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Attorneys for Department of Insurance

FILED

APR 27 2009

Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF:	)	
	)	
Farm Bureau Mutual Insurance Company of Idaho	)	**ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2007**
Idaho Certificate of Authority: 531	)	
NAIC Company Code: 13765	)	Docket No. 18-2538-09

The Report of Examination as of December 31, 2007 (Report) of *Farm Bureau Mutual Insurance Company of Idaho* (Company) was completed by examiners from the Idaho Department of Insurance (Department) and signed the 8th day of April 2009 by the Examiner-in-Charge, David W. Emery, CFE, FLMI. The verified (attested) copy of the Report was filed with the Department effective April 8th, 2009. Previously, a draft copy of the Report was delivered to the Company on March 25, 2009, with the verified Report being transmitted to the Company electronically (PDF file, via e-mail) on April 8th, 2009 to Mr.

Paul Brent Roberts, Treasurer. The verified Report is attached hereto and incorporated herein as Exhibit A.

WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver signed by Mr. Roberts on April 16, 2009 and received via U.S. First Class mail by the Department on April 20, 2009. 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.

RESPONSE

The Company made a written submission (as provided for under § 41-227(5), Idaho Code) containing responses to the examination report in a letter signed by Mr. Roberts dated April 16, 2009 and received via U.S. First Class mail by the Department on April 20, 2009. Further, the Company requested that the written submission become a public record of the Department. This written submission is attached and incorporated herein as Exhibit C.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and fully considering the written submission attached hereto as Exhibit C, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings, conclusions, comments and recommendations 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 27TH day of April 2009.

William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 27th day of April 2009, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. Paul Brent Roberts, Treasurer Farm Bureau Mutual Insurance Company of Idaho 275 Terra Vista Dr. Pocatello, Idaho 83201 proberts@idfbins.com	X certified mail ___ first class mail ___ hand delivery ___ Facsimile X e-mail
Mr. Phillip R. Joslin, Executive Vice-President & CEO Farm Bureau Mutual Insurance Company of Idaho 275 Terra Vista Dr. Pocatello, Idaho 83201 pjoslin@idfbins.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 e-mail: 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 the

FARM BUREAU MUTUAL INSURANCE COMPANY OF IDAHO

(NAIC Company Code 13765)

as of

December 31, 2007

EXHIBIT

A

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State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

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WILLIAM W. DEAL
Director

Pocatello, Idaho
April 8, 2009

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

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code Section 41-219(1), and in accordance with generally accepted examination practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2007 of:

FARM BUREAU MUTUAL INSURANCE COMPANY OF IDAHO

275 TIERRA VISTA DRIVE
POCATELLO, IDAHO 83201

hereinafter referred to as "the Company," at its offices in Pocatello, Idaho. Also the Idaho Department of Insurance is hereinafter referred to as the "Department."

The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2003, through December 31, 2007. 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 Idaho Code Section 41-219(1), the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, and the NAIC *Accounting Practices and Procedures Manual*. We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Examiners Handbook*. Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

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 Taylor-Walker & Associates, Inc., consulting actuaries, 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 2007 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, as well as minor accounting and/or annual statement reporting corrections.

PRIOR EXAMINATION

The prior examination was conducted by the Idaho Department of Insurance and covered the period of January 1, 1999 through December 31, 2002.

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 exam 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

The Company was incorporated on April 27, 1947 as a stock insurance company under the name of Idaho Farm Insurance Company, Inc. A Certificate of Authority was issued and the Company commenced operations on May 1, 1947 conducting multi-line insurance business in Idaho. (See next page)

The Company amended its Articles of Incorporation on January 25, 1991, changing the Company name to Farm Bureau Mutual Insurance Company of Idaho. During March 2002, the Company moved to a new home office building located at 275 Tierra Vista Drive, Pocatello, Idaho.

The Company operated under the provisions of Chapter 28, Title 41 of the Idaho Code, and provided coverage for the following lines of business:

Fire	Fidelity
Allied Lines	Inland Marine
Multiple Peril Crop	Other Liability Occurrence
Farm owners Multiple Peril	Private Passenger Automobile Liability
Homeowners Multiple Peril	Private Passenger Automobile Physical Damage
Workers Compensation	

Capital Stock

The Company was incorporated on April 27, 1947 as a stock insurance company under the name of Idaho Farm Insurance Company, Inc. and commenced operations on May 1, 1947 conducting multi-line insurance business in Idaho. The Company amended its Articles of Incorporation and Bylaws on January 25, 1991, changing the Company name to Farm Bureau Mutual Insurance Company of Idaho.

Dividends to Policyholders

During the examination period, no dividends were paid to the policyholders. On April 15, 2008, the Board approved $5 million of policyholder dividends payable by June 1, 2008. The amount was paid on May 20, 2008.

Surplus Debentures

The Company did not have any Surplus Debentures or Surplus Notes outstanding during the period covered by this examination or subsequently.

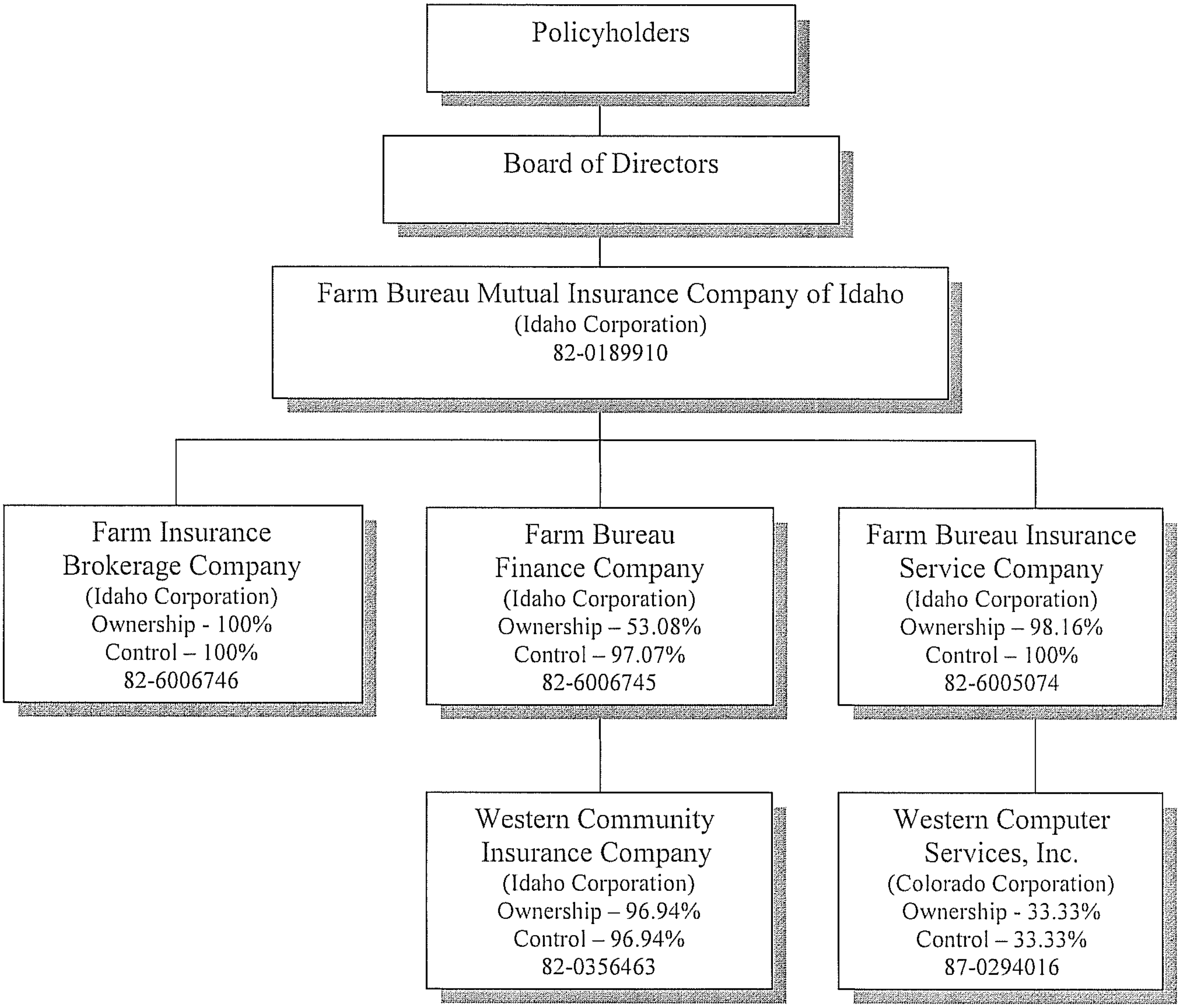
Idaho Insurance Guaranty Association

The Company is a member of the Idaho Insurance Guaranty Association, pursuant to Idaho Code Section 41-3606.

