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Attorneys for Department of Insurance

FILED

FEB 11 2010

Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF:	
American Farmers & Ranchers Insurance Company	**ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2008**
Idaho Certificate of Authority: 2609 NAIC Company Code: 37931	Docket No. 18-2593-10

The Report of Examination as of December 31, 2008 (Report) of *American Farmers & Ranchers Insurance Company* (Company) was completed by examiners from the Idaho Department of Insurance (Department) and signed the 29th day of January 2010 by the Examiner-in-Charge, Kelvin Ko, CFE. The verified (attested) copy of the Report was filed with the Department effective January 29, 2010. Previously, an initial draft copy of the Report was delivered to the Company on January 20, 2010, with the verified Report being transmitted to the Company electronically (PDF file, via e-mail) on February 1, 2010 to Mr.

K. Christopher Blevins, Chief Financial Officer of the Company. Another copy of the Report (which included minor corrections) was subsequently transmitted electronically via email to Mr. Blevins on February 5, 2010. The final Report, identical to the version sent to the Company on February 5, 2010, and bearing the January 29, 2010 verification (examiner affidavit), is attached hereto and incorporated herein in full and identified as Exhibit A.

WAIVER

Attached hereto and incorporated herein as Exhibit B is a copy of the original Waiver signed by Mr. Blevins on February 5, 2010 and received via U.S. First Class mail on February 8, 2010; an e-copy (PDF) of the executed waiver was also received earlier via email by the Department on February 5, 2010. Based upon the Waiver/Exhibit B, this is a final order, and the Company has waived its rights to seek reconsideration and judicial review of this order.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings and conclusions supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 11TH day of February 2010.

William Deal

William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 11th day of February 2010, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. K. Christopher Blevins, CFO American Farmers & Ranchers Insurance Company 800 N. Harvey Oklahoma City, Oklahoma 73102 cblevins@AFRMIC.com	X	certified mail
		first class mail
		hand delivery
		Facsimile
	X	e-mail
Mr. Ken Branham, General Manager American Farmers & Ranchers Insurance Company 800 N. Harvey Oklahoma City, Oklahoma 73102 kbranham@AFRMIC.com		certified mail
		first class mail
		hand delivery
		Facsimile
	X	e-mail
Georgia Siehl, CPA, CFE Bureau Chief / Chief Examiner Idaho Department of Insurance 700 W. State St., 3rd Floor Boise, Idaho 83720-0043 Georgia.Siehl@doi.idaho.gov		certified mail
		first class mail
	X	hand delivery
		Facsimile
	X	e-mail

William R. Michels, MBA, CPA, CFE
Examination Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of

AMERICAN FARMERS & RANCHERS INSURANCE COMPANY
(NAIC Company Code 37931)

as of

December 31, 2008

EXHIBIT

A

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State of Idaho
DEPARTMENT OF INSURANCE

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WILLIAM W. DEAL
Director

Boise, Idaho
January 29, 2010

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720-0043

The Honorable Alfred Gross
Commissioner
Chair, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P. O. Box 1157
Richmond, Virginia 23218

The Honorable Christina Urias
Director of Insurance
NAIC Secretary, Western Zone
Arizona Department of Insurance
2910 N. 44th Street, Ste. 210 (2nd Floor)
Phoenix, AZ 85018-7269

Dear Directors and Commissioner:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2008 of the financial condition and corporate affairs of:

AMERICAN FARMERS & RANCHERS INSURANCE COMPANY
3415 E. Copper Point Drive, Suite 106
Meridian, Idaho 83642

hereinafter referred to as "Company" at its offices in Meridian, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2005, through December 31, 2008. The examination was conducted at the Meridian, Idaho office of the Company by examiners from the State of Idaho. The examination was conducted in accordance with Idaho Code Section 41-219(1), the National Association of Insurance Commissioners (NAIC) *Financial Condition*

Examiners Handbook, the NAIC *Accounting Practices and Procedures Manual and the NAIC Market Regulation Handbook.*

All accounts and activities of the Company were considered in accordance with the NAIC's risk-focused examination process. The Financial Examiners Handbook requires that we plan and perform the examination 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 Company 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 (SAP) and annual statement instructions, as governed and prescribed by Idaho law.

A Letter of Representation was signed by the Company attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Michael Lamb, LLC, consulting actuary, for the Idaho Department of Insurance. A risk assessment review of the Company's IT systems and controls was performed by Examination Resources, LLC. There was some reliance placed on the 2008 certified public accountant's statutory audit report and work papers during the examination of the Company.

In addition to the Report of Examination, a Management Letter was issued to the Company by the Department which covered items that were not included in the Report, due to the materiality threshold, items that were related to proprietary/operational issues, detailed corporate governance assessments/recommendations, as well as minor accounting and/or annual statement reporting corrections.

PRIOR EXAMINATION

The prior examination of the Company (formerly known as General Fire & Casualty Company or General Fire) was conducted by the State of Idaho and covered the period from January 1, 2001 through December 31, 2004, which included a review of subsequent reserves as of June 30, 2005. The Company's current parent, American Farmers & Ranchers Mutual Insurance Company, acquired the outstanding stock of General Fire from GF&C Holding Company on November 21, 2007 and changed General Fire's name to *American Farmers & Ranchers Insurance Company* on February 1, 2008. Since being under new ownership, many of the Company's administrative and support operations (e.g. information systems and accounting) have been moved to the parent's office in Oklahoma. Unless otherwise mentioned in the COMMENTS AND RECOMMENDATIONS section of this report, the prior report exceptions were either adequately addressed by the Company, were obviated by the recent change in ownership or made moot by the subsequent events.

HISTORY AND DESCRIPTION

General

General Fire & Casualty Company (General Fire) was incorporated on June 25, 1998, as an Idaho domestic stock property and casualty insurer. It was authorized to transact the business of casualty, excluding workers' compensation; surety; marine and transportation; and property insurance.

In May of 1999, GF&C Holding Company was organized for the purposes of becoming the holding company and owner of General Fire and any related businesses. The new holding company structure required the stockholders of General Fire to become stockholders of GF&C Holding Company. All of the outstanding shares of capital common stock of General Fire were exchanged for shares of capital stock of GF&C Holding Company. GF&C Holding Company was the sole owner of General Fire, except for the shares held by the directors. The Department of Insurance approved the acquisition of General Fire by GF&C Holding Company on April 10, 2000.

On May 26, 2000, the General Fire Board of Directors approved the purchase of the shell of Universal of Omaha Casualty Insurance Company, a Nebraska company. Also approved on May 26, 2000 was General Fire's assignment of all rights and interest under the Stock Purchase Agreement, dated May 17, 2000, for the purchase of Universal of Omaha Casualty Insurance Company (Universal of Omaha) to GF&C Holding Company.

