REPORT OF
FINANCIAL EXAMINATION

FARMERS COOPERATIVE INSURANCE COMPANY

AS OF
DECEMBER 31, 2004

STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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July 12, 2005
Tina, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
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 COOPERATIVE INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 214 Main Street, Tina, Missouri, telephone number (660) 622-4224. This examination began on July 11, 2005, and was concluded on July 12, 2005, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

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 Missouri Department of Insurance 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, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Notes to Financial Statements – Guaranty Fund

Comment: The Company was directed to report a guaranty fund amount in its Annual Statement, in accordance with RSMo. 380.271 (Guaranty fund required).

Company Response: The Company agrees to report a guaranty fund in future Annual Statements.

Current Findings: The Company reported a guaranty fund amount on the 2001 through 2004 Annual Statements.

HISTORY

General

The Company was originally 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.

The Company has a Certificate of Authority dated December 1, 1988, 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 other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of

Directors 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 not addressed in the Articles of Incorporation.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month and are compensated $100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

Name and Address	Occupation	Term
Willard D. Wood 10378 County Road 270 Norborne, Missouri	Farmer	2003-2006
Howard Baker 12237 County Road 261 Hale, Missouri	Farmer	2003-2006
David Johnson 26726 Ira Drive Brookfield, Missouri	Insurance Agent	2004-2007
O. L. Houseworth 30288 County Road 170 Bosworth, Missouri	Retired Businessman	2004-2007
Harold A. Boelsen 1012 East 10th Street Carrollton, Missouri	Retired Farmer	2002-2005
Chester McBee 707 Main Street Braymer, Missouri	Retired Government Employee	2002-2005

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

The officers of the Company serving at December 31, 2004, were as follows:

Willard D. Wood	President
Chester McBee	Vice-President
Connie S. 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, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On March 4, 2003, the Articles of Incorporation and Bylaws were amended to reflect the Company's change from an assessable to a non-assessable mutual.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records 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 does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is between $75,000 and $100,000 in coverage. It is recommended the Company increase its fidelity bond coverage to a minimum of $75,000.

The Company carries liability coverage for its directors and officers with an aggregate limit of $750,000 and a $5,000 deductible in aggregate for each claim.

The Company's agents are responsible for obtaining their own errors and omissions liability coverage, and no reimbursement is made by the Company.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has four full-time employees and one part-time employee. The Company provides full-time employees with life insurance and $300 per month for health insurance. The Company contributes a minimum of 5% of gross wages to the individual retirement accounts of full-time employees, with the actual percentage of contribution determined by the Board of Directors on an annual basis. Full-time employees also receive ten days of sick leave per year and two to three weeks of paid vacation per year, depending on the length of service to the Company. It appears the Company has made adequate provisions in its financial statements for the employee benefit obligations.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance 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 coverages. The Company's policies are sold by seventeen licensed producers, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses 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 and adjusting services are performed by a contracted independent inspector/adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessment	Gross Losses	Investment Income	Underwriting Income	Net Income
2004	$2,155,771	$944,894	$1,336,150	$488,567	$68,826	$(106,935)	$(30,734)
2,003	1,722,664	481,053	1,069,522	208,102	54,974	256,964	322,230
2002	1,325,766	406,413	817,445	189,057	21,049	78,871	104,182
2001	1,170,745	355,574	741,843	464,095	47,331	(48,844)	967
2000	1,242,234	427,399	713,224	476,139	65,731	(11,203)	44,158

At year-end 2004, 2,436 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:

	2000	2001	2002	2003	2004
Direct	$ 723,463	$ 741,843	$ 817,445	$ 1,061,254	$ 1,327,563
Assumed	0	0	0	8,268	8,587
Ceded	(279,086)	(299,728)	(273,191)	(295,350)	(369,839)
Net	$ 444,377	$ 442,115	$ 544,254	$ 774,172	$ 966,311