MANAGEMENT AND CONTROL

Insurance Holding Company System

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



Changes noted, since the examination as of December 31, 2002, were the change in the percentage of ownership of Farm Bureau Finance Company (FBFC) from 53.27% to 53.08% (various stockholders own the remaining non-voting stock of FBFC), Farm Bureau Insurance Service Company from 96.14% to 98.16% and Western Community Insurance Company from 96.87% to 96.94%. Farm Bureau Finance Company owned 99.26% of Western Community Investment Company as of December 31, 2002. Effective January 3, 2005, Western Community Investment Company was liquidated and its assets were transferred to its parent company, Farm Bureau Finance Company. The transfer was based on its 2004 year-end financial statements.

Directors

The following persons were serving as directors at December 31, 2007:

Name	Business Address
Brandon (Scott) Bird	Pocatello, Idaho
Robert Callihan	Potlatch, Idaho
Danny Ferguson	Rigby, Idaho
Marjorie French	Princeton, Idaho
Albert Johnson	Georgetown, Idaho
Terry Jones	Emmett, Idaho
Curtis Krantz	Caldwell, Idaho
Michael McEvoy	Middleton, Idaho
Gerald Marchant	Oakley, Idaho
Carl Montgomery	Eden, Idaho
Ricky Pearson	Hagerman, Idaho
Frank Priestley, Chairman	Franklin, Idaho
Dean Schwendiman	Newdale, Idaho
Bryan Searle	Shelley, Idaho
Mark Trupp	Driggs, Idaho

Officers:

The following persons were serving as officers at December 31, 2007:

Name	Position
Frank Priestley	President
Phillip Joslin	Executive Vice President and CEO
Carl Montgomery	First Vice President
Loyal Heyer	Vice President-Marketing & Assistant Secretary
Gordon Crystal	Vice President-Claims & Assistant Secretary
Richard Peterson	Vice President-Legal Affairs & Assistant Secretary
Dan Hoffa	Vice President-Operations & Assistant Treasurer
Rick Keller	Secretary
Paul Roberts	Treasurer
Tim Stronks	Director of Policy Services & Assistant Secretary

Biographical affidavits for each Director and Officer filed with the Idaho Department of Insurance were reviewed.

Committees

On April 9, 2003, the Board of Directors approved the appointment of an Audit Committee; however, there were no records in the board minutes or board resolutions relating the appointment of audit committee members during the period under examination.

The 2007 audit committee consisted of the following members:

Robert Callihan	Albert Johnson	Curtis Krantz
Carl Montgomery	Frank Priestley	Dean Schwendiman

Corporate Governance

As part of the Department's transition to the NAIC's risk focused exam approach, a review of the Company's corporate governance was conducted. Interviews of the senior management team and selected Board members were accomplished immediately subsequent to the examination entrance conference (week of June 9, 2008) at the Company headquarters in Pocatello, Idaho. Inherent risk, mitigating controls and residual risk were assessed by members of the exam team for the Company's corporate governance environment.

Some of the strengths noted in the corporate governance area during the interview process included: 1) the management team has a significant history with the Company; 2) the management team meets weekly, with informal discussions taking place amongst the team almost daily; 3) ethics is highly regarded, and there is an organization-wide "values" statement; 4) there have been informal discussions/dialogues amongst management with regard to succession planning; 5) the examination noted the effective use, and high quality, of reporting, including presentation packages, from senior management to the Board; 6) senior management is actively engaged in risk assessment; 7) the examination found the Board to be well-informed and actively engaged in the oversight and corporate governance of Company.

Senior management and Board members interviewed included:

Name	Position Being Interviewed
Phillip Joslin	Chief Executive Officer Chief Information Officer
Paul Roberts	Chief Financial Officer/Treasurer Investment Management
Randy Nordquist	Chief Actuary
Gordon Crystal	Director of Claims
Frank Priestley	Board Member
Susan Feit	Underwriting Officer
Brandon (Scott) Bird	Board Member
Tim Stronks	Underwriting Officer
Richard Peterson	Legal Counsel

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. Completed conflict of interest forms were reviewed for the period under examination and no potential conflict of interests were noted.

Contracts and Agreements

As of December 31, 2007, the Company was party to several agreements with affiliated companies for management services, leases and consolidated taxes. The agreements are summarized as follows:

1. Management Agreement – Western Community Insurance Company

Effective January 1, 1999, the Company entered into a management agreement with Western Community Insurance Company (WCIC), an affiliate of the Company. Pursuant to the agreement, the Company agreed to provide complete management services for the lines of business written by WCIC. The services provided include, but are not limited to management, marketing, underwriting, processing, equipment, actuarial, secretarial, accounting, collection of premiums, and adjusting and payment of claims.

The Company was compensated for its management services by a fee of 17% of direct premiums written by WCIC. The agreement also included a provision for WCIC to pay an additional 2% of its direct written premium to the Company for use of its county office facilities, plus actual reimbursement (on a cost basis) for supplies, printing, telephone, postage, insurance, and other general expenses.

As the Company assumed 100% of all direct written business written by Western Community Insurance Company (WCIC), the Company agreed to arrange for excess reinsurance coverage facilities and provide reinsurance reporting services for WCIC on the business written, which is subject to the terms of the agreement. The reinsurance costs shall be shared by the Company and WCIC in proportion to their respective retentions on the business.

The Company agreed to provide WCIC all necessary reports and statistical data within 15 days after the close of each month. WCIC agreed to make payments to the Company based on these reports within 15 days of their receipt from the Company.

The agreement may be terminated by either party at the end of any given year by giving the other a written notice of termination at least 90 days prior to the end of the calendar year.

The management fees paid by WCIC to the Company during the period covered by this examination were as follows:

Year	Amount
2003	$3,220,221
2004	$5,174,870
2005	$5,912,928
2006	$6,862,655
2007	$6,854,401

2. Management Agreement – Farm Bureau Finance Company

Effective January 1, 1999, the Company entered into a management agreement with Farm Bureau Finance Company (Finance Company), an affiliate. Pursuant to the agreement, the Company agreed to provide management and other services to the Finance Company. The services provided include management services, processing, travel, promotion expense, rent, secretarial, personnel, employee related expenses, data processing, and accounting. In addition, the Finance Company reimbursed the Company for supplies, printing, telephone, postage, insurance, and other similar expenses on a cost basis.

Also the Finance Company reimbursed the Company a portion of the royalty fee that the Company pays annually to the Idaho Farm Bureau Federation, Inc. for the use of the Farm Bureau name and logo by the Company and its affiliates. The royalty fee was 0.50% of the annual loan interest for the year 1999, which increased by 0.07% each year thereafter until the year 2006, when it increased by 0.08%, yielding a fee of 1%. The fee remained at 1% for the years thereafter.

The agreement provided for an annual cost assessment, which was agreed upon by the parties in advance of the year to which it applied. The Company billed the Finance Company monthly, within 15 days after the close of the month, and the Finance Company paid the Company within 15 days of receipt of the monthly billing.

3. Management Agreement – Farm Insurance Brokerage Co., Inc.

Effective January 1, 1997 the Company entered into a management agreement with Farm Insurance Brokerage Co., Inc. (Brokerage Company), an affiliate. Pursuant to the agreement, the Company agreed to provide management and other services to the Brokerage Company. The services provided include management services, underwriting, processing, travel, promotion expense, rent, secretarial, agent training, personnel, employee related expenses, data processing, and accounting. The Brokerage Company shall pay an annual fee for the services provided by the Company, which shall be agreed upon by the parties annually in advance of the year to which it applies. In addition, the Brokerage Company reimbursed the Company for supplies, printing, telephone, postage, insurance, and other similar expenses on a cost basis.

