PROCEEDINGS BEFORE MICHAEL D. RILEY
INSURANCE COMMISSIONER
OF THE STATE OF WEST VIRGINIA

IN RE: FARMERS MUTUAL INSURANCE COMPANY

Administrative Proceeding No.: 15-AP-FINCON-02008

AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND DIRECTING ACTION

COMES NOW Michael D. Riley, Insurance Commissioner of the State of West Virginia, and issues this Agreed Order which adopts the Report of Financial Examination as of December 31, 2014, of Farmers Mutual Insurance Company (hereinafter sometimes referred to as "Company") based upon the following findings, to wit:

JURISDICTION

1. Michael D. Riley 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 Company was incorporated on July 25, 1905 as the Farmers Mutual Fire Association of West Virginia. Effective January 1, 1991, the Company officially adopted its current name of Farmers Mutual Insurance Company. On January 1, 1992, Grange Mutual Fire Insurance Company was merged into the Company. Effective January 1, 1994, Farmers Union Association and Fire Insurance Company was merged with the Company. The Company operates under the provisions of Chapter 33, Article 22 of the West Virginia Code as a farmers mutual fire insurance company.

FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company

for period beginning January 1, 2010 and ending December 31, 2014, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On August 7, 2015, the examiner filed a Report of Financial Examination with the Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the Report of Financial Examination is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about August 11, 2015, a true and accurate copy of the Report of Financial Examination was forwarded to the Company via email and certified mail. The Company received the emailed copy of the Report of Financial Examination on August 11, 2015 and the certified mail copy of the Report of Financial Examination August 14, 2015.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt of the Report of Financial Examination within which to make a submission, rebuttal, or objection concerning any matter contained in the report.

5. By letter dated August 27, 2015, received by the Insurance Commissioner on August 31, 2015, management of the Company indicated that they had reviewed the Report of Financial Examination and concurred with the findings of the examination. A copy of the Company's letter of August 27, 2015, is attached hereto as Exhibit B.

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

Accordingly, it is therefore AGREED by the Parties and ORDERED as follows:

1. That the Report of Financial Examination of the Company, attached hereto as

Exhibit A, is ADOPTED and APPROVED by the Insurance Commissioner.

2. That a copy of this Agreed Order Adopting Report of Financial Examination and Directing Action and the Report of Financial Examination shall be mailed to the Company, via certified mail, return receipt, upon entry by the Insurance Commissioner.

3. That the Company shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this Agreed Order, affidavits executed by each of its directors stating under oath that they have received a copy of the Report of Financial Examination and a copy of this Agreed Order Adopting Report of Financial Examination and Directing Action in accordance with W.Va. Code § 33-2-9(j)(4).

4. That the Company take whatever actions are required to comply with the recommendations set forth in the Report of Financial Examination, if any, and shall demonstrate compliance to the satisfaction of the Insurance Commissioner, if necessary.

5. That the Company waives any right to any notice, administrative hearing or appeal therefrom for the actions taken by the Insurance Commissioner herein this Agreed Order Adopting Report of Financial Examination and Directing Action. The Company reserves its rights to notice, administrative hearing or appeal for any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.

6. That this matter be dismissed from the administrative docket of the Insurance Commissioner.

Entered this 3rd day of September, 2015.

Michael D. Riley, Insurance Commissioner
State of West Virginia

THE PARTIES DO SO AGREE.

State of West Virginia, Offices of the Insurance Commissioner

By: _____
Erin K. Hunter, Associate Counsel

Date 9/3/15

FARMERS MUTUAL INSURANCE COMPANY

By: DAVID L. CORSINI II
[Print Name]

Signed: _____

Its: CEO/President

Date: 9/3/15

REPORT OF EXAMINATION

OF

FARMERS MUTUAL INSURANCE COMPANY

WHITE HALL, WV

NAIC #40070

AS OF DECEMBER 31, 2014

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SALUTATION

August 7, 2015
Charleston, West Virginia

The Honorable Michael D. Riley
West Virginia Insurance Commissioner
1124 Smith Street
Charleston, West Virginia 25301

