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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 Knox County Mutual Insurance Company for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Knox County 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 Knox County 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 14th day of February 2013.

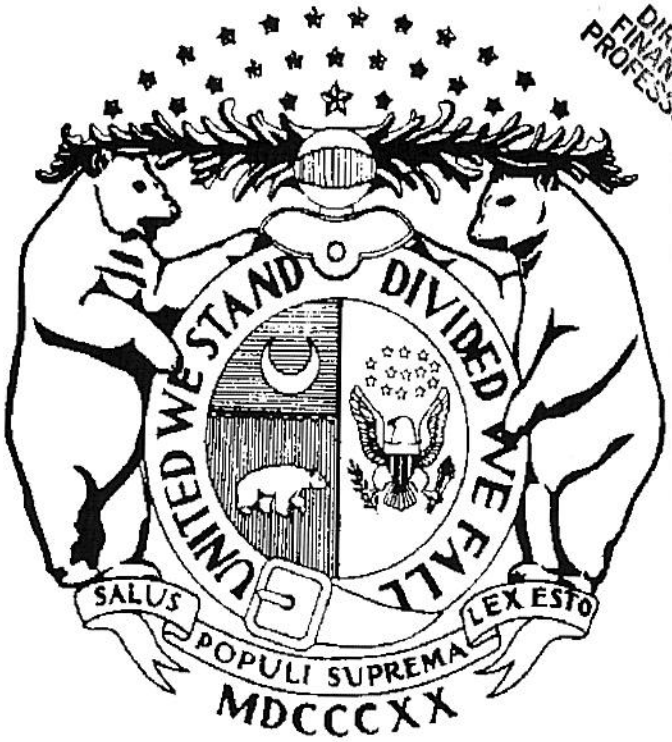
John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

Knox County Mutual Insurance Company

AS OF
DECEMBER 31, 2011

FILED
FEB 14 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 29, 2012
Edina, 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

Knox County Mutual Insurance Company

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at Highway 6 East (P.O. Box 245), Edina, Mo. 63537; telephone number (660)397-2383. This examination began November 26, 2012, and concluded on November 28, 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.

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

Below is a summary of the General Comments and/or Recommendations included in the previous examination report and the current status of each.

1. **Comment:** It is recommended that directors and officers disclose all potential conflicts, including being agents of the Company, on future conflict of interest statements.
   Company Response: The Company agreed to comply with this recommendation.
   Current Finding: Based on a review of the conflict of interest statements throughout the examination period, it appears that directors and officers are now disclosing all potential conflicts, including being agents of the Company.

2. **Comment**: It is recommended that the Company amend its agent agreements to set time limits for the delivery of fully completed applications and forms to the home office and to add provisions which address the responsibility for obtaining errors and omissions insurance.
   Company Response: The Company agreed to comply with this recommendation.
   Current Finding: The agent agreements have been updated to include the recommended provisions.

3. **Comment**: It is recommended the Company report the proper guaranty fund balance in future annual statement filings.
   Company Response: The Company agreed to comply with this recommendation.
   Current Finding: The Company reported the proper guaranty fund balance throughout the examination period.

HISTORY

General

The Company was originally established on January 31, 1891, and was incorporated on December 26, 1894, as Farmers Mutual Insurance Company of Knox County. In 1985, the Company changed its name to Knox County Mutual Insurance Company.

The Company has a Certificate of Authority dated December 18, 2003, 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

The Company is managed by a board of seven directors, serving staggered, three-year terms. Directors are elected at annual membership meetings held on the third Monday 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 approximately every other month. Directors receive $90 per meeting plus mileage. All directors are also policyholders.

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

Name / Address	Occupation	Term
Joe Delaney RR 1 Box 29 Baring, Missouri 63531	Farmer	2011-2014
Larry Walker RR 1 Box 129 Knox City, Missouri 63446	Farmer/Insurance Agent	2010-2013
Mark Townsend RR 1 Box 94A Baring, Missouri 63531	Auto Mechanic	2010-2013
Jim Glasgow RR 3 Box 102 Edina, Missouri 63537	Farmer	2013
Barbara Allen 21050 177th Avenue Lewistown, Missouri 63452	Retired Farmer	2012-2015
Rex Sykes 25928 Clemson Lane Hurdland, Missouri 63547	Farmer	2011-2014
Mark Greenley RR 1 Box 150 Knox City, Missouri	Farmer	2012-2015

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:

Larry Walker	President
Joe Delaney	Vice President
Rachel Browning	Secretary/Treasurer
Rex Sykes	Assistant Secretary/Treasurer

Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers and directors. No potential material conflicts were disclosed during the examination period.

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. The Articles of Incorporation were amended in August 2009 to reduce the number of directors from nine to seven. The amendment to the Articles of Incorporation was properly filed with the Missouri Secretary of State.

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 November 29, 2007 meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity bond coverage providing a liability limit of $500,000 from Travelers Casualty and Surety Company of America. This coverage exceeds 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 $750,000.

Each of the Company's agents carries Errors and Omissions Liability insurance. The three captive agents carry $500,000 of coverage through MAMIC Mutual Insurance Company. The independent agency used by the Company carries $1 million of coverage through NAMIC Insurance Company. The agents are responsible for purchasing their own coverage.