The Company will provide the Brokerage Company, within 15 days after the close of each month, all reports and statistical data which the Brokerage Company may request, as reasonable and agreed by the parties. Payments owing under this agreement that are based upon these reports shall be made within 15 days of receipt of the monthly report from the Company.

4. Management Agreement – Farm Bureau Insurance Service Company of Idaho

Effective January 1, 1997 the Company entered into a management agreement with Farm Bureau Insurance Service Company of Idaho (Service Company), an affiliate. Pursuant to the agreement, the Company agreed to provide management and other services to the Service Company. The services provided include management services, processing, rent, secretarial, personnel, employee related expenses, data processing, and accounting. The Service Company shall pay an annual fee for the services provided by the Company, which shall be agreed upon by the parties annually in advance of the year to which it applies. In addition, the Service Company reimbursed the Company for supplies, printing, telephone, postage, insurance, and other similar expenses on a cost basis.

The Company will provide the Service Company, within 15 days after the close of each month, all reports and statistical data which the Service Company may request, as reasonable and agreed by the parties. Payments owing under this agreement that are based upon these reports shall be made within 15 days of receipt of the monthly report from the Company.

5. Reinsurance Agreement-Western Community Insurance Company

Effective January 1, 2005, the Company entered into a reinsurance agreement with Western Community Insurance Company (WCIC), a subsidiary. This agreement replaced an earlier agreement dated January 1, 1998. WCIC agreed to cede 100% of its premiums on all direct lines of business and class groups to the Company. The Company paid WCIC a ceding commission of 33% of the written premium, which will be settled monthly. For further detail of the agreement refer to the "REINSURANCE" section of this report.

6. Lease Agreements with Affiliated Companies

The Company entered into three lease agreements with Farm Bureau Finance Company (Finance Company), an affiliate. The agreements were for the rental of space, on property owned by the Finance Company, at the following locations:

Location	Rental Amount
200 E Avenue, Jerome, Idaho 83338	\$ 850 per month
225 W. Grand, Arco, Idaho 83213	\$ 700 per month
2007 14th Avenue, Lewiston, Idaho 83501	\$2,300 per month

The Company agreed to pay the above-indicated rent on or before the fifth of the month and that the premises are to be used for the operation of an insurance agency. The Company is responsible for all bills for heating, power, water, sewer, and garbage. The Finance Company is responsible for all state and county taxes. Each of the above lease agreements had a term of three years with different effective days. The Company is given the option to enter into a new lease at the termination of this lease agreement for an additional one year period at a rental rate that shall be negotiated at the time of the renewal.

Effective January 1, 2006, the Company also entered into five lease agreements with its affiliates. The agreements were for the rental of space, on property owned by the Company, at the following locations:

Location	Affiliated Company	Rental Amount
4122 E. Cleveland Blvd., Caldwell, Idaho 83605	Farm Bureau Finance Company	\$1,400 per month
1250 South Allante, Boise, Idaho 83609	Farm Bureau Finance Company	\$1,070 per month
275 Tierra Vista Drive, Pocatello, Idaho 83201	Farm Bureau Finance Company	\$2,475 per month
275 Tierra Vista Drive, Pocatello, Idaho 83201	Farm Insurance Brokerage Company	\$542 per month
275 Tierra Vista Drive, Pocatello, Idaho 83201	Idaho Farm Bureau Federation	\$7,247 per month

The above companies agreed to pay the above-indicated rent on the first of the month. They were responsible for all bills for heating, power, water, sewer, and garbage except for the rental space at the Company's home office at 275 Tierra Vista Drive, Pocatello, Idaho. The Company was responsible for all state and county taxes.

The terms of the leases ranged from two and half to three years with different effective days. The affiliated Companies are given the option to enter into a new lease at the termination of the current lease agreement for an additional one-year period, at a rental rate, which shall be negotiated between the parties at the time of the renewal.

In addition, the Company has approximately 48 lease agreements with non-affiliated parties throughout the State of Idaho for its county offices. Monthly rental amounts ranged from $100 to $5,685, and the monthly rent paid for these county offices totaled approximately $71,000 during 2007.

7. Auto Lease Agreement - Farm Bureau Finance Company

Effective February 17, 2004, the company entered into an agreement with Farm Bureau Finance Company. Under the terms of this agreement, the Company leased a fleet of vehicles for use by its employees. The leased vehicles were purchased by the finance company according to the Company's specifications. The Company's monthly lease installment was comprised of a 2% depreciation charge based on the vehicles cost, plus a "use fee" which was calculated at the present new car annual percentage rate based on the present average book value of the vehicle, plus a 6% sales tax. When a new car was purchased, the use fee continued on the old vehicle, according to the terms of the lease, until the vehicle was sold. Upon the sale of the old vehicle, the Company received any gain or loss.

8. Consolidated Income Tax Allocation Agreement

This agreement was executed on January 26, 1998, and includes all corporate entities in the holding company system, i.e., the Company, Western Community Insurance Company, Farm Insurance Brokerage Company, Farm Bureau Finance Company, Farm Bureau Insurance Service Company of Idaho, and Western Community Investment Company, all of which are Idaho Corporations (the Parties). It was noted that Western Community Investment Company merged into Farm Bureau Finance Company in 2005 and was no longer a party to the agreement.

The above Parties to the agreement were the parent and subsidiary corporations, which were eligible to file consolidated income tax returns. The four subsidiary corporations (the Company being the Parent) acknowledge that they have previously authorized the Parent to include them in consolidated income tax returns for the tax years ending December 31, 1992, 1993, 1994, 1995, and 1996, and further authorized the Company to include them in future consolidated income tax returns, unless consent was specifically withdrawn by formal notice to the Company.

The Parties to this agreement mutually agreed to allocate the consolidated federal income tax liability for all years for which the consolidated group has filed or will 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 member's share of the dividends received deduction.

The Company and WCIC were insurance companies taxed under Section 41-405, Idaho Code, not subject to Idaho corporation income tax, and therefore not subject to state income tax allocation, under the terms of the agreement.

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.

This agreement will continue on a year-to-year basis until such time as any party gives the remaining parties 30 days written notice of cancellation.

In addition to the above agreements with affiliates, the Company also executed the follow agreements with Idaho Farm Bureau Federation, Inc.

9. Royalty Agreement – Idaho Farm Bureau Federation, Inc.

Effective January 1, 1999, the Company entered into a royalty agreement with the Idaho Farm Bureau Federation, Inc (The Federation). The Federation has been granted the exclusive right to use and benefit of the name "Farm Bureau" and the logo "FB" within the State of Idaho by the American Farm Bureau Federation, which owns the name and logo. The Company recognized the value of the name and logo and wished to derive benefit from its association and use the Farm Bureau name and logo on its services and products. Therefore, the Federation allowed the Company and its subsidiaries to use the name and logo, and all other intangible benefits associated with them in exchange for an annual royalty payment.

The amount of the royalty payment was determined by an annual percentage of the Company's written premiums from Idaho policies. The royalty was 0.75% per year for the year 1999, with an increase of 0.10% per year each year thereafter until the annual rate of the royalty payment reaches a maximum of 1.5%. The Company made monthly royalty payments, which were calculated by using the applicable rate multiplied by the prior month's written premium.

10. Payment of Rent and Services Agreement - Idaho Farm Bureau Federation, Inc.

Effective January 1, 2003, the Company entered into the captioned agreement with the Idaho Farm Bureau Federation, Inc. (the Federation).

In this agreement, the Company agrees to provide office space and certain general office services to the Federation such as, equipment usage, telephone, data processing, accounting, supplies, and other office services. The Federation agrees to reimburse the Company for the estimated actual costs of providing such facilities and services plus a reasonable return on investment for those facilities that require a capital investment. In addition, the Company agrees to provide an Accidental Death Insurance Policy for each member family of the Federation. Benefits will be $1,000 for the member or member's spouse, and $1,000 for each of the member's unmarried children who have not attained 21 years of age. The Federation will pay a provisional premium of $0.70 for each member to the Company, to apply toward the insurance premium of such policy.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

During the period covered by the examination, there were no changes made to the Company's Articles of Incorporations.