On June 27, 2000, Universal of Omaha was issued Certificate of Authority No. 2609. On September 1, 2000, the unanimous consent of the shareholders and directors of General Fire approved General Fire's merger into Universal of Omaha, with Universal of Omaha being the surviving company. Also on September 1, 2000, Universal of Omaha was redomesticated to Idaho and changed its name to General Fire & Casualty Company and operates under Certificate of Authority No. 2609, which was reissued on September 1, 2000, simultaneously with the name change.

On August 10, 2007, the Board of Directors of American Farmers & Ranchers Mutual Insurance Company, an Oklahoma domiciled insurer authorized the purchase of General Fire from GF&C Holding company. On November 21, 2007, American Farmers & Ranchers Mutual Insurance purchased General Fire from GF&C Holding and on December 12, 2007, Certificate of Authority No. 2609 was reissued by the Idaho Department of Insurance with the name changed to General Fire & Casualty Company ABN (Assumed Business Name): American Farmers & Ranchers Insurance Company. On February 1, 2008, the Idaho Department of Insurance again reissued Certificate of Authority No. 2609 changing the name of the Company to American Farmers & Ranchers Insurance Company.

Capital Stock and Paid-In Surplus

As of December 31, 2008, the Company had authorized 2,000,000 shares of $1.50 par value common stock. Issued and outstanding common stock also totaled 2,000,000 shares, therefore total common capital stock equaled $3,000,000 as of December 31, 2008. American Farmers & Ranchers Mutual Insurance Company (AFRM) held 100% ownership of the issued and outstanding shares.

The following reconciliation delineates the changes that occurred in the Company's capital stock and paid-in and contributed surplus from December 31, 2004, the date from the last examination, to December 31, 2008:

Description	Par Value	Shares Issued	Common Capital Stock	Gross Paid In and Contributed Surplus	Total Capital Stock & Contributed Surplus
12/31/2004: GF&C common stock and paid in surplus	1.50	2,000,000	$3,000,000	$8,845,732	$11,845,732
2005: Additional paid in capital from GF&C Holding Co.	N/A			$1,544,994	
12/31/2005: GF&C common stock and paid in surplus	1.5	2,000,000	$3,000,000	$10,390,726	$13,390,726
2006: Additional paid in capital from GF&C Holding Co.	N/A			$1,300,000	
12/31/2006: GF&C common stock and paid in surplus	1.50	2,000,000	$3,000,000	$11,690,726	$14,690,726
11/21/2007: Redemption of shares by GF&C Holding Co.	1.50	(1,704,755)	$(2,557,133)	$(7,157,978)	$4,975,616
11/21/2007: Cash infusion by AFRM at date of acquisition	N/A			$6,500,000	$11,475,616
11/21/2007: AFRM acquired the 295,245 outstanding shares from GF&C Holding Co.	1.50	295,245	$442,868	$11,032,748	$11,475,616
12/31/2007: The Company's common stock and paid in surplus	1.50	295,245	$442,868	$11,032,748	$11,475,616
6/30/2008: 3 to 1 stock split	1.50	885,735	$1,328,603	$10,147,013	$11,475,616
9/17/2008: 2.258 to 1 stock split	1.50	2,000,000	$3,000,000	$8,475,616	$11,475,616
12/31/08: Contributed capital through quota share reinsurance treaty	N/A			$2,622,947	
12/31/2008: The Company's common stock and paid in surplus		2,000,000	$3,000,000	$11,098,563	$14,098,563

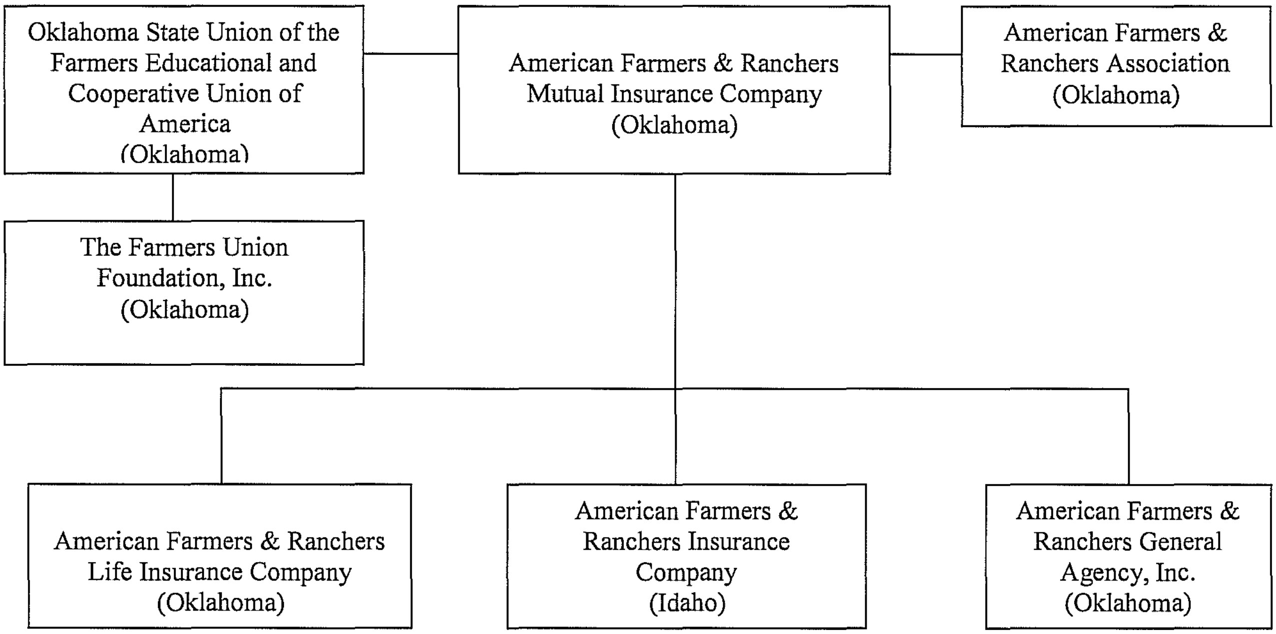
Dividends to Stockholders

During the examination period, the Company did not declare, approve, pay, or distribute any dividends of any kind to its stockholders.

MANAGEMENT AND CONTROL

Insurance Holding Company System

As noted earlier, on November 21, 2007, the Company's outstanding stock was acquired by American Farmers & Ranchers Mutual Insurance Company. Under this form of ownership, the Company was a member of an insurance holding company system as defined in Section 41-3801, Idaho Code. According to the Holding Company System Registration Form B, as filed with the Department, the ultimate controlling entity of the Company was American Farmers & Ranchers Mutual Insurance Company. An organizational chart of the Holding Company System as of December 31, 2008 was as follows:



American Farmers & Ranchers Life Insurance Company, American Farmers & Ranchers Insurance Company and American Farmers & Ranchers General Agency, Inc. are 100% owned subsidiaries of American Farmers & Ranchers Mutual Insurance Company (AFRM).

