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Attorneys for Department of Insurance

FILEDAY

MAR 2 8 2013

Department of Insurance State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

OF THE STATE OF IDAHO

In the Matter of:

WESTERN COMMUNITY INSURANCE COMPANY

Certificate of Authority No. 1287 NAIC No. 39519

Docket No. 18-2860-13

ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2011

The State of Idaho, Department of Insurance (Department), having conducted an examination of the affairs, transactions, accounts, records, and assets of Western Community Insurance Company (Western Community), pursuant to Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of Western Community Insurance Company as of December 31, 2011 (Report), as filed.

FINDINGS OF FACT

1. Western Community is an Idaho-domiciled insurance company licensed to transact casualty insurance, including workers' compensation; disability insurance, excluding

managed care; marine and transportation insurance; property insurance; and surety insurance in Idaho under Certificate of Authority No. 1287.

- 2. The Department completed an examination of Western Community pursuant to Idaho Code § 41-219(1) on or about January 10, 2013. The Department's findings are set forth in the Report.
- 3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on February 15, 2013, and a copy of such verified Report was transmitted to Western Community on the same date. A copy of the verified Report is attached hereto as Exhibit "A."
- 4. On or about March 13, 2013, the Department received a Waiver signed by Phillip R. Joslin, Executive Vice President and Chief Executive Officer of Western Community. By execution of such Waiver, a copy of which is attached hereto as Exhibit "B," Western Community consented to the immediate entry of a final order by the Director of the Department (Director) adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.
- 5. No written submissions or rebuttals with respect to any matters contained in the Report were received by the Department from Western Community.

CONCLUSIONS OF LAW

6. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant

portions of the examiner's work papers" and shall enter an order adopting the report of

examination as filed or with modifications or corrections.

7. Having fully considered the Report, the Director concludes that Western

Community meets the minimum capital and surplus requirements set forth in Idaho Code § 41-

313(1).

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the

Report of Examination of Western Community Insurance Company as of December 31, 2011, is

hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted

Report is a public record and shall be exempt from the exemptions from disclosure provided in

chapter 3, title 9, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty

(30) days of the issuance of the adopted Report, Western Community shall file with the

Department's Deputy Chief Examiner affidavits executed by each of its directors stating under

oath that they have received a copy of the adopted Report and related orders.

IT IS SO ORDERED.

DATED this **76¹¹** day of March, 2013.

STATE OF IDAHO

DEPARTMENT OF INSURANCE

illiam Jeal

WILLIAM W. DEAL

Director

CERTIFICATE OF SERVICE

| I HEREBY CERTIFY that, on this Astroday of March, 201 copy of the foregoing ORDER ADOPTING REPORT OF DECEMBER 31, 2011 to be served upon the following by the design | EXAMINATION AS OF |
|---|---|
| Western Community Insurance Company Attn: Phillip R. Joslin, Executive Vice President & CEO 275 Terra Vista Drive Pocatello, ID 83201 pjoslin@idfbins.com | ☐ first class mail ☐ certified mail ☐ hand delivery ☐ email |
| Western Community Insurance Company Attn: Paul Brent Roberts, Treasurer 275 Terra Vista Drive Pocatello, ID 83201 proberts@idfbins.com | ☐ first class mail ☐ certified mail ☐ hand delivery ☑ email |
| Georgia Siehl, CPA, CFE Bureau Chief / Chief Examiner Idaho Department of Insurance 700 W. State Street, 3 rd Floor Boise, ID 83720-0043 georgia.siehl@doi.idaho.gov | ☐ first class mail ☐ certified mail ☐ hand delivery ☑ email |

Teresa Jones

Assistant to the Director

DEPARTMENT OF INSURANCE

STATE OF IDAHO





REPORT OF EXAMINATION

of the

WESTERN COMMUNITY INSURANCE COMPANY

(NAIC Company Code 39519)

as of

December 31, 2011



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State of Idaho

DEPARTMENT OF INSURANCE

C. L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor P.O. Box 83720 Boise, Idaho 83720-0043 Phone (208)334-4250 FAX # (208)334-4398 WILLIAM W. DEAL Director

Pocatello, Idaho February 15, 2013

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

Joseph Torti III
Deputy Director and Superintendent of Insurance and Banking
Chair – NAIC Financial Condition Committee
Division of Insurance
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Building #69-2
Cranston, Rhode Island 02920

Dear Director & Deputy Director:

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, 2011, of the financial condition and corporate affairs of:

Western Community Insurance Company
275 Tierra Vista Drive
Pocatello, Idaho 83201

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

SCOPE OF EXAMINATION

This examination covered the period January 1, 2008, through December 31, 2011. The examination was conducted at the Pocatello, Idaho office of the Company by examiners from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, 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 NAIC Financial Condition 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 and NAIC Annual Statement Instructions as governed and prescribed by Idaho law.

A Letter of Representation was signed by the Company attesting to its 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 Taylor-Walker & Associates, Inc., consulting actuaries, for the Idaho Department of Insurance. A risk assessment review of the Company's information technology systems and controls was performed by Jennan Enterprises, LLC. There was some reliance placed on the 2011 Certified Public Accountants' statutory audit report and workpapers 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, as well as minor accounting and/or annual statement reporting corrections.

PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2003 through December 31, 2007.

A review was made to ascertain what action was taken by the Company with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately addressed by the Company.

HISTORY AND DESCRIPTION

General

The Company was incorporated as a domestic stock insurance company on April 4, 1980 under the name of Western Community Insurance Company. The Company commenced operations on August 18, 1980 offering commercial multiple peril, inland marine, workers' compensation, other liability-occurrence, private passenger auto liability, and burglary and theft coverages in the State of Idaho.

On March 11, 1999, the Company was issued a Certificate of Authority to write business in the State of Oregon. The Company was authorized to write property, casualty (excluding Workers' Compensation), surety, and marine and transportation coverages. The Company did not write any business in Oregon during the examination period.

A Certificate of Authority was issued to the Company on July 8, 1999 to write business in the State of Washington. The Company was authorized to write property, vehicle, general casualty, surety, and marine and transportation coverages. A small amount of commercial multi peril, commercial auto, and other liability-occurrence business was written in Washington during the examination period.

The Company ceased writing and renewing all workers' compensation policies that were in force on May 1, 2003. This action was approved by the Company's Board of Directors at their February 12, 2003 meeting.

Effective January 1, 2011, the Company discontinued its non-standard personal auto program. This action was approved by the Board of Directors on November 9, 2010.