The Company has property and liability insurance coverage for its office building through Cameron Mutual Insurance Company. The property coverage has limits of liability of $91,900 on the office building and $15,000 on business personal property. The liability coverage has limits of $300,000 per occurrence and $600,00 aggregate.

The Company's insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company currently has one full-time employee, the Secretary/Treasurer/Manager and a part-time Office Assistant. Employees receive paid holidays, vacation days, personal days and sick days. No other benefits are provided to employees.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company has a Certificate of Authority dated December 18, 2003 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 Knox and surrounding counties. Insurance is provided on an assessable basis. Advertising is done on the local radio station and through various donations and promotional giveaways.

Policy Forms and Underwriting Practices

The Company writes continuous policies. The Company uses policy forms supplied by the American Association of Insurance Services for property coverage and Cameron Mutual Insurance Company forms for liability coverage. Insurance products are sold by three captive agents and one independent insurance agency. Agents receive a 15% commission on all new and renewal business.

Onsite inspections are performed by the agents upon policy issuance and every three years thereafter. Claims adjusting is primarily performed by NEMO Claims Service.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2011	$1,303,106	$ 8,409	$ 234,257	$ 218,494	$ 22,274	$ (136,781)	$(112,322)
2010	1,410,853	3,834	227,716	190,131	20,959	(117,663)	(94,950)
2009	1,502,756	788	211,130	151,559	47,592	(69,043)	(21,451)
2008	1,524,317	899	198,032	66,016	63,310	(36,124)	28,918
2007	1,495,240	740	212,132	48,191	66,785	17,931	85,485

At year-end 2011, there were 432 policies in-force.

The Company has experienced significant operating losses throughout the examination period. An underwriting loss has been reported in each of the last four year, with the amount of the loss increasing each year. Also, investment income has declined during the same period due to the low interest rate environment. As a result of the losses, total surplus has declined nearly 15% in the past four years, from $1.495 million as of December 31, 2007 to $1.295 million as of December 31, 2011.

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	$ 212,132	$ 198,032	$ 211,130	$ 227,716	$ 234,257
Assumed	0	0	0	0	0
Ceded	(51,571)	(53,201)	(56,858)	(72,095)	(71,067)
Net	$ 160,561	$ 144,831	$ 154,272	$ 155,621	$ 163,190

Assumed

None.

Ceded

Property Reinsurance

The Company has three separate property reinsurance agreements through the intermediary, Guy Carpenter.

The Property Per Risk Excess of Loss agreement consists of two layers. Under the first layer the Company has retention of $30,000 each loss, each risk. The reinsurers have limits of liability of $100,000 each loss, each risk and $200,000 each loss occurrence. The second layer retention is $130,000 and the reinsurer limits are $400,000 each loss, each risk and $400,000 each loss occurrence.

Under the Catastrophe Excess of Loss agreement, the Company's retention is $65,000 per occurrence and the reinsurers' limit is $950,000 (being 95% of $1,000,000).

Under the Aggregate Excess of Loss agreement, the reinsurers are liable for 95% of losses in excess of 75% of net written premiums, subject to a limit of liability of $1,900,000 (being 95% of $2 million).

The reinsurance premium under each of the agreements is based on a percentage of the Company's net written premiums.

Below are the reinsurers participating in the 2011 coverage, as defined in the Interests and Liabilities Agreement

Allied World Reinsurance Company	5%
Arch Reinsurance Company	20%
Lloyd's Underwriting Syndicate 2987 BRT	14%
Employers Mutual Casualty Company	19%
Hannover Ruckversicherung AG	5%
QBE Reinsurance Corporation	25%
The TOA Reinsurance Company of America	12%

Liability Reinsurance

The Company has a liability reinsurance agreement with Cameron Mutual Insurance Company. Under this agreement the Company cedes all liability premiums to the reinsurer, who in turn is responsible for all liability losses. The Company receives a ceding commission equal to 22% 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 accounting records are maintained on a cash basis. Policyholder and financial records are maintained on the MIPS (Mutual Insurance Processing System) software package from Rural Computer Consultants, Inc. The CPA firm of Wade Stables P.S. prepares the Company's financial statements, Annual Statements and tax returns and performs an annual audit of the financial statements.

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	10,000
Real Estate	20,548
Cash on Deposit	1,269,819
Reinsurance Recoverable on Paid Losses	2,595
Federal Income Tax Recoverable	144
Total Assets	$1,303,106

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2011

Ceded Reinsurance Premium Payable	5,724
Accounts Payable	2,685
Total Liabilities	$ 8,409
Guaranty Fund	$ 150,000
Other Surplus	1,144,697
Total Surplus	1,294,697
Total Liabilities and Surplus	$1,303,106

STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned	$ 163,190
Net Losses & Loss Adjustment Expenses Incurred	(153,885)
Other Underwriting Expenses Incurred	(146,086)
Net Underwriting Income (Loss)	$ (136,781)
Investment Income	$ 22,274
Other Income	2,185
Gross Profit (Loss)	$ (112,322)
Federal Income Tax	0
Net Income (Loss)	$ (112,322)

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010	$ 1,407,019
Net Income (Loss)	(112,322)
Policyholders' Surplus, December 31, 2011	$ 1,294,697

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Knox County Mutual Insurance Company 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.

ARIADNE ASHFORD
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: May 14, 2016
Commission Number: 12341768

John M. Boczkiewicz, CPA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 29 day of Nov, 2012.

My commission expires:

5/14/16

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