Regarding the nature of the Company's affiliation with non-insurance company entities (see chart above), American Farmers & Ranchers Association (AFRA) is a non-profit organization registered in Oklahoma. It has the same board as AFRM. AFRA was formed for future use as an association to provide like services to members in other states and even in Oklahoma if needed. Currently the only members are the board of directors and it has not been used actively as a membership organization. The Oklahoma State Union of the Farmers Educational and Cooperative Union of America (OFU) also has the same board as AFRM and the Company. OFU was chartered in 1906 as a rural farm cooperative supply organization that provided products to farmers at a lower price due to volume buying. It also lobbied for farm and rural legislative issues in the interest of members. In the mid 1920's insurance coverage was provided to the members of OFU and this service eventually grew to become a mutual insurance company. The bylaws of both OFU and AFRM state that the boards must be the same. OFU collects membership dues from its members. The funds of OFU are used for promotion and goodwill on behalf of both OFU and the insurance companies

Directors and Officers

The following persons were serving as directors and officers at December 31, 2008:

Directors:

Name	Business Address	Principal Occupation
James E. Campbell	Idabel, OK	Agent and Farmer/Rancher
Bob J. Nick	Okmulgee, OK	Agent
John L. Ogden	Oktaha, OK	Agent and Farmer/Rancher
Billy E. Perrin	Hugo, OK	Farmer
Edward C. Preble, Jr.	Norman, OK	Agent and Farmer/Rancher
George W. Stone	Purcell, OK	Retired
Richard A. Stults	Luther, OK	Farmer

Officers:

Name	Title
Ray L. Wulf*	President & Chief Executive Officer
Terry L. Detrick*	Vice President
Royce E. Meek+	Secretary & Treasurer

*Ray L. Wulf resigned on February 16, 2009 and was replaced by Terry L. Detrick as President and Chief Executive Officer. The Company reported Terry L. Detrick as President on its 2008 annual statement.

+Royce E. Meek was also appointed general manager of the Company in February, 2009. In July, 2009, Mr. Meek became Chief Operating Officer and resigned his position of Secretary and Treasurer. Bobby Green was appointed interim Secretary and Treasurer replacing Mr. Meek. In addition, Mr. Meek surrendered his General Manager position in August, 2009 and was replaced by Ken Branham. It was noted that Ken Branham reports directly to the Board.

Committees

The Company's Board of Directors has no committees.

Corporate Governance

According to the NAIC's Financial Condition Examiners' Handbook (Handbook), which is adopted by § 41-219(1), Idaho Code, "In order to complete an examination under the risk-focused surveillance approach, examiners must consider and evaluate the insurer's corporate governance and established risk management processes." (See Handbook Preamble, page 3, para 4).

Interviews of the senior management team and selected Board members were conducted in order to assess the "*tone at the top*." Additionally, in concert with these interviews, inherent risk, mitigating controls and residual risk were assessed by members of the exam team regarding the Company's corporate governance environment.

Weaknesses were noted by Department examiners in the Company's corporate governance; detailed explanations of those weaknesses, and recommendations for remediation, were communicated to the Company in the form of a management letter.

Senior management and Board members interviewed included:

Name	Position Being Interviewed
Terry Detrick	President and Chief Executive Officer
Royce Meek	Secretary, Treasurer, and General Manager
John Ogden	Board Member
David Robinson**	Accounting Director
Curtis Liles	Underwriting Manager
Edward Wheeler	Claims Manager
Edward Carter	IT Manager
Kim Bailey	Compliance Attorney

** David Robinson left the Company in August, 2009; he was replaced by Chris Blevins, Chief Financial Officer, in September, 2009.

Conflict of Interest

The Company did not have a procedure(s) which requires each director, officer, and key employee to complete a conflict of interest statement annually. This procedure would document compliance with § 41-2837, Idaho Code (Prohibited Pecuniary Interests). Upon inquiry from the examiner, the Company provided executed conflict of interest statements for Board members, officers and key management personnel. The statements were, however, dated March 18, 2009, subsequent to the examination period. Additionally, the Company's Board minutes do not reflect that the Board has reviewed the statements, nor that a formal policy has been adopted by the Company's Board for the annual execution (and review) of these statements.

It is recommended that the Board of Directors adopt a resolution which requires each director, officer, and key employee to complete a conflict of interest statement annually, that compliance be reviewed annually by the Board and that said review be memorialized in the Board minutes.

Contracts and Agreements

Cost Allocation and Management Agreement:

On April 24, 2009, the Company entered into a cost allocation and management agreement with its parent, American Farmers & Ranchers Mutual Insurance Company (AFRM) effective retroactively to November 21, 2007. This agreement is perpetual. Either party may terminate this agreement at any time upon providing the other party with thirty (30) days prior written notice. In a letter to the Company dated May 14, 2009, the Idaho Department of Insurance stated that the agreement was reviewed pursuant to Section 41-3807, Idaho Code and IDAPA 18.01.23.023, and had no objections to the proposed agreement. In this agreement, AFRM agrees to provide to the Company all such services as are usual and customary to the management and operation of a property and casualty insurance company. In return, the Company agrees to pay AFRM all its out-of-pocket expenses incurred by AFRM in connection with its performance under this agreement. In general, the agreement provides for reimbursement to AFRM for the following services: (1) all compensation, benefits, including pensions, and payroll taxes for employees and officers of AFRM performing services based upon actual costs allocable to the employees and the salaries and inherent benefits and other expenses attributable thereto; (2) overhead and operating costs of AFRM in performing services under this agreement; (3) $12,000 per year for accounting services; and (4) $12,000 per year for information technology services. It was noted that this agreement did not include a specified due date for timely settlement of amounts owed which is in violation of SSAP No. 96, paragraph 2. It is recommended that the Company amend this agreement to include a specified due date for timely settlement between the two parties.

The Company has elected to be included in its parent company's 2008 consolidated Federal income tax return filing with the Internal Revenue Service. In this connection, the Company recognized tax liabilities, tax recoverables and Federal income tax expense in its 2008 annual statement. It has therefore constructively effectuated an inter-company cost sharing arrangement with regard to the recognition of Federal income taxes. However, the Company failed to provide notice to the Department 30 days prior thereto of its intent to enter into this holding company transaction (requiring a Form D filing). This is a violation of §§ 41-3807(2) and 41-3807(2)(d), Idaho Code. Additionally, recognition of affiliated income tax transactions must be made "*pursuant to a written income tax agreement*" according to SSAP No. 10, paragraph 12(b).

It is therefore recommended that the Company file (as a Form D filing) a proposed intercompany tax allocation agreement with the Department that defines and supports the current cost sharing allocation process of tax liabilities and tax benefits originating from the parent company's Federal consolidated income tax return.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

On November 21, 2008, the Company's board of directors adopted a resolution to amend the Company's Articles of Incorporation. It was amended to change the name from General Fire & Casualty Company to American Farmers & Ranchers Insurance Company and to change the registered office to 800 North Harvey Avenue, Oklahoma City, Oklahoma. These amendments were submitted to the Idaho Department of Insurance pursuant to Idaho Code, Section 41-2826 and were approved by the Idaho Department of Insurance on February 1, 2008.