Capital Stock

The Company has 1,000,000 authorized shares of \$20 par value common stock, of which 167,487 of the authorized shares were issued and outstanding as of December 31, 2011. Total capital paid in at year-end 2011 was \$3,349,740. Of the 167,487 shares outstanding, Farm Bureau Finance Company held 161,970 shares or 96.71 percent of the outstanding shares.

The capital stock register was reviewed and reconciled with the respective capital accounts, and a chronological listing of shares issued and redeemed, during the examination period, was made. The Company's capital stock certificate book included stubs for outstanding issues, cancelled certificates, which had been redeemed, and affidavits for lost certificates.

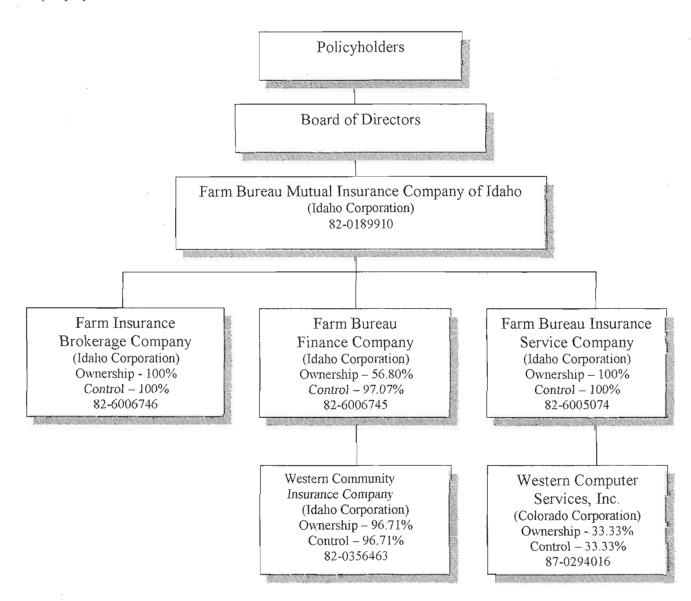
The activity in the capital structure during the period covered by this examination was as follows:

| Date | Description | Number of Shares | Common Capital <u>Stock</u> | Paid in & Contributed Surplus | Total Capital and Paid in & Contributed Surplus |
|------------|---|------------------|-----------------------------------|-------------------------------|---|
| 12/31/2007 | Balances, December 31, 2007 Change during the period | 167,091 396 | \$3,341,820 | \$272,600 49,070 | \$3,614,420 56,990 |
| 12/31/2011 | Balances, December 31, 2011 | 167,487 | \$3,349,740 | \$321,670 | _\$3,671,410 |

MANAGEMENT AND CONTROL

Insurance Holding Company System

The Company was a member of an insurance holding company system, as defined in Section 41-3801, Idaho Code. Indirect parent, Farm Bureau Mutual Insurance Company of Idaho, was the designated "Ultimate Controlling Person" in the system. An organizational chart of the holding company system is as follows:



Changes noted since the prior examination as of December 31, 2007, were the change in the percentage of ownership of Farm Bureau Finance Company from 53.08 percent to 56.80 percent; Farm Bureau Insurance Service Company from 98.16 percent to 100 percent; and Western Community Insurance Company from 96.94 percent to 96.71 percent.

Directors

The following individuals were serving as members of the Company's Board of Directors as of December 31, 2011:

Directors:

Name and Location Position Brandon Scott Bird Farmer Pocatello, Idaho

Robert Harold Callihan Potlatch, Idaho

Farmer and Retired Professor of Agronomy

Christopher Ralph Dalley Blackfoot, Idaho

Rancher

Danny Gene Ferguson Rigby, Idaho

Farmer/Rancher

Marjorie Ann French Princeton, Idaho

Farmer/Rancher

Michael Del Garner Delco, Idaho

Production AG

Louis Dean Kins Kootenai, Idaho

Carpenter

Curtis Eric Krantz Caldwell, Idaho

Farmer/Rancher

Gerald Lyle Marchant Oakley, Idaho

Farmer/Rancher

Michael William McEvov Middleton, Idaho

Farmer

Ricky William Pearson

Buhl. Idaho

Farmer

Frank Steven Priestley Franklin, Idaho

President and Chairman of the Board

Farmer/Rancher

Dean Edwin Schwendiman

Newdale, Idaho

Farmer/Rancher

Brvan Llovd Searle

Shelley, Idaho

Farmer/Rancher

Mark Dennis Trupp

Driggs, Idaho

First Vice President Farmer/Rancher

Officers:

The following individuals were serving as officers of the Company as of December 31, 2011:

| Name | Position |
|---|---|
| Frank Steven Priestley Mark Dennis Trupp | President & Chairman of the Board of Directors First Vice President |
| Phillip Ray Joslin | Executive Vice President and Chief Executive Officer |
| Rick Dwain Keller | Secretary |
| Loyal Lex Heyer | Vice President of Sales & Assistant Secretary |
| Gordon Lynn Crystal | Vice President of Claims & Assistant Secretary |
| Richard D. Peterson | Vice President of Legal Affairs & Assistant Secretary |
| Timothy Summers Stronks | Vice President of Personal Lines & Assistant Secretary |
| Ellen Van Hees | Director of Commercial Lines & Assistant Secretary |
| Paul Brent Roberts | Treasurer |
| Daniel LeRoy Hoffa | Vice President of Operations & Assistant Treasurer |
| | |

Subsequent to the examination date, Ellen Van Hees was appointed as Vice President of Commercial Lines and Assistant Secretary effective February 2, 2012. Daniel LeRoy Hoffa retired effective December 31, 2011. David Acevedo was appointed Vice President of Operations and Assistant Treasurer effective February 2, 2012 to fill the position vacated by Mr. Hoffa.

Committees

On April 9, 2003, the Board of Directors approved the appointment of an Audit Committee. The 2011 Audit Committee consisted of the following members:

Frank Steven Priestley, Chairman
Mark Dennis Trupp, Vice-Chairman
Brandon Scott Bird
Robert Harold Callihan
Danny Gene Ferguson
Michael Del Garner

Conflict of Interest

The Company adopted a conflict of interest policy, which required the directors, officers, and office management personnel to disclose annually, on a prescribed written form, any affiliation with or material interest in any operation or activity which conflicts or may potentially conflict

with their official duties with the Company. The forms filled out by the subject personnel during the period under examination were reviewed and no potential conflict of interest were noted.

