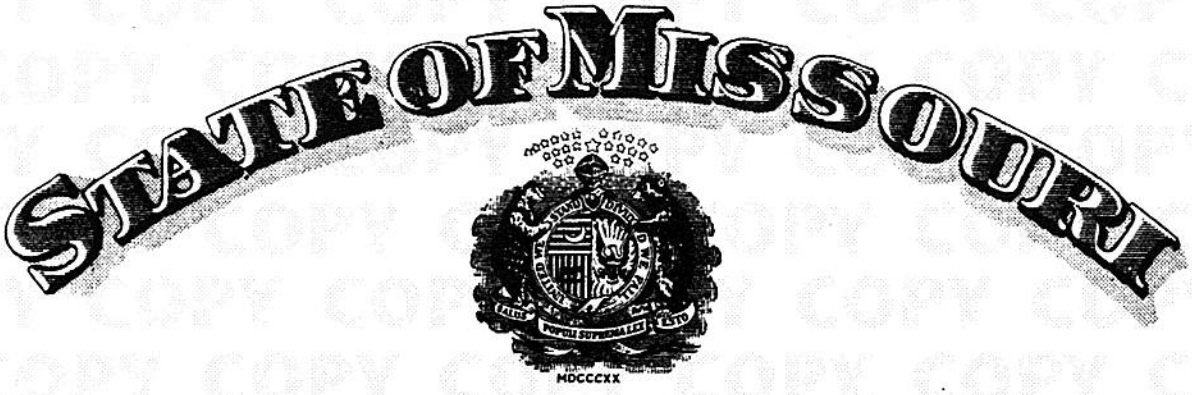
STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

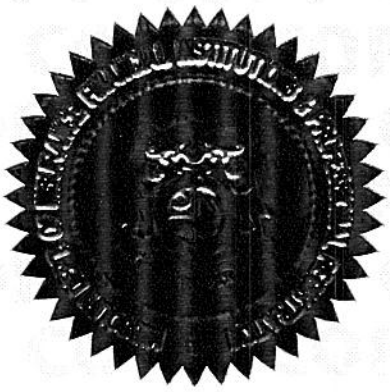
RE: Examination Report of Monroe County Farmers Mutual Insurance Company for the period ended December 31, 2012

ORDER

After full consideration and review of the report of the financial examination of Monroe County Farmers Mutual Insurance Company for the period ended December 31, 2012, 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 Monroe County Farmers 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 4th day of September, 2013.



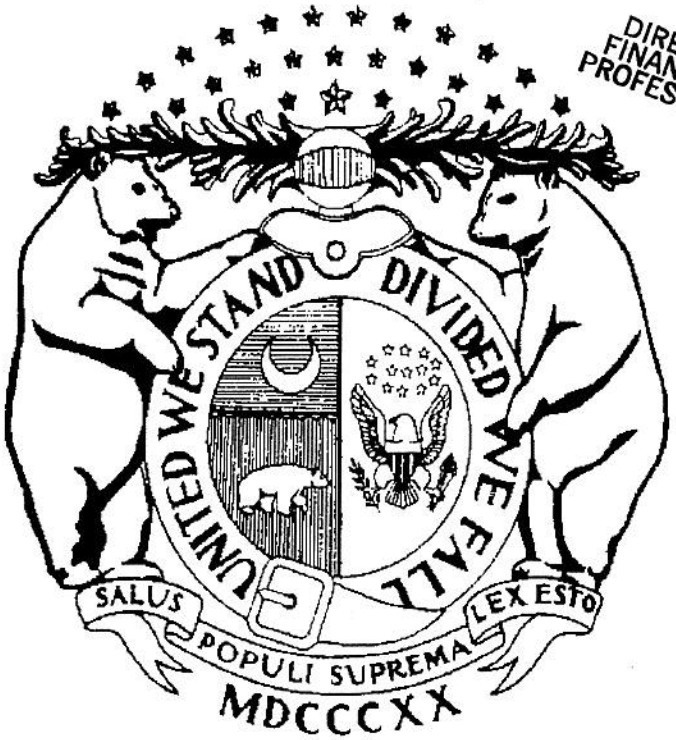
John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

MONROE COUNTY FARMERS MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2012

FILED
SEP 04 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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June 10, 2013
Paris, 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

MONROE COUNTY FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company." The Company's administrative office is located at 125 West Monroe (P.O. Box 267), Paris, Missouri 65275, telephone number (660) 327-5203. This examination began and was completed on June 10, 2013, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2007, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2008, through December 31, 2012, 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, 2007, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Corporate Records

Comment: It was recommended the Company include attendance records in future membership meeting minutes in order to document that quorum requirements are met.

Company Response: Beginning with the February 2010 annual meeting, attendance records will be stated in the minutes.

Current Findings: The Company adopted a practice of documenting the number of members present at membership meetings in the meeting minutes.

