REPORT OF THE
FINANCIAL EXAMINATION OF

ST. ELIZABETH MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2007

FILED
JAN 09 2008
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 6, 2008
St. Elizabeth, Missouri

Honorable Linda Bohrer, Acting Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Acting Director Linda Bohrer:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

ST. ELIZABETH MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 160 South Walnut (P.O. Box 117), St. Elizabeth, Missouri 65075, telephone number (573) 493-2717. This examination began on September 8, 2008, and was concluded on September 9, 2008, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2002, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2003, through December 31, 2007, 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 Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

Management and Control

Comment: There were only seven of the eight directors' positions filled at December 31, 2002, due to a vacancy that occurred in 2001. It was recommended that the Company maintain the number of directors at eight, in compliance with its Articles of Incorporation.

Company Response: The Company filled the board vacancy as of September 8, 2003.

Current Findings: The Company maintained the number of directors as required by its Articles of Incorporation during the examination period.

Fidelity Bond and Other Insurance

Comment: It was recommended that the Company obtain a fidelity bond with a coverage limit of at least $50,000, the minimum suggested for a company its size in the guidelines promulgated by the NAIC.

Company Response: The Company increased it fidelity bond coverage to $50,000.

Current Findings: The Company increased its fidelity bond coverage to $50,000, as recommended.

Territory and Plan of Operation

Comment: It was recommended that the Company amend the agent agreements to specify a time limit for the delivery of fully completed applications to the home office and to stipulate who is responsible for obtaining errors and omissions coverage for the agents.

Company Response: The Company amended its agent agreements to specify a time limit for delivery of fully completed applications to the home office and to specify who is responsible for obtaining errors and omissions coverage for the agents.

Current Findings: The Company amended its agent contracts to contain the language recommended in the previous examination.

HISTORY

General

The Company was originally organized on December 8, 1899, and was incorporated on February 27, 1930, as The St. Elizabeth Mutual Insurance Company of St. Elizabeth Missouri. The Company currently operates as St. Elizabeth Mutual Insurance Company.

The Company has a Certificate of Authority dated August 13, 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

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third Thursday in January at the home office of the Company or at the St. Elizabeth Community Center if the home office is deemed by the Board of Directors to be insufficient.. Special meetings of the members may be called at any time by the President, by the Board of Directors, or by not less than one percent of the members. One percent of the membership, represented in person or by proxy, shall constitute a quorum at any membership meeting. Proxy voting is permitted if the proxy is executed in writing, appointing the Secretary as the proxy.

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 eight members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated $50 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2007, were as follows:

Name and Address	Occupation	Term
Mark Adrian 301 Highway H Eugene, Missouri	Bank Officer	2005-2008
Kenneth Hammond 2218 Landing Creek Road Jefferson City, Missouri	Retired	2007-2010

Richard Juergensmeyer 116 Highway PP St. Elizabeth, Missouri	MFA Manager	2007-2010
Alfred Luetkemeyer P.O. Box 117 St. Elizabeth, Missouri	Bank Officer	2006-2009
Dean Luetkemeyer 846 Highway 52 St. Elizabeth, Missouri	Farmer/Construction	2006-2009
Robert Oligschlaeger 693 Hoecker Road St. Elizabeth, Missouri	Farmer	2007-2010
Mark Reinkemeyer 289 Plum Street St. Elizabeth, Missouri	Retirement Home Employee	2005-2008
Victor Wilde 441 Oak Ridge Road St. Elizabeth, Missouri	Business Owner	2007-2010

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, 2007, were as follows:

Victor Wilde	President
Dean Luetkemeyer	Vice-President
Alfred Luetkemeyer	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. Significant disclosures included that one director is a director/employee and another director is an officer/employee of the Bank of St. Elizabeth, where most of the Company's deposits are held. In addition, one of these directors is also an agent of American Family Insurance, which offers similar products as those of the Company.

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 between $50,000 and $75,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of $3,000,000.

The Company carries errors and omissions liability coverage for its agents with an aggregate limit of $500,000.

The Company also carries property coverage and general liability on its home office.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has seven part-time. Employees receive one to four weeks of paid time off per year, depending on years of service, with no other benefits. It appears the Company has made adequate provisions in its financial statements for these benefit obligations.