Contracts and Agreements

The Company had the following affiliated agreements in force at December 31, 2011:

Management Agreement

The Company entered into a management agreement with Farm Bureau Mutual Insurance Company of Idaho, the Company's ultimate parent. The original term of the agreement began January 1, 1999. The agreement was subsequently updated in 2003 and 2008. The services provided under the agreement included management, marketing, underwriting, processing, travel, home office rent, employee related expenses, personnel, data processing, equipment, actuarial, secretarial, accounting, collection of premiums, and adjusting and payment of claims. The format for billing of the services was set forth in Exhibit A, Inter-Company Billing. The format and itemization may change from year to year as agreed upon by the parties.

The Company paid a management fee of 17 percent of its direct written premium for management and other services provided by Farm Bureau. The management fee is to be paid monthly.

The agreement also included a provision for the Company to pay an additional 2 percent of its direct written premium for use of Farm Bureau's county office facilities. In this connection, the Company paid for supplies, printing, telephone, postage, insurance, and other similar expenses on a cost basis.

Furthermore, the agreement provided for Farm Bureau to arrange for excess reinsurance coverage facilities and to provide reinsurance reporting services for the Company on its direct written premium. The Company and Farm Bureau shared the reinsurance costs in proportion to the respective retentions on the business.

The agreement is continuous until terminated by either party with at least ninety days written notice.

A Form D filing for an updated Exhibit A, Inter-Company Billing was submitted to the Idaho Department of Insurance on March 4, 2008 in compliance with Section 41-3807(2)(d), Idaho Code. In a letter to the Company dated March 17, 2008, the Department indicated that it had no objections to the proposed agreement filed by the Company.

Reinsurance Agreement

Effective April 1, 2010, the Company entered into a reinsurance agreement with Farm Bureau Mutual Insurance Company of Idaho. The Company ceded 100 percent of its direct written business to Farm Bureau in exchange for a 33 percent ceding commission. This agreement replaced earlier agreements dated July 1, 2005 and January 1, 1998.

A transfer agreement signed March 15, 2009 was executed to transfer the Company's interest in and exposure under various insurance pools to Farm Bureau.

A Form D filing was submitted to the Idaho Department of Insurance on March 15, 2010 for the above reinsurance transactions in compliance with Section 41-3807(2)(c), Idaho Code. In a letter to the Company dated March 18, 2010, the Department indicated that it had no objections to the proposed agreement filed by the Company.

Reinsurance transactions are described in more detail under the caption, REINSURANCE.

Consolidated Income Tax Allocation Agreement

On January 26, 1998, the Company entered into a consolidated income tax allocation agreement along with Farm Bureau Mutual Insurance Company of Idaho, Farm Bureau Finance Company, Farm Insurance Brokerage Company, Inc., Farm Bureau Insurance Service Company of Idaho, and Western Community Investment Company. The latter entity merged into Farm Bureau Finance Company in 2005 and was no longer a party to the agreement. The agreement was updated April 20, 2009 to delete Western Community Investment Company. The Board of Directors approved the updated agreement on July 18, 2012. A courtesy filing was submitted to the Idaho Department of Insurance on May 23, 2012.

The parties to the agreement mutually agreed to allocate the consolidated federal income tax liability for all years for which the consolidated group had filed or would file a consolidated income tax return by applying the liability method to each member of the group as if it were a separate taxpayer.

The amount of federal income tax allocated to each member was computed by applying the current marginal income tax rate for the year being allocated to the separately computed taxable income before the elimination of items considered on a consolidated basis, such as, net capital gains and gains or losses from Form 4797 transactions, less each members' share of the dividends received deduction.

The parties made estimated tax payments based on their allocation of federal taxes for the previous year. Settlements of balances due or refunds receivable were determined by subtracting the estimated payments made for the year from the federal tax allocated to each party for that year.

The agreement continues on a year-to-year basis until such time as a party gives the remaining parties 30 days written notice of cancellation.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company's records indicated that the Articles of Incorporation and Bylaws were not amended during the period under examination.

Minutes of Meetings

A review of the minutes of the meetings of the Shareholders, the Board of Directors and the Audit Committee, for the period January 1, 2008 through December 31, 2011 and subsequent thereto, indicated compliance with the Articles of Incorporation and Bylaws with respect to the election of the Board of Directors and Officers. This review of the minutes also indicated that a quorum was present at all Board of Directors' meetings held during the examination period.

Investment transactions were approved by the Board of Directors as required by Section 41-704, Idaho Code. Furthermore, the Company maintained records of its investments in conformity with Section 41-705, Idaho Code.

The minutes of the November 10, 2009 Directors' meeting acknowledged the receipt, review and acceptance of the statutory examination report as of December 31, 2007, conducted by the Idaho Department of Insurance.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Company was maintained throughout the period covered by this examination. Coverages in effect as of December 31, 2011 included a financial institution bond; directors', officers', insured entity and employment practices liability insurance; professional liability; a commercial package policy; commercial auto coverage; a commercial occurrence excess policy (umbrella) and workers' compensation.

The protection of the financial institution bond met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

The insurance companies providing coverage to the Company were licensed or otherwise authorized in the State of Idaho.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any employees. Services are provided to the Company by the ultimate parent company, Farm Bureau Mutual Insurance Company of Idaho. Farm Bureau Mutual Insurance Company of Idaho sponsors a defined pension benefit plan, a 401(k) savings plan, and postemployment health care and life insurance plans. The Company has no obligation for benefits under the plans.

In 2002, the Company established an incentive stock option plan for its officers and for key Farm Bureau employees providing services to the Company. The Company's Board of Directors approved the stock option plan on February 15, 2002. In this connection, the Company granted to officers and key Farm Bureau employees stock options to purchase 8,100 shares of the Company's common stock at \$83.85 per share on March 26, 2002. On December 30, 2003, the Company granted to a key officer a stock option to purchase 500 shares of the Company's common stock at \$91.49 per share. Since inception of the plan, 5,700 shares have been exercised

and redeemed. During the examination period, 775 shares in 2008; 160 shares during 2009; 140 shares during 2010; and 2,625 shares in 2011 were exercised and redeemed. The cost of the stock options exercised and redeemed in 2008 was \$31,456; \$7,781 in 2009; \$7,837 in 2010; and \$160,927 in 2011.

The difference between the stock option exercise price and the book value per share of the Company at year-end 2011 was accrued and recorded in the general ledger and reported within *Other Expenses*, of the 2011 Annual Statement. The cost of stock options exercised and redeemed reduced the deferred compensation liability. The Company's liability on the outstanding 2,900 shares under option at December 31, 2011 was \$183,578.

Subsequent to the examination date, the remaining 2,900 shares under option were exercised and redeemed in 2012.

The Board of Directors approved a recommendation for the 2012 Incentive Stock Option Plan at their meeting on February 8, 2012. The Company's shareholders must also approve the plan within twelve months after adoption by the Board.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact the business of disability, property, marine & transportation, casualty-excluding workers' compensation, casualty-including workers' compensation, and surety in the State of Idaho. The Company is also authorized to transact the business of property, casualty (excluding Workers' compensation), marine & transportation, and surety in the State of Oregon. Furthermore, the Company is authorized to transact the business of property, marine & transportation, vehicle, general casualty, and surety in the State of Washington. A small amount of business was written in Washington and no business was written in Oregon during the examination period. The Certificates of Authority issued by the states were inspected and verified with nothing exceptional noted.

The Company's key lines of business included commercial multiple peril, commercial auto liability, private auto liability, auto physical damage, and inland marine. Effective January 1, 2011, the Company discontinued the non-standard personal auto program. This action was approved by the Board of Directors at their meeting of November 9, 2010.

Operations of the Company were conducted from Farm Bureau Mutual Insurance Company of Idaho's main administrative office located in Pocatello, Idaho.

Insurance products were marketed through a captive agency force of approximately 149 agents working from seven district offices.

In the prior examination, it was determined that one producer was not notified timely of termination of his appointment pursuant to Section 41-1019(4), Idaho Code. The Company indicated that since this was a voluntary retirement, a termination letter to the producer was not required. However, the statute makes no exceptions. Therefore, it was recommended that the Company amend the current procedures to ensure that all terminated producers receive notification of appointment termination pursuant to Idaho Code, including those retiring.

Management responded that the Company has implemented procedures to ensure that retiring agents are notified that their appointments with the Company have been terminated. A "Termination of your Contract" letter is sent to the terminated/retired agent. The letter contains language: ... Consequently your appointments with these companies will be terminated. To verify that the Company has properly addressed the prior exam recommendation and to test agent terminations, a sample of agents terminated during the examination period was selected and reviewed. This review indicated that the Department was notified of agent terminations in compliance with Section 41-1019(2), Idaho Code.

In cases where "Termination of your Contract" letters were located in the files, the time requirements of Section 1019(4), Idaho Code were met. However, not all of the agent files sampled contained the "Termination of your Contract" letter. Therefore, compliance with Section 1019(4), Idaho Code, could not be determined. In other cases, the letters in the files did not contain the termination of appointment language. Finally, two agents who retired were retained as production assistants. A termination letter was sent to one agent, but not to the other.

To ensure that the procedure is consistently applied, it is again recommended that all terminated producers receive notification of appointment termination. It is also recommended that all "Termination of your Contract" letters contain the termination of appointment language. It is further recommended that such letters be included in all terminated agent (including retirements and voluntary resignations) files in order for future examinations to determine compliance with Section 41-1019(4), Idaho Code.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2011, the examination confirmed with the Idaho Department of Insurance that the Company had made provision for the following deposits to be held in trust for the protection of all its policyholders and/or creditors through said office of the Director of Insurance, State of Idaho, in compliance with Section 41-316A, Idaho Code.

| Par | Statement | Fair |
|--------------|--|---|
| <u>Value</u> | <u>Value</u> | <u>Value *</u> |
| \$ 100,000 | \$ 98,938 | \$ 102,761 |
| 100,000 | 100,000 | 103,304 |
| 100,000 | 95,943 | 102,267 |
| 100,000 | 99,183 | 102,286 |
| 100,000 | 104,031 | 107,481 |
| 100,000 | 107,648 | 107,848 |
| 100,000 | 97,046 | 105,457 |
| 115,000 | 114,565 | 118,711 |
| 100,000 | 100,000 | 100,183 |
| 100,000 | 99,643 | 103,493 |
| 100,000 | 98,926 | 96,296 |
| 100,000 | 100,458 | 100,732 |
| \$1,215,000 | \$1,216,381 | \$1,250,819 |
| | Value \$ 100,000 100,000 100,000 100,000 100,000 100,000 100,000 100,000 100,000 100,000 | Value Value \$ 100,000 \$ 98,938 100,000 100,000 100,000 95,943 100,000 99,183 100,000 104,031 100,000 107,648 100,000 97,046 115,000 114,565 100,000 100,000 100,000 99,643 100,000 98,926 100,000 100,458 |

The following securities held by Wells Fargo Bank and approved by the State Treasurer for Workers' Compensation deposit requirements were confirmed with the State Industrial Commission. The deposit was held pursuant to Section 72-302, Idaho Code.

| | Par | Statement | Fair |
|---|--------------|--------------|----------------|
| Description | <u>Value</u> | <u>Value</u> | <u>Value *</u> |
| Idaho St Bldg Auth Bldg Rev., 4.5%, 9/1/2023 | \$100,000 | \$ 97,780 | \$102,684 |
| Nampa Idaho Ser B, 5.0%, 8/01/2020 | 100,000 | 104,254 | 109,628 |
| Twin Falls Cnty Idaho Sch Dist, 5%, 9/15/2023 | 100,000 | 103,812 | 111,629 |
| Total | \$300,000 | \$305,846 | \$323,941 |

Also, U.S. Bank at Oregon held the following securities, pursuant to Section 731-624 of the Oregon Code:

| | Par | Statement | Fair |
|---|--------------|--------------|-----------------|
| Description | <u>Value</u> | <u>Value</u> | <u>Value *</u> |
| Goose Creek Tx Cons, 4.50%, 2/15/2022 | \$115,000 | \$116,333 | \$123,073 |
| Oregon St. Dept Administrative Svcs., 5.25%, 5/1/2017 | 100,000 | 100,411 | 101,560 |
| Vincennes University In Ser Rev., 5.0%, 12/1/2021 | 100,000 | 102,496 | <u> 105,830</u> |
| Total | \$315,000 | \$319,240 | \$330,463 |

^{* -} The fair market value amounts were taken from the December 2011 statement of the custodian bank.

