STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

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

ORDER

After full consideration and review of the report of the financial examination of Midwest Preferred 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 Midwest Preferred 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 17th day of April 2013.

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

REPORT OF THE
FINANCIAL EXAMINATION OF

MIDWEST PREFERRED MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2011

FILED
APR 17 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 14, 2012
Tina, 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

MIDWEST PREFERRED MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 200 North Main Street, (P.O. Box 10), Tina, Missouri 64682, telephone number (660) 622-4224. This examination began on September 10, 2012, was concluded on September 14, 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, 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, 2005, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Cash on Deposit/Other Investments

Comment: The Company reported annuity balances of $90,442 in the "Cash on Deposit" section of the Annual Statement. The balance was reclassified to "Other Investments."

Company Response: None

Current Findings: The annuity balances were reported in the Annual Statement as Other Investments.

Fidelity Bond and Other Insurance

Comment: It was recommended the Company increase its fidelity bond coverage to a minimum of $75,000.

Company Response: On July 25, 2005, the Company increased their fidelity bond coverage to $100,000.

Current Findings: The Company increased its fidelity bond coverage to $100,000 during the examination period.

HISTORY

General

The Company was established on April 8, 1893, as Farmers and Laborers Cooperative Company of Carroll County. On August 17, 1913, the Company changed its name to Farmers Cooperative Insurance Company and was granted a charter of incorporation. On April 18, 2006, the Company changed its name to Preferred Mutual Insurance Company. On October 8, 2006, the Company changed its name to Midwest Preferred Mutual Insurance Company subsequent to a merger with Midwest Heritage Mutual Insurance Company, with the Company being the surviving entity. On January 6, 2009, Clay Farmers Mutual Insurance Company merged with the Company, with Midwest Preferred Mutual Insurance Company being the surviving entity.

The Company has a Certificate of Authority dated May 21, 2008, 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 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. Per the Articles of Incorporation, eight members constitute a quorum at any membership meeting. Proxy voting is allowed if the proxy is in writing, signed, and presented to the Secretary at the home office not less than ten days prior to the meeting.

The management of the Company is vested in the Board of Directors elected from the general membership. Per the Articles of Merger with Midwest Heritage Mutual Insurance Company, the Board of Directors consists of fourteen members which will be reduced through attrition. Once the provisions regarding Board attrition are achieved, the Board will consist of eight members serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month. Directors are compensated $200 for each meeting attended and the President receives an additional $2,500 annually.

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

Name and Address	Occupation
Mitchell Parkhurst Weatherby, MO	Bank President
Harold Boelsen Carrollton, MO	Retired
Howard Baker Hale, MO	Insurance Agent/Farmer
Betty Berry-Weddle Norborne, MO	Insurance Professional
Kerwin Brock Norborne, MO	Loan Officer
Arzy Bisbee Jr. Norborne, MO	Bulldozer Operator
John Murphy Maysville, MO	Insurance Agent/Farmer
Bill McMillan King City, MO	Applicator

Keith Mack Cameron, MO	Insurance Agent
James Mason Maysville, MO	Insurance Agent
Greg Pottratz Maysville, MO	Insurance Agent
Gene Esely Osborn, MO	USDA Field Agent
Greg Carrel Stewartsville, MO	Insurance Agent

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:

Mitchell Parkhurst	President
Harold Boelsen	Vice-President
Connie Peterson	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. No material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On April 18, 2006, the Articles of Incorporation and Bylaws were amended to reflect the Company's name change from Farmers Cooperative Insurance Company to Preferred Mutual Insurance Company. On October 8, 2006, the Articles of Incorporation and Bylaws were amended to reflect the merger with Midwest Heritage Mutual Insurance Company. On January 6, 2009, the Articles of Incorporation and Bylaws were amended to reflect the merger with Clay Farmers Mutual Insurance Company. 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 $75,000 and $100,000 in coverage.

The Company carries directors and officers liability coverage with a $2,000,000 limit of liability. The Company 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 six full-time employees. The Company provides health insurance benefits for all employees. The employees are allowed one to three weeks of paid vacation per year, depending upon years of service and ten personal days per year after one year of employment. In addition, the Company contributes a percentage of each employee's annual salary into a Simplified Employee Pension account on behalf of each employee, with the percentage of contribution determined annually by the Board of Directors. The Company appears to have reported adequate provisions for the employee benefits obligations 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 thirty-seven licensed agents, who receive a 16% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS and Grinnell Mutual Reinsurance Company 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 and adjusting services are performed by either the in-house inspector/adjuster or a contracted independent inspector/adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessment	Gross Losses Incurred	Investment Income	Underwriting Income	Net Income
2011	3,367,741	975,458	2,425,016	1,145,252	101,365	(288,006)	(186,641)
2010	3,454,451	881,990	2,168,381	1,128,271	97,768	(319,392)	(221,504)
2009	3,753,232	920,959	2,021,815	827,549	136,426	(152,458)	(15,762)
2008	3,772,038	1,114,801	1,710,237	819,650	92,843	(339,854)	(240,656)
2007	2,028,021	886,897	1,441,370	433,416	35,460	31,326	56,325
2006	1,935,543	855,865	1,543,585	2,229,529	24,129	(367,281)	(243,974)

At year-end 2011, 3,266 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	$1,534,441	$1,431,330	$1,696,841	$2,006,761	$2,152,071	$2,409,181
Assumed	9,144	10,040	13,396	15,054	16,310	15,835
Ceded	(370,435)	(523,844)	(608,782)	(601,268)	(641,955)	(684,482)
Net	$1,173,150	$917,526	$1,101,455	$1,420,547	$1,526,426	$1,740,534

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 100% of the first $1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first $2,000,000 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 3% 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 property risks. The Company retains $75,000 per occurrence and the reinsurer's limits are $1,000,000 per exposure. 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 aggregate excess section of the agreement covers property risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's five-year loss ratio plus a load factor, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2011 was $923,689.

The agreement also provides coverage for liability risks. Under the terms of the agreement, the Company cedes 100% of the liability premium and risk to the reinsurer. The Company 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 CPA firm Van de Ven, LLC, prepares 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	$ 1,261,772
Stocks	5
Mutual Funds	245,588
Real Estate	492,149
Cash on Deposit	1,019,772
Other Investments	275,729
Computer Equipment (Hardware Only)	10,925
Federal Income Tax Recoverable	44,689
Interest Due & Accrued	14,249
Prepaid Insurance	2,863
Total Assets	$ 3,367,741

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Net Losses Unpaid	$ 96,674
Ceded Reinsurance Premium Payable	58,802
Unearned Premium	809,712
Payroll Tax Payable	1,192
Accounts Payable (Other)	9,078
Total Liabilities	$ 975,458
Guaranty Fund	$ 150,000
Other Surplus	2,242,283
Total Surplus	2,392,283
Total Liabilities and Surplus	$ 3,367,741

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 1,647,475
Other Insurance Income	57,736
Net Losses & Loss Adjustment Expenses Incurred	(1,055,486)
Other Underwriting Expenses Incurred	(937,731)
Net Underwriting Income (Loss)	$ (288,006)
Investment Income	101,365
Gross Profit (Loss)	$ (186,641)
Federal Income Tax	0
Net Income (Loss)	$ (186,641)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 2,572,461
Net Income (Loss)	(186,641)
Unrealized Loss on Investments	(11,193)
Change in Non-Admitted Assets	17,656
Policyholders' Surplus, December 31, 2011	$ 2,392,283

NOTES TO THE FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND RECOMMENDATIONS

None

SUBSEQUENT EVENTS

None

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Midwest Preferred Mutual 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.

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