On April 30, 2008, the Company's board of directors adopted a resolution to amend the bylaws which changed the Company's name from General Fire & Casualty Company to American Farmers & Ranchers Insurance Company. The amended bylaws were filed with the Idaho Department of Insurance.

Minutes of Meetings

A review of the minutes of the meetings of the shareholders/board of directors for the period subsequent to the change in ownership (November 21, 2007 through December 31, 2008) indicated compliance with the Company's bylaws with respect to election of directors.

The review of the minutes also indicated that either a quorum was present at all Board of Directors' meetings or that unanimous written consents were properly executed.

Stock Splits

The Company executed capital stock splits twice in 2008, once on June 30, 2008 and another on September 17, 2008. The examiner found that the first stock split on June 30, 2008 was approved retro-actively by a Board resolution dated August 9, 2008. There was, however, no evidence of Board approval (retro-active or otherwise) of the second stock split dated September 17, 2008. Subsequent to an inquiry by the examiner, the Board on June 18, 2009 passed a resolution to approve the stock split dated September 17, 2008. It is therefore recommended that management seek Board approval prior to any stock splits in the future, and that the approval for such stock splits be adequately documented in the Board minutes.

Investment Approvals

Pursuant to the examiner's review of Board minutes from November 2007 (date Company was purchased by American Farmers & Ranchers Mutual Insurance Company) through November 2008, it was noted that the Board only approved the Company's investment transactions once, as recorded in the Board minutes dated June 18, 2008. The June 18, 2008 approval stated that the Board approved/authorized the year-to-date investment report(s). Company management stated that it was the policy of the Board to approve the Company's investments quarterly; however it appeared that consistent, quarterly Board approvals were not documented (or otherwise in evidence) in the Board minutes. This is a violation of § 41-704, Idaho Code which states:

> 41-704.Authorization of investments. An insurer shall not make, sell, or exchange any investment or loan, except as to the policy loans or annuity contract loans of a life insurer, unless the same is authorized or approved by its board of directors or by a committee charged by the board of directors or the by-laws with the duty of making such investment, loan, sale or exchange. The minutes of any such committee shall be recorded and reports thereof shall be submitted to the board of directors for approval or disapproval.

It is recommended that, pursuant to § 41-704, Idaho Code, the Board approve, and document, all of the Company's investment transactions on a regular basis (e.g. quarterly) and that such approval be recorded in the minutes.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Company was maintained for the examination period. Coverage in effect as of December 31, 2008 included a financial institutional bond, which covered losses resulting from dishonest or fraudulent acts committed by employees up to $1.5 million per single loss. The deductible was $50,000 per single loss. The financial institutional bond insurance coverage met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

Other insurance coverage maintained by the Company included commercial general liability and property, commercial excess liability (umbrella), workers' compensation, commercial auto and directors and officers liabilities

All insurance coverage maintained was issued by companies licensed in the State of Idaho.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any employees. Services to the Company are provided by employees of the Company's parent, American Farmers & Ranchers Mutual Insurance Company (AFRM) through a cost allocation and management as described earlier in this Report under "*Cost Allocation and Management Agreement*."

TERRITORY AND PLAN OF OPERATION

The Company was domesticated in Idaho and operated under Idaho Certificate of Authority No. 2609. The Company held licenses in a total of 24 states (including Idaho). The following is a listing of those states:

Arizona	Illinois	Minnesota	North Dakota	Utah
California	Indiana	Missouri	Oklahoma	Washington
Colorado	Iowa	Montana	Oregon	Wisconsin
Georgia	Kansas	Nebraska	South Dakota	Wyoming
Idaho	Kentucky	Nevada	Texas	

The Company's operations were mainly conducted at its parent company's office at Oklahoma City, Oklahoma. However, it also maintained a statutory home office at Meridian, Idaho in which four underwriters, a compliance attorney and a legal assistant were stationed.

All of the Company's commercial and agricultural insurance policies were written through resident and non-resident independent agencies and producers. Direct premiums written in 2008 totaled $8.4 million and were classified as 60 percent commercial agricultural, 30 percent refuse haulers, and 10 percent general commercial. At December 31, 2008, the Company had approximately 74 appointed agents, who were authorized to solicit business on its behalf.

Additionally, the Company had approximately 20 auto policies in force at year-end 2008; however, it has no plans for writing any new auto policies.

SUBSEQUENT EVENTS

In August 2009, in response to recommendations from an outside consultant retained by the parent company, the Board of Directors passed a resolution directing the Idaho company to cease writing new business and to non-renew all commercial policies as soon as possible. It appears that auto policies, however, will remain in force at least for the near future.

The recommendations emanated from a desire on the part of the parent company to stem the amount of resources being allocated to the Idaho company and negatively impacting the parent's financial position. Company management cited that the parent company had weathered severe storm claims during the period 2005 through 2009, with the last two years being particularly devastating, and qualifying as "one in 500 years storms." The principal goal of the parent company, therefore, will be to "*slow things down on expenses*" and to restore surplus and the bottom line. Company management's best estimate is that it expects that the Company's existing business to be run-off in about 1.5 years. As of October 31, 2009, the Company has ceased writing new business and has filed applications for block non-renewals in all the states that it has policies in force. Company management also has stated its intent to redomesticate the Company from the State of Idaho to the State of Oklahoma (where the parent company is also domiciled). With regard to redomestication, the Company filed a Form R (dated November 25, 2009) with the Oklahoma DOI on December 4, 2010.

STATUTORY AND SPECIAL DEPOSITS

Idaho statutory deposit investments were verified as being held in a custodial deposit with Bank of the Cascades, located at Boise, Idaho for the protection of all policyholders and/or creditors. The Idaho Department of Insurance provided written confirmation of the following holdings:

Description	Par Value*	Fair Value**	Statement Value***
US Treasury Notes, 4.125%, 5/15/2015	$ 300,000	$ 344,064	$ 312,364
Boise City Idaho CTFS, 5.875%, 9/2/2012	250,000	255,590	255,859
Cassia & Twin Fall Cnty ID, 4.45%, 8/1/2010	475,000	484,666	477,161
Bank of America Corporation, 7.8%, 2/15/2010	275,000	281,749	285,961
Goldman Sachs Group Inc., 5.25%, 4/1/2013	500,000	460,470	510,627
Proctor & Gamble, 6.875%, 09/15/2009	250,000	258,478	255,224
Totals	$2,050,000	$2,085,017	$2,097,196

* Confirmed with the Idaho Department of Insurance.

** The fair market value amounts were taken from the December 2008 statement of the custodian bank.

*** Bonds are generally stated at amortized cost unless designated by NAIC as "medium or below quality" in which case the bonds are carried at fair value.

The deposits meet the general requirements and provisions of Sections 41-316A, 41-803 and 41-804, Idaho Code.