GROWTH OF THE COMPANY

The Company's growth for the years indicated, as taken from the prior examination report and its Annual Statements, is shown in the following schedule:

| | | | Capital & | <u>Net</u> |
|--------|-----------------|--------------------|--------------|--------------|
| Year | Admitted Assets | <u>Liabilities</u> | Surplus | Income(Loss) |
| 2007** | \$32,122,951 | \$12,002,217 | \$20,120,733 | \$1,295,765 |
| 2008 | 31,055,379 | 9,952,714 | 21,102,666 | 1,226,695 |
| 2009 | 30,637,150 | 8,147,374 | 22,489,776 | 1,286,952 |
| 2010 | 30,616,872 | 6,948,173 | 23,668,699 | 1,087,157 |
| 2011** | 30,685,431 | 5,812,277 | 24,873,154 | 1,179,395 |
| | | | | |

^{**}As determined by Examination.

The Company saw declining assets and liabilities in 2008 due primarily to poor economic conditions. Assets rose consistently the remainder of the exam period, as did capital & surplus and net income. Liabilities decreased approximately 52 percent from 2007, due primarily from decreases in the ceded reinsurance payable liability. This liability corresponds roughly to direct premiums written that are ceded to Farm Bureau. There was a 45 percent premium decrease from 2007 due mostly to the downturn in the commercial lines as the construction industry struggled during the economic downturn.

LOSS EXPERIENCE

The ratios of benefits and expenses to written premium shown in the following schedule were derived from amounts reported in the Company's Annual Statements:

| | Net | | | Ratio of Benefits |
|-------|-----------|-------------|-----------------|-------------------|
| | Premiums | Net | Underwriting | and Expenses to |
| Year | Written | Losses Paid | Expenses | Written Premium |
| 2007 | \$136,908 | \$127,388 | \$(719,283) | 432.33% |
| 2008 | 132,531 | 71,626 | (696,791) | 471.72% |
| 2009 | 142,651 | 92,030 | (584,499) | 345.23% |
| 2010 | 16,387 | 253,483 | (503,161) | 1,523.64% |
| 2011* | 0 | 0 | (275,392) | |

^{*}As determined by Examination.

The Company entered into a reinsurance agreement with Farm Bureau Mutual Insurance Company of Idaho effective April 1, 2010. In this agreement, the Company ceded 100 percent of its premium on all direct and assumed lines of business and class groups. In the prior agreement, effective July 1, 2005, the Company ceded only the direct lines of business and class groups to Farm Bureau.

REINSURANCE

Assumed

The Company ceased assuming business from American Agricultural Insurance Company (AAIC) since 2011. Prior to 2011, the Company participated in two reinsurance pools (property) that were formed by AAIC, an Indiana company with its administrative office located at Schaumburg, Illinois.

Ceded

As mentioned earlier, under a reinsurance agreement effective April 1 2010 (which replaced an earlier agreement dated July 1, 2005) between the Company and its ultimate parent, Farm Bureau Mutual Insurance Company of Idaho (Farm Bureau), the Company agreed to cede 100 percent of its premium on all direct and assumed lines of business and class groups to Farm Bureau. The ceded premium shall be paid to Farm Bureau when collected from the insureds. The Company received a ceding commission of 33 percent of the ceded premium. Reporting and settlements of the transactions were made on a monthly basis.

The Company paid all federal and states taxes, including premium tax on all business ceded. Farm Bureau paid all agent commissions and overwrites on all business issued by Farm Bureau agents for the Company; however, the Company reimbursed Farm Bureau for these commissions. Farm Bureau shall maintain reserves with respect to unearned premiums under this agreement. A review of the agreement disclosed that it contained an acceptable insolvency clause, as well as provisions for arbitration and inspection of records.

This agreement may be terminated by either party upon giving the other written notice at least twelve months before termination is to be effective.

To comply with a request from AM Best, the Company and Farm Bureau Mutual Insurance Company of Idaho entered into a transfer agreement signed April 16, 2010. The transfer was settled on June 21, 2010. The purpose of the agreement was to transfer existing business that had been assumed by Western Community to Farm Bureau. Western Community's interest in and exposure under the following reinsurance pools were transferred to Farm Bureau effective April 1, 2010:

AAIC Non Farm Bureau International Reinsurance Pool
AAIC Non Farm Bureau Domestic Reinsurance Pool
AAIC Outside Reinsurance Pool
AAIC Multi Line Reinsurance Pool
National Workers Comp Reinsurance Pool
Mutual Atomic Energy Reinsurance Pool (MAERP)

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.

Policy Forms and Underwriting

The Company currently writes the following policies:

- Commercial Package Policy (CPP)
- Commercial Property and Allied Lines
- Crime
- General Liability
- Commercial Auto
- Garage
- Inland Marine
- Businessowner's Policy (BOP)
- Commercial Umbrella

As previously reported, the Company discontinued the non-standard personal auto program effective January 1, 2011.

As required under Section 41-1812, Idaho Code, the Company had properly filed all the forms used during the period under examination.

Underwriting

A review of the Company's underwriting practices was performed by reviewing samples of new business, renewals, cancelled/non-renewals, and declinations. The samples were randomly

selected utilizing Audit Command Language (ACL) statistical software. Data provided by the Company was reconciled to the general ledger and Annual Statement for accuracy and completeness.

New Business Written in 2011

A random sample of 24 new policies written in 2011 was reviewed to determine compliance with Section 41-1018, Idaho Code (Appointments of Producers) and Section 41-1323, Idaho Code (Excess Charges for Insurance). The results of the review indicated that the Company's agents were properly licensed with the Idaho Department of Insurance and premiums were correctly calculated pursuant to the Company's rating manual.

Policies Renewed in 2011

A random sample of 24 policies renewed in 2011 was selected for review to determine whether increases or decreases in premiums from 2010 to 2011 were reasonable and were in compliance with Section 41-1323, Idaho Code (Excess Charges for Insurance). The results of the review indicated that the Company was in compliance with Idaho law.

Policies Cancelled/Nonrenewed in 2011

A random sample of 24 policies cancelled/nonrenewed in 2011 was reviewed to determine if the Company complied with Section 41-1842(3)(b)(i), Idaho Code (15 days of notice for nonpayment and 30 days for cancellation) and Section 41-1842(4)(a), Idaho Code, (45 days of notice for nonrenewal). Timeliness of premium refunds was also reviewed to determine if refunds were made timely (30 days or less from the date of cancellation). The results of the reviews indicated that the Company complied with the above Code sections. Minor exceptions relating to premium refunds were addressed separately in the Management Letter to the Company.

