

EXAMINATION REPORT OF  
FMH INSURANCE COMPANY  
WEST DES MOINES, IOWA  
AS OF DECEMBER 31, 2011

West Des Moines, Iowa  
October 31, 2012

HONORABLE SUSAN E. VOSS  
Commissioner of Insurance  
State of Iowa  
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an Association Examination has been made of the records, business affairs and financial condition of

FMH INSURANCE COMPANY  
WEST DES MOINES, IOWA  
AS OF DECEMBER 31, 2011

at its Home Office, 6785 Westown Parkway, West Des Moines, Iowa.

#### INTRODUCTION

FMH Insurance Company, hereinafter referred to as the "Company", was initially examined as of December 31, 2011 under the Association Plan by the Iowa Insurance Division. The examination reported herein was conducted under the Association Plan solely by examiners for the Iowa Insurance Division, representing the Midwestern Zone. The Company's Parent, Farmers Mutual Hail Insurance Company of Iowa, and affiliate, Farmers Union Co-Operative Insurance Company, Inc., were also examined concurrently with this examination.

#### SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the period of inception from April 18, 2011 to the close of business on December 31, 2011, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires the examination to be planned and performed 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 risks within the organization, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

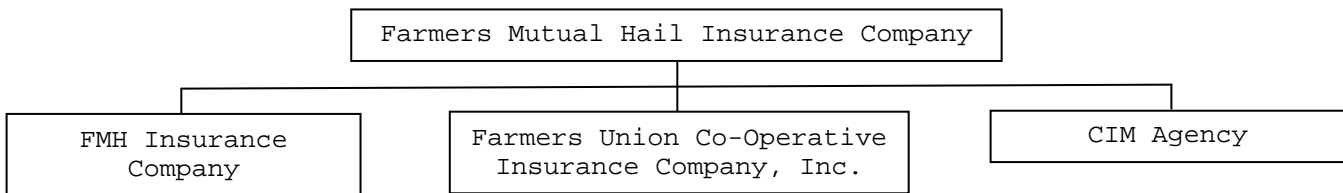
All accounts and activities of the organization were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2011

HISTORY

The Company was incorporated under the laws of the State of Iowa, on December 22, 2010, as part of a Mutual Insurance Holding Company System. The Company was licensed, on April 18, 2011, to assume risk as a reinsuring company in the state of Iowa.

HOLDING COMPANY ACT

The Company is a member of a Mutual Insurance Holding Company System and properly filed Holding Company Registrations in accordance with Chapter 521A, Code of Iowa. Farmers Mutual Hail Insurance Company of Iowa, (FMH) the ultimate Parent, holds all the outstanding common stock of its subsidiaries, Farmers Union Co-Operative Insurance, Inc. (FUCIC), FMH Insurance Company (FMHIC) and C.I.M. Insurance Agency, Inc. (CIM Agency).



CAPITAL STOCK

Per the Articles of Incorporation, the aggregate number of shares of stock that the corporation is authorized to issue is 5,000 shares of Class A common stock, \$1,000 par value, with such dividends as the Board of Directors may, from time to time, determine.

On April 13, 2011, FMH infused \$5,100,000 into the Company with \$5,000,000 in common capital stock and \$100,000 in gross paid in capital.

On December 21, 2011, FMH infused \$900,000 into the Company making gross paid in capital total \$1,000,000.

No dividends to shareholders were declared or paid during the exam period.

MANAGEMENT AND CONTROL

SHAREHOLDERS

Each shareholder of common stock shall be entitled to one vote (1) for each share of stock standing in his, her, or its name on the books of the Corporation, whether represented in person or by proxy. A majority of the shares issued and outstanding represented either in person or by proxy, shall constitute a quorum for the transaction of business.

The annual meeting of the shareholders of the Corporation shall be held at such place, either within or without the State of Iowa, as may be fixed by the Board of Directors of the Corporation, on the first Monday after the first Saturday of March of each year at 2:00 p.m. or at such other time on said day or on such other day as shall be fixed by the Board of Directors. At such annual meeting, the shareholders of the Company shall elect the Board of Directors and the shareholders shall transact such other business as shall properly come before them.

Special meetings of the shareholders may be called by the President, the Board of Directors, the holders of not less than one-tenth (1/10) of all the shares entitled to vote at the meeting or by any two (2) officers of the Corporation other than the President.

BOARD OF DIRECTORS

Except as otherwise provided by law, all corporate powers shall be exercised by or under authority of, and the business and affairs of the corporation shall be managed by or, the direction of the Board of Directors.

The Board of Directors shall consist of not less than five (5) nor more than twenty-one (21), with the actual number to be set, from time to time, by Resolution of the Board of Directors. Directors need not be residents of the State of Iowa.

The Board of Directors shall be divided into three classes, each class as nearly as possible to consist of one-third(1/3) of the membership, and the Board shall be so constituted that the terms of office of Directors of each class shall expire every three years from the date of their election.

