

**PROCEEDINGS BEFORE JANE L. CLINE,
INSURANCE COMMISSIONER OF THE STATE OF WEST VIRGINIA**

**IN RE: EXAMINATION OF
FARMERS AND MECHANICS MUTUAL INSURANCE COMPANY OF WEST
VIRGINIA**

Administrative Proceeding No.: 09-AP-FINCON-0002

ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION

COMES NOW Jane L. Cline, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the REPORT OF FINANCIAL EXAMINATION as of December 31, 2007, of FARMERS AND MECHANICS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA (hereinafter referred to as “The Mutual” or the “Company”) based upon the following findings, to wit:

JURISDICTION

1. Jane L. Cline is the Insurance Commissioner of the State of West Virginia (hereinafter the “Insurance Commissioner”) and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.
2. The Mutual is a Farmers’ Mutual Fire insurance company authorized by the Insurance Commissioner to transact business in the State of West Virginia as permitted and authorized under Chapter 33, Article 22 of the West Virginia Code.

CONCLUSIONS OF LAW

W.Va. Code § 33-2-9(j)(3)(A) provides that following a review of the REPORT OF FINANCIAL EXAMINATION, the examination work papers, and any written submission, rebuttal, or objection the Insurance Commissioner shall enter an ORDER adopting the REPORT OF FINANCIAL EXAMINATION as filed or with modifications or corrections.

ORDER

It is therefore:

1. ORDERED that the REPORT OF FINANCIAL EXAMINATION FARMERS AND MECHANICS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA, attached hereto as Exhibit A, is hereby ADOPTED and APPROVED by the Insurance Commissioner.

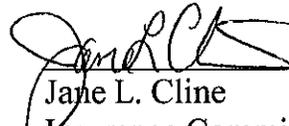
2. ORDERED that a copy of this ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION and the adopted REPORT OF FINANCIAL EXAMINATION shall be mailed to FARMERS AND MECHANICS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA by certified mail.

3. ORDERED that FARMERS AND MECHANICS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA shall file with the Insurance Commissioner, within thirty (30) days of the entry date of this ORDER, affidavits executed by each of its directors stating under oath that they have received a copy of the adopted REPORT OF FINANCIAL EXAMINATION and a copy of this ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION, in accordance with W.Va. Code § 33-2-9(j)(4).

4. ORDERED that FARMERS AND MECHANICS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA take whatever actions are required to comply with the recommendations set forth in the REPORT OF FINANCIAL EXAMINATION and shall demonstrate compliance to the satisfaction of the Insurance Commissioner.

5. ORDERED that this administrative matter be hereby dismissed from the administrative docket of the Insurance Commissioner.

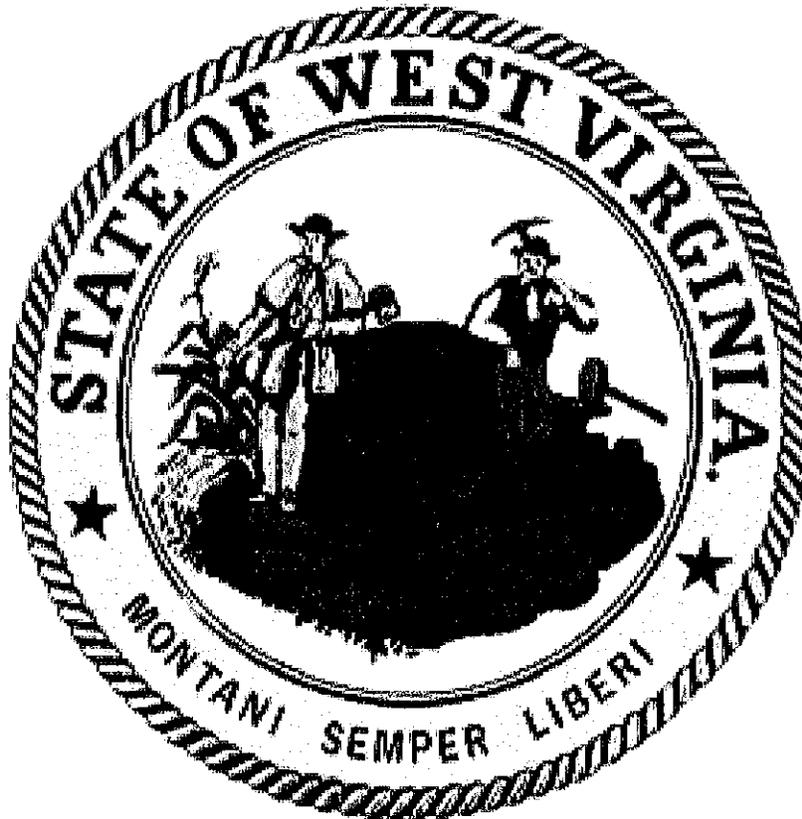
Entered this 8th day of January, 2009.