New Policies Cancelled/Declined in 2011

A random sample of 24 new policies in force in 2011 that were cancelled/declined during the year was reviewed to determine if the cancellations were reasonable and were in compliance with Section 41-1842, Idaho Code (Commercial Insurance-Cancellation-Nonrenewal) and Section 41-2507, Idaho Code (Cancellation of Policies-Grounds). Timing of premium refunds was also reviewed to determine if those refunds were issued timely (30 days or less from the cancellation date). Exceptions were noted with respect to grounds for cancellation on several sub-standard auto policies. Exceptions were also noted on some premium refunds. These exceptions were addressed separately in the Management Letter to the Company.

Gramm-Leach-Bliley Act

The Company's practices and procedures relating to privacy policies were reviewed to determine if the Company was in compliance with Section 41-1334, Idaho Code (Disclosure of nonpublic personal information) and Title V of the Gramm-Leach-Bliley Act.

The Company's website provides a copy of the privacy policy. Applicants are supplied with a copy of the Company's privacy policy. The Company annually sends out privacy policy/notices to the policyholders informing them of their rights and explaining with whom information is shared and of their right to opt out. The Agent's training bulletin also addressed the issue of

privacy. The Company's practices and procedures relating to policyholders' personal information were in compliance with Section 41-1334, Idaho Code and Title V of the Gramm-Leach Bliley Act.

Rate Filings

The Idaho Insurance Code does not require the filing and approval of property/casualty rates; however, Idaho Department of Insurance Bulletin 91-1 requests property and casualty companies to file rates. It is still the Company's position that it will not file rates unless it is required to do so.

Treatment of Policyholders

Complaints

A review was made of the Company's complaint logs for the period under examination to determine if the information included in those logs was in compliance with Section 41-1330, Idaho Code. Based on this review, the Company was in compliance with Idaho law.

A sample of written complaints recorded by the Company during the period under examination was reviewed to determine if the Company handled those complaints properly and promptly in compliance with Section 41-1329, Idaho Code. Based on this review, the Company handled its complaints properly and promptly in compliance with Section 41-1329, Idaho Code.

Claims

A random sample of 24 claims was selected from the list of claims paid in 2011. A review was made of these selected claims to determine if the Company established contact with its claimant/policyholder promptly in compliance with Section 41-1329(2), Idaho Code, that claims payment were made timely in compliance with Section 41-1328, Idaho Code (auto collision payments) and Section 41-1329, Idaho Code (unfair claim settlement practices). The results of the reviews indicated that the Company initiated contact with its claimant/policyholder within three days subsequent to the reported date in compliance with Section 41-1329(2), Idaho Code. One minor exception was noted with respect to the payment of an auto collision claim. This issue was addressed separately in the Management Letter to the Company. The Company was in compliance with Section 41-1329, Idaho Code, with respect to other claims payments.

Denied Claims

A random sample of 24 claims denied in 2011 was reviewed to determine if the reasons for denial were in compliance with Section 41-1329, Idaho Code. The results of the review indicated that the reasons for denial were in compliance with Section 41-1329, Idaho Code.

Claims Closed Without Payment

A random sample of 24 claims closed without payment was reviewed to determine if the reasons for nonpayment were in compliance with Section 41-1329, Idaho Code. The results of the review indicated that the reasons for nonpayment were in compliance with Section 41-1329, Idaho Code.

Litigated Claims

A sample of litigated claims reported to the Company in 2011 was reviewed to determine if the Company initiated contact with its policyholders in a timely manner and that the claims were properly investigated to determine liabilities in compliance with Section 41-1329, Idaho Code. The results of the reviews indicated that the Company initiated contact with its policyholders in a timely manner and that the claims were properly investigated to determine liabilities in compliance with Section 41-1329, Idaho Code.

Suspected Fraudulent Claims

The Company properly filed suspected fraudulent claims with the Idaho Department of Insurance in compliance with Section 41-290, Idaho Code.

Advertising and Sales Material

The Company did not advertise and had no advertising materials during the period under examination. The Company solicited business through the agents of its parent, Farm Bureau Mutual Insurance of Idaho.

The Company's website provided generalized information on the products available and linked the consumer to contact their local agent. No deceptive or misleading information was noted on the website.

ACCOUNTS AND RECORDS

General Accounting:

The Company uses On Line Information Executive (OLIE), an interactive system on its mainframe computer using PCs connected to its Local Area Network (LAN) and Wide Area Network (WAN). OLIE is used to capture data for Policy Management, Claims Management, Accounts Payable, and Accounts Receivables, etc. Claims data is received from the Guidewire Claims Center application and integrated with the other policy information residing on OLIE. All this information is then integrated with the SunGard iWorks EAS general ledger system.

The OLIE Policy Management System is used to setup and manage policies. Data from the Policy Management System is used to calculate and pay commissions, create general ledger entries, receivables and all other reporting needed by the Company. Policy and premium data is processed by affiliate, Western Computer Services, Inc. (WCSI), under a provider agreement with Farm Bureau Mutual Insurance Company of Idaho and other non-affiliated Farm Bureau entities. The Company reimburses Farm Bureau for this service through the inter-company billings. The Claims Management System uses the information on OLIE to verify policy coverage information before setting up reserves or claims. Once coverage is verified, claims payments are made with checks written and general ledger entries created. SunGard produces claims checks, except for those that are field issued. All management reporting for claims is generated from data aggregated and processed by OLIE. Reports are stored in the Report2Web repository.

Information from the Policy Management System and the Claims Management System are fed into the Accounts Payable/Receivable Systems. This included claim payments, commissions, policy balances due and other payables. The Company utilizes SunGard's iWorks EAS system for accounts payable and general ledger. The systems are tightly integrated with each other, in that they use information captured and provided by each other.

The Company compiles its annual statements utilizing the SunGard iWorks statutory software package, the NAIC Annual Statement Instructions and the Accounting Practices and Procedures Manual. The investment portfolio is maintained on SunGard's iWorks Investment Systems. The Company's independent auditors maintain the fixed asset records.

The Guidewire Claims Center will be upgraded to the latest release 7.x subsequent to the examination date. This will place all Guidewire products on the same version and platform and greatly enhance interoperability.

For Billing Center, the Company has decided to pursue the 7.x version and platform now, rather than putting additional effort into upgrading it later. The 7.x version is also required for Policy Center 7.x. Policy Center and Billing Center will go live together, and will directly interact with each other and not the mainframe. Policies will be put onto Billing Center only when they have been converted to Policy Center. It is expected that Billing Center and Policy Center will go live with the BOP line of business, with roll out of the remaining lines of business over the next eighteen months.

