

**PROCEEDINGS BEFORE ALLAN L. McVEY
INSURANCE COMMISSIONER
OF THE STATE OF WEST VIRGINIA**

**IN RE: FARMERS AND MECHANICS FIRE AND CASUALTY
INSURANCE COMPANY**

Administrative Proceeding No.: 18-AP-FINCON-02009

**AGREED ORDER ADOPTING REPORT OF FINANCIAL
EXAMINATION AND DIRECTING ACTION**

COMES NOW Allan L. McVey, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Financial Examination as of December 31, 2017, of FARMERS AND MECHANICS FIRE AND CASUALTY INSURANCE COMPANY (hereinafter referred to as “Company”) based upon the following findings, to wit:

JURISDICTION

1. Allan L. McVey 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 is a stock property and casualty insurance company domiciled in and incorporated on May 2, 2006, under the laws of West Virginia. The company is a wholly owned subsidiary of Farmers and Mechanics Mutual Insurance Company of West Virginia (“FMM”). The Company commenced business on June 24, 2006. To initially capitalize FMFC on August 2, 2006, FMM purchased 125,000 shares of FMFC’s common stock with an initial \$2,500,000 investment. FMM purchased an additional 25,000 shares on June 11, 2010, totaling \$5000,000 and another 50,000 shares on December 14, 2013, totaling \$1,000,000. FMM owns 100% of FMFC’s issued and outstanding common stocks.

FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2013 and ending December 31, 2017, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On October 29, 2018, 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 October 31, 2018, a true and accurate copy of the Report of Financial Examination was forwarded to the Company via email and certified mail.

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 November 26, 2018, the Company indicated that it had reviewed the Report of Financial Examination and concurred with the findings set forth therein. A copy of the Company's letter is attached hereto as Exhibit B.

CONCLUSIONS OF LAW

1. W.Va. Code § 33-2-9(j)(2) provides that no later than sixty (60) days following completion of the examination, the examiner in charge shall file with the Insurance Commissioner a verified, written Report of Financial Examination under oath and, upon receipt of the verified report, the Insurance Commissioner shall transmit the Report of Financial Examination to the Company with a notice that shall afford the Company a reasonable opportunity of not more than thirty (30) days to make a written submission or rebuttal.

2. W.Va. Code § 33-2-9(j)(3) provides that within thirty (30) days of the end of the

period allowed for the receipt of written submissions or rebuttals the Insurance Commissioner shall fully consider and review the Report of Financial Examination, together with any written submissions or rebuttals and shall enter an ORDER adopting the Report of Financial Examination as filed or with modifications or corrections, enter an ORDER rejecting the Report of Financial Examination with directions to the examiners to reopen the examination or call 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.
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 4th day of December, 2018.


Allan L. McVey
Insurance Commissioner


THE PARTIES DO SO AGREE:
State of West Virginia, Offices of the Insurance Commissioner

By: 
Greg Elam,
Associate General Counsel

Date

Farmers and Mechanics Fire and Casualty Insurance Company

By: Foster Lee Sirbaugh, Jr.
[Print Name]

Signed: 
Its: President / CEO

Dated: December 4, 2018

REPORT OF EXAMINATION
OF
**FARMERS AND MECHANICS FIRE & CASUALTY
INSURANCE COMPANY**

MARTINSBURG, WV

NAIC COMPANY CODE: 12611
NAIC GROUP CODE: 4339

AS OF DECEMBER 31, 2017



EXHIBIT
A

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SALUTATION

October 29, 2018

The Honorable Allan L. McVey
West Virginia Insurance Commissioner
900 Pennsylvania Ave.
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:

Farmers and Mechanics Fire & Casualty Insurance Company
25 Administrative Drive
Martinsburg, West Virginia 25404

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

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2012. This examination commenced on May 30, 2018, and is a single-state, full scope, 5-year examination pursuant to W.Va. Code §33-2-9(a), as amended, covering the period from January 1, 2013 through December 31, 2017, 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 WVOIC. 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 Statements of Statutory Accounting Principles ("SSAP") 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, 2017.

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, there were no findings to report.

HISTORY

FMFC is a stock property and casualty insurance company domiciled in and incorporated on May 2, 2006, under the laws of West Virginia. The Company is a wholly owned subsidiary of Farmers and Mechanics Mutual Insurance Company of West Virginia ("FMM"). The Company commenced business on July 24, 2006. To initially capitalize FMFC on August 1, 2006, FMM purchased 125,000 shares of FMFC's common stock with an initial \$2,500,000 investment. FMM purchased an additional 25,000 shares on June 11, 2010, totaling \$500,000 and another 50,000 shares on December 14, 2013, totaling \$1,000,000. FMM owns 100% of FMFC's issued and outstanding common stocks.

CORPORATE RECORD

The minutes of the Board of Directors and committees reflected the election of directors and officers, approvals of investment transactions and approvals of other pertinent matters requiring corporate review. The annual stockholders' 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.

There were no changes in the Charter or Bylaws during the exam period.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

Corporate governance is provided by the Company's Board of Directors and is carried out by Company management. FMFC's Officers and Directors serve in the same capacity for FMM. The individuals serving as members of the Board of Directors on December 31, 2017 were as follows:

Name and Address	Business Affiliation	Board Member Since
Martin Berkeley Frye Gerradstown, WV	Secretary & Director	2006
Bernard Lee Snyder Ranson, WV	Director	2006
James Wayne Dailey, II Martinsburg WV	Director, Chairman	2006
Anthony Joseph Petrucci Martinsburg, WV	Director	2006

Name and Address	Business Affiliation	Board Member Since
James Patrick Whitacre Martinsburg, WV	Director, Treasurer	2006
Kenneth Laign Banks Inwood, WV	Director	2006
Vicki Shockey-Fulk Martinsburg, WV	Director	2006
Edwin Dennis McCormick Martinsburg, WV	Director/ Ex-President	2006
Foster Lee Sirbaugh Jr. Berkeley Springs, WV	Director/President	2012

OFFICERS

The annual meeting of the Board must be held on the second Friday in March following the fiscal year-end. At this meeting, the Board is required to elect a Chairman, a Vice Chairman, President, Treasurer and Secretary. Officers elected at the March 10, 2017 Board of Directors Meeting and serving as of December 31, 2017, were as follows:

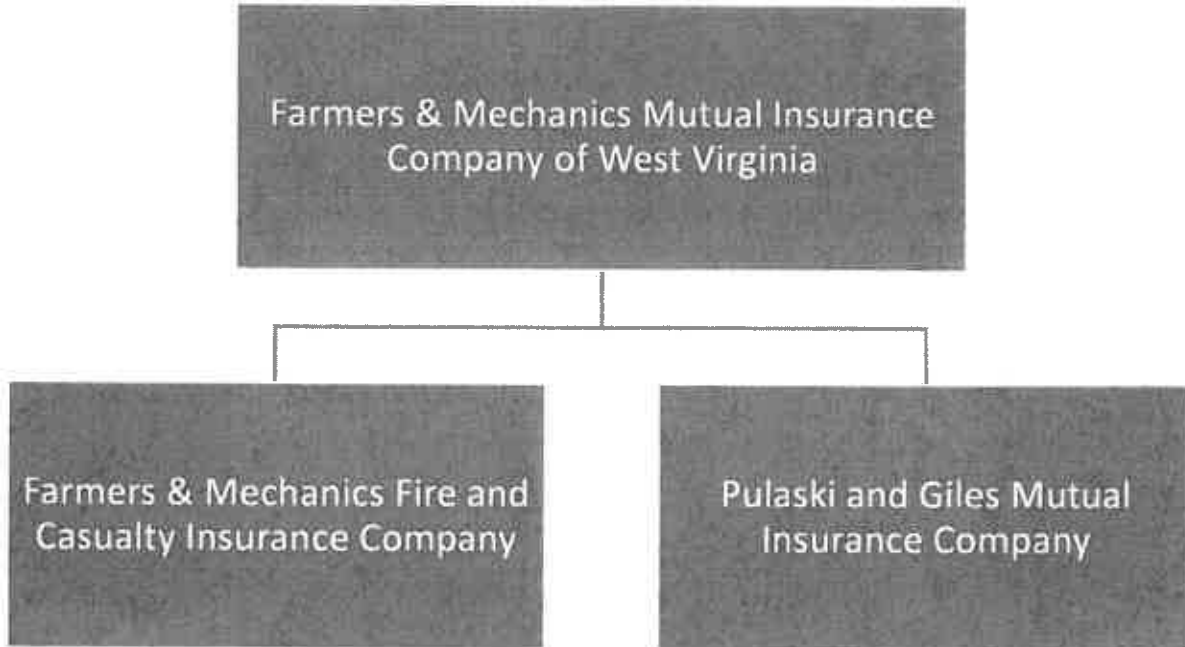
Name	Title
Foster Lee Sirbaugh Jr.	President
James Patrick Whitacre	Treasurer
Martin Berkeley Frye	Secretary
Daniel Ray Otto	Senior Vice President-Chief Finance Officer

COMMITTEES

Based on Article III, Section 7 of the Bylaws the Board of Directors by resolution may appoint committees as may be necessary to properly conduct the business of the Company. The Company does informally operate utilizing an Executive, Auditing, Finance, Strategic Planning, Marketing, Personnel, Nomination, and Proxy Committees.

ORGANIZATIONAL CHART

At December 31, 2017, the following entities were the members of the Farmers and Mechanics Group:



AGREEMENTS

Expense Sharing Agreement

FMFC, and FMM established an Expense Sharing Agreement on August 1, 2006. FMM provides certain management, underwriting support, accounting and information system services to FMFC.

FMM and Pulaski and Giles Mutual Insurance Company (“PGM”) established an Affiliation Agreement on September 29, 2016. FMM provides certain management, administrative, and policyholder services, including underwriting, claims adjustment, marketing, accounting and information system services to PGM.

TERRITORY AND PLAN OF OPERATION

The Company writes private passenger automobile insurance, and commercial auto physical damage policies exclusively in the State of West Virginia.

Products are offered through independent insurance agencies, none of which represent a significant portion of the Company’s business.

GROWTH OF COMPANY

The following amounts represent growth of the Company and other financial comparisons for the year ended December 31, 2017 and for the period under examination.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Direct Premiums Written	9,755,425	8,902,381	8,554,451	8,730,690	8,536,054
Ceded Premiums Written	3,214,485	2,558,781	3,694,654	3,591,330	3,301,803
Net Premiums Written	6,540,940	6,343,600	4,859,797	5,139,360	5,234,251
Net Income	197,477	338,822	1,053,500	651,891	(765,485)
Total Net Assets	12,778,405	12,273,615	10,938,544	10,234,909	9,785,333
Total Liabilities	7,444,961	7,052,478	6,089,840	6,427,026	6,477,880
Policyholders Surplus	<u>\$ 5,333,444</u>	<u>\$ 5,221,137</u>	<u>\$ 4,848,704</u>	<u>\$ 3,807,883</u>	<u>\$ 3,307,453</u>

REINSURANCE

The Company's reinsurance was obtained through a reinsurance intermediary. It was determined that all reinsurers and the reinsurance intermediary were properly licensed or authorized to conduct business in the State of West Virginia.

Ceded Reinsurance

FMFC's reinsurance program is designed to protect its capital and surplus. FMFC has the following reinsurance coverage:

Excess of loss – Property & Casualty

FMFC's Excess of Loss treaty consists of two layers and covers \$1,350,000 of non-auto property and \$850,000 of non-auto casualty excess of \$150,000. The first layer is \$850,000 excess \$150,000. The second layer (property only) is \$500,000 excess \$1,000,000. For Auto, the Excess of Loss treaty covers \$920,000 excess of \$80,000.

The casualty clash layer is \$1,000,000 excess \$1,000,000.

FMFC also has cedes 30% of its auto exposure under a Quota Share treaty, making the maximum net auto exposure \$56,000 per occurrence.

Catastrophe – Property

FMFC has a Catastrophe Excess of Loss treaty (three layers) that covers \$11,000,000 of property excess of \$1,000,000. The first layer is \$1,000,000 excess \$1,000,000. The second layer is \$4,000,000 excess \$2,000,000. The third layer is \$6,000,000 excess \$6,000,000.

FMFC also has a second Excess of Loss treaty covering \$6,000,000 of property excess of \$12,000,000.

FMFC's Umbrella Treaty cedes 95% of the first \$1M and 100% of the next \$4M if applicable.

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, 2017

ASSETS	Per Annual Statement	Statutory Exam Adjustments	Per Statutory Exam
Bonds	7,472,951	-	7,472,951
Stocks:			
Preferred stocks	-	-	-
Common stocks	-	-	-
Real Estate:			
Properties occupied by the company	-	-	-
Cash, Cash Equivalents and Short-Term Investments	601,462	-	601,462
Receivables for securities	243	-	243
Subtotals; Cash and Invested Assets	\$ 8,074,656	\$ -	\$ 8,074,656
Investment income due and accrued	66,286	-	66,286
Premiums and Considerations:			
Uncollected premiums and agents' balances in the course of collection	111,160	-	111,160
Deferred premiums; agents' balances and installments booked but deferred and not yet due	3,788,070	-	3,788,070
Reinsurance:			
Amounts recoverable from reinsurers	480,349	-	480,349
Current federal income tax recoverable	93,363	-	93,363
Net deferred tax asset	164,521	-	164,521
Totals	\$ 12,778,405	\$ -	\$ 12,778,405

**LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2017**

LIABILITIES, SURPLUS & OTHER FUNDS	Per Annual Statement	Statutory Exam Adjustments	Per Statutory Exam
Losses	2,132,057	-	2,132,057
Loss adjustment expenses	368,229	-	368,229
Commissions payable; Contingent Commissions and other similar charges	802,007	-	802,007
Other expenses	14,858	-	14,858
Taxes; licenses and fees	96,583	-	96,583
Unearned premiums	3,578,616	-	3,578,616
Advance premium	45,692	-	45,692
Ceded reinsurance premiums payable	281,844	-	281,844
Payable to parent; subsidiaries and affiliates	125,075	-	125,075
Total Liabilities	\$ 7,444,961	\$ -	\$ 7,444,961
Common capital stock	1,600,000	-	1,600,000
Gross paid in and contributed surplus	2,400,000	-	2,400,000
Unassigned funds (surplus)	1,333,444	-	1,333,444
Total Policyholders Surplus	\$ 5,333,444	\$ -	\$ 5,333,444
Total Liabilities, Surplus & Other Funds	\$ 12,778,405	\$ -	\$ 12,778,405

**STATEMENT OF OPERATIONS
DECEMBER 31, 2017**

	Per Annual Statement	Statutory Exam Adjustments	Per Statutory Exam
UNDERWRITING INCOME			
Premiums earned	6,231,471	-	6,231,471
Losses incurred	3,791,366	-	3,791,366
Loss adjustment expenses incurred	448,936	-	448,936
Other underwriting expenses incurred	1,838,609	-	1,838,609
Total underwriting deductions	6,078,911	-	6,078,911
Net underwriting gain (loss)	\$ 152,560	\$ -	\$ 152,560
INVESTMENT INCOME			
Net investment income earned	164,400	-	164,400
Net realized capital gains (losses) less capital gains tax of \$0	(9,435)	-	(9,435)
Net investment gain (loss)	\$ 154,965	\$ -	\$ 154,965
OTHER INCOME			
Net gain (loss) from agents' or premium balances charged off	(23,881)	-	(23,881)
Finance and service charges not included in premiums	18,022	-	18,022
Aggregate write-ins for miscellaneous income	-	-	-
Total other income	\$ (5,859)	\$ -	\$ (5,859)
Net income before dividends to policyholders and federal and foreign income taxes	301,666	-	301,666
Dividends to policyholders	-	-	-
Net income after dividends to policyholders and before federal and foreign income taxes	301,666	-	301,666
Federal and foreign income taxes incurred	104,189	-	104,189
Net income	\$ 197,477	\$ -	\$ 197,477

**CAPITAL AND SURPLUS ACCOUNT
DECEMBER 31, 2017**

SURPLUS ACCOUNT	2017	2016	2015	2014	2013
Surplus; December 31 prior year	5,221,137	4,848,704	3,807,883	3,307,453	2,875,034
Net income	197,477	338,822	1,053,500	651,891	(765,485)
Change in net unrealized capital gains or (losses)	(1,955)	-	-	-	-
Change in net deferred income tax	(83,215)	23,493	(2,561)	(151,461)	185,231
Change in nonadmitted assets	-	10,118	(10,118)	-	12,673
Change in provision for reinsurance	-	-	-	-	-
Capital changes paid in	-	-	-	-	400,000
Surplus adjustments paid in	-	-	-	-	600,000
Change in surplus for the year	<u>112,307</u>	<u>372,433</u>	<u>1,040,821</u>	<u>500,430</u>	<u>432,419</u>
Surplus; December 31 current year	<u>\$ 5,333,444</u>	<u>\$ 5,221,137</u>	<u>\$ 4,848,704</u>	<u>\$ 3,807,883</u>	<u>\$ 3,307,453</u>

SUMMARY OF EXAMINATION CHANGES

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

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of the fieldwork that was considered material events that would require disclosure in this report.

ACKNOWLEDGEMENT AND SIGNATURE

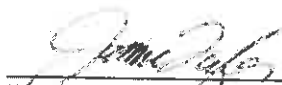
This is to certify that the undersigned is a duly qualified Examiner appointed by the West Virginia Offices of the Insurance Commissioner. The undersigned, assisted Tyler Leach, CISA, IT specialist of Dixon Hughes Goodman LLP, George Brown, CFE, CIE, MCM, Greg Wilson, FACS, MAAA, Actuary, of Lewis & Ellis Inc. and by Jamie Taylor, CFE, of the West Virginia Offices of the Insurance Commissioner, performed an examination of Farmers and Mechanics Fire & Casualty Insurance Company as of December 31, 2017.

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 and Mechanics Fire & Casualty Insurance Company as of December 31, 2017 as determined by this examination

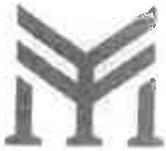
Respectfully Submitted,



Roshi Fekrat, CPA, CFE, CIA, AMCM
Managing Director
Global Insurance Enterprises, Inc.
Representing the WV Offices of the Insurance Commissioner



Jamie Taylor, CFE
Director / Chief Financial Examiner
Financial Conditions Division
WV Offices of the Insurance Commissioner



**FARMERS &
MECHANICS**
INSURANCE COMPANIES

P.O. BOX 1917
MARTINSBURG, WV 25402-1917

PHONE 800-444-1917 | FAX 800-333-4319
FMIWV.COM

November 26, 2018

Jamie Taylor, CFE, APIR
Director/Chief Examiner
Financial Conditions Division
WV Offices of the Insurance Commissioner
900 Pennsylvania Ave.
Charleston, WV 25302

RE: Response to West Virginia Insurance Department Financial Examination Draft
For Farmers and Mechanics Fire and Casualty Insurance Company.

Dear Mr. Taylor:

I would like to advise the West Virginia Department of Insurance that management has reviewed the draft exam report and did not identify any exceptions or concerns.

Thank you for the working relationship we have with the West Virginia Department of Insurance.

Regards

Foster L. Sirbaugh, Jr.
President / CEO