The Company's Bylaws were amended three times during the period under examination, twice in 2003 and again in 2005. Copies of the amended bylaws were filed and approved by the Idaho Department of Insurance.

Minutes of Meetings

The minutes of meetings of the Company's policyholders and Board of Directors were reviewed for the examination period. The review indicated that the meetings were held in compliance with the Bylaws, and were well attended.

The minutes reflected the annual elections of the Board of the Directors and Officers, acceptance of independent auditors' reports, investment transactions, and approval of policyholder dividends, salaries, and amendments to the Company's bylaws.

The minutes of the July 22, 2004 Directors' meeting acknowledged the receipt, review and acceptance of the statutory examination reports as of December 31, 2002, conducted by the Idaho Department of Insurance.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverages, for the protection of the Company, were maintained throughout the period covered by this examination. Coverages in effect as of December 31, 2007, are summarized as follows:

Fidelity Bond

Fidelity and employee dishonesty coverage is provided to the Company and other named subsidiary entities up to a single loss and aggregate limit of $1,000,000 which meets the minimum amount recommended by the NAIC Financial Condition Examiners Handbook.

Other Insurance

The Company was also a named insured on a number of other insurance policies, which included the following coverages:

Commercial Property	Worker's Compensation
Commercial General Liability	Professional Liability
Commercial Inland Marine	Directors' and Officers' Liability
Commercial Auto Liability	Commercial Occurrence Excess coverage

The insurance companies providing the coverages to the Company were authorized insurers in the State of Idaho. It appears that the Company maintained adequate coverages for risks to which the Company could be exposed.

PENSION AND INSURANCE PLANS

Employees of the Company were provided numerous employee benefits, group insurance and retirement plans. The major programs, which were available, include health care, dental care, defined retirement plan, life insurance, voluntary employee savings plan, disability insurance, and holiday, vacation, and sick leave. Other benefits available to the employee were flexible spending accounts, family and medical leave, attendance bonus incentive, continuation of insurance coverage, reimbursement of educational training and stakeholder bonus, an incentive program for all employees.

TERRITORY AND PLAN OF OPERATION

The Company was licensed, as a domestic property and casualty insurer, only in the State of Idaho and operated under Certificate of Authority No. 531. The Company concentrated mainly on farm and homeowners multiple peril and private passenger automobile lines of business.

Producer Licensing

Farm Bureau utilizes a captive agency/producer force. It is comprised of seven agencies and 146 producers. It has procedures in place for the appointment of agencies and producers. The Company also has reporting mechanisms in place to track the status of producer licensure, policy retention, and agency status relative to premiums in force, premiums paid, losses paid, loss ratios, and reserves.

The Company provides producers with Underwriting Guidelines and Rating Manuals. Producer training bulletins are provided online at the Company intranet website. A standard Career Agent's Contract is used by the Company with all its captive agents.

The Company provided lists of active and terminated producers for reconciliation with the Department list of appointed and terminated producers. There were no exceptions found.

A sample of both active and terminated producers was reviewed to determine compliance with Idaho Code Sections 41-1004(1), 41-1018(1) and (2), and 41-1019(2) and (4) relative to proper licensure and appointment of producers and timely notification to the Department of producer appointments and terminations. It was determined that one producer was not notified timely of termination of his appointment pursuant to Idaho Code Section 41-1019(4). The Company indicated that since this was a voluntary retirement, a termination letter to the producer was not required. The statutes make no exceptions.

It is 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.

The commission schedules for career and special agents were reviewed. All commissions were found to be properly paid based on premium written or charged-back based on cancellations. No exceptions were noted.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2007, the Company provided the following securities in trust for the protection of its policyholders and creditors, as a statutory deposit, through the Idaho Director of Insurance and held by U.S. Bank, in compliance with Idaho Code Section 41-316A:

Description	Par Value**	Statement Value***	Fair Value *
Ada & Canyon County Jt SD #2, 4.7%, Due 7/30/13	$ 500,000	$ 498,771	$ 512,960
Ada & Canyon County Jt SD #2 Meridian, 4.5%, Due 7/30/12	500,000	500,600	511,425
Gem & Boise County SD #221, 4.5%, Due 8/1/12	500,000	500,000	504,410
Total	$1,500,000	$1,499,371	$1,528,795

* The fair market value amounts were taken from the December 2007 statement of the custodian bank.
** - Confirmed with the Idaho Department of Insurance
*** - 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 following securities were held by Wells Fargo Bank (confirmed with the custodial bank), for Workers Compensation deposit requirements per Idaho Code Section 72-302:

Description	Par Value**	Statement Value	Fair Value *
Idaho Health Facs Auth Rev, 6.65%, Due 2/15/21	$200,000	$249,016	$254,116
Total	$200,000	$249,016	$254,116

* The fair market value amounts were taken from the December 2007 statement of the custodian bank.
** - Confirmed with the Idaho Industrial Commission

This deposit with the Idaho Industrial Commission is required because the Company is still authorized to write Workers Compensation policies; however, the Company ceased assuming Workers Compensation policies from its subsidiary Western Community Insurance Company in May of 2003.

In addition, the following securities were held by U.S. Bank (confirmed with the custodial bank) in escrow for the retro-layer of an excess reinsurance agreement with the American Agricultural Insurance Company which was canceled effective January 1, 2005:

Description	Par Value	Statement Value	Fair Value *
Boise City Urban Renewal Agency,5.15%, Due 8/15/11	$ 250,000	$ 250,000	$ 260,783
Polk Cnty Wisconsin, 4.5%, Due 12/1/13	500,000	497,429	524,675
Polk Cnty Wisconsin, 5%, Due 12/1/19	500,000	497,478	533,820
Seattle WA Municipal Light & Power, 5%, Due 7/1/18	250,000	250,000	255,290
Total	$1,500,000	$1,494,907	$1,574,568

* The fair market value amounts were taken from the December 2007 statement of the custodian bank.

GROWTH OF THE COMPANY

The Company's Growth for the years indicated, as taken from its Annual Statements (or as adjusted by the examination report), is shown in the following schedule:

Year	Admitted Assets	Liabilities	Surplus	Net Income
2002 *	$236,225,867	$123,601,837	$112,624,030	$(2,000,174)**
2003	261,228,575	138,234,524	122,994,051	6,289,702
2004	295,109,628	156,791,520	138,318,108	10,230,384
2005	325,190,809	165,641,814	159,548,995	16,460,874
2006	348,386,461	167,506,399	180,880,062	15,835,247
2007 *	$365,491,203	$164,631,163	$200,860,040	$18,808,234

* As determined by Examination

** Loss was an underwriting loss from the reduction of ceded Workers' Compensation premium from Western Community

LOSS EXPERIENCE

The ratios of losses and underwriting expenses incurred to premiums earned, as reported in the Company's annual statements for the five year period ending December 31, 2007 are reported below:

Year	Premiums Earned	Losses Incurred	Loss/UW Expenses Incurred	Total Losses & Expenses	Ratio of Losses & Expenses to Premiums Earned
2002	$ 90,406,890	$71,375,661	$32,330,089	$103,705,750	114.7%
2003	106,871,249	70,447,791	37,845,079	108,292,870	101.3%
2004	120,886,224	75,288,239	40,963,539	116,251,778	96.2%
2005	130,729,593	74,897,792	41,754,259	116,652,051	89.2%
2006	139,575,306	84,591,994	46,415,195	131,007,889	93.9%
2007	$139,968,288	$79,447,599	$46,530,285	$125,977,884	90.0%

REINSURANCE

Assumed

As mentioned earlier in this report, the Company was a party to a reinsurance agreement with Western Community Insurance Company (Western Community), an affiliated company, originally dated January 1, 1998. However, the reinsurance agreement was updated to conform with current state statutes and a new agreement was executed on July 1, 2005. In this agreement, the Company agreed to assume and Western Community agreed to cede 100% of its premium on all direct lines of business and class groups to the Company. The Company agreed to pay Western Community a ceding commission of 33%.