Territory & Plan of Operation

Comment: It was recommended the Company adopt a written agreement with its agent that includes time limits for the delivery of fully-completed applications to the home office and states who is responsible for obtaining errors and omissions coverage for the agent.

Company Response: The Board of Directors adopted a written agreement with its agent and filed the agreement with the DIFP.

Current Findings: The Company has adopted a written agreement with its agent.

Policy Forms and Underwriting Practices

Comment: It was recommended the Company draft and approve a written policies and procedures manual.

Company Response: The Board of Directors adopted a written policies and procedures manual and filed the manual with the DIFP.

Current Findings: The Board of Directors drafted and approved various policies which adequately address the business of the Company.

HISTORY

General

The Company was originally organized and incorporated on April 22, 1892, as the Farmers' and Laborers' Co-operative Insurance Association of Monroe County, Missouri. In 1972, the Company changed its name to Monroe County Farmers Mutual Insurance Company.

The Company has a Certificate of Authority dated June 24, 2005, 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 fourth Tuesday in February at the home office of the Company. 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. Ten members shall constitute a quorum at any membership meeting. Proxy voting is allowed.

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 quarter, and each director is compensated $100 per meeting attended.

Members serving on the Board of Directors as of December 31, 2012, were as follows:

Name and Address	Occupation	Term
Artie Whelan Monroe City, Missouri	Farmer	2010-2013
Robert Decker Shelbina, Missouri	Farmer	2010-2013
Dane Kendrick Paris, Missouri	Farmer	2011-2014
Danny Tanzey Paris, Missouri	Retired	2011-2014
Tully Tonsor Monroe City, Missouri	Farmer	2009-2012

Marvin Wood Shelbina, Missouri	Retired	2010-2013

The Company's Articles of Incorporation calls for seven members on the Board of Directors; however, there were only six members serving on the Board of Directors during the entire examination period.

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, 2012, were as follows:

Artie Whelan	President
Robert Decker	Vice-President
Dane Kendrick	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. A review of the completed conflict of interest statements noted one director is an officer and another director is a director of Farmers Mutual Reinsurance Company of Missouri, which reinsures the Company's fire-peril property risks. No other potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period. The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. 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 meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is $50,000.

The Company carries liability coverage for its directors and officers and its sole agent carries errors and omissions coverage. The Company also has a business owner's policy which provides property

coverage for the home office building and contents, as well as general liability protection.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has one full time and two part-time employees. The Company Secretary/Treasurer and Assistant Secretary receive an annual allowance to cover health insurance costs. No other employee benefits are offered.

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 writes fire, wind, and liability coverages. The Company's policies are marketed by one licensed agent, who receives a 15% commission.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and Cameron Mutual Insurance Company policy forms. Policies are written on a five year term. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed primarily by the agent, while independent adjusters are utilized when deemed necessary by management. Rates are determined by the Board of Directors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2012	$3,069,228	$ 27,861	$585,582	$174,111	$108,312	$ (92,091)	$ 16,296
2011	3,158,433	12,049	567,303	246,753	116,698	(99,410)	17,288
2010	3,174,990	28,567	554,309	366,070	121,857	(154,185)	(32,328)
2009	3,226,913	3,076	495,946	349,538	128,662	(137,835)	(9,173)
2008	3,221,640	27,560	485,671	274,347	154,677	(61,933)	86,251

At year-end 2012, 1,025 policies were in force.

The schedule above indicates the Company reported underwriting losses in each of the five years under examination. Further review noted this trend extends back at least fifteen years from the examination date, with underwriting losses in every year dating back to 1998. Such a trend of underwriting losses generally indicates either rate inadequacies, excessive underwriting expenses or a combination of both.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	2008	2009	2010	2011	2012
Direct	$ 485,671	$ 495,946	$ 554,309	$ 567,303	$ 585,582
Assumed	0	0	0	0	0
Ceded	(209,841)	(236,376)	(290,770)	(298,489)	(313,476)
Net	$ 275,830	$ 259,570	$ 263,539	$ 268,814	$ 272,106

Assumed

The Company does not reinsure other companies.

Ceded

The Company's reinsurance program is provided by three different facilities for fire and wind/earthquake property perils and liability coverage.

The peril of fire for property risks is reinsured by Farmers Mutual Reinsurance Company of Missouri (FM Re) under a per risk excess of loss with annual aggregate limit contract. Under the per risk excess of loss provisions of the contract, the Company retains $45,000 per risk and FM Re assumes the excess, limited to $650,000 per risk. Under the aggregate excess of loss provisions of the contract, the Company retains annual net losses equal to 80% of annual premium income. FM Re assumes the excess, limited to $1 million for the contract year.

Reinsurance for the perils of wind and earthquake for property risks is placed by broker Guy Carpenter & Company, LLC with various reinsurers (the reinsurer) under property per risk, catastrophe, and aggregate excess contracts. The lead reinsurer under the program is QBE Reinsurance Corporation, with a 25% share in the interest and liabilities of the contracts.