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 is authorized to write fire, wind, liability and crop insurance in all counties in the State of Missouri. The Company writes fire, and wind coverages, and markets liability coverage through an agreement with its reinsurer. The Company's policies are sold by 9 licensed agents, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms. The policies are renewed annually. Property inspections and adjusting functions are performed by the inspector/adjuster agents. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Investment Income	Underwriting Income	Net Income
2007	$2,528,294	$181,896	$711,534	$ 383,528	$95,418	$ 60,534	$153,403
2006	2,427,307	231,940	736,939	1,266,333	78,431	46,645	115,279
2005	2,206,269	131,940	659,701	193,500	64,063	91,597	158,220
2004	2,039,895	127,177	609,942	118,735	55,744	169,377	220,131
2003	1,796,708	105,517	503,610	189,537	65,787	(52,110)	5,553

At year-end 2007, 1,471 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:

	2003	2004	2005	2006	2007
Direct	$503,610	$609,942	$659,701	$736,939	$711,534
Assumed	0	0	0	0	0
Ceded	(54,489)	(67,179)	(85,812)	(135,109)	(70,238)
Net	$449,121	$542,763	$573,890	$601,830	$641,296

Assumed

The Company does not reinsure other companies.

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 fire and wind risks. The Company retains $150,000 per occurrence and the reinsurer's limits are $500,000 for commercial and public property and livestock, poultry and horse operations and $750,000 for dwellings and farm outbuildings. 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 annual premium rate paid to the reinsurer for individual occurrence of loss coverage in 2007 was $.1288 for fire and $.0214 for wind per $1,000 of adjusted gross fire risks in force.

The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2007 was $537,319 and the annual premium paid was $.3704 per $1,000 of adjusted gross fire risks in force.

The Company also has an agency organizational agreement with the reinsurer. Under the terms of the agreement, the Company markets liability policies for the reinsurer, and receives a 20% 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 modified cash basis. The Company completes its annual statement. The CPA firm of Bert Doerhoff, P.C, CPA, prepares the tax filings of the Company.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007, 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, 2007

Real Estate	$ 161,816
Cash on Deposit	2,344,782
Interest Due and Accrued	21,696
Total Assets	$ 2,528,294

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2007

Unearned Premium	$ 181,896
Total Liabilities	$ 181,896
Guaranty Fund (Note 1)	$ 200,000
Other Surplus (Note 1)	2,146,398
Total Surplus	2,346,398
Total Liabilities and Surplus	$ 2,528,294

STATEMENT OF INCOME
For the Year Ending December 31, 2007

Net Premiums Earned	$ 591,340
Other Insurance Income	510
Net Losses & Loss Adjustment Expenses Incurred	(266,066)
Other Underwriting Expenses Incurred	(265,250)
Net Underwriting Income (Loss)	$ 60,534
Investment Income	$ 95,418
Other Income	3,954
Gross Profit (Loss)	$ 159,906
Federal Income Tax	(6,503)
Net Income (Loss)	$ 153,403

CAPITAL AND SURPLUS ACCOUNT
December 31, 2007

Policyholders' Surplus, December 31, 2006	$ 2,195,367
Net Income (Loss)	153,403
Decrease in Accrued Interest	(2,372)
Policyholders' Surplus, December 31, 2007	$ 2,346,380

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Guaranty Fund

The Company understated the guaranty fund required by Section 380.271 RSMo. (Financial Reinsurance Requirements). The amount of guaranty fund per examination was $200,000, while the amount reported on the 2007 Annual Statement was $100,000. The difference exists because the Company calculated the fund based the classes of business written of fire and wind, while the Company's certificate of authority also allows for the classes of liability and crop coverage. The reported guaranty fund should be based upon the authorized lines of business per the certificate of authority. An examination change was made to increase the guaranty fund by $100,000, with a corresponding decrease of $100,000 to other surplus. The examination change had no affect on the total policyholder surplus balance.

EXAMINATION CHANGES

As disclosed in Note 1 above, the only examination change was related to the guaranty fund and resulted in no change to total policyholder surplus.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees St. Elizabeth Mutual 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 DIFP

Sworn to and subscribed before me this 20th day of November, 2008.

My commission expires:

May 18, 2012

Notary Public

KIMBERLY LANDERS
MY COMMISSION EXPIRES
May 18, 2012
NOTARY SEAL
#08558402
CALLAWAY COUNTY
NOTARY PUBLIC 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.

Tim Tunks, CFE, CPA
Examiner In Charge
Missouri DIFP