RE: Examination Report of Farmers Mutual Insurance Company of Macon, Missouri for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Macon, Missouri 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 Farmers Mutual Insurance Company of Macon Missouri 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 23rd day of April, 2013.

John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration
REPORT OF THE
FINANCIAL EXAMINATION OF
FARMERS MUTUAL INSURANCE COMPANY OF
MACON, MISSOURI
AS OF
DECEMBER 31, 2011

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI
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January 29, 2013
Macon, 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

FARMERS MUTUAL INSURANCE COMPANY OF MACON, MISSOURI

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 32362 U.S. Highway 63 (P.O. Box 36), Macon, Missouri 63552, telephone number (660) 385-3171. This examination began on January 28, 2013, and concluded on January 29, 2013, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2006, and was conducted by examiners 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 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

There were no prior examination report comments or recommendations.

HISTORY

General

The Company was originally organized in 1894 as the Farmers Fire and Lightning Mutual Insurance Company of Macon County. In November 1954, the Company merged with Missouri Farmers Mutual Tornado Insurance Company under the name of Farmers Mutual Insurance Company of Macon, Missouri. In November 1962, the Company merged with Farmers Mutual Fire and Lightning Insurance Company of Chariton.

The Company has a Certificate of Authority dated July 1, 1991, 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 second Tuesday in February 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. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

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 seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets about every other month, and each director is compensated $250 per meeting attended.

Members serving on the Board of Directors as of December 31, 2011, were as follows:

<table>
<thead>
<tr>
<th>Name and Address</th>
<th>Occupation</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>J. D. Wright Keytesville, Missouri</td>
<td>Plumber/Farmer</td>
<td>2010-2013</td>
</tr>
<tr>
<td>Chris Ahern Atlanta, Missouri</td>
<td>Retired School Administrator</td>
<td>2011-2014</td>
</tr>
</tbody>
</table>
Dean Hale
Green City, Missouri
Real Estate Agent 2009-2012

Craig Miller
Edina, Missouri
Banker 2010-2013

Ricky Shoemaker
Bevier, Missouri
Service Station Owner 2011-2014

Kelvin Land
Clifton Hill, Missouri
Farmer 2011-2014

William Duncan
Salisbury, Missouri
Farmer 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:

   J. D. Wright    Chairman
   Chris Ahern    Vice-Chairman
   Kevin Mosley   President
   Brad Jaecques  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 statements noted no potential
conflicts disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company, neither of
which 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 $250,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries liability coverage for its directors and officers. The Company requires its agents to obtain errors and omissions insurance and monitors for compliance. Other insurance coverages carried by the Company include home office and contents property coverage, general liability, fleet automobile and workers compensation.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has seven full-time employees. The benefits package offered to the employees includes subsidized health, life and long-term disability insurance, defined benefit retirement plan and paid time off.

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 27 agencies, who receive commissions of 18% on property coverages and 12% on liability and equipment breakdown coverages.

Policy Forms and Underwriting Practices

The Company utilizes Grinnell Mutual Reinsurance Company and custom policy forms. Homeowners policies are written on a continuous period, while other policies are written on a three-year term. Renewal billings are mailed directly to the insured. Property inspections and claims adjusting are performed by employees of the Company. Rates are determined by the Board of Directors.
GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<table>
<thead>
<tr>
<th>Year</th>
<th>Admitted Assets</th>
<th>Liabilities</th>
<th>Gross Premiums</th>
<th>Gross Losses</th>
<th>Investment Income</th>
<th>Underwriting Income</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$7,548,617</td>
<td>$888,159</td>
<td>$2,281,194</td>
<td>$1,092,502</td>
<td>$334,229</td>
<td>$(49,856)</td>
<td>196,025</td>
</tr>
<tr>
<td>2010</td>
<td>7,525,185</td>
<td>1,060,752</td>
<td>1,989,987</td>
<td>1,157,440</td>
<td>341,158</td>
<td>166,899</td>
<td>347,330</td>
</tr>
<tr>
<td>2009</td>
<td>7,016,098</td>
<td>898,995</td>
<td>1,899,915</td>
<td>660,459</td>
<td>314,482</td>
<td>(40,788)</td>
<td>178,198</td>
</tr>
<tr>
<td>2008</td>
<td>6,779,569</td>
<td>840,664</td>
<td>1,933,487</td>
<td>435,126</td>
<td>314,587</td>
<td>218,065</td>
<td>361,711</td>
</tr>
<tr>
<td>2007</td>
<td>6,575,804</td>
<td>998,610</td>
<td>1,992,814</td>
<td>410,179</td>
<td>312,514</td>
<td>300,543</td>
<td>409,372</td>
</tr>
</tbody>
</table>