The Company also had statutory deposits held in custody by the Wyoming Bank & Trust located at Cheyenne, Wyoming for the State of Wyoming:

Description	Par Value*	Fair Value**	Statement Value
US Treasury Notes, 4.125%, 5/15/2015	$250,000	$286,720	$260,304
Totals	$250,000	$286,720	$260,304

* Confirmed with the Wyoming Department of Insurance

** The fair market value amount was taken from the December 2008 statement of the custodian bank.

GROWTH OF THE COMPANY

The following schedule reflects the growth of the Company, as reported in the Company's annual statements, for the five-year period ending December 31, 2008:

Year	Net Admitted Assets	Liabilities	Surplus	Net Gain (Loss) From Operations
2004 *	$47,696,875	$38,140,057	$9,556,818	$(3,424,979)
2005	$34,204,408	$23,169,779	$11,034,629	$ 1,351,419
2006	$25,892,198	$15,119,929	$10,772,269	$(2,113,932)
2007+	$19,231,263	$12,848,434	$6,382,829	$(1,956,259)
2008**	$19,921,958	$ 9,391,814	$10,530,144	$ 1,901,356

*Per examination (General Fire & Casualty Company)

+General Fire & Casualty Company was acquired by American Farmers & Ranchers Mutual Insurance Company on November 21, 2007 and became American Farmers & Ranchers Insurance Company

**Per examination (American Farmers & Ranchers Insurance Company)

LOSS EXPERIENCE

The ratio of claims and underwriting expenses incurred to premiums earned, as reported in the Company's Annual Statements are scheduled below:

Year	Premium Earned	Losses & LAE Incurred	Expenses Incurred	Total Losses, LAE and Expenses	Ratio to Earned Premium
2004*	$26,004,779	$21,041,033	$10,810,512	$31,851,545	122.5%
2005	$15,413,004	$11,860,584	$ 6,481,950	$18,342,534	119.0%
2006	$ 8,609,811	$ 8,519,250	$ 6,336,644	$14,855,894	172.5%
2007	$11,293,597	$10,754,997	$ 4,517,885	$15,272,882	135.2%
2008*	$ 2,815,328	$ (452,944)	$ 101,758	$ (351,186)	(12.5%)

*Per Examination

Expenses incurred during the transition in ownership in 2007 showed a substantial reduction. The Company entered into a whole account quota share reinsurance contract with its parent, AFRM effective January 1, 2008 in which 100% of the Company direct business written was ceded to AFRM. As a result, premium earned was substantially reduced in 2008. In addition, this contract provides that AFRM assumes 100% of all losses arising under policies in force prior to the effective day of this contract and the Company shall not have to pay AFRM any additional consideration to assume these losses. As a result of this provision in the contract, the Company's loss and loss adjustment expenses incurred turned negative in 2008. The contract also stated that the Company be paid 25% ceding commission on premiums ceded to AFRM. As a result, the Company's expenses incurred were substantially reduced in 2008.

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REINSURANCE

Assumed

The Company had no assumed reinsurance contracts in effect as of December 31, 2008.

Ceded

As of December 31, 2008, the Company had only a whole account quota share reinsurance agreement with its parent, American Farmers & Ranchers Mutual Insurance Company which became effective January 1, 2008. In this agreement, the Company agreed to cede 100% of direct written premiums to its parent. In return, the parent agreed to pay 25% ceding commission to the Company and also provide for 100% reinsurance coverage for the Company's policies. In addition, the parent agreed to pay for the Company's net losses on claims incurred in accident year 2007 and prior with no additional consideration received from the Company.

INSURANCE PRODUCTS AND RELATED PRACTICES

A limited scope Market Conduct Examination was conducted in conjunction with the examination of the administrative affairs, books, records, and financial condition of the Company. Sample tests performed by the examiners were generally based upon guidance from the NAIC *Market Regulation Handbook*, which included sample sizes derived from a 95 percent confidence level or on a judgmental basis where deemed appropriate. Additionally, statistical samples were randomly drawn using the Audit Command Language (ACL) data analysis software.

Treatment of Policyholders

Claims

Samples of denied or closed without payment claims, opened and paid claims were reviewed to determine compliance with Idaho laws (including Title 41, Chapter 13, Idaho Code, Trade Practices and Fraud). There were no significant compliance exceptions identified.

The Company has a fraud plan in place. Company management stated that they were unaware of any fraudulent claims during the period under examination; therefore, it did not report any fraudulent claims to the Department of Insurance.

Complaints

The Company maintained a complaint log or register pursuant to Section 41-1330, Idaho Code. No significant compliance exceptions were identified.

ACCOUNTS AND RECORDS

General Accounting

As of the examination date, the Company's data processing system utilized the following application software:

Accounting	Freedom Accounting Software
Underwriting	Custom In-house Web Application – gNet
Claims	Custom In-house Web Application – gNet

The Department's examination concluded that the Company did not maintain an effective financial reporting process to prepare financial statements in accordance with statutory requirements. Nor did it maintain effective internal controls over areas including period-end financial reporting processes, premiums receivable, commissions, reinsurance and related intercompany balances.

It is strongly recommended that Company management evaluate all aspects of the Company's financial reporting process and strengthen the Company's internal controls regarding the accounting and reporting system(s).

Regarding record-keeping, the Company did not maintain accurate and complete accounts and records of transactions and affairs in accordance with the usual and accepted principles and practices of insurance accounting and record keeping. Specifically, deficiencies in record-keeping were noted in the areas of reinsurance and related intercompany balances. It is recommended that the Company comply with Idaho Code Section 41-2839(1) with regard to keeping and maintaining adequate records.

Due to a significant number of audit adjustments made to the Company's financial statements by its external auditor (KPMG) subsequent to; the original 2008 annual statement filing, (due March 1, 2009) the Company filed an amended/corrected 2008 annual statement in August, 2009. In addition, the completion date, and filing with the Department, of the Company's 2008 independent audit report was delayed from June 1 to July 15, 2009.

Auto Insurance Policies Not Reported in the 2008 Annual Statement

It was noted that the Company had 20 personal auto policies in force at year-end 2008; however, premiums written on these policies were not reported in the annual statement. It is recommended that the Company comply with the annual statement instructions by reporting all premiums written in the annual statement.

Deficiencies Noted on Schedule F

The Company did not report the correct amount that was recoverable from the third party reinsurers on Schedule F, Part 3 of the 2008 annual statement. It reported only $12,000 due from Motors Insurance Corp. on reinsurance recoverable on paid losses. The correct amount should be a $676,754 recoverable from various reinsurers. In addition, the Company combined the reinsurance recoverable on unpaid losses from the third party reinsurers with those recoverables due from its parent. The Company also did not report the names of the third party reinsurers and the unearned premiums on Schedule F, Part 3. It is recommended that the Company follow the NAIC annual statement instructions by reporting the correct amounts due from the third party reinsurers, the names of the third party reinsurers and the respective unearned premiums amounts on Schedule F, Part 3.

