

EXAMINATION REPORT OF
FMH AG RISK INSURANCE COMPANY
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2021

HONORABLE DOUG OMMEN
Commissioner of Insurance
Insurance Division
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 AG RISK INSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2021

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

INTRODUCTION

FMH Ag Risk Insurance Company, hereinafter referred to as the “Company”, was last examined as of December 31, 2016. The examination reported herein was conducted as an examination of an insurance holding company group by the contracting firm, Risk & Regulatory Consulting, LLC, and examiners of the Iowa Insurance Division. The Company’s parent, Farmers Mutual Hail Insurance Company of Iowa (FMH), was also examined as part of the holding company group, with a separate examination report prepared for each entity.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2017, to the close of business on December 31, 2021, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was incorporated in 1979, as the Lumbermens National Insurance Company. In 1985, the Company was acquired by Brougher Insurance Group, Inc. and the Company's name was changed to North Atlantic Casualty and Surety Company, Inc. On June 1, 1991, the Company's name was changed to VASA North Atlantic Insurance Company.

In December 1998, the Company was acquired by Centris Group Inc., and its name was subsequently changed to Centris Insurance Company. In December 1999, the Company was acquired by HCC Insurance Holdings, Inc. (HCC), a Delaware corporation. After the acquisition, the Company became a subsidiary of HCC Life Insurance Company.

Effective September 1, 2004, the Company changed its name to HCC Insurance Company (HCCIC). On December 31, 2004, HCC Life Insurance Company made an extraordinary dividend of the Company's common stock to Houston Casualty Company. As a result of that transaction, the Company became a direct subsidiary of Houston Casualty Company.

In 2010, John Deere Credit Company (n/k/a John Deere Financial Services, Inc.) acquired HCC Insurance Company, domiciled in Indiana. The acquisition was approved by the Insurance Commissioner of Indiana on March 12, 2010. HCC Insurance Company was redomesticated to the State of Iowa and renamed John Deere Insurance Company on March 18, 2010.

On April 1, 2015, John Deere Insurance Company, along with its affiliate John Deere Risk Protection, Inc. (a managing general agency focusing on the core crop insurance market), was acquired by Farmers Mutual Hail Insurance Company of Iowa (FMH). FMH subsequently renamed the companies to FMH Ag Risk Insurance Company (FMH Ag) and FMH Risk Protection, Inc., respectively.

CAPITAL STOCK AND DIVIDENDS THEREON

The aggregate number of shares of stock that the Company is authorized to issue is 10,000 shares of common stock, \$2,500 par value. The common stock shall have unlimited voting rights and shall be entitled to the net assets upon dissolution. As of December 31, 2021, the Company has 1,500 shares issued and outstanding represented by \$3,750,000 in capital stock and \$103,604,154 of gross paid in and contributed surplus. All shares are held by the Company's parent, FMH.

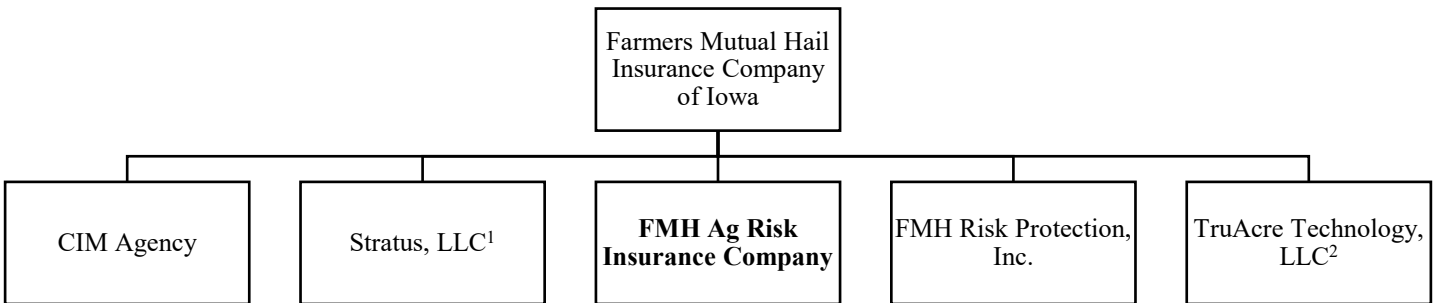
The Company paid stockholder dividends during the examination period as follows:

2017 - \$0
2018 - \$3,500,000
2019 - \$3,500,000
2020 - \$3,500,000
2021 - \$3,500,000

The Company did not notify the Iowa Insurance Division of the dividends paid to shareholders as required by Iowa Code § 521A.5(3)(c).

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. The Company is wholly owned by FMH.



¹ FMH owns 51% of Stratus, LLC.