The regular annual meeting shall be held upon adjournment of the annual meeting of the shareholders. Any other regular meeting shall be held on call of the President or the Executive Committee. All meetings of the Board shall be at the Home Office of the Company or at such other locality, either within or without the State of Iowa as the President determines.

A majority of the Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors.

At December 31, 2011 duly elected and serving as initial directors were as follows:

<u>Name and Address</u>	<u>Term</u>
Steven G. Fischer Altoona, Iowa	2012
Barbara R. Raife Des Moines, Iowa	2012
Darin L. Roggenburg Clive, Iowa	2012
Ronald P. Rutledge Waukee, Iowa	2012
Scott Rutledge West Des Moines, Iowa	2012
Shannon D. Rutledge Altoona, Iowa	2012
Steven C. Rutledge West Des Moines, Iowa	2012

The members of the Board of Directors, while attending meetings or traveling in the interest or affairs of the Company, shall be entitled to reimbursement for their transportation, out-of-pocket expenses and per diem compensation that is determined by resolution of the Board from time to time.

COMMITTEES

The Board of Directors shall, at its regular annual meeting, appoint an Executive Committee composed of three (3) Directors, and may at such meeting, or from time to time, appoint such other committees, with such name or names as it may determine. Each member of any committee shall hold office until the next regular annual meeting of the Board of Directors and until a successor is elected and qualified.

Directors serving on the Executive Committee are Ronald P. Rutledge, Shannon D. Rutledge and Darin L. Roggenburg. The Investment Committee members are Ronald P. Rutledge, Steven C. Rutledge, Shannon D. Rutledge, Scott Rutledge and Darin L. Roggenburg.

OFFICERS

The Executive Officers of the Company shall be a President, a Vice President, a Treasurer, and Secretary, each of whom shall be elected by the Board of Directors. Any two (2) offices may be held by the same person, except the offices of President and Secretary. The Board of Directors may elect or appoint any other officers as it may deem necessary. The officers of the Company shall be elected annually by the Board at its regular annual meeting.

Duly elected officers at December 31, 2011 were as follows:

<u>Name</u>	<u>Title</u>
Ronald P. Rutledge	President and Chief Executive Officer
Shannon D. Rutledge	Secretary
Darin L. Roggenburg	Treasurer and Chief Financial Officer

The salaries of the officers are shown in Exhibit "A" to be found at the end of this report.

CONFLICT OF INTEREST STATEMENTS

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation of its officers or directors, which is in conflict with their duties. The summary of disclosures document was found to be signed annually by the directors and officers. No conflicts were disclosed.

CORPORATE RECORDS

ARTICLES OF INCORPORATION

The Articles were adopted and approved by the Board of Directors at the initial meeting of the Board on March 7, 2011

BY-LAWS

The By-Laws were adopted and approved by the Board of Directors at the initial meeting of the Board on March 7, 2011.

## AFFILIATED TRANSACTIONS

### MANAGEMENT SERVICE AGREEMENT

In accordance with Management Service Agreements, dated April 3, 2012, the Parent has been retained by its subsidiary companies as a Service Provider to provide certain advisory and consulting services. Services may include business and organizational strategy, accounting, legal, regulatory, actuarial, financial, investment management and advisory services, as the Board of Directors of the Company may reasonably request from time to time, as well as investment banking and financial, strategic and corporate advisory.

### FIDELITY BONDS AND OTHER INSURANCE

The Company and other named affiliates are protected by a \$1,000,000 fidelity bond. This coverage is \$250,000 less than the N.A.I.C.'s suggested minimum amount of coverage.

The other interests of the Company appear to be adequately protected through coverages afforded by policies in force with admitted insurers.

### EMPLOYEES' WELFARE

Employee services are provided by the Parent. The Parent sponsors a non-contributory defined benefit plan covering all eligible employees. This plan invests in a diversified mix of traditional asset classes. Asset allocation and investment performance is formally reviewed quarterly by the plan's Investment Committee.

The Parent has a non vested, non pension postretirement health care benefit plan. The health care plan is contributory, based on management review of the current costs of the plan compared to the prior year.

Employees are also covered by a qualified defined contribution pension plan sponsored by the Parent.

Additional benefits include: Group Medical, Dental, Vision Plan; Group Term Life and Accidental Death & Dismemberment; Long Term Disability; and Deferred Salary 401(k) Savings Plan.

### STATUTORY DEPOSIT

The Company did not hold securities in a statutory deposit as of December 31, 2011.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed to assume risk as a reinsuring company in the state of Iowa. No business was written during the examination period.

## ACCOUNTS AND RECORDS

Trial balances were prepared for 2011. Amounts from the electronic general ledger accounts were reconciled and found to be in agreement with balances reported on the annual statements for assets, liabilities, income or disbursements.

During the course of the examination, an aggregate surplus as regards policyholders' decrease of \$3,085,959 was identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2011. A reconciling schedule and comments regarding the surplus difference follows the financial statements depicted in this examination report. The Company subsequently corrected this surplus difference by moving funds to bring the assets into compliance with the Iowa Code 515.35.