Independent Accountants

The annual independent audits of the Company for the years under examination were performed by Deaton & Company, Charted, Pocatello, Idaho.

The financial statements in each report were on a statutory basis. There was some reliance on the 2011 audit reports and workpapers in this examination of the Company.

Actuarial Opinion

The 2011 policy reserves and related actuarial items were calculated by the Company and reviewed by Randall S. Nordquist, FCAS, MAAA, Actuarial Director, Farm Bureau Mutual Insurance Company of Idaho.

The December 31, 2011 statement of actuarial opinion issued stated that the amounts carried in Exhibit A: Scope (balance sheet and Schedule P, Part 1 Summary) (a) meet the requirements of the insurance laws of the State of Idaho, (b) are consistent with reserves computed in accordance with accepted loss reserving standards and principles, and (c) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The identified actuarial items in the 2011 Annual Statement were as follows:

| Reserve for unpaid losses (Page 3, Line 1) | \$ | 0 |
|---|----------|-----|
| Reserve for unpaid loss adjustment expenses (Page, 3 Line 2) | \$ | 0 |
| Reserve for unpaid losses - direct and assumed (Schedule P, Part 1 Summary, totals from columns 13 and 15) | \$9,213, | 000 |
| Reserve for unpaid loss adjustment expenses - direct and assumed (Schedule P, Part 1 Summary, totals from columns 17, 19, and 21) | \$5,029, | 000 |

The Company participates in a small number of pooling arrangements. In prior years, reinsurance assumed from these pools and associations constituted the entirety of the Company's net loss and loss adjustment expense reserves. As previously reported, all remaining past and all future pool exposures were transferred to Farm Bureau Mutual Insurance Company of Idaho.

All business of the Company, including anticipated salvage and subrogation, is ceded to Farm Bureau Mutual Insurance Company of Idaho. The Company does not apply any tabular or non-tabular discounting.

The Company has written no policies specifically to cover mass tort, asbestos and environmental claims exposures. The Company has written no policies or contracts related to single or fixed premium policies with coverage periods of thirteen months or greater, which are non-cancelable and not subject to premium increase (excluding financial guaranty contracts, mortgage guaranty policies, and surety contracts). In addition, the Company does not write service contracts and has no prepaid loss adjustment expense arrangements.

The Company's opining actuary was appointed by the Board of Directors pursuant to NAIC Annual Statement Instructions Property and Casualty.

See the subsequent *NOTES TO THE FINANCIAL STATEMENT* section of this report for further discussion and comments from the Department's consulting actuary.

INFORMATION SYSTEMS REVIEW

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

- Management and Organizational Controls
- Logistical and Physical Security
- Disaster Recovery and Contingency Planning
- E-Commerce Controls

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2011

Statement of Income, for the Year Ending December 31, 2011

Capital and Surplus Account, for the Year Ending December 31, 2011

Reconciliation of Capital and Surplus Account, December 31, 2007, through December 31, 2011.

Balance Sheet

As of December 31, 2011

<u>ASSETS</u>

| | | Non Admitted | |
|--|---------------------|-----------------|--------------|
| | Assets | Assets | Net Admitted |
| Bonds | \$23,436,766 | \$ 0 | \$23,436,766 |
| Preferred stocks | 906,668 | 0 | 906,668 |
| Cash, cash equivalents and short-term investments | 358,043 | 0. | 358,043 |
| Investment income due and accrued | 307,520 | 0 | 307.520 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in the | | | |
| course of collection | 585,874 | 24,412 | 561,462 |
| Deferred premiums, agents' balances and installments | | | |
| booked but deferred and not yet due | 5,073,950 | 0 | 5,073,950 |
| Electronic data processing equipment and software | 7,132 | 0 | 7,132 |
| Receivables from parent, subsidiaries and affiliates | 699 | 0 | 699 |
| Aggregate write-ins for other than invested assets | | | |
| Premium taxes recoverable | 33,186 | 0 | 33,186 |
| Other receivables | 7 | 0 | 7 |
| Rounding | (2) | 0 | (2) |
| Totals | <u>\$30,709,843</u> | <u>\$24,412</u> | \$30,685,431 |

LIABILITIES, CAPITAL AND SURPLUS

| Losses (Note 1) | \$ | 0 |
|--|---------------|---------|
| Loss adjustment expenses (Note 1) | | 0 |
| Other expenses | | 188,375 |
| Taxes, licenses and fees | | 6,424 |
| Current federal and foreign income taxes | | 32,384 |
| Ceded reinsurance premiums payable | 5, | 138,093 |
| Payable to parent, subsidiaries and affiliates | 4 | 446,763 |
| Miscellaneous payables | | 238 |
| Total liabilities | \$ 5.8 | 312,277 |
| Common capital stock | \$ 3, | 349,740 |
| Gross paid in and contributed surplus | | 321,670 |
| Unassigned funds (surplus) | _21, | 201,744 |
| Total Surplus as regards policyholders | \$24.8 | 373.154 |
| Total liabilities, capital and surplus | <u>\$30,6</u> | 85,431 |

STATEMENT OF INCOME

For the Year Ending December 31, 2011

| | Per Examination and |
|---|---|
| | Per Company |
| | |
| Premiums earned | \$ 0 |
| Losses incurred | 0 |
| Loss adjustment expenses incurred | . 0 |
| Other underwriting expenses incurred | (421,958) |
| Total underwriting deductions | <u>\$(421.958)</u> |
| Net underwriting gain | <u>\$ 421,958</u> |
| | |
| Net investment income earned | \$ 999,648 |
| Net realized capital losses less capital gains tax | (1,298) |
| Net investment gain | <u>\$ 998,350</u> |
| Net loss from agents' or premium balances charged off | \$ (26,961) |
| Miscellaneous | 5,365 |
| Filing fees | 375 |
| Total other income | \$ (21,221) |
| Net income after dividends to policyholders, after capital gains tax and before all other federal | , |
| and foreign income taxes | \$1,399,087 |
| Federal and foreign income taxes incurred | 219,692 |
| Net income | \$1,179,395 |