² FMH owns 50% of TruAcre Technology, LLC.

MANAGEMENT AND CONTROL

SHAREHOLDERS

The annual meeting of the shareholders for the election of Directors and for the transaction of such other business as may properly come before the meeting shall be held each year at such place, time and date as fixed by the Board of Directors. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by law may be called by the Chief Executive Officer, President or the Board of Directors, and shall be called by the Board of Directors upon the written demand, signed, dated, and delivered to the Secretary, of the holders of at least ten percent of all the votes entitled to be cast on any issue proposed to be considered at the meeting. Every shareholder entitled to vote may vote in person or by proxy. At any meeting of the shareholders, a majority of the votes entitled to be cast on the matter by a voting group constitutes a quorum of that voting group for action on that matter, unless the representation of a different number is required by law, and in that case, the representation of the number so required shall constitute a quorum.

BOARD OF DIRECTORS

The business and affairs of the Company shall be managed under the direction of the board of directors. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or to execute and deliver any instrument in the name and on behalf of the Company, and such authority may be general or confined to specific instances.

The number of Directors, which shall constitute the whole Board, shall not be less than five (5) nor more than twenty-one (21), the exact number to be fixed by the Board of Directors. Each Director shall hold office until the next succeeding annual meeting and until his or her successor shall have been elected, qualifies and has accepted his or her office, or until his or her death, resignation or removal.

The Board of Directors shall meet annually for the purpose of organization, the election of officers and the transaction of other business. Such meeting may be held at any time or place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors or in a consent and waiver of notice thereof signed by all the Directors, at which meeting the same matters shall be acted upon as is above provided. Regular meetings of the Board of Directors shall be held at such place and at such times as the Board of Directors shall by resolution fix and determine from time to time. No notice shall be required for any such regular meeting of the Board. Special meetings of the Board of Directors shall be held whenever called by direction of the Chief Executive Officer, the President, or one-third (1/3) of the Directors at the time being in office. Notice of each such meeting shall be communicated to each Director at least two (2) days before the date on which the meeting is to be held.

At December 31, 2021, duly elected and serving as Directors were:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term</u>
Ronald P. Rutledge Urbandale, Iowa	Retired - Chairman of the Board Farmers Mutual Hail Insurance Company of Iowa	2022
Shannon D. Rutledge Altoona, Iowa	President and Chief Executive Officer Farmers Mutual Hail Insurance Company of Iowa	2022
Darin L. Roggenburg Clive, Iowa	Executive Vice President, Chief Financial Officer, and Treasurer Farmers Mutual Hail Insurance Company of Iowa	2022
Deborah L. Ladehoff Clive, Iowa	Senior Vice President, Secretary Farmers Mutual Hail Insurance Company of Iowa	2022
James A. Brost St. Croix Falls, Wisconsin	Retired – Independent Director Farmers Mutual Hail Insurance Company of Iowa	2022
Curtis B. Swain Van Meter, Iowa	Vice President, General Counsel Farmers Mutual Hail Insurance Company of Iowa	2022
William A. Rutledge Polk City, Iowa	Vice President, Claims Manager, Assistant Secretary Farmers Mutual Hail Insurance Company of Iowa	2022

Compensation for Directors shall be fixed by the Board of Directors and is currently set at \$80,000 per year.

COMMITTEES

The Board of Directors, by resolution adopted by the affirmative vote of a majority of the number of Directors then in office, may establish one or more committees, including an executive committee, each committee to consist of one (1) or more Directors appointed by the Board of Directors, except as otherwise required under the Iowa Business Corporation Act. Any such committee shall serve at the will of the Board of Directors. Each such committee shall have the powers and duties delegated to it by the Board of Directors. Each such committee shall fix its own rules governing the conduct of its activities as the Board of Directors may request.

Board governance functions are provided to the Company through the following committees of its parent, FMH: Audit Committee, Executive Committee, Compensation Committee, and Investment Committee.

OFFICERS

The executive officers of the Company shall be a Chief Executive Officer, a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a Secretary, a Treasurer and such other officers as may from time to time be elected by the Board of Directors. One person may hold the offices and perform the duties of any two or more of said offices. In its discretion, the Board of Directors may delegate the powers or duties of any officer to any other officer or agents, notwithstanding any provision of these bylaws, and the Board of Directors may leave unfilled for any such period as it may fix, any office except those of President, Treasurer and Secretary. The officers of the Company shall be elected annually by the Board of Directors at the annual meeting thereof. Each such officer shall hold office until the next succeeding annual meeting of the Board of Directors and until his or her successor shall have been duly chosen and shall qualify or until his or her death or until he or she shall resign or shall have been removed.