## MANAGEMENT AGREEMENT

The Company did not have existing Management and Servicing Agreements in place with its Parent during the examination period. The Parent provided signed copies of Management and Servicing Agreements dated April 3, 2012, however, these agreements have not been filed with the Iowa Insurance Division in accordance with Iowa Code 521A.4. In addition, the Company did not comply with provisions of SSAP No. 25 which provides for transactions between related parties to be in the form of a written agreement with a specified due date.

F I N A N C I A L   S T A T E M E N T S  
A N D   C O M M E N T S   T H E R E O N

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2011, and the assets and liabilities as of that date. Schedules may not add or tie precisely due to rounding.



STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 395,079	\$	\$ 395,079
Common stocks	1,704,065		1,704,065
Cash and short-term investments	3,850,959	3,340,959	510,000
Investment income due and accrued	1,349		1,349
Net deferred tax asset	36,431	36,431	
Assets allowed under Iowa Code 515.35(4)(n)(1)	<u>                    </u>	<u>(255,000)</u>	<u>255,000</u>
 Total assets	 <u>\$5,987,883</u>	 <u>\$3,122,390</u>	 <u>\$2,865,493</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Federal income taxes		<u>\$ 16,572</u>
 Total liabilities		 <u>\$ 16,572</u>
 Common capital stock		 \$5,000,000
Gross paid in and contributed capital		1,000,000
Unassigned funds (surplus)		<u>(3,151,079)</u>
 Surplus as regards policyholders		 <u>\$2,848,921</u>
 Total liabilities and surplus		 <u>\$2,865,493</u>

STATEMENT OF INCOME

Investment Income

Net investment income earned	\$82,842	
Net realized capital gains (losses)	<u>(21,317)</u>	
Net investment income		<u>\$ 61,525</u>
Net income before Federal income tax		\$ 61,525
Federal and foreign income taxes incurred		<u>28,050</u>
Net income		<u>\$ 33,475</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, April 18, 2011		<u>\$ 5,100,000</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 33,475
Change in net unrealized capital gains or (losses)		(62,164)
Change in nonadmitted assets		(3,122,390)
Surplus adjustments: paid in		<u>900,000</u>
Change in surplus as regards policyholders for the year		<u>\$(2,251,079)</u>
Surplus as regards policyholders, December 31, 2011		<u>\$ 2,848,921</u>

CASH FLOW

Cash from Operations

Net investment income	<u>\$ 81,493</u>	
Net cash from operations		<u>\$ 81,493</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 62,776	
Stocks	<u>2,758,537</u>	
Total investment proceeds		\$ 2,821,313
Cost of investments acquired (long-term only):		
Bonds	\$ 449,921	
Stocks	<u>4,601,926</u>	
Total investments acquired		<u>5,051,847</u>
Net cash from investments		<u>\$(2,230,534)</u>

Cash from Financing and Miscellaneous Sources

Cash provided:		
Capital and paid in surplus, less treasury stock	<u>\$6,000,000</u>	
Net cash from financing and miscellaneous sources		<u>\$ 6,000,000</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ 3,850,959
Cash and short-term investments:		
Beginning of year		<u>0</u>
End of year		<u>\$ 3,850,959</u>

EXAMINATION SURPLUS RECONCILIATION

	<u>Per Company</u>	<u>Per Exam</u>	<u>Surplus Increase (Decrease)</u>
<u>Assets</u>			
Cash and short-term investments	\$3,850,959	\$510,000	\$(3,340,959)
Assets allowed under Iowa Code 515.35(4)(n)(1)		255,000	<u>255,000</u>
Net examination surplus difference			\$(3,085,959)
Surplus as regards policyholders reported by Company			5,934,880
Surplus as regards policyholders per examination			<u>\$ 2,848,921</u>

COMMENTS

Cash and short-term investments \$510,000

The Company held a Class 1 money market fund in excess of Iowa statutory limitations, as prescribed by Iowa Code 515.35(4)(f)(2). The Company subsequently moved funds to comply with the Iowa Investment Code.

Assets allowed under Iowa Code 515.35(4)(n)(1) \$255,000

Iowa Code 515.35(4)(n)(1) allows the Company to invest up to five percent of its admitted assets in securities or property of any kind, without restrictions or limitations except those imposed on business corporations in general.

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company is hereby acknowledged.

In addition to the undersigned, Randy Guzman, Alex Matovu, and Bob Wong, CFE, Examiners for the Iowa Insurance Division, participated in the examination and preparation of this report.

A review of losses and related items was performed under the direction of Charles C. Emma, FCAS, MAAA, Managing Principal with EVP Streff Insurance Advisors.

Respectfully submitted,

/s/ Virginia West  
VIRGINIA WEST, CFE  
Examiner in Charge  
Insurance Division  
State of Iowa  
Representing the Midwestern Zone