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2011

| | Per <u>Company</u> | Examina Chang | | Per <u>Examination</u> |
|---|-----------------------|------------------|---|---------------------------|
| Capital and surplus, December 31, 2010 | \$23,668,699 | \$ | 0 | \$23,668,699 |
| GAINS AND (LOSSES) IN SURPLUS | | | | |
| Net income | \$ 1,179,395 | \$ | 0 | \$ 1,179,395 |
| Change in net unrealized capital gains | 4,417 | | 0 | 4,417 |
| Change in net deferred income tax | (38,972) | | 0 | (38,972) |
| Change in nonadmitted assets | 2,302 | | 0 | 2,302 |
| Capital changes: Paid in | 8,000 | | 0 | 8,000 |
| Surplus adjustments: Paid in: | 49,312 | | 0 | 49,312 |
| Rounding | 1 | | 0 | 1 |
| Change in surplus as regards policyholders for the year | \$ 1,204,455 | \$ | 0 | \$ 1,204,455 |
| Surplus as regards policyholders, December 31, 2011 | \$24,873,154 | \$ | 0 | \$24,873,154 |

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2007 Through December 31, 2011

| | 2008 | <u>2009</u> | 2010 | <u>2011</u> |
|---|--------------|--------------|--------------|--------------|
| Capital and surplus, | ### 100 FF | 001.100.555 | | |
| December 31, previous year | \$20,120,733 | \$21,102,666 | \$22,489,776 | \$23,668.699 |
| Net income | \$ 1,226,695 | \$ 1,286,952 | \$1,087,157 | \$ 1,179,395 |
| Change in net unrealized capital gains | (261,547) | 93,327 | 97.085 | 4,417 |
| Change in net deferred income tax | (8,545) | 5,540 | (4,403) | (38,972) |
| Change in nonadmitted assets | 25,329 | 1,292 | (379) | 2,302 |
| Capital changes: Paid in | 0 | 0 | (80) | 8,000 |
| Surplus adjustments: Paid in: | 0 | 0 | (242) | 49,312 |
| Miscellaneous | .0 | 0 | (216) | 0 |
| Rounding | 1 | (1) | 1 | 1 |
| Change in surplus as regards policyholders for the year | \$ 981.933 | \$ 1.387.110 | \$ 1,178,923 | \$ 1,204,455 |
| Surplus as regards policyholders, December 31, | \$21,102,666 | \$22,489.776 | \$23,668,699 | \$24,873,154 |

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NOTES TO THE FINANCIAL STATEMENTS

| Note (1) | | |
|--------------------------|----|---|
| Losses | \$ | 0 |
| Loss adjustment expenses | · | 0 |

Randall D. Ross, ACAS, MAAA, of Taylor-Walker and Associates, Inc., was retained by the Department to perform the actuarial portion of the examination. The scope of Taylor-Walker's risk-focused examination addressed all actuarial areas assigned by the Department. Taylor-Walker participated in multiple interviews with Company management, and assisted in identifying and assessing areas of risk. Taylor-Walker reviewed risk mitigation strategies and performed control testing. Finally, Taylor-Walker assessed overall residual risk and performed substantive testing where necessary. Substantive testing focused on the actuarial report and workpapers supporting the Statement of Actuarial Opinion. Based on the conclusions reached regarding these risk-focused reviews, (including a peer review of he appointed actuary's work), Taylor-Walker did not find it necessary to conduct independent reserve analyses.

Taylor-Walker also reviewed the Company's determination regarding the lack of a need for premium deficiency reserves. Taylor-Walker reviewed the Company's 2011 Annual Statement, and in particular Schedule P, for reasonableness and consistency. Finally, Taylor-Walker assisted in assessing risk transfer within the Company's assumed and ceded reinsurance contracts. There were no exceptions noted in the aforementioned areas.

The Company's 2011 Annual Statement reserves were compared to the opining actuary's range of reserve estimates as shown below:

| | Actuary's Low | Actuary's Point | Actuary's High | |
|----------------------|---------------|-----------------|-----------------|-----------------|
| Loss & LAE Reserves | Estimate | <u>Estimate</u> | <u>Estimate</u> | Company Carried |
| Gross of Reinsurance | \$10,065,000 | \$12,671,000 | \$15,915,000 | \$14,242,000 |

As previously reported, the Company ceded all of its direct business to its ultimate parent. Because of this, the Company's net loss and loss adjustment expense reserves were zero. Taylor-Walker concluded that the range of gross loss and loss adjustment expense reserves estimated by the opining actuary were reasonable. Since the reserves booked by the Company fell within the actuary's range, Taylor-Walker also concluded that reserves booked by the Company were reasonable. Therefore, Taylor-Walker did not recommend any adjustments, for examination purposes, to reserves booked in the Company's 2011 Annual Statement.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2011, the Company had admitted assets of \$30,685,431, liabilities of \$5,812,277, and total surplus as regards policyholders of \$24,873,154. Therefore, the Company's total capital and surplus exceeded the \$2,000,000 minimum prescribed by Section 41-313, Idaho Code.

Comments and Recommendations

Page

To ensure that the procedure is consistently applied, it is again recommended that all terminated producers receive notification of appointment termination. It is also recommended that all "Termination of your Contract" letters contain the termination of appointment language. It is further recommended that such letters be included in all terminated agent (including retirements and voluntary resignations) files in order for future examinations to determine compliance with Section 41-1019(4), Idaho Code.

CONCLUSION

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

In addition to the undersigned, contract examiners Kelvin Ko, CFE, and Dave Emery, CFE, FLMI, participated in the examination. Randall D. Ross, ACAS, MAAA, of Taylor-Walker and Associates, Inc. conducted the actuarial portion of the examination. Idaho Department of Insurance employees Dale Freeman, MBA, CIE and Arlene Barrie also participated. Finally, the Company's information systems were reviewed by Information System Specialist, Jenny L. Jeffers, CISA, AES, on behalf of Jennan Enterprises, LLC.

Respectfully submitted,

Lois Haley, CFE

Senior Insurance Examiner

State of Idaho

Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of the Western Community Insurance Company for the period from January 1, 2008 through December 31, 2011, 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.

Examiner-in-Charge Department of Insurance

State of Idaho

Subscribed and sworn to before me the 15 day of February 2013 at Boise, Idaho

My commission Expires:



275 Tierra Vista Drive • P.O. Box 4848 • Pocatello, Idaho • 83205-4848 • Phone: (208) 232-7914 • Fax: (208) 232-3608

WAIVER

In the matter of the Report of Examination as of December 31, 2011, of the:

Western Community Insurance Company

275 Tierra Vista Drive

Pocatello, Idaho 83201

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 15th day of February 2013, 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 18 day of February , 2013

Western Community Insurance Company

Name of Entity

Signature

Executive Vice President and Chief Executive Officer

Title