Jane L. Cline
Insurance Commissioner

Report of Financial Examination

As of December 31, 2007



Farmers and Mechanics Mutual Insurance Company of West Virginia
25 Administrative Drive
Martinsburg, West Virginia 25404

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Charleston, West Virginia
November 14, 2008

Honorable Jane L. Cline
West Virginia Insurance Commissioner
1124 Smith Street, 4th Floor
Charleston, West Virginia 25301

Dear Commissioner Cline:

Pursuant to your instructions, an examination has been made as of December 31, 2007 of the financial condition and operational affairs of the

**FARMERS AND MECHANICS MUTUAL INSURANCE COMPANY
OF WEST VIRGINIA
Martinsburg, West Virginia**

Hereinafter referred to as the "Company". The following report of the findings of this examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2002. The current examination covered the intervening five-year period of January 1, 2003, through December 31, 2007, with a determination of the statutory financial condition as of December 31, 2007.

The examination was conducted with consideration given to the guidelines and procedures recommended by the Examiner Financial Condition Handbook adopted by the National Association of Insurance Commissioners and in accordance with the laws, regulations and directives of the West Virginia Insurance Commissioner.

During the examination, the affairs and activities of the Company were reviewed and analyzed to determine compliance with the applicable West Virginia statutes and regulations and the Company's adherence to the provisions of its Charter and Bylaws.

A review of the following items was made for the purposes of assessing any impact upon the financial condition of the Company and compliance with related laws and regulation:

**Company History
Management and Control
Corporate Records
Fidelity Bonds and Other Insurance
Officers' and Employees' Welfare and Pension Plans
Territory and Plan of Operation**

Growth of Company
Reinsurance
Accounts and Records
Financial Statements

Status of Significant Previous Examination Findings

The examination report issued as of December 31, 2002 included the following significant findings.

1. It was noted that because the Company is a farm mutual, they are subject to the provisions of Chapter 33, Article 22. According to W. Va. Code 33-22-11 "Surplus and Emergency Funds," the Company has to maintain an amount equal to their liabilities plus an additional \$25,000 in Cash and Government securities. As of December 31, 2002, the Company reported \$10,711,976 in liabilities, \$729,961 in Cash and \$1,918,797 in Government securities. The Company is "out of compliance" with the requirements of W. Va. Code 33-22-11 by \$8,063,218. It is recommended that the Company implement procedures to ensure that they retain an emergency fund equal to their liabilities plus and additional \$25,000 in Cash and Government securities as required by W. Va. Code 33-22-11.

Status

For compliance, the Examiner reviewed Chapter 33, Article 22, Section 11, and Chapter 33, Article 8, of the West Virginia Code, utilizing the Summary Investment Schedule and the proper Schedule D's, and the Company appears to be in compliance with the provisions.

COMPANY HISTORY

General

The Company was incorporated on December 18, 1877 in the State of West Virginia, under the name, Farmers & Mechanics Mutual Fire Insurance Company of WV. The word "Fire" was deleted from its name in 1990. The Company commenced business on March 23, 1878. The purpose of the Company is to furnish its members effective mutual insurance coverage authorized by Chapter 33, Article 22, Section 8 of the West Virginia Code. The Company writes only in the State of West Virginia and operates in all counties of the State.

During the period under examination it was noted that the Company's charter and bylaws were revised, and revisions were approved by the Department on October 5, 2004. A Special Policyholders Meeting was held at 10:30 a.m. on January 14, 2005 at the Company's office. The purpose of the meeting was for adopting new amendments to the Bylaws only. A quorum was present to conduct the meeting. A letter was sent to all

policyholders on December 11, 2004 describing the changes in the Bylaws. The new amendments were approved. Revisions and approval appears to be in accordance with the Chapter 33, Article 22, Section 5 of the West Virginia Code.