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner ("WVOIC"), as well as rules, regulations and procedures promulgated by the National Association of Insurance Commissioners ("NAIC"), an examination has been made of the administrative affairs, books, records, and financial condition of:

Farmers Mutual Insurance Company
40 Moran Circle
White Hall, West Virginia 26554

hereinafter referred to as the "Company". The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2009 and covered the five-year period from 2005 to 2009. This examination commenced on May 13, 2015 and is a single-state, full scope, five-year examination pursuant to W. Va. Code §33-2-9(a), as amended, covering the period from January 1, 2010 through December 31, 2014, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to assess the financial condition of the Company and set forth findings of fact (together with citations of pertinent laws, regulations and rules) with regard to any material adverse findings disclosed by the examination.

The general procedures of the examination followed rules and standards as set forth in the NAIC Financial Condition Examiners Handbook ("Handbook") and West Virginia Laws, Regulations, and Directives of the West Virginia Insurance Commissioner. The examination was conducted to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company and evaluating system controls and procedures used to mitigate those risk. In addition, 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 were assessed.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Accordingly, planning materiality and tolerable error thresholds were based on professional judgment after considering the nature of the business written by the Company, operating results, and the Company's financial position as of December 31, 2014.

The report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were discussed with responsible Company officials during the course of the examination.

HISTORY

The Company was incorporated under the laws of the state of West Virginia on July 25, 1905 as the Farmers Mutual Fire Association of West Virginia. Effective January 1, 1991, the current name was officially adopted.

On January 1, 1992, Grange Mutual Fire Insurance Company, Philippi, West Virginia, was merged into the Company. Effective July 1, 1994, Farmers Union Association and Fire Insurance Company, Bruceton Mills, West Virginia was merged with the Company. The Company operates under the provisions of Chapter 33, Article 22 of the West Virginia Insurance Code as a farmers mutual fire insurance company.

CORPORATE RECORDS

Corporate Charter

The Company's Corporate Charter was last amended on January 1, 1991. There were no amendments made to the Corporate Charter during the period covered by this examination.

Bylaws

The Company's Bylaws were last amended on January 1, 1991. There were no amendments made to the Company's Bylaws during the period covered by this examination.

Minutes Review

The Board of Directors (including the Executive/Audit and Investment Committee) minutes were reviewed for the period under examination. The Board of Directors appears active in its oversight as noted in the review of the minutes and the interview with the Chairman of the Board. A quorum was achieved at all the annual meetings and other regular board meetings in accordance with the Company's By-laws. Overall, the minutes supported the transactions of the Company and the actions taken by it officers.

MANAGEMENT AND CONTROL

The Company is authorized to transact business as a Farmers Mutual Fire insurer under the provisions of Article 22 of the WV Insurance Code. Each policyholder is a member and is entitled to all of the rights and privileges of membership and subject to all liabilities connected with such membership, as set forth in the Bylaws. The annual meeting of the members is held on the fourth Thursday in April of each year. Each member is entitled to one vote on each question presented at any of the members meeting.

Board of Directors

The Boards of Directors are responsible for the governance of the Company. At each annual meeting, the members shall elect one third of the Board of Directors to serve for three years in place of those whose terms expire on the date of the meeting and such additional Directors shall be elected as may be necessary to fill vacancies caused by death, resignation, or otherwise. The Directors are elected to oversee management and to assure that the direction of the company is consistent with its goals and objectives. Regularly scheduled meetings of the Board are held four times a year, at which the Board receives and discuss reports from Committees of the Board, reviews and discusses reports by management on the performance of the Company, and its business plans. As of December 31, 2014, the Directors were as follows:

Name and Address	Business Affiliation	Board Member Since
John Gilbert Conaway* 1811 Pleasant Valley Road Fairmont, WV 26554	Retired Dean at Fairmont State	1986
Mary Beth Aliveto 28 Woodcliff Drive Fairmont, WV 26554	VP of sales for BB&T banking organization	1997
Conn Douglas Johnson #1 Woodland Point Ripley, WV 25271	Manager, Johnson Insurance Agency	1989
David Lee Corsini 102 Kenwood Pl. Clarksburg, WV 26301	President, Farmers Mutual Insurance Company	2003
Fredrick Wilson Parsons II 73 Persimmon Lane Kenna, WV 25248	VP, GM Metro News Radio and Television. Owner, Parsons Distributing	2011
Mary M. Hunt 256 N. Ohio Avenue Clarksburg, WV 26301	Senior Program Officer, Benedum Foundation	2014

* **Chairman**

Officers

Officers elected at the Board of Directors meeting and serving as of December 31, 2014, were as follows:

Name	Title
David Lee Corsini	President/Secretary
John Gilbert Conaway	Chairman
Ronald Lee Jones*	Treasurer

*The Company was not in compliance with W. Va. Code §33-22-5(b) which states: "The directors shall elect from their number a president and a treasurer..." since Mr. Jones was not a director, and, as such, he cannot be elected/appointed as the Treasurer. Subsequent to the exam date, the Company made certain changes to its officers to address the non-compliance. See "Subsequent Events" for additional details.

Committees

In addition, the Board has established an Executive/Audit and Investment Committees to assist in discharging its responsibilities. The Audit and Investment committee members are nominated and voted upon during the April board meeting. Members as of December 31, 2014 were as follows:

Executive/Audit Committee:

- John Conaway
- Mary Beth Aliveto
- Conn Johnson
- David Corsini

Investment Committee:

- John Conaway
- Mary Beth Aliveto
- Conn Johnson
- David Corsini

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business as a Farmers' Mutual Fire insurer under the provisions of Article 22 of the West Virginia Insurance Code. The Company only writes business in the State of West Virginia, and it does not hold a certificate of authority in any other state. The Company primarily writes fire and homeowners multiple perils. The Company also writes allied lines, farm-owners multiple peril, commercial multi-peril, other liability, mobile homeowners and a small amount of mine subsidence business. Management's business plan emphasizes underwriting profitability and a conservative investment portfolio.

GROWTH OF COMPANY

The following amounts represent growth of the Company and other financial comparisons for the year ended December 31, 2014 and for the period under examination.

	2014	2013	2012	2011	2010
Direct Premiums Written	6,008,014	5,842,645	5,819,978	5,619,150	5,363,058
Ceded Premiums Written	648,894	631,822	632,599	571,241	563,637
Net Premiums Written	5,359,120	5,210,823	5,187,379	5,047,909	4,799,421
Net Income	940,879	780,951	561,100	584,354	368,537
Total Net Admitted Assets	14,375,805	13,401,483	12,016,202	11,450,127	10,638,917
Total Liabilities	5,096,584	4,994,084	4,460,650	4,457,594	4,209,547
Policyholders Surplus	9,279,221	8,407,399	7,555,552	6,992,533	6,429,370

At December 31, 2014, the Company reported admitted assets of $14.4 million, liabilities of $5 million and surplus of $9.3 million. The amounts shown on the balance sheet determined from the prior examination of 2009 when compared to the current report of examination of 2014,

reveals that total admitted assets increased by $4.4 million. The results of the increase were due to the Company's combined increase of its cash and invested assets, which are 88.7% of the admitted assets.

For the period under examination, premiums written increased slightly. On the average for the five year period, premiums written was $5.12 million. For the five years under examination, the Company reported net income. Net income was $940,879 and $780,951 for the period of 2014 and 2013 respectively. One of the contributing factors for net income was due to profitable underwriting results.

LOSS EXPERIENCE

The following exhibit reflects the underwriting results of the Company for the period under examination. The amounts were compiled from the Company's filed annual statements and examination results.

	2014	2013	2012	2011	2010
Direct Premiums Written	6,008,014	5,842,645	5,819,978	5,619,150	5,363,058
Premiums Earned	5,282,844	5,156,876	5,170,548	4,901,518	4,723,605
Losses Incurred	989,717	1,017,238	1,832,532	1,495,087	1,955,529
LAE Incurred	512,000	429,951	440,710	357,978	457,818
Net Loss Ratio	28.4%	28.1%	44.0%	37.8%	51.1%
Other U/W Expenses Incurred	2,803,903	2,818,104	2,412,554	2,460,441	2,068,656
Expense Ratio	52.3%	54.1%	46.5%	48.7%	43.1%
Net Underwriting Gain (Loss)	977,244	891,583	484,752	588,012	241,602
Combined Ratio	80.7%	82.1%	90.5%	86.5%	94.2%

As indicated in the above table, the Company had an underwriting gain in all years covered by this examination. The main reason for the Company's continued underwriting gain is the reduction in losses incurred and LAE incurred. The Company Pure Net Loss Ratio decreased from 41.4% in 2010 to 18.7% in 2014. 2014 was the second lowest net loss ratio the company has experienced in the last twenty five years. The Loss Ratio and Combined Ratio decrease is due to the Company's stringent re-underwriting and underwriting guidelines. Their relatively high expense ratio is due to generous Contingency Profit Sharing Program (with employees and agents) based on underwriting profit.

REINSURANCE

The Company's reinsurance program is comprised of an Excess of Loss and Catastrophe coverage.

The excess of loss covers up to $1.5 million with retention of $100,000. The agreement is written through the reinsurance intermediary and had two participating reinsurers.

The catastrophe coverage is a three-layer treaty, with net retention of $350,000 per event up to $2.9 million in coverage. The agreement is written through the reinsurance intermediary and had two reinsurers and three Lloyds Syndicates participating on the various covers.

It was determined that all reinsurers and the reinsurance intermediary were properly licensed or authorized to conduct business in the State of West Virginia.

The Company's maximum retained liability is $100,000 per insured. This retention complies with the provisions of W. Va. Code §33-22-12.

ACCOUNTS AND RECORDS

The Company maintains its books and records at its home office in White Hall, West Virginia. In general, the Company's accounting and corporate records were maintained in a manner in which the financial condition was readily verifiable.

Custody Agreements

As of December 31, 2014, the Company maintained majority of its investments with Morgan Stanley. The Company used services of four investment advisory firms, which were reported through the Morgan Stanley statement. The Company had a custody agreement with Morgan Stanley as required by the provisions of W. Va. Code §33-8A-6.

STATUTORY DEPOSITS

The Company is not subject to the statutory deposit requirement of W. Va. Code §33-3-6.

FINANCIAL STATEMENTS

The statements on the following pages present the financial condition and operations of the Company for the period under examination. The amounts shown on the balance sheet are those determined by this examination.

ASSETS
DECEMBER 31, 2014

Assets	Per Company	Adjustments	Per Examination
Bonds	$ 8,642,177	$ -	$ 8,642,177
Common Stocks	1,887,705	-	1,887,705
Real Estate	297,239	-	297,239
Cash and Short-term Investments	1,924,470	-	1,924,470
Investment Income Due and Accrued	97,381	-	97,381
Deferred Premiums	1,082,180		1,082,180
Current Federal Income Tax Recoverable	26,711	-	26,711
Net deferred tax asset	176,338	-	176,338
Electornic Data Processing Equipment	32,529	-	32,529
Aggregate Write-Ins	209,075	-	209,075
Total Assets	$ 14,375,805	$ -	$ 14,375,805

LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2014

Liabilities	Per Company	Adjustments	Per Examination
Losses	$ 344,877	$ -	$ 344,877
Loss Adjustment Expenses	103,499	-	103,499
Commissions Payable	1,248,803	-	1,248,803
Other Expenses Due or Accrued	37,714	-	37,714
Taxes, Licenses and Fees	7,719	-	7,719.00
Unearned Premiums	3,134,304	-	3,134,304
Advance Premiums	126,754	-	126,754
Ceded Reinsurance Payable	58,610	-	58,610
Amouts withheld	34,304	-	34,304
Total Liabilities	$ 5,096,584	$ -	$ 5,096,584
Unassigned Funds (Surplus)	9,279,221	-	9,279,221
Surplus as Regards Policyholders	9,279,221	-	9,279,221
Total Liabilities, Surplus and Other Funds	$ 14,375,805	$ -	$ 14,375,805

UNDERWRITING AND INVESTMENT EXHIBIT
DECEMBER 31, 2014

UNDERWRITING INCOME	
Premiums Earned	$ 5,282,844
Losses Incurred	989,717
Losses Expenses Incurred	512,000
Other Underwriting Expenses Incurred	2,803,903
Total Underwriting Deductions	4,305,620
Net Underwriting Gain (Loss)	977,224
INVESTMENT INCOME	
Net Investment Income Earned	181,091
Net Realized Capital Gains	99,650
Net Investment Gains	280,741
OTHER INCOME	
Finance and Service Charges	32,838
Aggregate Writeins for Other Income	15,893
Total Other Income	48,731
Net Income Before Federal Income Tax	1,306,696
Federal Income Tax	365,817
Net Income	$ 940,879
CAPITAL AND SURPLUS ACCOUNT	
Capital and Surplus, December 31, 2013	$ 8,407,399
Net Income	940,879
Net Unrealized Gains or (Losses)	(23,934)
Change Non-admitted Assets	(59,314)
Change in Net Deferred Income Tax	14,191
Change in Accounts per Examination	-
Change In Surplus As Regards to Policyholders	871,822
Capital and Surplus as of December 31, 2014	$ 9,279,221

SUMMARY OF EXAMINATION CHANGES

There were no adjustments made to the Company's financial statement as a result of this examination.

SUBSEQUENT EVENTS

In order to comply with W. Va. Code §33-22-5(b), which requires a director to be elected/appointed as the Treasurer, the Company corrected the exception by electing Mary Beth Aliveto to serve as the Treasurer on January 22, 2015.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations from the December 31, 2009 examination report.

SUMMARY OF EXAMINATION RECOMMENDATIONS

As a result of the current examination, there were no recommendations.

CONCLUSION

The customary examination practices and procedures, as promulgated by the NAIC, have been followed in the verification and valuation of assets and the determination and/or estimation of liabilities reflected in the financial statements of this report, with due regard for the Insurance Laws of the State of West Virginia.

The comparative assets and liabilities since the previous examination are shown below:

	2014	2009	Change
Assets	$ 14,375,805	$9,949,544	$ 4,426,261
Liabilities	5,096,584	3,974,699	1,121,885
Surplus as Regards to Policyholders	$ 9,279,221	$ 5,974,845	$3,304,376

ACKNOWLEDGEMENT AND SIGNATURE

This is to certify that the undersigned is a duly qualified Examiner appointed by the West Virginia Offices of the Insurance Commissioner. The undersigned, assisted by Ryne Davison, of Lewis & Ellis, performed an examination of Farmers Mutual Insurance Company as of December 31, 2014.

The examination was performed in accordance with those procedures authorized by the NAIC Financial Condition Examiner's Handbook and other procedures appropriate for this examination. The attached report of examination is a true and complete report of financial condition of Farmers Mutual Insurance Company as of December 31, 2014 as determined by this examination

Respectfully Submitted,

Katerina M. Bolbas

Katerina Bolbas, CFE
Financial Examiner
Lewis & Ellis
Representing the West Virginia Offices of the Insurance Commissioner

D013

Farmers Mutual Insurance Company
Since 1905

20 Moran Circle, Fairmont, WV 26554
Phone: 304-366-1850 Ext: 114 Fax: 304-366-5456
email: dl_corsini@farmersmutual.com

RECEIVED
AUG 31 2015
By

August 27, 2015

Michael D. Riley, Insurance Commissioner
State of West Virginia
Offices of the Insurance Commissioner
PO Box 50540
Charleston, WV 25305-0540

Re: Report of Examination as of December 31, 2014
NAIC #: 40070
WV File #: D013

Dear Commissioner Riley,

Please be advised we have reviewed the report and findings and have no exceptions. It was a pleasure working with your staff and examiners and appreciate the professional manner in which this was completed. If you need anything additional please contact me at your convenience.

Sincerely,

David L. Corsini II
CEO/President
Farmers Mutual Insurance Co.

EXHIBIT
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