American Agricultural Insurance Company (AAIC), an Indiana Company, with its administrative office located at Schaumburg, Illinois, is the Company's only assumed reinsurer. AAIC formed various reinsurance pools by combining business ceded to it by the Company, other Farm Bureau Companies and other insurance entities. AAIC retroceded part of the following pools to the Company:

Type of Contract	Name of Reinsured	Type of Business Assumed	Company's Assumed Percentage
Proportional Crop Hail Pool Retrocessional	AAIC-Pool Manager	Proportional Crop Hail-Pool	Quota Share Layer-2.5% 1st Surplus Layer-3% 2nd Surplus Layer-3% 3rd Surplus Layer-3% 1st Surplus-Special Illinois-2%
Multiple Peril Crop Quota Share Pool Retrocessional	AAIC-Pool Manager	Multiple Peril Crop-Pool	2.4%
Aggregate Excess Crop Hail Pool Retrocessional	AAIC-Pool Manager	Aggregate Excess Crop-Pool	Pool Layer-4% 2nd layer Illinois-3%
Occurrence Property and Auto Catastrophe Pool Retrocessional	AAIC-Pool Manager	Occurrence Property and Auto Catastrophe-Pool	1%
Occurrence Property Catastrophe Pool (Terrorism) Retrocessional	AAIC-Pool Manager	Occurrence Property Catastrophe Pool (Terrorism)	1.5935%
Over Other Protections Pool Retrocessional	AAIC-Pool Manager	Over Other Protection Pool-Property Catastrophe	0.35%

In additional to the above, AAIC also formed other reinsurance pools that did not include business from Farm Bureau Companies. The Company participated in two of those pools as follows:

Type of Contract	Name of Reinsured	Type of Business Assumed	Company's Assumed Percentage
Domestic Broker Assumed Pool Retrocessional	AAIC-Pool Manager	Property reinsurance assumed by AAIC on business other than from Farm Bureau Companies	0.5%
International Broker Assumed Pool Retrocessional	AAIC-Pool Manager	Property reinsurance assumed by AAIC outside of the United States	0.9%

Ceded

The Company ceded its business including those assumed from its affiliate, Western Community Insurance Company as aforementioned through various reinsurance agreements with American Agricultural Insurance Company (AAIC), an authorized reinsurer. These agreements are summarized as follows:

Type of Agreement	Reinsurer	Company Retention	Reinsurer's Limits
Property Per Risk Excess	AAIC	$600,000 plus 10% of the amount exceeding $600,000	90% of $1.4 million or $1,260,000 Event limit is $2.9 million
Property Surplus Share	AAIC	"A" risk (other than B) -$2 million "B" risk-high risk and $1 million or more property-$300,000. Note: "B" risk is not covered by the above property per risk excess agreement	Proportional Treaty maximum amount is $40 million
Occurrence Property Catastrophe	AAIC	10% of net earned premium plus 5% of the amount excess of the 10% net earned premium	95% of $10,526,316 or $10 million
Over Other Protections-Property Catastrophe	AAIC	$10,526,316 plus 5% exceeding this amount	95% of $5,263,158 or $5 million
Occurrence Property Catastrophe (Terrorism)	AAIC	$1.85 million	$3.7 million excess of $1.85 million
Liability Excess of Loss-Auto and General Liabilities	AAIC	$600,000	Working Layer-$1.5 million per occurrence Cat Layer-$5 million per occurrence Excess Cat Layer-$5 million per occurrence 1st Clash Layer-$5 million per occurrence 2nd Clash Layer-$5 million per occurrence 3rd Clash Layer-$8.5 million per occurrence Aggregate Limit for 1st and 2nd Clash Layer is $20 million Aggregate Limit for 3rd Clash Layer is $17 million
Umbrella Liability Quota Share	AAIC	5%	95% of the first $1 million; 100% of $14 million excess of the first $1 million
Farm Pollution Quota share	AAIC	0%	100%; not to exceed $1 million on any one policy, any one loss event
Proportional Crop Hail	AAIC	Basic-50% 1st Surplus-10% 2nd Surplus-0% 3rd Surplus-0%	Up to 50% of $400,000 Up to 90% of $1.45 million excess of $400,000 Up to 100% of $2.5 million excess of $1.45 million Up to 100% of $4.5 million excess of $2.5 million

Type of Agreement	Reinsurer	Company Retention	Reinsurer's Limits
Aggregate Excess Crop Hail	AAIC	126% of retained loss cost plus 10% of difference between retained losses and loss retention under the above Proportional Crop Hail Agreement	90% of difference of retained losses and loss retention exceeding 126% of retained loss cost under the above Proportional Crop Hail Agreement. Maximum recovery is based on loss ratio not exceeding 246.6%
FCIC (Federal Crop Insurance Corporation) Cession of Multiple Peril Crop Insurance (MPCI) Business	Under this agreement, the Company cedes a major portion of its MPCI to FCIC through AAIC (AAIC) since AAIC has entered into a Standard Reinsurance Agreement (SRA) with FCIC	Various depending on which fund the Company designates a MPCI policy. It can be the assigned risk fund, developmental fund or commercial fund as established by FCIC	100% of the amount not retained by the Company is ceded to and covered by FCIC through AAIC
Multiple Peril Crop Quota Share-For the portion retained by the Company under the above FCIC Cession of MPCI Business Agreement	AAIC	5%	95%

All of the above ceded reinsurance agreements contain the clauses and termination provisions suggested in the NAIC Financial Condition Examiners Handbook; they also carry adequate transfer of risk and are in compliance with Statement of Statutory Accounting Principles (SSAP) 62.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

Policy Forms

The Company provided copies of the form filing lists and letters from the Department verifying no discrepancies between the Department records of forms in use and that provided by the Company. The Company was unable to provide documentation that the Department received its filing certification for the 2004 forms.

The Company currently writes the following policies:
- Farmers Comprehensive Liability
- Comprehensive Personal Liability
- Package policies: Country Squire, Country Squire Plus (Farm and Ranch), City Squire, City Squire Plus
- Standard Auto
- Property Policy (Standard Fire - including Hay and Grain)
- Crop Hail
- Inland Marine
- Umbrella
- 4-H and F.F.A. Livestock

The package policies include the following coverages:

- Section I - Property (residence, contents, outbuildings, and personal property)

- Section II - General Liability (includes additional residences, incidental occupancy, custom farming, livestock, etc.)

- Section III - Automobile (liability and material damage), which includes cars, trucks, motorcycles, motorhomes, trailers

- Section IV - Inland Marine (ATVs, snowmobiles, boats, etc.)

As required under file and use statute Idaho Code Section 41-1812, the Company has properly filed all forms used in the state of Idaho.

Underwriting

The Company had comprehensive Agent Underwriting Manual and Rating Manuals for the scope of the examination. The underwriting manual and yearly rating manuals included all requirements necessary for writing properties in specific products. Included were the rating tables and rating factors, along with the applicable discounts used to quote products.

A review of the Company's underwriting methods was performed through reviewing samples of new business, declinations, cancelled/non-renewals, and renewals. The samples were randomly generated utilizing ACL statistical software, after the data provided by the Company was reconciled to the Annual Statement and General Ledger for accuracy and completeness.

The new business sample was reviewed to determine compliance with the following Idaho Code Sections: Unfair Trade Practice Statute, Idaho Code Section 41-1323; Insurance rates and credit score, Idaho Code Section 41-1843; and, producer licensing and appointment, Idaho Code Section 41-1018. The review determined that five policies were not written as applied for due to coding errors. In an explanation, the Company stated that producers perform renewal audits with their insureds and make necessary changes at that time. Premiums on new business were manually recalculated in order to verify the accuracy of the computer generated premiums, and to determine the correct application of discounts. No errors were found in the computer generated rates. All policies were issued by licensed and appointed producers.

The renewal policy sample was reviewed to determine compliance with Idaho Code Section 41-1843 relative to insurance rates and the use of credit scores. All replacement costs policies have an automatic 4% (2006) or 5% (2007) built-in increase in value. Changes in coverages, additions or deletions of property, changes in the Company's base rates, changes in driver or vehicle classifications, and changes in applicable discounts were the primary reasons for renewal premium increases. No exceptions were found in this review.