Capital or Surplus Structure

The Company is subject to the provisions of Chapter 33, Article 22, Section 17 of the West Virginia Code, which provides upon liquidation, that surplus funds remaining belong to the policyholders.

The Company is not subject to any minimum capital or surplus requirement. The statutes provide that as long as the Company maintains \$100,000 surplus and reserves equal to other domestic companies transacting like kinds of business it can issue policies without contingent liability to its member policyholders; otherwise, policyholder members are subject to any deficiencies that may result.

The Company, for the period covered by this examination, has been qualified to issue policies without contingent liability to its policyholders members.

Board of Directors

Article V of the Company's charter provides the governing body of the Company shall be the Board of Directors consisting of not less than six nor more than fifteen members. The Board meets monthly with special meetings called whenever deemed necessary. At December 31, 2007, the following individuals served as members of the Board of Directors:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Bernard L. Snyder Charles Town, WV	President of Snyder Environmental	2009
Deborah J. Dhayer Martinsburg, WV	Owner of Eddie's Tire	2009
Anthony J. Petrucci Martinsburg, WV	Self Employed – Produce & Ice	2009
Vicki S. Fulk Martinsburg, WV	Self Employed – Finance	2010
John W. Lancaster Martinsburg, WV	Retired (Power Company)	2010
James W. Dailey II Martinsburg, WV	President-W. Harley Contractors	2010

Gordon A. Lutz Martinsburg, WV	Broker-Lutz & Gregory Realty	2008
Martin B. Frye Gerraldstown, WV	Self Employed – Orchardist	2008
James P. Whitacre Martinsburg, WV	Jim Whitacre Excavating	2008
Kenneth L. Banks Martinsburg, WV	Dentist	2010
William E. Crum Kearneysville, WV	Sales	2008
Henry B. Davenport, III Charles Town, WV	Farmer	2009
Charles A. Hensell Martinsburg, WV	Realtor	2010
E. Dennis McCormick* Martinsburg, WV	President	2008

* It was noted that Directors are nominated for one year terms when vacancies are not being filled. Pursuant to Chapter 33, Article 22, Section 5(a) of the West Virginia Code; "At all subsequent elections, except to fill vacancies, one third of such board of directors shall be elected for three years, such election to be held at the annual meeting of the company." **It is recommended that the Company come into compliance with Chapter 33, Article 22, Section 5(a).**

Director Emeritus

Morrison W. Gano Falling Waters, WV	Retired	2008
Walter B. Ridenour Martinsburg, WV	Retired	2008
Donald T. Anderson Martinsburg, WV	Retired (Education)	2008

Appointed as Honorary Directors Emeritus. They are no longer serving in the capacity as a member of the Board of Directors.

Officers

Officers elected at the March, 9, 2007 Organizational Meeting of the Board of Directors and serving as of December 31, 2007 were the following:

<u>Name</u>	<u>Title</u>
J. Wayne Lancaster	Chairman of the Board
James W. Dailey, II	Vice Chairman of the Board
E. Dennis McCormick	President
Martin B. Frye	Secretary
John W. Lancaster	Treasurer
Richard A. Howard	Senior V.P.
Daniel R. Otto	Vice President/Accounting/CFO
Foster L. Sirbaugh, Jr.	V/P Sales & Marketing
Stacey M. Matteson	Vice President Underwriting
Vickie L. Elliott	Asst. V/P-Admin/Asst. Sec.
Karen Griffith	Asst. V/P-Accounting

Committees

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

Executive Committee

J. Wayne Lancaster, Chairman/Treasurer
James W. Dailey, II, Vice Chairman
E. Dennis McCormick, President/CEO
Martin B. Frye, Secretary
James P. Whitacre
B. Lee Snyder
Deborah J. Dhayer
Dr. Kenneth Banks

Auditing Committee

James P. Whitacre, Committee Chairman
J. Wayne Lancaster, Board Chairman/Ex-officio
E. Dennis McCormick, President/CEO
Vicki Shockey Fulk
William E. Crum
Gordon A. Lutz
Charles A. Hensell

Finance Committee

James W. Dailey, II, Committee Chairman
J. Wayne Lancaster, Board Chairman/Ex-officio
E. Dennis McCormick, President/CEO
Dr. Kenneth L. Banks
B. Lee Snyder
Anthony J. Petrucci
Henry B. Davenport, III

Conflict of Interest

A review was made of the completed conflict of interest statements which were completed once a year in the period under examination. The conflict of interest statements appeared to be effective for the provisions of disclosure of conflict of interest of the board of directors, committee members, officers of the Company, and employees. The Examiner noted that some Directors made note of exceptions, however, the Examiner determined that the situation did not conflict with the official duties of the Company.

Corporate Records

The annual policyholders' membership meeting is held at the principal office of the Company in Berkeley County, West Virginia, on the second Friday in March to elect a Board of Directors and to transact any other lawful business that may come before it. Policyholders are given proper notice of the annual meeting as required in Chapter 33, Article 22, Section 5(d) of the West Virginia Code.

In addition, regular monthly meetings of the Board of Directors are held on the second Friday every month. During the September 12, 2003 meeting, the President of the Company gave a report on the Report of Examination as of December 31, 2002. As in accordance with Chapter 33, Article 2, Section 9(j)(4) of the West Virginia Code, all directors present signed an affidavit of attestation stating under oath that they have received a copy of the adopted report and related orders.

During the period of this examination, Special Membership Meetings were also held for the purpose of amending, and for adopting the new amendments to the Bylaws.

The minutes of meetings of policyholders, directors, and committees adequately approve and support the Company's transactions and events.

AFFILIATED COMPANIES

On August 1, 2006, the Company formed a wholly owned subsidiary, Farmers and Mechanics Fire and Casualty Insurance Company, and funded the company with \$2.5 million by purchasing 125,000 shares or 100% of the subsidiary's common stock.

The Company established an Expense Sharing Agreement with its subsidiary, effective as of August 1, 2006. Expenses are shared based on a ratio most closely related to expense shared, either by employee ratio, salary ratio, direct premium written, or policy count.

FIDELITY BOND AND OTHER INSURANCE

The Company's blanket crime policy contained coverage of \$375,000 against employee dishonesty. The amount is in compliance with the minimum standard of \$350,000 calculated using the guidelines as established by the National Association of Insurance Commissioners (NAIC).

Additional coverage obtained by the Company provided for workers compensation and employers liability, directors and officers liability, employment practices liability, commercial property coverage, commercial general liability, inland marine coverage for computer, commercial umbrella coverage, auto liability, general liability, and business auto. The Company was found to have adequate insurance coverage in force covering the hazards to which it may be exposed.

PENSION AND INSURANCE PLANS

The Company offers a 401(k) Retirement Savings Plan to all eligible employees. The Company matches 50% of the employee's contribution to the plan up to a maximum of 3% of the employee's gross wages. The form of the plan is acceptable under section 401 of the Internal Revenue Code for use by employers for the benefit of their employees. Contributions are deposited monthly into the employees retirement account. The Company has no other pension plans, profit sharing or bonus plans.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company writes only in the State of West Virginia and operates in all counties of the State. The Company writes on a non-assessable basis Fire, Allied Lines, Farmowners Multiple Peril, Homeowners Multiple Peril, Commercial Multiple Peril, Other Liability and West Virginia Mine Subsidence. The Company's writing emphasis is in the line of Homeowners Multiple Peril; approximately 53% of its 2007 written premiums were derived from this line of business. The West Virginia Mine Subsidence business is 100% ceded through reinsurance. The Company markets its products through an independent agency system which the agents review the insured's needs and then place with a company with the best rates and coverage. The Company at December 31, 2007 was represented by approximately 545 agents.

The Company is a member of both the Insurance Services Office (ISO) and the American Association of Insurance Services (AAIS). All forms used by the Company are filed by reference with ISO or AAIS.

REINSURANCE

The Company's reinsurance program is comprised of contracts written through a reinsurance intermediary, Guy Carpenter and Company, LLC. As of December 31, 2007, the Company's reinsurance intermediary is permitted to operate in the State of West Virginia under the authority of Chapter 33, Article 38, Section 3.

As of December 31, 2007, the Company had the following reinsurance agreements in effect:

Catastrophe Excess of Loss Reinsurance

Lines Covered: Liability that may accrue to the Company as a result of loss or losses under Policies classified by the Company as Property and Automobile Physical Damage, in force at the inception of contract, or written or renewed during the term of the contract by or on behalf of the Company.

