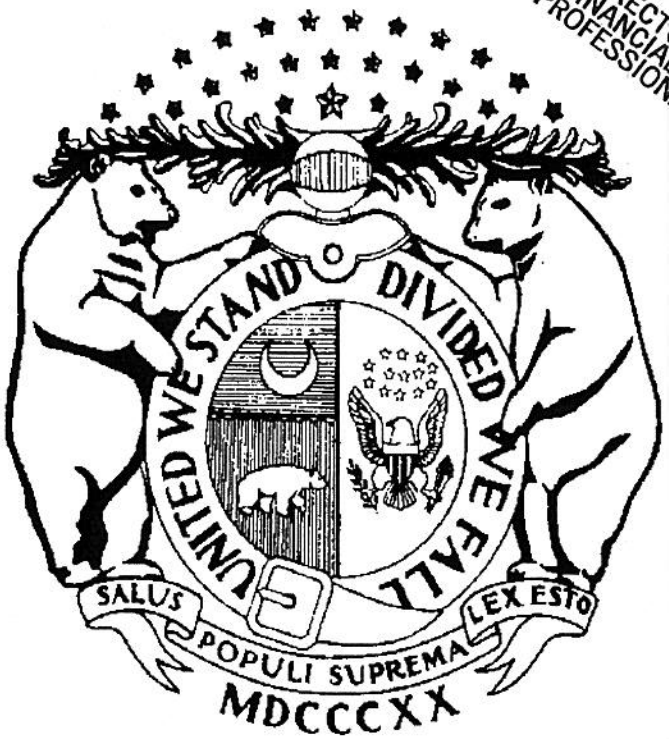
John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

FARMERS MUTUAL INSURANCE COMPANY OF LIVINGSTON COUNTY

AS OF
DECEMBER 31, 2011

FILED
DEC 27 2012
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 20, 2012
Chillicothe, 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 LIVINGSTON COUNTY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 821 N. Washington Street, Chillicothe, Missouri 64601, telephone number (660) 646-1700. This examination began on September 17, 2012, and was concluded on September 20, 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 that the Company execute a written contract with its agent that details the business arrangement.

Company Response: The Company has approved and executed an agreement with its agents.

Current Findings: The terms and conditions of the agreement between the Company and its agents are formalized and executed through a written contract.

Accounts and Records
Comment: The Company is directed to ensure the accuracy and completeness of future annual statement filings, review its revenue and expense structure, and submit a business plan to the DIFP.

Company Response: The Company has taken steps to ensure the accuracy and completeness of future annual statements, reviewed its revenue and expense structure, and submitted a business plan to the DIFP.

Current Findings: The Company engaged a new CPA firm to prepare the annual statement, performed organizational restructuring to address long-term viability, and submitted a detailed business plan to the DIFP.

HISTORY

General

The Company was originally established in 1889 and incorporated on July 1, 1891. The Company has a Certificate of Authority dated April 15, 2005, and is covered by Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

In 1997, the Company formed the Farmers Mutual Agency of Livingston County, Inc. ("Agency"), a wholly owned subsidiary. The Agency provides members access to lines of coverage not available through the Company.

Management

The annual meeting of the Company's members is held on the fourth Tuesday in February at the home office of the Company or at such other place and time as may be designated by the Board of Directors. The Company changed the date of the annual membership meeting during the examination period, but did not amend its Articles of Incorporation to reflect the new date. Special meetings of the members may be called at any time, and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is permitted.

The corporate powers of the Company are 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. The President and Secretary/Treasurer are compensated $325 per meeting, while other Board members receive $130 per meeting. All Directors are compensated $50 per each special meeting attended.

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

Name and Address	Occupation	Term
Gordon Jones 7777 LIV 424 Dawn, MO 64638	Farmer/Water District Supervisor	2010 - 2013
Kent Bryan PO Box 83 Mooresville, MO 64664	Farmer	2010 - 2013

Mark Miller 13766 LIV 261 Chillicothe, MO 64604	Independent Truck Driver	2008 - 2011
Deane Jacobs 2617 LIV 277 Chula, MO 64635	Farmer	2008 - 2011
Ora Morris, Jr. 10545 LIV 525 Chillicothe, MO 64601	Farmer	2008 - 2011
Jim Figg 23342 LIV 377 Hale, MO 64643	Road & Bridge Supervisor	2009 - 2012
Vernon Norris 21920 Park Street Hale, MO 64643	Retired	2009 - 2012

The Board of Directors appoints for a term of one year, a President, a Vice President, and a Secretary. The Secretary may also serve as the Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2011, were as follows:

Gordon Jones	President
Kent Bryan	Vice-President
Mark Miller	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, and no potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The records and minutes 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 $50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between $25,000 and $50,000 in coverage.