At year-end 2011, 3,328 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:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>$1,922,814</td>
<td>$1,933,487</td>
<td>$1,899,915</td>
<td>$1,989,987</td>
<td>$2,281,194</td>
</tr>
<tr>
<td>Assumed</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Ceded</td>
<td>(422,415)</td>
<td>(425,953)</td>
<td>(426,913)</td>
<td>(413,668)</td>
<td>(456,825)</td>
</tr>
<tr>
<td>Net</td>
<td>$1,500,399</td>
<td>$1,507,534</td>
<td>$1,473,002</td>
<td>$1,576,319</td>
<td>$1,824,369</td>
</tr>
</tbody>
</table>

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 aggregate excess reinsurance agreement.

The aggregate excess provisions of the agreement apply to property risks. Under the terms of the agreement, 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 2011 was $1,045,028. Risks ceded under this coverage are limited to $1 million per exposure.
Under the facultative reinsurance portion of the agreement the Company may cede to the reinsurer risks that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

The agreement also provides reinsurance for liability coverages. The Company cedes 100% of liability premiums and losses to the reinsurer and receives a 20% 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. The Company utilizes Rural Computer Consultants, Inc. accounting and policy maintenance software. The firm of Harden, Cummins, Moss & Miller, LLC, CPAs performs an annual audit of the Company's financial statements and prepares the 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, 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.
<table>
<thead>
<tr>
<th>Asset</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$ 6,514,717</td>
</tr>
<tr>
<td>Real Estate</td>
<td>12,065</td>
</tr>
<tr>
<td>Cash on Deposit</td>
<td>943,171</td>
</tr>
<tr>
<td>Other Investments</td>
<td>1,113</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>11,000</td>
</tr>
<tr>
<td>Interest Due &amp; Accrued</td>
<td>18,634</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>7,138</td>
</tr>
<tr>
<td>Vehicles</td>
<td>40,779</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$ 7,548,617</strong></td>
</tr>
</tbody>
</table>
# LIABILITIES, SURPLUS AND OTHER FUNDS
## December 31, 2011

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Losses Unpaid</td>
<td>$42,976</td>
</tr>
<tr>
<td>Ceded Reinsurance Premium Payable</td>
<td>36,998</td>
</tr>
<tr>
<td>Unearned Premium</td>
<td>784,724</td>
</tr>
<tr>
<td>Federal Income Tax Payable</td>
<td>18,360</td>
</tr>
<tr>
<td>Payroll Tax Payable</td>
<td>1,801</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>3,300</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$888,159</strong></td>
</tr>
<tr>
<td>Guaranty Fund</td>
<td>$150,000</td>
</tr>
<tr>
<td>Other Surplus</td>
<td>6,510,458</td>
</tr>
<tr>
<td><strong>Total Surplus</strong></td>
<td><strong>6,660,458</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Surplus</strong></td>
<td><strong>$7,548,617</strong></td>
</tr>
</tbody>
</table>
STATEMENT OF INCOME
For the Year Ending December 31, 2011

Net Premiums Earned $1,786,134
Other Insurance Income 74,144
Net Losses & Loss Adjusting Expenses Incurred (939,923)
Other Underwriting Expenses Incurred (970,211)

Net Underwriting Income (Loss) $ (49,856)
Net Investment Income 334,229
Other Income 763

Gross Profit (Loss) $ 285,136
Federal Income Tax (89,111)

Net Income (Loss) $ 196,025

CAPITAL AND SURPLUS ACCOUNT
December 31, 2011

Policyholders' Surplus, December 31, 2010 $ 6,464,433
Net Income (Loss) 196,025

Policyholders' Surplus, December 31, 2011 $ 6,660,458
NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Insurance Company of Macon, Missouri 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 13th day of February, 2013.

My commission expires:

May 18, 2016

Kimberly Landers
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.

Mark Nance, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP