

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

IN RE: WEST VIRGINIA FARMERS MUTUAL INSURANCE ASSOCIATION

Administrative Proceeding No.: 16-AP-FINCON-02009

**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 of West Virginia Farmers Mutual Insurance Association (hereinafter sometimes referred to as the "Company"), as of December 31, 2014, and 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.

2. The Company was incorporated in West Virginia and began business on March 24, 1909. The Company operates as a Farmers Mutual Fire Insurance Company under Chapter 33, Article 22 of the West Virginia State Code. The Company is only licensed to write business in the State of West Virginia.

FINDINGS OF FACT

1. A full scope, five-year examination of the financial condition and operational affairs of the Company, for period beginning January 1, 2010 and ending December 31, 2014, was undertaken by examiners for the Insurance Commissioner and conducted in accordance with the terms and provisions of West Virginia Code §33-2-9.

2. On May 13, 2016, the examiners filed a Report of Financial Examination of the

Company 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. It is incorporated herein as if set forth in full.

3. The Report of Financial Examination was forwarded to the Company on or about May 18, 2016. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was afforded a period of thirty (30) days after receipt within which to make a submission, rebuttal, or objection concerning any matter contained in the report.

4. By letter dated May 25, 2016, the Company indicated that it had reviewed the Report of Financial Examination and offered a response to findings therein, including concurrences and objections. A copy of the May 25, 2016 letter from the Company to the Insurance Commissioner is attached hereto as Exhibit B. It is incorporated herein as if set forth in full.

CONCLUSIONS OF LAW

Pursuant to W.Va. Code § 33-2-9(j)(3)(A), 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, enter an order rejecting the examination report with directions to the examiners to reopen the examination, or enter an order calling for an investigatory hearing.

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 without modifications or corrections.

2. That a copy of this Agreed Order Adopting Report of Financial Examination and Directing Action, with exhibits, 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 shall 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.

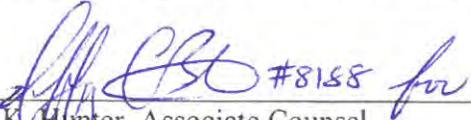
Entered this 21st day of June, 2016.



Michael D. Riley, Insurance Commissioner
State of West Virginia

THE PARTIES DO SO AGREE:

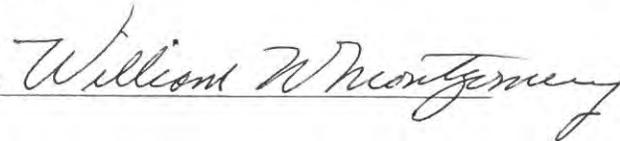
State of West Virginia, Offices of the Insurance Commissioner,

By:  #8158 for
Erin K. Hunter, Associate Counsel

6/21/16
Date

West Virginia Farmers Mutual Insurance Association

By: William W. Montgomery
[Print Name]

Signed: 

Its: President

Date: 6-10-16

REPORT OF EXAMINATION
OF
WEST VIRGINIA FARMERS MUTUAL INSURANCE ASSOCIATION
CLARKSBURG, WV
NAIC #15431
AS OF DECEMBER 31, 2014



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SALUTATION

April 29, 2016
Charleston, West Virginia

The Honorable Michael D. Riley
West Virginia Insurance Commissioner
900 Pennsylvania Avenue
Charleston, West Virginia 25302

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:

West Virginia Farmers Mutual Insurance Association
332 Wilson Street
Clarksburg, West Virginia 26301

hereinafter referred to as the “Company” or “FMIA”. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2009. The examination specific to the Company commenced on January 21, 2016 but was conducted as a component of a coordinated examination with the state of Ohio serving as the lead for all Ohio domiciled entities. This examination is a single-state, full scope, five-year examination pursuant to WV 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 risks. 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.

SUMMARY OF SIGNIFICANT FINDINGS

As a result of the current examination period and review of the subsequent events, the following findings were noted:

- 1) The results of the 2014 independent audit were not communicated directly to the Company's Board of Directors by the auditors. The independent auditors presented audit results to the Celina Insurance Group Board and Audit Committee but management presented the audit results to the FMIA Board.

The results of the 2014 independent actuarial review were not communicated directly to the Company's Board of Directors by the independent actuary. Management presented these results to the FMIA Board.

- 2) Finding: Management does not file a separate independent Actuarial Opinion or Report specific to FMIA. Given FMIA is not a member of the Celina Insurance Group pool, the filing of a separate independent Actuarial Opinion and Report is a requirement of the NAIC Instructions.

"A separate Actuarial Opinion is required for each company filing an Annual Statement."

"When there is an affiliated company pooling arrangement, one Actuarial Report for the aggregate pool is sufficient. ..."

Also, legislative rule §114-41 affirms the Company's responsibility to adhere to NAIC instructions regarding the Statement of Actuarial Opinion:

§114-41A-2. Actuarial Opinion of Reserves and Supporting Documentation.

2.1. This section shall become operative with respect to reporting years ending on or after December 31, 2011.

2.2. Statement of Actuarial Opinion. Every property and casualty insurance company doing business in this state, unless otherwise exempted by the Insurance Commissioner of this state or the commissioner in the state where the company is domiciled, shall annually submit the opinion of an Appointed Actuary entitled "Statement of Actuarial Opinion." This opinion shall be filed in accordance with the appropriate NAIC Property and Casualty Annual Statement Instructions.

HISTORY

The Company was incorporated in West Virginia and commenced business on March 24, 1909. FMIA operates as a Farmers Mutual Fire Insurance Company under Article 22 of Chapter 33 of the West Virginia State Code. The Company is affiliated with and a member of the Celina Insurance Group ("CIG") headquartered in Celina, OH. FMIA is a member of this holding company system by virtue of common management/directors and a management services and cost sharing agreement with National Mutual Insurance Company (the ultimate controlling entity). In addition, the Company has an Excess of Loss reinsurance agreement with Celina Mutual Insurance Company (another affiliate) and is a participant in a combined external reinsurance program that all members of the CIG participate in. FMIA is only licensed to write business in West Virginia.

MANAGEMENT AND CONTROL

In accordance with Article V of the Bylaws, the annual meeting of the members was held on the fourth Wednesday in March of each year under review. There were no amendments to the Bylaws or Articles of Incorporation during the exam period. A review of the corporate board minutes indicates that meetings were held in accordance with the Articles of Incorporation and Bylaws and document that an adequate review of the Company's activities by the Board of Directors is performed.

Board of Directors

The current Articles of Incorporation and Bylaws call for a board composed of not less than six nor more than fifteen members. Members of the Board may be divided into three classes, each class to consist of not less than two directors with each class to be elected for a term of three years. The individuals serving as members of the Board of Directors on December 31, 2014 were as follows:

Name and Address	Business Affiliation	Board Member Since
William W. Montgomery* 7841 Howick Road Celina, OH 45822	President FMIA	1995
Philip M. Fullenkamp PO Box 101 551 E. Columbus St. St. Henry, OH 45883	Treasurer FMIA	2012
Michael S. Kleinhenz 302 N. Elm St. Coldwater, OH 45828	Secretary & Vice President FMIA	2002
Mildred E. Young 332 Wilson St. Clarksburg, WV 26301	Retired Former Sr. Executive Secretary of CIG	1995
Lynn T. Sherman^	Retired Former Claims Manager of CIG	2000
Leland E. Propst PO Box 668 Franklin, WV 26807	Owner/Agent Propst Insurance Agency	2003
Donald G. Robinson 46 St Rt. 276 Champlain, NY 12919	Retired Former VP-Farm/Agribusiness of CIG	2008

* Chairman

^ Lynn T. Sherman resigned on August 1, 2015 and was replaced by Joshua V. Garton effective August 6, 2015.

Officers

Officers of the Company are elected by the Board of Directors. The directors have elected from among its members a President, a Treasurer, a Vice President and a Secretary. Any two offices except the President may be combined and held by the same person. Officers elected at the March 26, 2014 Board of Directors Meeting and serving as of December 31, 2014, were as follows:

Name	Title
William West Montgomery	President
Michael Stanley Kleinhenz	Vice President/Secretary
Philip Marion Fullenkamp	Treasurer

Committees

The Bylaws require no formal committees. At the Board's discretion it can elect from among its members an Executive Committee, an Audit Committee, or an Investment Committee. The Company did nominate the members of an Executive Committee in each of its annual meetings of policyholders. The Executive Committee as of December 31, 2014 was comprised of:

William W. Montgomery
Michael S. Kleinhenz
Mildred E. Young

Insurance Holding Company System

The Company is a member of an insurance holding company system. CIG consists of four mutual insurance companies and a non-insurance entity affiliated through cost sharing and service agreements. The National Mutual Insurance Company, The Celina Mutual Insurance Company and Miami Mutual Insurance Company are Ohio domiciled insurers. FMIA is a West Virginia domiciled insurer. First Ohio Financial Corporation, an Ohio domiciled non-insurer and a wholly owned subsidiary of National, currently serves as the in-house agent for cancelled agent business and the employee insurance program. Its financial statements are immaterial to the Celina Group.

The Celina Mutual Insurance Company*
The National Mutual Insurance Company*
First Ohio Financial Corporation
Miami Mutual Insurance Company*
West Virginia Farmers Mutual Insurance Association#

*Property and Casualty Pool

#Affiliated with The National Mutual Insurance Company by a Service Agreement and The Celina Mutual Insurance Company by an inter-company reinsurance agreement

Agreements

Services & Cost Sharing Agreement

The Company has a Service and Cost Sharing Agreement with its affiliate, National Mutual Insurance Company, effective January 1, 2012 whereby National provides sales, underwriting, claims, accounting, data processing, supervisory, administrative and investment management services. Fees resulting from these services are "fair cost" as reflected by "cost allocation systems as are used by other companies in the Celina Group". The Company incurred expenses of \$1,103,985 and \$1,337,507 under this agreement in 2014 and 2013, respectively.

XOL Reinsurance Agreement

Effective January 1, 2013, the Company entered in to an excess of loss reinsurance agreement with Celina Mutual Insurance Company. Under the terms of the agreement, the Company retains the first \$25,000 of each loss subject to the limit of liability of up to \$325,000 per loss for Celina (total coverage of \$350,000 per loss). Additionally, the agreement includes a stop loss provision based on a 65% loss ratio whereby Celina is liable for up to \$1,000,000. Fees for this coverage are \$536,000 or 21.30% of FMIA's gross net earned premium, whichever is greater. The Company ceded premium of \$929,489 and 934,942 under this agreement in 2014 and 2013, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is a West Virginia domiciled farm mutual insurance company licensed solely in the State of West Virginia. The Company is primarily concentrated in Farmowners Multiple Peril with supplemental writings in Fire and limited writings in Allied Lines, Inland Marine, Earthquake and Other Liability.

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.

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Gross Premiums Written	3,058,657	3,027,401	3,058,973	3,142,183	3,213,903
Net Premiums Written	1,862,120	2,798,227	611,773	668,714	717,505
Net Income	251,695	(22,793)	259,811	144,568	279,233
Total Net Assets	6,923,729	6,497,893	5,349,076	5,251,558	5,005,580
Total Liabilities	1,823,661	1,696,136	692,334	862,533	766,548
Policyholders Surplus	5,100,068	4,801,757	4,656,742	4,389,026	4,239,031

As shown in the exhibit above, the Company's gross premium volume has experienced a slight decrease over the exam period. Fluctuations in net premium written over the exam period are attributable to the enactment of a new reinsurance agreement with the Company's affiliate, Celina, as of January 1, 2013. Despite premium fluctuations accompanied by fluctuations in net income, the Company's total assets and policyholders surplus has grown steadily over the exam period.

REINSURANCE

Assumed

As of December 31, 2014, the Company had no assumed reinsurance.

Ceded

Effective January 1, 2013, the Company entered in to an excess of loss reinsurance agreement with Celina Mutual Insurance Company. Under the terms of the agreement, the Company retains the first \$25,000 of each loss subject to the limit of liability of up to \$325,000 per loss for Celina (total coverage of \$350,000 per loss). Additionally, the agreement includes a stop loss provision based on a 65% loss ratio whereby Celina is liable for up to \$1,000,000. Fees for this coverage are \$536,000 or 21.30% of FMIA's gross net earned premium, whichever is greater. The Company ceded premium of \$929,489 and 934,942 under this agreement in 2014 and 2013, respectively.

The Company is also a participant in a combined external reinsurance program that all members of the CIG participate in. This reinsurance program provides additional catastrophic excess of loss coverage over and above the affiliated excess of loss reinsurance agreement executed with Celina Mutual Insurance Company.

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	\$ 5,522,502	\$ -	\$ 5,522,502
Common Stocks	592,231	-	592,231
Cash	216,902	-	216,902
Cash and Invested Assets	6,331,636	-	6,331,636
Investment Income Due and Accrued	37,233	-	37,233
Uncollected Premium and Agents' Balances	32,291	-	32,291
Deferred Premiums - booked but not yet due	453,924	-	453,924
Reinsurance Recoverable	4,795	-	4,795
Net Deferred Tax Asset	63,850	-	63,850
Aggregate Write-Ins	-	-	-
Total Assets	\$ 6,923,729	\$ -	\$ 6,923,729

**LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2014**

Liabilities	Per Company	Adjustments	Per Examination
Losses	\$ 108,235	\$ -	\$ 108,235
Loss Adjustment Expenses	24,000	-	24,000
Commissions Payable	48,690	-	48,690
Other Expenses Due or Accrued	2,390	-	2,390
Taxes, Licenses and Fees	3,715	-	3,715
Current federal and foreign income taxes	10,812	-	10,812
Unearned Premiums	1,508,385	-	1,508,385
Advance Premiums	35,245	-	35,245
Ceded Reinsurance Premium Payable	5,036	-	5,036
Amounts Withheld for Account of Others	1,123	-	1,123
Remittances and Items not Allocated	1,119	-	1,119
Payable to PSA	74,912	-	74,912
Total Liabilities	\$ 1,823,661	\$ -	\$ 1,823,661
Unassigned Funds (Surplus)	5,100,068	-	5,100,068
Surplus as Regards Policyholders	5,100,068	-	5,100,068
Total Liabilities, Surplus and Other Funds	\$ 6,923,729	\$ -	\$ 6,923,729

**STATEMENT OF INCOME
DECEMBER 31, 2014**

UNDERWRITING INCOME

Premiums Earned	\$ 1,795,096
Losses Incurred	425,029
Loss Adjustment Expenses Incurred	222,908
Other Underwriting Expenses Incurred	945,012
Aggregate Write-Ins	0
Total Underwriting Deductions	<u>1,592,948</u>
Net Underwriting Gain (Loss)	202,148

INVESTMENT INCOME

Net Investment Income Earned	142,580
Net Realized Capital Gains	<u>6,211</u>
Net Investment Gains	148,791

OTHER INCOME

Net Gain (loss) from agents' or premium balances charged off	(1,416)
Finance and Service Charges	30,141
Aggregate Writeins for Other Income	<u>(86)</u>
Total Other Income	28,639
Net Income Before Federal Income Tax	379,578
Federal Income Tax	<u>127,881</u>
Net Income	<u>\$ 251,695</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2013	<u>\$ 4,801,757</u>
Net Income	251,695
Net Unrealized Gains or (Losses)	37,960
Change in Net Deferred Income Tax	8,493
Change Non-admitted Assets	<u>162</u>
Change In Surplus As Regards to Policyholders	<u>298,310</u>
Capital and Surplus as of December 31, 2014	<u>\$ 5,100,067</u>

**RECONCILIATION OF SURPLUS
JANUARY 1, 2010-DECEMBER 31, 2014**

Capital and Surplus, January 1, 2010	\$ 3,903,927
Net Income	279,233
Net Unrealized Gains or (Losses)	37,738
Change in Net Deferred Income Tax	1,199
Change Non-admitted Assets	16,789
Aggregate WI for Gains/(Losses) in Surplus	147
Capital and Surplus as of December 31, 2010	<u>\$ 4,239,033</u>
Net Income	144,568
Net Unrealized Gains or (Losses)	6,025
Change in Net Deferred Income Tax	3,277
Change Non-admitted Assets	(3,794)
Aggregate WI for Gains/(Losses) in Surplus	(82)
Capital and Surplus as of December 31, 2011	<u>\$ 4,389,027</u>
Net Income	259,811
Net Unrealized Gains or (Losses)	7,176
Change in Net Deferred Income Tax	(14,002)
Change Non-admitted Assets	15,070
Aggregate WI for Gains/(Losses) in Surplus	(338)
Capital and Surplus as of December 31, 2012	<u>\$ 4,656,744</u>
Net Income	(22,793)
Net Unrealized Gains or (Losses)	80,368
Change in Net Deferred Income Tax	83,257
Change Non-admitted Assets	4,182
Aggregate WI for Gains/(Losses) in Surplus	-
Capital and Surplus as of December 31, 2013	<u>\$ 4,801,758</u>
Net Income	251,695
Net Unrealized Gains or (Losses)	37,960
Change in Net Deferred Income Tax	8,493
Change Non-admitted Assets	162
Aggregate WI for Gains/(Losses) in Surplus	-
Capital and Surplus as of December 31, 2013	<u>\$ 5,100,068</u>

SUBSEQUENT EVENTS

The examination did not identify any significant subsequent events.

SUMMARY OF EXAMINATION RECOMMENDATIONS

As a result of the traditional scope financial examination, the following recommendations are made:

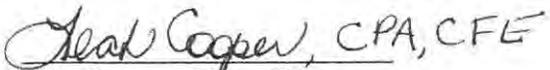
- 1) The independent auditor and independent actuary should communicate the results of their respective reviews, specific to FMIA, directly to the FMIA Board of Directors.
- 2) A separate Statement of Actuarial Opinion, Actuarial Opinion Summary, and Actuarial Report should be prepared annually that is specific to FMIA in compliance with the NAIC instructions and Legislative Rule §114-41. The Statement of Actuarial Opinion and Actuarial Opinion Summary are to be filed in accordance with the NAIC instructions. The Actuarial Report is to be maintained on file with FMIA and made available for regulatory examination in accordance with NAIC instructions and Legislative Rule §114-41.

ACKNOWLEDGEMENT AND SIGNATURE

This is to certify that the undersigned is a duly qualified Examiner of the West Virginia Offices of the Insurance Commissioner. The undersigned, assisted by Lindsey Pittman of Lewis & Ellis, Inc., Examiner, and Justin Parr, Analyst of the West Virginia Offices of the Insurance Commissioner, performed an examination of West Virginia Farmers Mutual Insurance Association 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 West Virginia Farmers Mutual Insurance Association as of December 31, 2014 as determined by this examination

Respectfully Submitted,

 Leah Cooper, CPA, CFE

Leah Cooper, CPA, CFE

Chief Financial Examiner

WV Offices of the Insurance Commissioner

SCANNED

May 25, 2016

Return Receipt Requested

Do 16

Mr. Michael D. Riley, Insurance Commissioner
Offices of Insurance Commissioner
Financial Conditions Division
Post Office Box 50540
Charleston, WV 25305-0540



RE: Report of Financial Examination of West Virginia Farmers Mutual Insurance Association as of December 31, 2014

Dear Commissioner Riley:

We have received your letter of May 13, 2016 which transmitted the Report of Examination of West Virginia Farmers Mutual Insurance Association as of December 31, 2014. Your letter indicates that we have thirty (30) days from date of receipt in which to respond to the Report with any exceptions. We wish to take this opportunity to respond to the two items noted on page 2 of the Report under the "SUMMARY OF SIGNIFICANT FINDINGS".

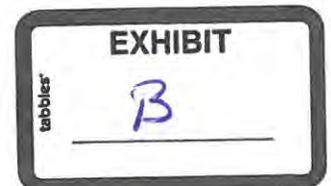
The first finding was as follows:

- 1) The results of the 2014 independent audit were not communicated directly to the Company's Board of Directors by the auditors. The independent auditors presented audit results to the Celina Insurance Group Board and Audit Committee but management presented the audit results to the FMIA Board.

The results of the 2014 independent actuarial review were not communicated directly to the Company's Board of Directors by the independent actuary. Management presented these results to the FMIA Board.

Company Response – It is accurate that the audited financial statements of the Company are provided each year to the Board of Directors of West Virginia Farmers Mutual by the management of the Company. We have reviewed the West Virginia statutes and regulations and the NAIC annual statement instructions to determine whether there is a requirement for the auditors to present their findings directly to the Board of Directors, and could find no such requirement. Likewise, we inquired of our auditors, BKD, LLP as to their knowledge of any such requirement and they knew of none.

The audits performed by our outside auditors for the five years ended December 31, 2014 have all been clean audits with no major findings by the auditors. In view of this, it has been our belief that it was sufficient for the auditors to present information to the National Mutual Insurance Company board, and by virtue of the service agreement with National Mutual, for management to communicate to the West Virginia Farmers Mutual board.



With regard to the independent actuarial review, we note that the NAIC annual statement instructions state that “The Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors.”

The Actuarial Report prepared by our Appointed Actuary for many years, including all those covered by this examination, is addressed to Celina Insurance Group Companies – Board of Directors. On page 2 of the report each year is noted “Our review includes the following companies, which are members of Celina Insurance Group:

- Celina Mutual Insurance Company
- National Mutual Insurance Company
- West Virginia Farmers Mutual Insurance Association; and
- Miami Mutual Insurance Company”

Likewise, the Actuarial Opinion states “This opinion includes the following companies (listed with state of domicile and pool share, respectively) which are members of the Celina Group Insurance Companies:

- Celina Mutual Insurance Company (Ohio, 36%);
- National Mutual Insurance Company (Ohio, 34%);
- Miami Mutual Insurance Company (Ohio, 30%); and
- West Virginia Farmers Mutual Insurance Association (West Virginia)”

Since the Actuarial Report is addressed to the Board of Directors, and both the Actuarial Report and Actuarial Opinion note that the loss and loss adjustment expense reserves of West Virginia Farmers Mutual are included in the data reviewed and are being opined upon, it had been our belief that this satisfied the requirement that the Appointed Actuary report to the West Virginia Farmers Mutual Board of Directors. Because of the short tailed nature of the lines of business written by West Virginia Farmers Mutual, the consistent reserve redundancy reported each year by the Company in Schedule P of the annual statement, and the small level of reserves in relation to its policyholder surplus (less than 3% during the period under examination), it had been management’s belief that the review of the written report was sufficient.

The second finding we wish to address was:

- 2) Finding: Management does not file a separate independent Actuarial Opinion or Report specific to FMIA. Given FMIA is not a member of the Celina Insurance Group pool, the filing of a separate independent Actuarial Opinion and Report is a requirement of the NAIC Instructions.

“A separate Actuarial Opinion is required for each company filing an Annual Statement.”

“When there is an affiliated company pooling arrangement, one Actuarial Report for the aggregate pool is sufficient, ...”

Also, legislative rule §114-41 affirms the Company's responsibility to adhere to NAIC instructions regarding the Statement of Actuarial Opinion:

§114-41A-2. Actuarial Opinion of Reserves and Supporting Documentation.

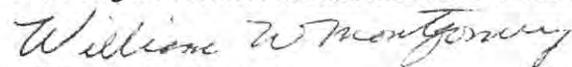
2.1. This section shall become operative with respect to reporting years ending on or after December 31, 2011.

2.2. Statement of Actuarial Opinion. Every property and casualty insurance company doing business in this state, unless otherwise exempted by the Insurance Commissioner of this state or the commissioner in the state where the company is domiciled, shall annually submit the opinion of an Appointed Actuary entitled "Statement of Actuarial Opinion." This opinion shall be filed in accordance with the appropriate NAIC Property and Casualty Annual Statement Instructions.

Company Response – As noted in our response to the first finding, the Actuarial Opinion historically provided by the Appointed Actuary includes the loss and loss adjustment expense reserves of West Virginia Farmers Mutual. The actuary's opinion states that the amount of reserves carried "A. Meet the requirements of the insurance laws of the States of Ohio and West Virginia." There is a separate section in the opinion which identifies the reserves of West Virginia Farmers Mutual. It was our belief that in providing the reserve opinion and loss and loss adjustment expense reserve detail for the Company in this way for many years, we met the statutory requirement of providing an Actuarial Opinion.

We are pleased to note that there were no adjustments to the financial statements of the Company for the period examined, and that policyholder surplus grew approximately 31% during that period.

Sincerely,
West Virginia Farmers Mutual Insurance Association


William W. Montgomery
President

CC: Leah Cooper, Chief Financial Examiner