The Company carries liability coverage for their directors and officers with an aggregate limit of $1,000,000 and a $5,000 deductible in aggregate for each claim. The Company carries errors and omissions coverage for its agency with an aggregate limit of $1,000,000 and a $1,000 deductible in aggregate for each claim. The Company carries property insurance coverage 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 two full-time employees. The benefit package offered to employees includes health insurance, paid vacation, and sick leave. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

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 is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverage.

The Company's policies are sold by two licensed producers, one independent agent who receives commissions of 15% on new and renewal business and a captive agent who receives commissions of 12.5% on new business and 7.5% on renewal business or every third year of the policy.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are completed by the agent at least every three years. Adjusting of minor claims is performed by the Company Manager and independent adjusters are utilized for other claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	1,531,158	108,621	294,538	66,308	49,371	(6,404)	59,767
2010	1,476,602	112,924	291,476	144,411	73,435	(93,016)	(3,504)
2009	1,473,357	106,175	281,898	103,485	53,960	(50,094)	23,672
2008	1,457,852	114,342	290,447	227,816	68,159	(105,341)	(19,505)
2007	1,514,132	151,117	311,314	79,898	71,380	(4,569)	81,736

At year-end 2011, 545 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:

	2011	2010	2009	2008	2007
Direct	294,538	291,476	281,898	290,447	311,314
Assumed	0	0	0	0	0
Ceded	63,098	79,509	58,157	94,900	101,931
Net	231,440	211,967	223,741	195,547	209,383

Assumed

The Company does not assume any business from other insurers.

Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation under a single reinsurance contract for fire, wind, and liability risks.

Casualty Quota Share
This contract provides that the Company shall cede 100% of liability risks and premiums to the reinsurer and receive a 25% ceding commission.

Property per Risk Excess of Loss
The per risk excess section of the agreement provides that the Company retain the first $25,000 of each loss, each risk subject to a limit of $500,000 for each loss occurrence. The premium for this coverage is 14.78% of the Company's net written premium income.

Aggregate Excess of Loss
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 a mutually agreed upon percentage of estimated premiums written. The reinsurer is liable for 100% of losses in excess of this retention. The approximate attachment point for 2011 was $148,435 and the annual premium paid 12.50% of the Company's net written premium income.

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 of Harden, Cummins, Moss & Miller, LLC performs an annual audit of the financial statements, prepares the Company's annual statement, and provides tax preparation services for the Company.

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	$ 955,115
Stocks	1,500
Mutual Funds	124,652
Real Estate	55,683
Cash on Deposit	381,978
Computer Equipment (Hardware Only)	5,670
Interest Due and Accrued	3,558
Prepaid Insurance	3,002
Total Assets	$ 1,531,158

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Losses Unpaid	$ 1,000
Unearned Premium	102,868
Payroll Tax Payable	2,732
Accrued Expenses	2,021
Total Liabilities	$ 108,621
Guaranty Fund	$ 150,000
Other Surplus	1,272,537
Total Surplus	1,422,537
Total Liabilities and Surplus	$ 1,531,158

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 201,257
Other Insurance Income	8,730
Net Losses & Loss Adjustment Expenses Incurred	(70,546)
Other Underwriting Expenses Incurred	(145,845)
Net Underwriting Income (Loss)	$ (6,404)
Investment Income	$ 49,371
Other Income	16,800
Gross Profit (Loss)	$ 59,767
Federal Income Tax	0
Net Income (Loss)	$ 59,767

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 1,363,678
Net Income (Loss)	59,767
Unrealized Loss on Investment	(908)
Policyholders' Surplus, December 31, 2011	$ 1,422,537

NOTES TO THE FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND RECOMMENDATIONS

Management (Page 3)

On February 9, 2010, the Company changed the date of the annual membership meeting to the fourth Tuesday in February. Pursuant to 380.241 RSMo (Amendment to articles and bylaws, procedure—fee), after the adoption of an amendment to the Articles of Incorporation, a certificate of amendment shall be executed and filed with the Director. It is recommended the Company amend its Articles of Incorporation to properly reflect the date of the annual membership meeting and file and executed certificate of amendment with the Director.

SUBSEQUENT EVENTS

None

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) sr
County of Cole)

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 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