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 2% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains $30,000 per risk and the reinsurer's limit is $100,000. The second layer retention is $130,000 and the reinsurer's limits are $50,000 for commercial and confinement risks and $250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is $700,000. Risks ceded under the agreement are limited to $180,000 for commercial and confinement risks and $380,000 for all other risks. The 2004 premium rate, as a percentage of written premiums, equaled 7% for layer one coverage and 2% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is $250,000 per occurrence, and the reinsurer's limit is 95% of $1,000,000 per occurrence. Under the second layer, the Company's retention is $1,250,000, and the reinsurer's limit is 100% of $6,000,000. The reinsurer's annual limits are 95% of $2,000,000 for the first layer and 100% of $12,000,000 for the second layer. The 2004 premium rate was $.1032 and $.2658 per $1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 95% of losses in excess of 75% of the Company's net written premium, with a maximum limit of $2,000,000. The 2004 reinsurance rate was 3.0% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% 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. An annual review of the Company's financial statements is performed by Van de Ven, LLC, who also prepares the Company's Annual Statement and tax returns.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, 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, 2004

Bonds	$ 1,103,055
Real Estate	279,079
Cash on Deposit (Note 1)	556,286
Other Investments (Note 1)	90,442
Reinsurance Recoverables on Unpaid Losses	70,000
Computer Equipment	7,245
Federal Income Tax Recoverable	99
Interest Due and Accrued	9,600
Asset Write-Ins	39,965
Total Assets	$ 2,155,771

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2004

Losses Unpaid	$ 237,346
Ceded Reinsurance Payable	26,046
Unearned Premium	480,472
Borrowed Money	191,151
Liability Write-Ins	9,879
Total Liabilities	$ 944,894
Guaranty Fund	$ 150,000
Other Surplus	1,060,877
Total Surplus	$ 1,210,877
Total Liabilities and Surplus	$ 2,155,771

STATEMENT OF INCOME
December 31, 2004

Net Premium	$ 868,042
Reinsurance Commission	35,168
Net Losses Incurred	(567,116)
Other Underwriting Expenses	(443,029)
Net Underwriting Income (Loss)	$ (106,935)
Investment Income	$ 63,826
Other Income	17,676
Gross Income (Loss)	$ (25,433)
Federal Income Tax	(5,301)
Net Income (Loss)	$ (30,734)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2004

Policyholders' Surplus, December 31, 2003	$ 1,241,611
Net Income (Loss)	(30,734)
Policyholders' Surplus, December 31, 2004	$ 1,210,877

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Cash on Deposit/Other Investments

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."

EXAMINATION CHANGES

Total Policyholder's Surplus Per Company, December 31, 2004			$ 1,210,877
	Increase in Surplus	Decrease in Surplus	
Cash	$ 0	$ (90,442)	
Other Investments	90,442	0	
	---	---	
Total Change	$ 90,442	$ (90,442)	$ 0
Total Policyholder's Surplus Per Examination, December 31, 2004			$ 1,210,877

GENERAL COMMENTS AND RECOMMENDATIONS

Fidelity Bond and Other Insurance (Page 4)

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

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger 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.

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires:

May 1, 2008

Debbie J. Nolke
Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires May 1, 2008

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.

Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires:

03-17-2008

Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires March 17, 2008

FARMERS COOPERATIVE INSURANCE COMPANY
P.O. BOX 10 TINA, MISSOURI 64682

October 3, 2005

RECEIVED

OCT 0 3 2005

DIVISION
FINANCIAL REGULATION

Kirk Schmidt, CFE, CPA
Department Of Insurance
P.O. Box 690
Jefferson City, Missouri 65102-0690

Dear Sir:

This letter is in response to the Report of Financial Examination of Farmers Cooperative Insurance Company for the period ending December 31, 2004.

On page 3 of the Report it states that proxy voting is not addressed in the Articles of Incorporation. The Articles of Incorporation of the company state under Article VII that proxy voting is allowed.

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

The Company has an annuity investment issued by Physicians Life Insurance Company. The Company previously obtained Department approval to invest in a Cameron Life Insurance Company annuity, but did not ask for approval to invest in the Physicians Life Insurance Company investment purchased through Cameron Life. The Company would like to ask approval from the Department at this time to invest in the Physicians Life Insurance Company annuity.

Yours Truly,

Connie S. Peterson

Connie S. Peterson
Farmers Cooperative Insurance Company
P.O. Box 10
Tina, Missouri 64682
660-622-4224