The sample of cancellations/non-renewals were reviewed to determine compliance with Idaho Code Section 41-1300 relative to Unfair Trade Practices; and Idaho Code Section 41-2401(1)(j) relative to the required notification of insureds thirty days prior to cancellation. The examiner found no exceptions relative to Idaho Code Section 41-2401(1)(j) for the notification of insureds thirty days prior to cancellation, or Idaho Code Section 41-1300 for Unfair Trade Practices.

The review of cancellations/non-renewals files found that the Company does not clearly indicate the reason for cancellation. The Notice of Cancellation does not indicate what information is missing or, if ineligible, it does not indicate in what way the insured is ineligible. The data sheet provided by the Company utilized only one code number for all cancellation reasons. It would improve the accuracy of the Company's reporting, if a different code number was given to each cancellation reason.

The declination sample was reviewed to determine compliance with Idaho Code Section 41-1300; Unfair Trade Practice statute, Idaho Code Section 41-1323; and, insurance rates and credit score, Idaho Code Section 41-1843. The examiner determined that 46 of the policies, within the declined sample of 86, were not actually declined risks, but were transfers within the Company to package policies. Therefore, those 46 policies represent cancellations and not actual declinations.

In the underwriting and rating of policies, the Company utilizes various pricing discounts and surcharges. There are specific guidelines and definitions for the application of longevity, package, preferred, loss ratio, and insurance score (credit score) discounts/surcharges. These discounts apply separately for each Section of the package policies, but apply to the total premium for the Custom Auto policies. So, if the insured experienced a significant loss under Section I of the City Squire policy, a loss ratio surcharge may be applied to that section without affecting the discounts applied to the remaining sections of the policy.

There is, however, an Individual Risk Premium Modification (IRPM) discount for which there are no written guidelines, and which is judgmentally applied to Farm and Ranch policies. According to the Company, the IRPM discount is rarely used, but is applied when, in the opinion of the Underwriting Department, the otherwise applicable premium does not adequately address the risk characteristics of the client. In responding to the examiner's inquiries regarding the use of the IRPM discount, the Company stated they do not have any specific guidelines other than the good judgment of the supervisor or manager who is to review the loss ratio, longevity, payment history, tickets, etc., and can allow up to the 20% maximum between the scoring discount and the IRPM discount. It is up to the producer to request an IRPM discount for the applicant/insured. In the Agent Manual on page FR-3 Item E, it indicates polices "can be rated on the merits of their own farm and ranch operations." However, it is not clear that this is in reference to the IRPM, since the term is not used. The examiner was unable to find any other instance where a producer was informed regarding the recommendation of an IRPM discount for the Farm and Ranch policy applicants. It is not automatic on renewal. According to the Company, there are approximately 4,300 farm and ranch policies, but they do not have a way of knowing how many of those policies received an IRPM discount. A review of one policy, which received an IRPM discount, found that the underwriter did not document how he determined an IRPM discount was appropriate or how he determined the amount of the discount. One particular policy experienced numerous cancellation notices for late payments, as well as being an out of state policyholder. The policy was approved for exception of the Idaho driver's license provision, but in 2006 was cancelled because the policyholder did not have an Idaho license. There appears to be a discrepancy in the application of their underwriting guidelines. For another policy, the producer recommended an IRPM discount be applied; however, no discount was approved. There is no documentation in the file as to why a discount was disallowed. Another policy qualified for an IRPM, but was not recommended for one by the producer, nor considered for one by the underwriter. Based upon this review, the underwriting criteria/guidelines for the granting of the IRPM discretionary discount do not appear to be adequately documented.

Gramm-Leach-Bliley Act

Review of the Company's practices relative to consumer privacy found that the Company is in compliance with Idaho Code Section 41-1334 and I.D.A.P.A. 18.01.48 s 100. The Company website provides a copy

of the privacy terms, applicants are supplied with a copy of the Company's privacy policy upon issue and annually upon renewal, and the Agent's Manual specifically address the issue of privacy and ethics.
The Company annually sends out Privacy Notices informing policyholders of their rights, and explaining with whom information is shared and of their right to opt out.

Credit Scoring

The Company utilizes ChoicePoint Attract to generate the credit score used when underwriting an applicant. The Company began using credit scoring in 2002. Over time the procedures for using credit scores has changed; however, the maximum discount allowed based on credit score alone during the time period of the examination was 20%. As of August 1, 2008, the maximum discount allowed is 22%. Up until 2008, insureds were not penalized or declined due to low credit scores. However, starting July 1, 2008, surcharges were implemented on scores below 600. Credit scores are ordered every year on renewal.

Underwriting provides for five different discounts, which can be applied to the premium calculation. The credit score can never account for more than 50% of a premiums increase or decrease. However, if an applicant does not qualify for any other discount and the credit scoring surcharge is applied or if on renewal nothing changes except the credit score, then by definition the credit score would be the primary or sole reason for an increased premium. The Company provided the methodology for the use and calculation of each of these discounts. Included in the methodology is an explanation of the age-adjustment to credit score implemented to better equalize the distribution of scores and discounts across age groups, thus adjusting upward the score for insureds under the age of 56.

Both the new business and renewal business samples were reviewed for compliance with Idaho laws. The Company was found to be in compliance with I.D.A.P.A Rule 18.01.19.100.02.b and c during the scope of the examination period.

Rate Filings

Idaho Code does not require the filing and approval of property/casualty rates. Idaho Code Section 41-1406 was repealed. Idaho Department of Insurance Bulletin 91-1 requests that property and casualty companies file their rates. The Company's position is that it will not file rates unless it is required to do so.

Treatment of Policyholders

Complaints

The Company provided three complaint logs, two from Marketing and Sales and one Quality Control Log, for examination and procedures for processing written complaints. All logs and file documentation are maintained in paper format. The Company indicated that 99% of those received in the Marketing and Sales Department are via telephone. Those written complaints, which are received by the Underwriting Department are logged into the Quality Control Log, and then forwarded to the appropriate department head for response. The Company received 164 written complaints during the scope of the examination period.

The Quality Control Log and was a record of Department complaints received during the scope of the examination. When reconciling the Control Log with the complaint log information provided by the

Department, it was determined that ten complaints were not found on the Control Log. The Company responded and provided documentation for each of the missing complaints.

Review of all three complaint logs determined that none were in compliance with Idaho Code Section 41-1330, which requires the log to provide the following information:

a. state
b. total number of complaints
c. classification by line of business
d. nature of complaint
e. disposition of complaint
f. time it took to process each complaint.

In response, the Company stated that there is no need for those items as they can tell the line of business from the state and line of business from the policy number, and that since there are less than 50 complaints per year, they are easy to count. It is recommended that the Company add the necessary fields, to bring the complaint logs into compliance. They have agreed to make the recommended changes in order to make the logs easier to read and review. It should be noted that e-mail would be considered a written form of communication and, as such, would be required to be logged.

Review of the sample complaint files determined that the Company had responded promptly and appropriately. However, not all documentation relative to each complaint is kept in the complaint file.

Claims

The Company maintains a claims procedures manual. The manual has instructions for initial claims handling, investigations, acceptance/denial of claims, fraud, and complaints. It was determined that the Company has acceptable procedures in place for the handling of claims.

In order to determine code compliance relative to the handling of claims, samples of denied and paid claims were reviewed. Claims were reviewed to determine compliance to Idaho Code relative to appropriateness and timeliness of payment/denial.

The Company has eight contracts in place to handle such needs as rental cars, emergency road service, replacement or repair of windshields, etc. in order to provide consistent and reasonably priced services. The Safelite (windshield) and Quest (road service) contracts are automatic and are paid via EFT. The Company receives statements from each entity, and the payment is electronically transferred from the Company accounts. Quest does not verify coverage prior to providing service, but Safelite does verify coverage first.

Review of the paid claims sample found that all claims were properly and timely paid in compliance with Idaho Code Section 41-1328 and 41-1329.

Review of the denied claims sample did not identify any claims, which were denied inappropriately. However, the documentation in the files, in the case of windshield repairs and road service, was non-existent. In general, the closed without pay/denied claims files were poorly documented.

The Company's litigation procedures are found in the Claims Operations Guide. The review of litigated claims determined the Company was properly investigating claims to determine liability. All of the litigation sample was third party claims.

Fraudulent Claims

Both the Agent's Manual and the Claims Operations Guide mention the need to monitor for fraudulent claims. There is no separate Fraud Manual to address the issue of fraud prevention and the reporting of fraud both internal and external. The Company provided copies of all suspected fraud reported to the Department. It was determined that the Company was in compliance with Idaho Code relative to fraud prevention and reporting.

Advertising and Sales Material

The Company advertising materials are multi-media. The examiner reviewed radio and television scripts for the scope of the examination. The scripts cover the ideas of one-stop shopping for insurance needs and great agent communication and assistance. The scripts focus on the dependability of the Company to be there when needed, and not on the specific benefits or coverages.

The print advertising was comprised of product brochures, business cards, phone book ads, and newspaper ads. The business cards and ads were simply identifying the local agents. The product brochures give a brief overview of the coverage benefits but provide no rating information. The brochure tells the consumer to contact their local agent. Product brochures cover the following products: Farm and Ranch Squire; Country Squire; City Squire; Renter's City Squire; Business Owner's Policy; Dairy Coverage; and Risk Management (Crop Insurance). Other printed brochures include: Coverages Available through Farm Bureau; Insurance to Value; and, How to Report an Automobile Claim. Samples are included in the workpapers.

The Company provides matching funds for advertising, but the matching funds are contingent on the agent receiving prior approval for all advertising. However, there is nothing in the agent agreement which prevents the agent from paying for non-approved advertising without matching funds.

The Company's website was reviewed for deceptive and/or misleading information. The website provides multiple links to pages describing the insurance products available through Farm Bureau Mutual. The most basic information is provided and the consumer is advised to contact a local Farm Bureau agent. The Company provides a link to local agents by county, which includes the agent's name, phone number, fax number, and email address. Page links also provides information about filing claims, FEMA, shopping for safer cars, etc. The website also provides information about career opportunities and benefits.

Advertising and marketing materials are in compliance with Idaho Code. No exceptions were noted.

Other market conduct recommendations, which covered items that were not included in the Report due to the materiality threshold or items that were related to proprietary, operational issues can be found in the Management Letter presented to the Company.

ACCOUNTS AND RECORDS

General Accounting

The Company used OLIE (On Line Information Executive), an interactive system on its mainframe computer using PCs connected to its LAN (Local Area Network) and WAN (Wide Area Network). OLIE was used to capture data for Policy Management, Claims Management, Accounts Payable and Receivable, General Ledger, etc.

The Policy Management System of OLIE was used to issue policies, pay commissions, create general ledger entries, set up policy accounts receivable and all other reporting needed by the Company. The Claims Management System used the information on OLIE to verify policy coverage information before setting up reserves or claims. Once coverage was verified, claims payments were made with checks written and general ledger entries created. All management reporting for claims was generated from data processed by the system.

Information from the Policy Management System and the Claims Management System were fed into the Accounts Payable/Receivable Systems. This included claim payments, commissions, policy balances due, and other payables. Billing, reports and general ledger entries were produced and used by its accounting systems. The systems were written and maintained in the Information Systems Department of the Company. All the systems were somewhat dependent on each other, in that they use information captured and provided by each other.

The Company compiled its annual statement utilizing a Freedom A/S 2000 software package, the NAIC Annual Statement Instructions and the Accounting Practices and Procedures Manual. The investment portfolio was maintained on SunGard's Enterprise Portfolio System (EPS). The Company's independent auditors maintained the fixed assets.

Independent Accountants

Deaton & Company, Chartered, Pocatello, Idaho was the Company's independent auditor for the period covered by this examination. Deaton & Company has been the Company's independent auditor since 1987.

The independent auditor's report issued for the year ending December 31, 2002, 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 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 2007 workpapers and supporting documentation were made available and reliance was placed on these workpapers, when possible, during this examination. When the auditor's workpapers were used, such workpapers were denoted to indicate that utilization.

Actuarial Opinion

A statement of actuarial opinion regarding the unpaid losses and loss adjustment expenses reported by the Company in its 2007 annual statement was made by Randall S. Nordquist. The opinion stated that Mr. Nordquist was an employee of the Company and appointed by the Company's Board of Directors on November 6, 2007 to render this opinion. Mr. Nordquist was a member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society. The opinion stated that the amounts of the reserves:

a. meet the requirements of the insurance laws of Idaho;
b. are consistent with reserves computed in accordance with accepted actuarial standards and principles;
c. make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

The identified actuarial items are listed as follows:

Note: Pages and schedules referenced below pertain to the 2007 Annual Statement.

	Loss Reserves	
A	Reserves for Unpaid Losses (Page 3, Line 1)	$56,350,919
B	Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3)	$14,788,461
C	Reserve for Unpaid Losses – Direct and Assumed (Schedule P-Part 1, Total of Columns 13 and 15)	$65,126,000
D	Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P-Part 1, Total of Columns 17, 19, and 21)	$14,788,000
E	Retroactive Reinsurance Reserve Ceded or Assumed (Page 3, Write-in Item)	$0
F	Other Loss Reserve Items	None
	Premium Reserves	
G	Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	None
H	Reserve for Net Unearned Premiums for Long Term Duration Contracts	None
I	Other Premium Reserve Items	None

The following were taken into consideration in determining the above amounts:

1.	Materiality Standard expressed in $US	$14,043,000
2.	Statutory Surplus	$200,860,040
3.	Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	$4,651,000
4.	Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P	
	4(a) Nontabular Discount	$0
	4(b) Tabular Discount	$0
5.	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.	$1,717,797
6.	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.	
	6(a) Asbestos, as disclosed in the Notes to Financial Statements	$0
	6(b) Environmental, as disclosed in the Notes to Financial Statements	$0
7.	The total claims made extended loss and loss expense reserves (Schedule P Interrogatories)	
	7(a) amount reported as loss reserves	$0
	7(b) amount reported as unearned premium reserves	$0
8.	Other items	None

See the "NOTES TO FINANCIAL STATEMENTS" section, later in this report, for discussion of the Department's examining actuaries' analysis.

Evaluation of Controls and Information Systems

An on-site limited EDP exam was conducted for the Idaho Department of Insurance by IS Specialist, Jenny L. Jeffers, CISA, AES (Certified Information Systems Auditor, Automated Examination Specialist) of Examination Resources, LLC at the Company's Pocatello office. Ms. Jeffers' review coincided with the examination period. Additionally, an on-site review of controls was conducted at the premises of an affiliated service bureau, *Western Computer Services, Inc.* (WCSI) located in Sandy, Utah. Western Computer is a downstream, non-insurance subsidiary of FBMIC. Hardware Infrastructure, as well as programming services, was reviewed. The EDP examination was performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in Information Systems Questionnaire (ISQ) from the NAIC's Financial Condition Examiners Handbook.

Scope

In summary, the functional areas reviewed by the information systems specialist included:

ISQ Section A – Management and Organizational Control
ISQ Section B – Logical and Physical Security
ISQ Section C – Changes to Applications
ISQ Section D – System and Program Development
ISQ Section E – Contingency Planning
ISQ Section F – Service Provider Controls
ISQ Section G – Operations
ISQ Section H – Processing Controls
ISQ Section I – E-Commerce Controls
ISQ Section J – Network and Internet Controls

The information system specialist's findings were presented to the Company in the Management Letter.

SUBSEQUENT EVENTS

Subsequent to the examination date of December 31, 2007, the Company had the following plans for software changes:

- The Shared Commercial System (SCS) project is a web based data entry system being developed by Western Computer Services Inc. that will allow for one-touch entry of policy information. The Company is currently in a testing phase with experienced Home Office processing and underwriting people working in a test environment to make sure it can handle the policies written with all their variables. There is still a significant amount of programming that has to be done. The first phase of implementation will be Home Office only and the Company hopes to take that step no later than 3rd quarter of 2009.