Retention: There are four levels of excess coverage:

First Excess: each Loss Occurrence, for 95% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$500,000 each Loss Occurrence;

Second Excess: each Loss Occurrence, for 95% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$1,000,000 each Loss Occurrence;

Third Excess: each Loss Occurrence, for 95% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$2,000,000 each Loss Occurrence; and

Fourth Excess: each Loss Occurrence, for 95% of the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$5,000,000 each Loss Occurrence;

Reinsurers' Limits:

First Excess: subject to a limit of liability to the Reinsurer of \$475,000 (being 95% of \$500,000) each Loss Occurrence;

Second Excess: subject to a limit of liability to the Reinsurer of \$950,000 (being 95% of \$1,000,000) each Loss Occurrence;

Third Excess: subject to a limit of liability to the Reinsurer of \$2,850,000 (being 95% of \$3,000,000) each Loss Occurrence; and

Fourth Excess: subject to a limit of liability to the Reinsurer of \$4,750,000 (being 95% of \$5,000,000) each Loss Occurrence.

Casualty Clash Excess of Loss Reinsurance

Lines Covered: liability that may accrue to the Company as a result of loss or losses under Policies classified by the Company as Casualty in force at inception, or written or renewed during the term of the Contract by or on behalf of the Company.

Extra Contractual Obligations, those liabilities not covered under any other provision and that arise from the handling of any claim on business covered, but liabilities arising because of the failure by the Company to settle within the Policy limit, or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such action.

Retention: each Loss Occurrence, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$1,000,000 each Loss Occurrence.

Reinsurers' Limits: limit of liability to the Reinsurer of \$1,000,000 each Loss Occurrence.

Third Property Per Risk Excess of Loss

Lines Covered: liability that may accrue to the Company as a result of loss or losses under Policies classified by the Company as Property, in force at inception, or written or renewed during the term by or on behalf of the Company.

Extra Contractual Obligations: those liabilities not covered under any other provision and that arise from the handling of any claim on business covered, such liabilities arising because of failure by the Company to settle within the Policy limit, or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such action.

Retention: each loss, each risk, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$1,000,000 each loss, each risk, subject to a limit of liability to the Reinsurer of \$500,000 each loss, each risk.

Reinsurers' Limits: a limit of liability to the Reinsurer of \$1,000,000 each Loss Occurrence.

General Excess of Loss Reinsurance

Lines Covered: liability that may accrue to the Company as a result of loss or losses under Policies classified by the Company as Property and Casualty, in force at inception or written or renewed during the term of contract or on behalf of the Company.

Retention:

First Excess/Property: liable in respect of each loss, each risk, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$100,000 each loss, each risk.

First Excess/Casualty: liable in respect of each Loss Occurrence, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$100,000 each Loss Occurrence.

In addition to the First Excess/Property, the Company shall retain \$200,000 of aggregate excess losses (i.e., the total of excess losses and Loss Adjustment Expense) otherwise recoverable during the term of contract.

Second Excess/Property: reinsurer shall be liable in respect of each loss, each risk, for the Ultimate Net Loss of \$300,000 each Loss Occurrence.

Second Excess/Casualty: reinsurer shall be liable in respect of each Loss Occurrence, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$300,000 each Loss Occurrence.

Combined Property and Casualty: Loss Occurrence involving at least one Casualty Policy and at least one Property Policy, the Reinsurer shall be liable in respect of each Loss Occurrence for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$100,000 each Loss Occurrence.

Reinsurers' Limits:

First Excess/Property: liability to the Reinsurer of \$200,000 each loss, each risk, and further subject to a limit of liability to the Reinsurer of \$400,000 each Loss Occurrence.

First Excess/Casualty: limit of liability to the Reinsurer of \$200,000 each Loss Occurrence.

Second Excess/Property: subject to a limit of liability to the Reinsurer of \$1,400,000 each Loss Occurrence.

Second Excess/Casualty: subject to a limit of liability to the Reinsurer of \$700,000 each Loss Occurrence.

Combined Property and Casualty: subject to a limit of liability to the Reinsurer of \$100,000 each Loss Occurrence Recoveries under the First Excess and the Second Excess above shall reduce the Ultimate Net Loss subject to this paragraph.

The reinsurers for the contracts listed above are as follows:

Arch Reinsurance Company,
Aspen Insurance U.K. Limited,
Employers Mutual Casualty Company,
QBE Reinsurance Corporation, and
The Toa Reinsurance Company of America.

ACCOUNTS AND RECORDS

The Company utilizes an AS 400 mainframe in combination with personal computers to generate monthly loss and premium reports, agents' account current information, contingent commission support detail and various other reports. The Company also utilizes POINT System software package created by Policy Management Systems to perform product related operations.

To comply with Chapter 33, Article 33, Section 4 of the West Virginia Code, the Company was audited on a yearly basis by Buffamant Wipple Buttafaro, P.C., of Jamestown, New York.

The Company's ledger accounts were traced to the filed Annual Statements. Asset and liability accounts as well as other financial information presented in the annual statement were tested and verified to an extent deemed necessary and sufficient.

FINANCIAL STATEMENTS

The following financial statements and schedules reflect the statutory financial condition of the Company at December 31, 2007.

- Comparative Exhibit – Statement of Assets, Liabilities, Unassigned Funds
- Comparative Exhibit – Underwriting and Investment Exhibit
- Comparative Exhibit – Exhibit of Examination Changes in Unassigned Funds

COMPARTIVE STATEMENT OF ASSETS, LIABILITIES, AND UNASSIGNED FUNDS

Examination Years Under Review – 2003 through 2007

BALANCE SHEET

	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003
ASSETS					
Bonds	\$21,287,180	\$19,417,760	\$16,707,720	\$14,759,237	\$11,787,627
Preferred Stocks	\$2,683,800	\$781,200	\$765,500	0	0
Common Stocks	5,557,939	4,355,078	1,399,163	1,162,629	277,591
Properties occupied by the company	1,457,553	1,491,352	1,526,982	1,563,001	1,599,126
Cash/ S.T. Investments	540,442	1,439,658	1,997,784	1,131,692	1,681,671
Investment Inc due and accrued	234,095	203,580	145,642	116,446	103,103
Uncollected premiums and agents balances	157,985	196,119	88,687	140,327	139,181
Deferred premiums, agents' bal's	2,936,916	2,844,740	2,544,901	2,400,558	2,380,950
Reinsurance Recoverable	45,931	121,715	33,548	245,130	80,700
Fed Income Tax Recoverable	173,275	63,226	27,920	18,900	0
Net deferred tax asset	774,398	776,667	698,270	689,359	0
EDP Equipment	47,799	61,626	41,010	39,855	51,811
Receivables from subsidiaries	12,187	0	0	0	0
Aggregate write-ins other than invested assets	6,240	10,345	9,418	18,276	34,546
Total Admitted Assets	\$35,915,740	\$31,763,066	\$25,986,545	\$22,285,410	\$18,136,306
LIABILITIES & SURPLUS					
Losses	\$1,762,070	1,976,285	1,823,798	2,077,788	2,165,945
LAE	438,031	489,375	477,022	410,544	306,607
Commissions Payable	1,107,551	1,091,116	963,674	881,739	773,091
Other Expenses	119,003	144,226	81,678	105,121	105,138
Taxes, Lic. & Fees	6,685	5,304	4,771	0	0
Unearned Premiums	10,244,641	10,414,043	9,130,739	8,944,138	8,742,869
Advance Premiums	179,516	187,661	173,821	193,249	155,107
Ceded Reinsurance	90,448	210,443	46,623	5,591	113,745
Funds Held by Company Under Reinsurance Treaties	0	0	0	8,655	8,655
Amounts Retained for Account of Others	535	15,640	37,695	53,485	78,794
Provision for reinsurance	64,000	0	0	0	0
Payable to subsidiaries	0	19,755	0	0	0
Total Liabilities	\$14,012,480	\$14,553,848	\$12,739,821	\$12,680,310	\$12,449,951
Unassigned funds	21,903,260	17,209,218	13,246,724	9,605,100	5,686,355
Total Liabilities & Surplus	\$35,915,740	\$31,763,066	\$25,986,545	\$22,285,410	\$18,136,306