The Company did not age its reinsurance recoverable. As a result, the Company did not complete Schedule F, Part 4. It is recommended that the Company follow the annual statement instructions by filling out Schedule F, Part 4, aging of reinsurance recoverables.

Independent Accountants

KPMG, LLP (KPMG) of Oklahoma City, Oklahoma was the Company's independent auditor for the years 2007 through 2008. For years 2005 and 2006, General Fire & Casualty Company (the Company's name prior to acquisition by its parent), was audited by Eide Bailly, LLC.

The independent auditor's reports issued for all years under examination indicated the accompanying statutory balance sheets and related statements presented fairly, in all material respects, the financial position of the Company on a statutory basis. In compliance with Idaho DOI Administrative Rule No. 62 (IDAPA 18.01.62) the independent auditors' reports for the period under examination were filed with the Idaho Department of Insurance.

The independent auditor's 2008 workpapers and supporting documentation were made available to the DOI examiners and some reliance was placed on these workpapers during this examination. When the auditor's workpapers were utilized during this examination, such workpapers were denoted to indicate such utilization.

As mentioned under "General Accounting", the independent accountant's 2008 audit report was filed late due to a significant number of audit adjustments made to the Company's accounting records by KPMG. The Company did, however, request, and receive, an extension from the Department to delay the filing of these statements.

Actuarial Opinion

The unpaid claims reserves and related liabilities were calculated by the Company and reviewed by Greg Wilson, FCAS, MAAA, consulting actuary with Lewis & Ellis, Inc. located at Richardson, Texas. The actuary, using standard actuarial procedures, then determined the incurred loss reserves and issued a statement of opinion.

The following opinion, dated October 21, 2009, was issued subsequent to the opining actuary's original opinion (February 19, 2009) after the Department's examiner identified an error in the actuarial workpapers. The revised/amended opinion stated that the Company's reserves:

(A) Do not meet the requirements of the insurance laws of Idaho;

(B) Are not consistent with those computed in accordance with accepted actuarial standards and principles.

(C) Do not make a reasonable provision, in the aggregate, for all unpaid loss and loss expense obligations of the company under the terms of its contracts and agreements.

The provision for unpaid losses and loss expenses is $897,000 less than the minimum amount considered necessary to be within the range of reasonable estimates.

The identified actuarial items are listed as follows:

<u>Loss Reserves</u>

1.	Reserve for Unpaid Losses (Page 3, Line 1)	$2,875,440
2.	Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3)	$1,159,139
3.	Reserve for Unpaid Losses – Direct and Assumed (Schedule P-Part 1, Total of Columns 13 and 15)	$12,853,000
4.	Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P-Part 1, Total of Columns 17, 19, and 21)	$1,926,000
5.	The Page 3 write-in item reserve, "Retroactive Reinsurance Assumed"	$0
6.	Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion	$0

<u>Premium Reserves</u>

7.	Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	$0
8.	Reserve for Net Unearned Premiums for Long Duration Contracts	$0
9.	Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion	$0

The following Loss Reserve Disclosures were also included:

10.	Materiality Standard expressed in $US	$806,916
11.	Statutory Surplus	$11,342,895
12.	Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	$31,000
13.	Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P	$0
14.	The net reserves for losses and expenses for the company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	$0
15.	The net reserves for losses and loss adjustment expenses that the company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.*	
	1) Asbestos, as disclosed in the Notes to Financial Statements	$0
	2) Environmental, as disclosed in the Notes to Financial Statements	$0
16..	The total claims made extended loss and expense reserve (Schedule P Interrogatories).	
	1) Amount reported as loss reserves	$0
	2) Amount reported as unearned premium reserves	$0
17.	Other items on which the Appointed Actuary is providing relevant Comment (list separately)	$0

* The reserves disclosed in item 15 above, exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability, and Pollution and Remediation Legal Liability.

See the "NOTES TO FINANCIAL STATEMENTS" section, later in this report, for further discussion regarding the Department's examining actuary's analysis and the related examination adjustment.

Evaluation of Controls on Information Systems

The Company's information systems were reviewed by Information System Specialist, Jenny L. Jeffers, CISA, AES, on behalf of Examination Resources, LLC. The procedures were performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in Information Systems Questionnaire (ISQ) contained in the NAIC *Financial Condition Examiners Handbook.* In summary, the functional areas reviewed by the Information System Specialist included the following:

- Section A – Management Controls
- Section B – Organization Controls
- Section C – Change Management
- Section D – System Development
- Section E – Operations
- Section F – Processing
- Section G – Documentation
- Section H – Outside Service Providers
- Section I – Logical and Physical Security
- Section J – Contingency Planning
- Section K – E-Commerce
- Section L – Wide Area Network (WAN) and Internet Usage

The result of the review of the IS Controls at the Company indicated that sufficient controls are not in place and functional to indicate that any reliance can be placed on the data of the Company. Detailed descriptions of those control deficiencies were provided to Company management in the form of a management letter. It is recommended Company management review the control deficiencies and implement procedures to correct those deficiencies in the near future.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2008

Statement of Income, for the Year Ended December 31, 2008

Reconciliation of Examination changes to the Balance Sheet

Capital and Surplus Account, Year 2008

Reconciliation of Capital and Surplus Account, December 31, 2004, through December 31, 2008

Balance Sheet

As of December 31, 2008

ASSETS

	Ledger Assets	Assets not Admitted	Examination Adjustments	Admitted Assets
Bonds (Note 1)	$ 13,524,922	$ 0	$ 0	$13,524,922
Cash, cash equivalents, and short-term investments	2,019,764	0	0	2,019,764
Interest income due and accrued	137,305	0	0	137,305
Uncollected premiums in course of collection	557,976	0	0	557,976
Deferred premiums booked but deferred and not yet due	701,518	0	0	701,518
Amounts recoverable from reinsurers (Note 2)	2,815,072	0	0	2,815,072
Net deferred tax asset	455,515	330,506	0	125,009
Guaranty funds receivable or on deposit	40,392	0	0	40,392
Total Assets	$20,252,464	$330,506	$ 0	$19,921,958

LIABILITIES, SURPLUS AND OTHER FUNDS

	Per Company	Examination Adjustments	Per Examination
Losses and Loss adjustment expenses (Note 3)	$ 4,034,579	$ 1,494,421	$ 5,529,000
Commissions payable	321,262	0	321,262
Other expenses	32,380	0	32,380
Taxes, licenses and fees	(59,022)	0	(59,022)
Current federal income tax payable (Note 4)	1,031,470	(508,103)	523,367
Ceded reinsurance premiums payable	2,729,577	0	2,729,577
Payable to parent, subsidiaries and affiliates	315,250	0	315,250
Total Liabilities	$ 8,405,496	$ 986,318	$ 9,391,814
Common capital stock	$ 3,000,000	$ 0	$ 3,000,000
Gross paid in and contributed surplus (Note 2)	11,098,563	0	11,098,563
Unassigned funds (surplus)	(2,582,101)	(986,318)	(3,568,419)
Total Capital and Surplus	$11,516,462	$ (986,318)	$10,530,144
Total Liabilities, Surplus and Other Funds	$19,921,958	$ 0	$19,921,958

STATEMENT OF INCOME

For the Year Ending December 31, 2008

UNDERWRITING INCOME	Per Company	Examination Adjustments	Per Examination
Premiums earned	$ 2,815,328	$ 0	$ 2,815,328
Deductions:			
Losses incurred (Note 3)	$(2,415,617)	$ 1,494,421	$ (921,196)
Loss expenses incurred	468,252	0	468,252
Other underwriting expenses incurred	101,758	0	101,758
Total underwriting deductions	$(1,845,607)	$ 1,494,421	$ (351,186)
Net underwriting gain or (loss)	$ 4,660,935	$(1,494,421)	$ 3,166,514
INVESTMENT INCOME			
Net investment income earned	$ 507,307	$ 0	$ 507,307
Net realized capital gains (losses)	(953,829)	0	(953,829)
Net investment gain or (loss)	$ (446,522)	$ 0	$ (446,522)
OTHER INCOME			
Miscellaneous income	$ 31,726	$ 0	$ 31,726
Total other income	$ 31,726	$ 0	$ 31,726
Net income after dividends to policyholders after capital gains tax and before federal income taxes	$ 4,246,139	$(1,494,421)	$ 2,751,718
Federal income tax incurred (Note 4)	1,358,465	(508,103)	850,362
Net income	$ 2,887,674	$ (986,318)	$ 1,901,356

RECONCILIATION OF EXAMINATION CHANGES

TO THE BALANCE SHEET

As of December 31, 2008

Surplus as regards policyholders, per Company				$11,516,462
Account	Per Company	Per Examination	Increase (Decrease) In surplus	
Losses and loss adjustment expenses (Note 3)	$4,034,579	$5,529,000	$(1,494,421)	
Current Fed. income tax payable (Note 4)	1,031,470	523,367	508,103	
Net increase (decrease) in surplus				(986,318)
Surplus as regards policyholders, per Examination				$10,530,144

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2008

	Per Company	Examination Changes	Per Examination
Surplus as regards policyholders, December 31, 2007	$ 6,382,829		$ 6,382,829
GAINS AND (LOSSES) IN SURPLUS			
Net income	$ 2,887,674	$(986,318)	$ 1,901,356
Change in net deferred income tax	(46,485)	0	(46,485)
Change in nonadmitted assets	(330,506)	0	(330,506)
Capital changes: Paid in	2,557,132	0	2,557,132
Surplus adjustments: Paid in	65,818	0	65,818
Change in surplus as regards policyholders for the year	$ 5,133,633	$(986,318)	$ 4,147,315
Surplus as regards policyholders, December 31, 2008	$11,516,462	$(986,318)	$10,530,144

RECONCILIATION OF CAPITAL AND SURPLUS

December 31, 2004 through December 31, 2008

		2005	2006	2007	2008
Surplus as regards policyholders, December 31, previous year	*	$9,556,818	$11,034,629	$10,772,269	$6,382,829
Net income		1,351,419	(2,113,932)	(1,956,259)	1,903,356
Change in net unrealized capital gains or (losses)		(959,583)	889,038	0	0
Change in net deferred income tax		(1,001,177)	(1,057,156)	718,453	(46,485)
Change in nonadmitted assets		542,158	719,690	63,476	(330,506)
Capital changes:					
Paid in		0	0	(2,557,132)	2,557,132
Surplus adjustments:					
Paid in		1,544,994	1,300,000	(657,978)	65,818
Change in surplus as regards policyholders for the year		1,477,811	(262,360)	(4,389,440)	4,147,315
Surplus as regards policyholders, December 31, current year		$11,034,629	$10,772,269	$6,382,829	$10,530,144 *

* Per Examination

NOTES TO FINANCIAL STATEMENTS

Note (1) - Bonds $13,524,922

It was noted that the custodial agreements with BancFirst (Oklahoma) and the Bank of the Cascades (Idaho) did not contain the following provisions mentioned in the NAIC guidelines for custodial or safekeeping agreement:

1. Custodian shall be liable to the Company for loss of securities in the custodial account which result from the negligence or willful misconduct of the custodian, the sub-custodian, depository or any of their respective officers, employees, agents or nominees.
2. In the event of a loss of the securities for which the custodian is obligated to indemnify the Company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.
3. If the agreement has been terminated or if 100% percent of the account assets have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the Director of the Idaho Department of Insurance.
4. During regular business hours, and upon reasonable notice, an officer or employee of the Company, an independent accountant selected by the Company and a representative of an appropriate regulatory body shall be entitled to examine, on the promises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the Company.
5. The custodian shall provide, upon written request from the Idaho Department of Insurance or authorized officer of the Company, the appropriate affidavits, with respect to the Company's securities held by the custodian.

It is recommended that the Company revise or amend the above agreements by adding the above provisions mentioned in the NAIC guidelines.

Note (2) – Amounts Recoverable from Reinsurers $2,815,072

The captioned amount is composed of the following:

Payable to parent	$(2,748,582)
Reinsurance recoverable from parent	4,886,900
Reinsurance recoverable from other reinsurers	676,754
Total	$2,815,072

The "Payable to Parent" amount of $2,748,582 represents the remaining balance of the first and second quarter of 2008 ceded reinsurance premiums (net of ceding commissions) payable to the Company's parent. Pursuant to the annual statement instructions, this amount should be reported on page 3, line 12 of the annual statement. It is recommended that the Company comply with the annual statement instructions.

The whole account quota share reinsurance agreement between the Company and its parent states that the balances need to be settled 60 days after the end of each period. Based on our review of the Company's general ledger and the independent auditor's workpapers, it does not indicate that the Company adhered to the reinsurance agreement by settling account balances within 60 days from the end of each period. It is therefore recommended that the Company adhere to the terms of the reinsurance agreement. In addition, it appears that the Company did not comply with SSAP No. 96, paragraph 2 which requires settlements between affiliates within ninety days from the due date.

(Note 3) - Losses and Loss Adjustment Expenses $5,529,000

Reserve Adjustment

The actuarial portion of the examination was performed for the Department by R. Michael Lamb, FCAS, MAAA of Michael Lamb, LLC.

The Department's Examiner-in-Charge detected material errors in the Company's ceded reserves receivable from its third party reinsurers for accident years 2007 and prior. Subsequent to notification by the Department, the Company's consulting actuary, Lewis & Ellis, concluded that the Company's reported loss and loss adjustment expense reserves were deficient by $1,494,421.

The Department's consulting actuary concurred with the above deficiency amount, and stated in his report that the indicated increase to the stated reserves amounts to $1,494,421. Therefore, the reserves have been increased by this amount in the examination report financial statements.