Duly elected officers at December 31, 2021 were as follows:

<u>Name</u>	<u>Title</u>
Shannon D. Rutledge	President and Chief Executive Officer
Darin L. Roggenburg	Executive Vice President, Treasurer and Chief Financial Officer
Deborah L. Ladehoff	Senior Vice President, Secretary
Scott W. McEntee	Senior Vice President, Accounting, Controller, Assistant Treasurer

The compensation of the Senior Management Team is shown in Exhibit A to be found immediately following the signature page of this report.

CONFLICT OF INTEREST STATEMENTS

The Company has a written conflict of interest policy statement with procedures in place for the Board of Directors to review annual disclosures of any material interest or affiliation on behalf the Company's officers or directors, which is in conflict with their official duties at the Company.

The Company was not able to produce evidence of a completed and signed conflict of interest statement forms for certain officers and directors during the examination period.

CORPORATE RECORDS

There were no amendments to the Company's Articles of Incorporation or Bylaws during the examination period.

The minutes from the meetings of policyholders, the Board of Directors and the committees of the board were reviewed for the examination period. The Company was not able to produce the meeting minutes for certain Investment Committee and Compensation Committee meetings during the examination period for review.

The annual meeting minutes for the FMH Ag Risk Insurance Company, reflect that the Board of Directors were elected to 3-year terms consistent with the Board of Director elections process for Farmers Mutual Hail Insurance Company of Iowa, rather than the one year term set forth in the Company's bylaws.

The Examination Report prepared by the Iowa Insurance Division, as of December 31, 2016, was accepted as presented to the Board of Directors at a meeting held on May 14, 2018.

INTERCOMPANY AGREEMENTS

Management Service Agreement

The Company entered into a Management Services Agreement with Farmers Mutual Hail Insurance Company of Iowa to receive investment management and advisory services upon the terms and conditions described in the agreement. The agreement shall be for an initial five-year term and, unless timely notification is given, shall be automatically renewed for additional one-year terms.

Federal Tax Sharing Agreement

The Company's federal income tax return is consolidated with Farmers Mutual Hail Insurance Company of Iowa, FMH Risk Protection, Inc. and CIM Agency. The method of allocation between the companies is subject to a written agreement, approved by the Board of Directors. Allocation is based upon separate calculations with current credit provided for net losses utilized. Intercompany tax balances are settled annually. As member of the consolidated tax group, the Company has joint and several liability for the tax liabilities of each member of the group should such member be unable to satisfy its obligation to the agreement.

FIDELITY BONDS AND OTHER INSURANCE

The Company is protected against loss from any fraudulent or dishonest acts from any of the Company's directors, officers, or employees up to a \$2,000,000 single loss limit of liability, which meets the NAIC'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.

EMPLOYEE WELFARE

The Company does not have direct employees. All personnel services are provided by Farmers Mutual Hail Insurance Company of Iowa in conjunction with the Quota Share Reinsurance Agreement.

REINSURANCE

CEDED

Quota Share Reinsurance Agreement

The Company entered into a Quota Share Reinsurance Agreement with Farmers Mutual Hail Insurance Company of Iowa. The agreement provides that the Company cedes 100% of all business written, including crop hail, crop hail private products, and multiple peril crop insurance. Affiliated ceded reinsurance premiums for 2021 totaled \$229,063,538.

STATUTORY DEPOSIT

The book/adjusted carrying value of securities held in an authorized custodial account, and vested in the Iowa Commissioner of Insurance for the benefit of all policyholders, totaled \$2,601,976. The book/adjusted carrying value of securities held for special deposits by the following jurisdictions were:

Arkansas	\$110,287	New Mexico	\$500,000
Georgia	\$ 35,014	North Carolina	\$316,026
Massachusetts	\$109,993	South Carolina	\$140,366
Missouri	\$568,234	Virginia	\$510,007
Nevada	\$225,522		

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in 42 states and the District of Columbia through a network of 980 independent general agencies and over 3,600 licensed and appointed agents. Direct written premiums totaled \$229,063,538 for 2021. Direct written premium in the State of Iowa was \$16,862,618, which was 7.36% of the Company's total direct written premium in 2021.

MPCI is a federally subsidized farm risk management program under the auspices of the Federal Crop Insurance Corporation (FCIC) and administered by the FCIC's Risk Management Agency (RMA). The program is designed to encourage farmers to share, through premium payments, in the federal government's risk management system. The current program, authorized by Congress in 1980 and modified in subsequent legislation, provides premium subsidies and reinsurance protection on eligible crop insurance contracts. The program is administered by the RMA and offered through private carriers pursuant to a Standard Reinsurance Agreement (SRA) contract.