COMPARATIVE UNDERWRITING AND INVESTMENT EXHIBIT

Examination Years Under Review – 2003 through 2007

STATEMENT OF INCOME

	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003
Premiums Earned	\$18,195,876	\$17,036,508	\$16,061,955	\$15,436,865	\$14,572,756
Deductions:					
Losses Incurred	\$ 5,534,662	\$ 5,519,063	\$ 5,563,943	\$ 6,556,601	\$ 8,952,586
LAE Incurred	837,880	1,142,540	1,091,057	1,016,993	1,228,513
Other Underwriting Expenses	5,757,076	5,642,794	5,053,352	5,162,425	4,577,972
Aggregate write-ins	0	0	0	0	0
Total Deductions	\$12,129,618	\$12,304,397	\$11,708,352	\$12,736,019	\$14,759,071
Net Underwriting Gain/(Loss)	\$ 6,066,258	\$ 4,732,111	\$ 4,353,603	\$ 2,700,846	\$ (186,315)
Investment Income:					
Net Investment Income	\$ 988,509	\$ 825,100	\$ 735,226	\$ 609,317	\$ 533,112
Net Realized Capital Gain/(loss)	(13,123)	32,553	10,457	12,619	(11,834)
Net Investment Income	\$ 975,386	\$ 857,653	\$ 745,683	\$ 621,936	\$ 521,278
Agents' or Premium					
Balances Charged Off	\$ (36,645)	\$ (21,265)	\$ (22,193)	\$ (24,583)	\$ (21,449)
Finance or Service	190,970	184,289	176,639	185,759	197,654
Aggregate write-ins misc income	0	0	0	0	0
Total Other Income	\$ 154,325	\$ 163,024	\$ 154,446	\$ 161,176	\$ 176,205
Net Income Before Taxes	\$ 7,195,969	\$ 5,752,788	\$ 5,253,732	\$ 3,483,958	\$ 511,168
Federal Income Tax Incurred	2,322,946	1,932,870	1,563,868	331,100	0
Net Income	\$ 4,873,023	\$ 7,685,658	\$ 6,817,600	\$ 3,152,858	\$ 511,168

CAPITAL AND SURPLUS ACCOUNT

Surplus December 31, Prior Yr	\$17,209,218	\$13,246,724	\$ 9,605,100	\$ 5,686,355	\$ 4,932,996
Net Income	\$ 4,873,023	\$ 3,819,918	\$ 3,689,864	\$ 3,152,858	\$ 511,168
Net Unrealized Cap. Gain/Loss	(58,588)	53,619	(45,808)	43,698	83,101
Change in net deferred inc. tax	(32,450)	100,686	25,868	711,459	0
Change in Non-Admits	(23,943)	(11,729)	(28,300)	10,730	159,090
Change in provision reinsurance	(64,000)	0	0	0	0
Aggregate Write-ins	0	0	0	0	0
Change in Surplus	\$ 4,694,042	\$ 3,962,494	\$ 3,641,624	\$ 3,918,745	\$ 753,359
Surplus December 31, Curr Yr	\$21,903,260	\$17,209,218	\$13,246,724	\$ 9,605,100	\$ 5,686,355

EXHIBIT OF EXAMINATION CHANGES IN UNASSIGNED FUNDS

Capital and Surplus at December 31, 2007, per Annual Statement \$ 21,903,260

<u>Item</u>	<u>Adjustments to Surplus</u>	
	Decrease	Increase
There are no changes in Unassigned Funds	\$ 0	\$ 0
Totals	\$ 0	\$ 0
Net adjustment to capital and surplus		\$ 0
Capital and Surplus at December 31, 2007, per Examination		<u>\$ 21,903,260</u>

COMMENTS ON FINANCIAL STATEMENTS

There were no examination adjustments in the financial statement accounts that were deemed sufficiently material to warrant adjusting the Capital and Surplus of the Company.

RECOMMENDATIONS

Board of Directors

Pursuant to Chapter 33, Article 22, Section 5(a); "At all subsequent elections, except to fill vacancies, one third of such board of directors shall be elected for three years, such election to be held at the annual meeting of the company." It was noted that Directors are nominated for one year terms when vacancies are not being filled.

It is recommended that the Company come into compliance with Chapter 33, Article 22, Section 5(a) of the West Virginia Code.

