

Report of Examination of

**Farmers Mutual Insurance Company**  
Winchester, Ohio

As of December 31, 2010

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Columbus, Ohio  
August 5, 2011

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**Farmers Mutual Insurance Company**

an Ohio domiciled, mutual protective property company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 1616 Tri County Road, Winchester, Ohio 45697.

A report of this examination is hereby respectfully submitted.

**Scope of Examination**

The Department last examined the Company as of December 31, 2006. The Department’s current examination covers the period of January 1, 2007 through December 31, 2010.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **Management and Control**

### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<b>Name</b>	<b>Principal Occupation</b>
Samuel F. Kincheloe	Retired
Gregory Huff	Mechanic Ohio Department of Transportation
Larry McIntire	Owner/Operator McIntire Trucking
Larry Purdin	Farmer
Stephen Rockey	Farmer

### **Officers**

As of the examination date, the following officers were serving in the designated position:

<b>Name</b>	<b>Title</b>
Stephen Rockey	President
Larry McIntire	Vice President
Gregory Pfeffer	Secretary and Treasurer

### **Insurance Holding Company System**

The Company is not a member of a holding company as defined in Section 3901.32 of the ORC.

### **Territory and Plan of Operations**

The Company is licensed to do business in the State of Ohio. The Company primarily writes fire, windstorm, hail, vandalism, falling and moving bodies, and overturn. The Company operates in the following Ohio counties: Adams, Brown, Clermont, Highland, Pike and Scioto.

## **Reinsurance**

### **Ceded**

The Company has a per risk excess of loss agreement that provides coverage above \$50,000 up to limits of covered properties that is outlined in the reinsurance agreement. An aggregate excess of loss agreements provides 100% coverage above incurred losses greater than \$345,046.

All reinsurance agreements appear to transfer risk and have the NAIC required clauses.

### **Assumed**

The Company did not assume any reinsurance.

## **Financial Statements**

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus  
December 31, 2010**

Preferred stocks, common stocks and mutual funds	\$ 5,475
Real estate	40,709
Cash	<u>1,406,483</u>
Subtotal, cash and invested assets	1,452,667
Investment income due and accrued	1,698
Earned but unbilled premiums	<u>213,487</u>
Total admitted assets	<u><u>\$ 1,667,852</u></u>

**Statement of Assets, Liabilities, Capital and Surplus**

Liabilities:	
Unpaid claims	5,000
Commissions due and payable to agents	5,178
Other expenses	3,500
Taxes, licenses and fees	468
Unearned assessments/premium reserve	11,859
Ceded reinsurance premiums payable	6,505
Amounts withheld or retained by company for accounts of others	<u>2,174</u>
Total liabilities	<u>34,684</u>
Capital and surplus:	
Surplus as regards policyholders	<u>1,633,168</u>
Total capital and surplus	<u>1,633,168</u>
Total liabilities, capital and surplus	<u><u>\$ 1,667,852</u></u>

**Statement of Income**  
**As of December 31, 2010**

Income	
Total assessment or premium income	\$646,251
Deduct: Premiums for reinsurance ceded	78,743
Net assessments/premiums earned	<u>567,508</u>
Deductions	
Losses incurred	223,576
Loss expenses incurred	10
Other underwriting expense incurred	374,668
Total underwriting deductions	<u>598,254</u>
Net underwriting loss	(30,746)
Investment Income	
Net investment income	40,769
Net investment gain	<u>40,769</u>
Net income, after capital gains tax and before federal income	10,023
Federal income taxes incurred	4,805
Net income	<u>5,218</u>

**Statement of Changes in the Capital and Surplus Account**  
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, beginning of the year	1,631	1,425	1,392
Net income (loss)	5	159	41
Change in non-admitted assets	(2)	2	-
Aggregate write-ins for gains in surplus	(1)	45	(8)
Change in surplus during the year	2	206	33
Capital and surplus, end of the year	<u>\$1,633</u>	<u>\$1,631</u>	<u>\$1,425</u>

**Notes to Financial Statements**

**Investments**

The Company's investments were in compliance with ORC 3939 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

**Conclusion**

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Assets	<u>\$ 1,667,852</u>
Liabilities	34,684
Capital and Surplus	<u>1,667,852</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,667,852</u>

**Subsequent Events**

There were no material subsequent events.

## Acknowledgement

In addition to the undersigned, the following representative of the Department participated in this examination: Methuselah E. Nyangoro, CFE, CPA.

Respectfully,



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David A. Cook, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2010.

*[Signature]*      8/29/11  
Assistant Chief Examiner      Date

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 29 day of August, 2011.

*Elizabeth Chase*  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2012~~  
My Commission Expires