Decrease to Surplus

The above examination adjustment for the reserve deficiency resulted in the following decrease in the Company's 2008 surplus:

Gross Reserve Deficiency	$ 1,494,421
Estimated Federal Tax Benefit	
(34% marginal rate)	508,103
Net Decrease to Surplus	$ 986,318

Review for Risk Transfer & Premium Deficiency Reserve

The examining actuary also reviewed risk transfer for reinsurance and reviewed the data for a premium deficiency reserve. For risk transfer criteria, the DOI actuary utilized "Risk Transfer Testing Practice Note" from the American Academy of Actuaries, January 2007, which covers the requirements of SSAP 62. Mr. Lamb found the 100% cession by AFRC satisfied the aforementioned criteria regarding risk transfer. A review of historical expense ratios indicated there was not a need for a premium deficiency reserve.

Losses Incurred

Regarding the income statement account "Losses Incurred," the Company reflected a negative amount, after examination adjustment, of ($921,196). As discussed earlier under the "LOSS EXPERIENCE" section of this report, the reinsurance contract between the Company and its parent (AFRM) provides that AFRM assumes 100% of all losses arising under policies in force prior to the effective day of this contract and the Company shall not have to pay AFRM any additional consideration to assume these losses. As a result of this provision in the contract, the Company reported negative loss and loss adjustment expenses incurred in 2008. The contract also stated that the Company be paid 25% ceding commission on premiums ceded to AFRM. As a result, the Company's expenses incurred were substantially reduced in 2008.

(Note 4) – Current Federal Income Tax $523,367

The reported federal tax liability at year-end 2008 was reduced by $508,103 as a result of the tax benefit derived from the examination adjustment described in Note 3 above.

SUMMARY, COMMENTS, AND RECOMMENDATIONS

Summary

The examination disclosed that, as of December 31, 2008, the Company had admitted assets of $19,921,958, liabilities of $9,391,814, common capital stock of $3,000,000, gross paid in and contributed surplus of $11,098,563 and unassigned funds (surplus) of ($3,568,419); for a total surplus as regards policyholders of $10,530,144. This amount met the minimum capital and surplus requirements pursuant to Section 41-313, Idaho Code.

Comments and Recommendations

In addition to the following comments and recommendations, the Idaho Department of Insurance has presented the Company with a management letter containing matters that the Department and EIC deemed not sufficiently significant for inclusion in this examination report.

Page	Description
7	Conflict of Interest - It is recommended that the Board of Directors adopt a resolution which requires each director, officer, and key employee to complete a conflict of interest statement annually, that compliance be reviewed annually by the Board and that said review be memorialized in the Board minutes.
7	Cost Allocation and Management Agreement – It is recommended that the Company amend this agreement to include a specified due date for timely settlement between the Company and the parent.
8	Intercompany Tax Allocation Agreement – It is recommended that the Company file (as a Form D filing) a proposed intercompany tax allocation agreement with the Department that

defines and supports the current cost sharing allocation process of tax liabilities and tax benefits originating from the parent company's Federal consolidated income tax return.

9 Stocks Splits – It is therefore recommended that management seek Board approval prior to any stock splits in the future, and that the approval for such stock splits be documented in the Board minutes.

9 Investment Approvals – It is recommended that pursuant to § 41-704, Idaho Code, the Board approve, and document, all of the Company's investment transactions on a regular basis (e.g. quarterly) and that such approval be recorded in the minutes.

15 General Accounting - It is strongly recommended that Company management evaluate all aspects of the Company's financial reporting process and strengthen the Company's internal control regarding the accounting and operating systems. In addition, it is also recommended that the Company comply with Idaho Code Section 41-2839(1) with regard to keeping and maintaining adequate records.

15 Auto Insurance Policies Not Reported in the 2008 Annual Statement - It is recommended that the Company comply with the annual statement instructions by reporting all premiums written in the annual statement.

16 Deficiencies Noted on Schedule F - It is recommended that the Company follow the NAIC annual statement instructions by reporting the correct amount due from third party reinsurers, the names of third party reinsurers and the respective unearned premiums amounts on Schedule F, Part 3. It is also recommended that the Company follow the annual statement instructions by filling Schedule F, Part 4, aging of reinsurance recoverables.

16 Actuarial Opinion – The revised/amended opinion from the Company's opining actuary stated that the Company's reserves:
(a) do not meet the requirements of the insurance laws of Idaho; (b) are not consistent with those computed in accordance with accepted actuarial standards and principles and (c) do not make a reasonable provision, in the aggregate, for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

19 Evaluation of Controls on Information Systems - It is recommended Company management review the control deficiencies and implement procedures to correct those deficiencies in the near future.

25 Bonds - It is recommended that the Company revise or amend the custodial agreements following the NAIC guidelines.

25 Amounts Recoverable from Reinsurers - It is recommended that the Company report ceded reinsurance premiums payable on page 3, line 12 of the annual statement, pursuant to the annual statement instructions. It is recommended that the Company adhere to the whole account quota share reinsurance agreement with regard to settlement of reinsurance balances with its parent. It is recommended that the Company comply with SSAP 92, paragraph 2 with regard to settlement of inter-company balances.

26 Losses and Loss Adjustment Expenses – The Company's loss and loss adjustment

expense reserves at year-end 2008 were deficient by $1,494,421. Therefore the examination report financial statements have been adjusted accordingly.

27 Current federal income taxes - The Company's federal tax liability was reduced by $508,103 as a result of tax benefit derived from the examination adjustment made on loss and loss adjustment expenses.

ACKNOWLEDGEMENT

The undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

In addition to the undersigned, Arlene Barrie and Dale Freeman, CIE (market conduct examiners) of the Idaho Department of Insurance; Michael Lamb, FCAS, MAAA (actuary) of Michael Lamb LLC.; and Jenny Jeffers, CISA, AES (IT examiner) of Examination Resources, LLC participated in the examination.

Respectfully submitted,

Kelvin Ko

Kelvin Ko, CFE
Examiner-in-Charge
State of Idaho, Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Kelvin Ko, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of the American Farmers & Ranchers Insurance for the period from January 1, 2005 through December 31, 2008, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

Kelvin Ko

Kelvin Ko, CFE
Examiner-in-Charge
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 29th day of January, 2010, at Boise, Idaho

Notary Public

My commission Expires: 2/17/2013

THOMAS A. DONOVAN
NOTARY PUBLIC
STATE OF IDAHO

State of Idaho

DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
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Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

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STATE OF IDAHO
DEPT OF INSURANCE

WAIVER

In the matter of the Report of Examination as of December 31, 2008, of:

AMERICAN FARMERS & RANCHERS INSURANCE COMPANY
3415 E. Copper Point Drive, Suite 106
Meridian, Idaho 83642

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 29th day of January, 2010 and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 5 day of February, 2010

K. Christopher Blevins
Name (print)

K. Chris Blevins
Name (signature)

CFO
Title

EXHIBIT
B