Custodian Agreement

The Company entered into a custodian agreement with U.S. Bank, NA in November 2002, for the safekeeping of its bonds and stocks. However, the Examiner determined that the agreement did not contain all the requirements of Chapter 33, Article 8A, Section 6 of the West Virginia Code for proper controls and safeguards.

It is recommended that the Company revise its Custodian Agreement to come into compliance with the requirements of Chapter 33, Article 8A, Section 6 of the West Virginia Code.

SUBSEQUENT EVENTS

During the regular monthly meeting of the Board of Directors on June 13, 2008, the Chairman of the Board stated that the Company was in violation of insurance regulations by only electing the President of the Company for one year terms. It was then determined that the President should be elected to the Board of Directors for three year terms. Motion carried and President was elected to continue term through March 2011.

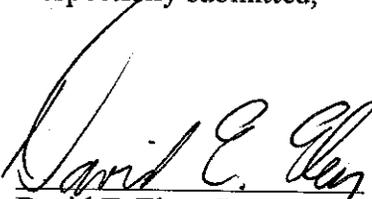
In addition, the Custodial Agreement was amended. In the regular monthly meeting of the Board of Directors on September 12, 2008, the board moved and second to accept and ratify the revised version of the Custodial Agreement with US Bank. Motion carried.

EXAMINERS SIGNATURE AND ACKNOWLEDGEMENT

The cooperation of the officers and employees of the Company during this examination is herewith acknowledged.

In addition to the undersigned, Randall A. Price, CFE, participated in this examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "David E. Eley".

David E. Eley, CFE
Insurance Company Examiner, Senior

EXAMINER'S AFFIDAVIT AS TO STANDARDS
AND PROCEDURES USED IN AN EXAMINATION

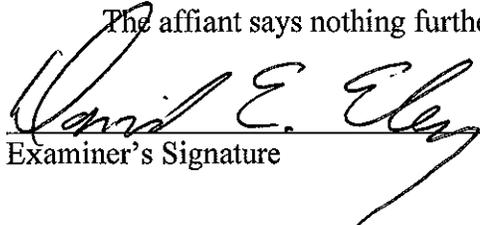
State of West Virginia,

County of Kanawha,

David E. Eley, being duly sworn, states as follows:

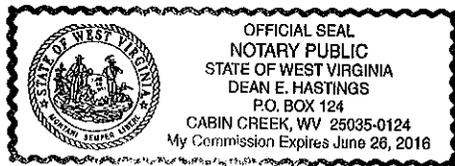
1. I have authority to represent West Virginia in the examination of Farmers and Mechanics Mutual Insurance Company of West Virginia.
2. West Virginia is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Farmers and Mechanics Mutual Insurance Company of West Virginia was performed in a manner consistent with the standards and procedures required by West Virginia.

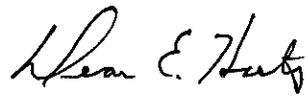
The affiant says nothing further.


Examiner's Signature

Subscribed and sworn before me by David E. Eley on this 20th day of November, 20 08.

(SEAL)




Notary Public

My commission expires June 26, 2016 [date].



STATE OF WEST VIRGINIA

Offices of the Insurance Commissioner

JOE MANCHIN III
Governor

SCANNED

JANE L. CLINE
Insurance Commissioner

January 12, 2009

CERTIFIED MAIL: 7007 0710 0003 1541 0923

Edwin Dennis McCormick, Pres.
Farmers & Mechanics Mutual Insurance Company of WV
P.O. Box 1917
Martinsburg, WV 25402

RE: Report of Financial Examination as of December 31, 2007
West Virginia File #D011

Dear Mr. McCormick:

Enclosed is the Order Adopting the December 31, 2007, Financial Examination, as well as a copy of the adopted examination report as required by Chapter 33, Article 2, Section 9(j)4 of the West Virginia Code of 1931, as amended.

Please be advised that in accordance with Chapter 33, Article 2, Section 9(j)4 of the West Virginia Code, Farmers & Mechanics Mutual Insurance Company of WV has within thirty (30) days of issuance of the adopted report to file with the Insurance Commissioner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

If you have any questions, please contact this office.

Sincerely,

J. Leah Cooper, CPA, CFE

J. Leah Cooper, CPA, CFE
Director
Financial Conditions

JLC/rch

Enclosures: Order
Affidavits