Under the per risk excess of loss agreement, the Company retains $35,000 for each loss, each risk, and the reinsurer's limits are $500,000 per risk and $1,000,000 per occurrence.

The catastrophe excess of loss agreement has two layers. Under layer one, the reinsurer is liable for 95% of $1 million per loss occurrence in excess of a $98,000 Company retention. Under layer two, the reinsurer is liable for an additional $3 million per occurrence in excess of the layer one Company retention and reinsurer limits. Reinstatements are available under the contract, but total liability to the reinsurer is limited to $1.9 million for layer one and $6 million for layer two for the term of the contract.

Under the aggregate excess of loss agreement, the Company's annual aggregate net retention, or attachment point, is equal to 75% of the Company's net earned premium income. The reinsurer is liable for 95% of losses in excess of this retention, limited to a total reinsurer liability of $1.9 million.

The Company's casualty business is ceded under a quota share arrangement with Cameron Mutual Insurance Company (CMIC). The Company cedes 100% of casualty premiums and losses to CMIC 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 a cash basis. The Company utilizes Rural Computer Consultants, Inc. policy maintenance and accounting software. The CPA firm of Van de Ven, LLC, performs an annual compilation of the Company' financial statements and prepares the Company's annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2012, 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.

ASSETS
December 31, 2012

Bonds (Note 1)	$ 1,258,757
Mutual Funds	325,967
Real Estate	19,994
Cash on Deposit	1,448,749
Reinsurance Recoverables	1,900
Interest Due and Accrued	13,861
Total Assets	$ 3,069,228

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2012

Unpaid Losses	$ 1,000
Ceded Reinsurance Payable	26,861
Total Liabilities	$ 27,861
Guaranty Fund	$ 150,000
Other Surplus	2,891,367
Total Surplus	3,041,367
Total Liabilities and Surplus	$ 3,069,228

STATEMENT OF INCOME
For the Year Ending December 31, 2012

Net Premiums Earned	$ 272,106
Other Insurance Income	10,001
Net Losses & Loss Adjusting Expenses Incurred	(161,132)
Other Underwriting Expenses Incurred	(213,066)
Net Underwriting Income (Loss)	$ (92,091)
Net Investment Income	108,312
Other Income	75
Gross Profit (Loss)	$ 16,296
Federal Income Tax	(0)
Net Income (Loss)	$ 16,296

CAPITAL AND SURPLUS ACCOUNT
December 31, 2012

Policyholders' Surplus, December 31, 2011	$ 3,146,384
Net Income (Loss)	16,296
Market Value Adjustment	12,868
Non-Admitted Mutual Fund Adjustment	(134,181)
Policyholders' Surplus, December 31, 2012	$ 3,041,367

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Bonds

20 CSR 200-12.020 (Extended Missouri Mutual Companies Approved Investments) limits the Company's investment in corporate bonds to 20% of total admitted assets. The Company's total investment in corporate bonds at December 31, 2012, exceeded this limitation by $61,766, or by approximately 2% of surplus.

EXAMINATION CHANGES

There were no examination changes.

SUBSEQUENT EVENTS

Effective January 1, 2013, 20 CSR 200-12.030 (Extended Missouri and Missouri Mutual Companies' Financial Reinsurance Requirements) requires all companies operating under Section 380 RSMo to obtain aggregate excess reinsurance coverage to cover 100% of losses in excess of an attachment point which would prevent an annual loss to the company of greater than 20% of policyholder surplus. The Company's 2013 reinsurance contract covering the peril of fire for property risks does not meet the minimum requirements of the regulation.

SUMMARY OF RECOMMENDATIONS

Management – Page 4

It is recommended the Company comply with the terms of the Articles of Incorporation regarding the number of members on the Board of Directors.

Growth and Loss Experience – Page 7

It is recommended the Company perform a comprehensive analysis of its rate and underwriting expense structure and implement necessary changes to ensure the Company as a going concern.

Notes to the Financial Statements – Page 10

It is recommended the Company ensure that its total investment in corporate bonds complies with the limitations of 20 CSR 200-12.020 (Extended Missouri Mutual Companies Approved Investments). Any investment in excess of the limitations should be non-admitted on future annual statement filings.

Subsequent Events – Page 10

The Company is directed to obtain reinsurance which meets the minimum requirements of 20 CSR 200-12.030 (Extended Missouri and Missouri Mutual Companies' Financial Reinsurance Requirements) in future contract years subsequent to 2013.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
)
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 DIFP

Sworn to and subscribed before me this 26th day of June, 2013.

My commission expires:

March, 5, 2017

Tammy S Rodieck
Notary Public

TAMMY S. RODIECK
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: March 05, 2017
Commission Number: 13751697

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, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP