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 Farm Mutual Insurance Company of St. Francois County for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the Financial Examination of Farm Mutual Insurance Company of St. Francois 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 Farm Mutual Insurance Company of St. Francois 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 11th day of January 2013.

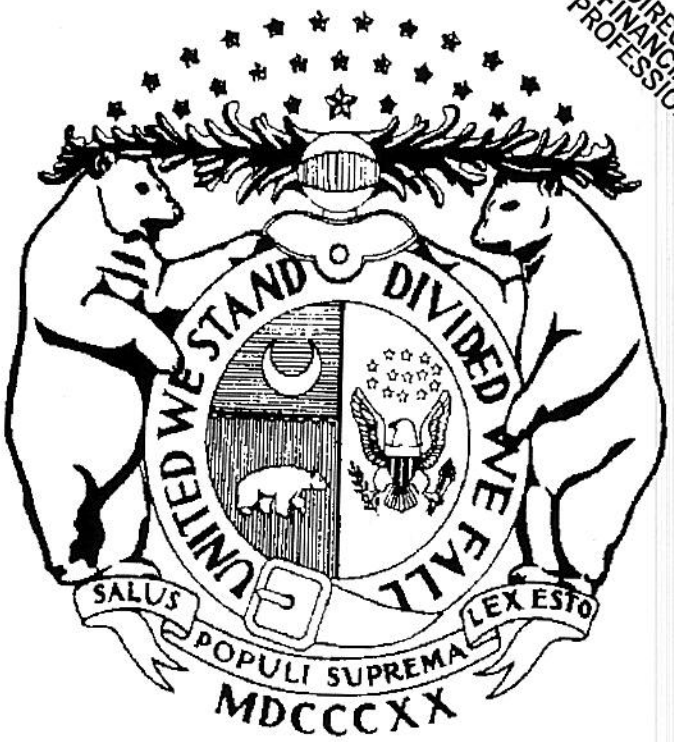
John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

Farm Mutual Insurance of St. Francois County

AS OF
DECEMBER 31, 2011

FILED
JAN 11 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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November 20, 2012
Farmington, 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

Farm Mutual Insurance of St. Francois County

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 1109A Ste. Genevieve Ave., Farmington, Missouri 63640; telephone number (573)756-1510. This examination began October 29, 2012 and concluded on October 31, 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 (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 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

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

1. Comment:

The Company may have under insured its office building. The Company should obtain an appraisal of the property and determine the current value of the building and adjust its insurance coverage accordingly.

Company Response:

An appointment has been made with an appraiser to determine the current value of the building. Once the value is determined new insurance will be obtained.

Current Findings:

The Company obtained an appraisal of its office building in 2007. The Company's current property insurance on the building exceeds the value of the building per the appraisal.

2. Comment:

During 2002, the Company was notified its fidelity coverage would not be renewed by Columbia Mutual Insurance Company. The Company recently began replacing the coverage. The Company is applying for coverage of $50,000. Once coverage has been placed with a new carrier, the Company is directed to send a copy of the declaration page to the Missouri Department of Insurance, Financial Institutions and Professional Registration.

Company Response:

Fidelity coverage in the amount of $50,000 will be obtained.

Current Findings:

The Company currently has fidelity coverage of $50,000 with Grinnell Mutual Reinsurance Company.

3. **Comment**:

The Company did not report all outstanding payables on the Annual Statement. A Missouri quarterly tax payment was overlooked. The Company should ensure all expenses are properly reported on future Annual Statement filings.

Company Response:

The Company will pay closer attention to outstanding payables on the next Annual Statement.

Current Findings:

The Company again had a number of unreported liabilities on the 2011 Annual Statement. This is primarily due to the fact that the Annual Statement is prepared on a cash basis. The Company's preparation of its Annual Statement is further discussed in the Accounts and Records section of this report.

HISTORY

General

The Company was organized in 1895 as the Farmers Mutual Fire Insurance Company of St. Francois County, Missouri. The Company received a Certificate of Incorporation from the Missouri Secretary of State on November 21, 1895.

Management

The Company is managed by a board of nine directors serving staggered, three-year terms. Directors are elected at annual member meetings held on the first Friday of every March. 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 quarterly. Directors receive $70 per meeting. All directors are also policyholders.

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

Name / Address	Occupation	Term
Charles Belken 8028 Coffman Rd Farmington, MO 63640	Farmer	2010-2013
Kenneth Graham 7956 Coffman Rd Farmington, MO 63640	Farmer	2009-2012
Tom Heberlie 4079 Westover Rd Bonne Terre, MO 63628	Farmer	2011-2014

Tim Mattingly 2035 Knob Lick Rd Farmington, MO 63640	Environmental Specialist	2009-2012
Dennis Norris 4535 Westover Rd Bonne Terre, MO 63628	Agent	2011-2014
Larry Peterson 7403 Peterson Rd Bonne Terre, MO 63628	Farmer	2009-2012
Warren Shelley 5315 Aulsbury Chapel Rd Bonne Terre, MO 63628	Farmer	2011-2014
Barbara Straughan 7879 Holmes Rd Farmington, MO 63640	Agent/Office Assistant	2010-2013
Claudia VarVera 3584 Best Rd Farmington, MO 63628	Agent/Manager	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:

Kenneth Graham	President
Dennis Norris	Vice President
Claudia VarVera	Secretary/Treasurer

Conflict of Interest

The Company currently only requires its directors to complete conflict of interest statements when they first become directors. There is no requirement to update the conflict of interest statements. As a result most of the statements are several years old. The Company should obtain signed conflict of interest statements annually from each of its directors.

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 June 22, 2007 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of $50,000 from Grinnell Mutual Reinsurance 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 agents carries Errors and Omissions Liability insurance with a minimum limit of liability of $500 million. The Company purchases the coverage for each of its agents.

The Company has property and liability insurance coverage for its office building through Grinnell Mutual Reinsurance Company. The policy has a limit of $399,824 and includes earthquake coverage.

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

The Company's insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has a full-time Secretary/Treasurer and one part-time Office Assistant. No benefits are paid to employees.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company has a Certificate of Authority dated November 2, 1998 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 St. Francois County. Insurance is provided on an assessable basis. Advertising is done through local phone books and other small local ads.

Policy Forms and Underwriting Practices

The Company writes policies for a three-year period. The Company uses policy forms supplied by its reinsurer, Grinnell Mutual Reinsurance Company. Insurance products are sold by five captive agents who receive a commission of 12% on new and renewal business. Additional agent bonuses are provided as approved by the Board.

An onsite inspection is performed by the agents prior to the issuance of policies. Inspections are also performed upon renewal. Agents perform loss adjusting as needed. The Company uses an investigator from Grinnell Mutual on losses in excess of $50,000.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

The following exhibit summarizes the operating results of the Company over the last five years. These numbers were taken from the Annual Statements as filed with DIFP, which were prepared on a cash basis.

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	$ 2,427,139	$ 0	$ 799,944	$ 241,949	$ 60,080	$ 131,144	$ 182,415
2010	2,244,723	0	730,560	177,909	59,732	177,278	240,315
2009	2,004,408	0	675,729	622,451	60,176	(32,266)	21,620
2008	1,982,788	0	623,433	443,037	69,991	(89,088)	(26,777)
2007	2,090,564	0	619,663	164,380	64,712	181,285	229,142

At year-end 2011, there were 1,253 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	$ 619,663	$ 623,433	$ 675,729	$ 730,560	$ 799,944
Assumed	0	0	0	0	0
Ceded	(165,131)	(184,001)	(193,275)	(224,353)	(243,881)
Net	$ 454,533	$ 469,433	$ 482,453	$ 506,208	$ 556,063

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 $473,268. The premium for this coverage is charged at a monthly rate based on the adjusted gross fire and wind 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.

Earthquake Reinsurance
Under this section the Company cedes all earthquake premiums to the reinsurer, who in turn is responsible for all earthquake losses. The ceding commission is built into the premium formula.

Liability Reinsurance

Under this section 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.

The Company's reinsurance program appears to be adequate and in compliance with Missouri Regulation 20 CSR 200-12.030.

ACCOUNTS AND RECORDS

The Company's records are maintained on a cash basis. Policyholder information is maintained on a software program called Compass. The Annual Statement is also prepared on a cash basis by the Company's Secretary/Treasurer. The Missouri Mutual Annual Statement Instructions require the Annual Statement to be prepared on an accrual basis. The Company should prepare its Annual Statement on an accrual basis in the future.

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	$ 10,090
Real Estate	246,412
Cash on Deposit	2,170,637
Total Assets	$ 2,427,139

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Total Liabilities	$ 0
Guaranty Fund	$ 150,000
Other Surplus	2,277,139
Total Surplus	2,427,139
Total Liabilities and Surplus	$ 2,427,139

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 556,063
Other Insurance Income	969
Net Losses & Loss Adjustment Expenses Incurred	(241,949)
Other Underwriting Expenses Incurred	(183,939)
Net Underwriting Income (Loss)	$ 131,144
Investment Income	$ 60,080
Other Income	3,989
Gross Profit (Loss)	$ 195,213
Federal Income Tax	12,798
Net Income (Loss)	$ 182,415

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 2,244,724
Net Income (Loss)	182,415
Policyholders' Surplus, December 31, 2011	$ 2,427,139

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

Conflict of Interest (Page 4)

The Company currently only requires its directors to complete conflict of interest statements when they first become directors. There is no requirement to update the conflict of interest statements. As a result most of the statements are several years old. The Company should obtain signed conflict of interest statements annually from each of its directors.

Accounts and Records (Page 8)

The Company's Annual Statement is prepared on a cash basis by the Secretary/Treasurer. The Missouri Mutual Annual Statement Instructions require the Annual Statement to be prepared on an accrual basis. The Company should prepare its Annual Statement on an accrual basis in the future.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farm Mutual Insurance of St. Francois 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 19th day of Nov., 2012.

My commission expires:

5-11-2016

Notary Public

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

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