GROWTH OF COMPANY

The growth of the Company is reflected by the following data taken from the filed annual statements for the years indicated.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premium Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2017	\$123,182,171	\$114,396,289	\$ -	\$ -	\$3,063,318
2018	122,322,065	113,365,319	-	-	3,119,500
2019	125,507,676	113,097,641	-	-	3,353,578
2020	119,139,555	112,860,424	-	-	3,060,584
2021	120,576,835	112,187,112	-	-	2,549,582

ACCOUNTS AND RECORDS

Trial balances were prepared for all years of the examination period. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed annual statements for assets, liabilities, income or disbursements.

During the course of the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement on December 31, 2021.

SUBSEQUENT EVENTS

No subsequent events were noted during the examination.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2021.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 79,277,594	\$ -	\$ 79,277,594
Cash and short-term investments	30,727,681	-	30,727,681
Investment income due and accrued	531,448	-	531,448
Premiums and considerations:			
Uncollected premiums in course of collection	8,375,736	156,908	8,218,828
Net deferred tax asset	4,378,819	2,765,552	1,613,267
Receivables from parent, subsidiaries, and affiliates	<u>208,016</u>	<u>-</u>	<u>208,016</u>
 Total assets	 <u>\$123,499,295</u>	 <u>\$2,922,460</u>	 <u>\$120,576,835</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ -
Loss adjustment expenses	-
Current federal and foreign income taxes	13,987
Ceded reinsurance premiums payable	<u>8,375,736</u>
 Total liabilities	 <u>\$ 8,389,723</u>
 Common Capital Stock	 \$ 3,750,000
Gross paid in and contributed surplus	103,604,154
Unassigned funds (surplus)	<u>4,832,958</u>
 Surplus as regards policyholders	 <u>\$112,187,112</u>
 Total liabilities and surplus	 <u>\$120,576,835</u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$ -
 <u>Deductions</u>		
Losses incurred	\$ -	
Loss adjustment expenses incurred	-	
Other underwriting expenses incurred	-	
Total underwriting deductions	<u>-</u>	\$ -
Net underwriting gain (loss)		\$ -

Investment Income

Net investment income earned	\$2,549,582	
Net realized capital gains (losses)	<u>262,483</u>	
Net investment gain (loss)		\$ 2,812,065

Other Income

Net gain (loss) from agents' or premium balances charged off	<u>\$ (213,564)</u>	
Total other income		<u>\$ (213,564)</u>
Net income before dividends to policyholders		\$ 2,598,500
Dividends to policyholders		<u>-</u>
Net income before federal income tax		\$ 2,598,500
Federal and foreign income taxes incurred		<u>(55,787)</u>
Net income		<u>\$ 2,654,287</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2020	<u>\$112,860,424</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ 2,654,287
Change in net deferred income tax	(572,600)
Change in non-admitted assets	745,001
Dividends to stockholders	(3,500,000)
Change in surplus as regards policyholders for the year	<u>\$ (673,312)</u>
Surplus as regards policyholders, December 31, 2021	<u>\$112,187,112</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ -	
Net investment income	2,725,944	
Miscellaneous income	<u>(213,564)</u>	
Total		\$ 2,512,380
Benefit and loss related payments	\$ -	
Federal income taxes (paid) recovered	<u>47,075</u>	
Total		<u>\$ 47,075</u>
Net cash from operations		<u>\$ 2,465,305</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	<u>\$21,031,520</u>	
Total investment proceeds		\$21,031,520
Cost of investments acquired (long-term only):		
Bonds	<u>\$17,362,742</u>	
Total investments acquired		<u>\$17,362,742</u>
Net cash from investments		<u>\$ 3,668,778</u>

Cash from Financing and Miscellaneous Sources

Dividends to stockholders	\$ 3,500,000	
Other cash provided (applied)	<u>8,046,138</u>	
Net cash from financing and miscellaneous sources		<u>\$ 4,546,138</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments		\$10,680,221
Cash, cash equivalents and short-term investments:		
Beginning of year		<u>20,047,460</u>
End of period		<u>\$30,727,681</u>

CONCLUSION

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

In addition to the undersigned Dave Heppen, FCAS, MAAA, Andrew Chandler, ACAS, MAAA, and Michael Hall, FCAS, MAAA, of Risk & Regulatory Consulting, LLC; and Alex Matovu, Aaron Syverson, and Mick Jepsen; Examiners for the Iowa Insurance Division, participated in the examination and preparation of this report.

Respectfully submitted,

/s/ Joshua J. Johnson
Joshua J. Johnson, CFE
Examiner in Charge
Risk & Regulatory Consulting, LLC
On behalf of the Iowa Insurance Division

/s/ Amanda Theisen
Amanda Theisen, CFE
Supervisor and Assistant Chief Examiner
Iowa Insurance Division