- Nexus is the name the Company has given the project to convert the legacy systems to a new system for the personal lines policy administration, billing, claims, and accounting system. The Company has chosen to purchase the claims, billing and personal lines policy administration systems from established insurance system vendors. The Company is currently working on the accounting system and claims system, with billing and then policy administration coming in separate phases thereafter. This total transformation is planned to be completed by April of 2011.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

- Assets as of December 31, 2007
- Liabilities, Surplus and Other Funds as of December 31, 2007
- Statement of Income, For the Year Ending December 31, 2007
- Capital and Surplus Account, For the Year Ending December 31, 2007
- Reconciliation of Capital and Surplus, December 31, 2002 through December 31, 2007

ASSETS
As of December 31, 2007

	Ledger	Non Admitted	Net Admitted
Bonds (Note 1)	$214,080,022	$ 0	$214,080,022
Preferred Stock (Note 2)	367,000	0	367,000
Common Stock (Note 2)	74,195,065	0	74, 195,065
Real Estate – Occupied by the Company	13,679,298	0	13,679,298
Real Estate – Held for the Production of Income	1,510,844	0	1,510,844
Cash and Short term Investments (Note 3)	5,094,960	0	5,094,960
Other Invested Assets (Note 4)	7,967,624	0	7.967,624
Investment Income Due and Accrued	3,180,396	0	3,180,396
Premiums in Course of Collection (Note 5)	6,970,094	130,017	6,840,076
Premiums deferred and not yet due (Note 5)	30,747,018	0	30,747,018
Amounts Recoverable from Reinsurers	776,923	0	776,923
Net Deferred Tax Asset	3,436,050	0	3,436,050
Electronic Data Processing Equipment	1,856,812	0	1,856,812
Furniture and Equipment	919,237	24,235	895,003
Receivable from Parent, Subsidiaries and Affiliates	864,113	0	864,113
Rounding	(1)	0	(1)
Total Assets	$365,645,455	$154,252	$365,491,203

LIABILITIES, SURPLUS AND OTHER FUNDS
As Of December 31, 2007

Losses (Note 6)		$ 56,350,919
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses		971,028
Loss Adjustment Expenses (Note 6)		14,788,461
Commissions Payable		7,923,017
Other Expenses		9,473,089
Taxes, licenses and fees		285,914
Current federal income taxes		2,021,619
Unearned premiums (Note 7)		66,552,913
Ceded reinsurance premiums payable		780,303
Funds Held by Company Under Reinsurance Treaties		463,112
Amounts withheld or retained by company		3,715,241
Drafts Outstanding		1,296,106
Payable to Parent, Subsidiaries and Affiliates		9,440
Rounding		1
Total Liabilities		$164,631,163
Unassigned funds (surplus)	$200,860,040	
Total Surplus		200,860,040
Total Liabilities, Surplus and Other Funds		$365,491,203

STATEMENT OF INCOME
For The Year Ending December 31, 2007

Underwriting Income	
Premiums earned	$139,968,288
Deduct:	
Losses Incurred	$79,447,599
Loss Expenses Incurred	10,852,626
Other Underwriting Expenses Incurred	35,677,659
Rounding	(1)
Total Underwriting Deductions	$125,977,883
Net Underwriting Gain (Loss)	$ 13,990,405
Investment Income	
Net Investment Income Earned	$ 10,206,711
Net Realized Capital Gains (Losses)	669,857
Net Investment Gain (Loss)	$ 10,876,568
Other Income	
Net Gain (Loss) from Agents' or Premium Balances Charged Off	$ (27,952)
Finance and Service Charges not Included in Premiums	400,428
Miscellaneous Income (Loss)	73,559
Total Other Income	$ 446,035
Net Gain From Operations Before Dividends and Federal Income Taxes	$ 25,313,007
Dividends to policyholders	0
Net Gain (Loss) From Operations After Dividends and Before Federal Income Taxes	$ 25,313,007
Federal Income Taxes Incurred	6,504,773
Net Income (Loss)	$ 18,808,234

CAPITAL AND SURPLUS ACCOUNT
For the Year Ending December 31, 2007

Surplus, December 31, 2006	$180,880,062
Net Income (Loss)	$ 18,808,234
Net Unrealized Capital Gain (Losses)	653,645
Change in net deferred income tax	374,434
Change in non-admitted assets	143,665
Other Adjustments	0
Net change in surplus for the year	$ 19,979,978
Rounding	0
Surplus, December 31, 2007	$200,860,040

RECONCILIATION OF CAPITAL AND SURPLUS
December 31, 2002 through December 31, 2007

	2003	2004	2005	2006	2007
Prior Year Surplus, December 31	$112,624,030*	$122,994,051	$138,318,108	$159,548,995	$180,880,062
Net income	6,289,702	10,230,384	16,460,874	15,835,247	18,808,234
Change in unrealized gains (losses)	4,027,111	4,394,593	4,159,537	4,729,207	653,645
Change in net deferred income tax	225,808	543,060	714,188	722,057	374,434
Change in non-admitted assets	(172,600)	156,020	(103,712)	44,556	143,665
Other Adjustments	0	0	0	0	0
Net Change for the Year	$ 10,370,021	$ 15,324,057	$ 21,230,887	$ 21,331,067	$ 19,979,978
Rounding	0	0	0	0	0
Current Year Surplus, December 31	$122,994,051	$138,318,108	$159,548,995	$180,880,062	$200,860,040*

* Per Examination

NOTES TO FINANCIAL STATEMENTS

Bonds (Note 1) $214,080,022

During the examination period the Company had a steady growth in its bonds. They increased from $131,641,440 in 2002 to $214,080,022 in 2007. The Company has a wide variety of bonds. Bonds are reported at amortized value for statutory accounting purposes. The Company invests in a mixture of corporate and municipal bonds. In general, the Company exercises a conservative "hold to maturity" policy for the bond portfolio.

Preferred Stock (Note 2)	$367,000
Common Stock (Note 2)	$74,195,065

The Company invested in both preferred and common stock. The total stock portfolio had a steady increase from year to year. In 2002 the Company had $50,343,117 and in 2006 it had $74,562,065. Common stock is reported at its fair market value for statutory accounting purposes. The Company's total stock investments did not exceed the amount allowed by Idaho Code Section 41-714.

Cash and Short-term Investments (Note 3) $5,094,960

The Company had $5,045,082 in its checking accounts and CD's, and short term investments of $49,878. These amounts were properly reported on Schedule DA, Part 1 and Schedule E, Part 1 of the 2006 Annual Statement.

Other Invested Assets (Note 4) $7,967,624

These amounts represent the investment in Farm Bureau Finance Company Debenture Notes for the agents service bonus of $5,967,624 and a surplus note issued by American Agricultural Insurance Company (the reinsurer) of $2,000,000.

Premiums in Course of Collection (Note 5)	$6,840,076
Premiums Deferred and Not Yet Due (Note 5)	$30,747,018

These amounts represent the amount of premium receivable for the Company. The Premiums in Course of Collection are those premiums billed and currently due. The Premiums Deferred and Not Yet Due are those premiums billed but the premium is due in the future. These amounts were reviewed by the examiners using statistical samples generated by ACL. No exceptions were noted in the review.

Losses (Note 6)	$56,350,919
Loss Adjustment Expenses (Note 6)	$14,788,461

The actuarial portion of the examination was conducted for the Idaho Department of Insurance by R. Glenn Taylor, ACAS, MAAA and Randal D. Ross, ACAS, MAAA of the firm Taylor-Walker & Associates, Inc. Based upon the examining actuaries' final report and supporting analyses, the Company's 2007 Annual Statement was within the examination indicated reasonable range of reserves. Therefore, there were no recommend adjustments to the Company's booked loss and LAE reserves.

The Company's potential liability for premium deficiency reserves was also reviewed based on the estimates of ultimate losses and LAE. A review of historical loss and expense ratios did not indicate that such a reserve should be established.

Unearned Premiums (Note 7) $66,552,913

They unearned premiums increased from $41,785,739 in 2002 to $66,552,913 in 2007. The increase parallels the growth of the written premium over the examination period.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of the examination disclosed that as of December 31, 2007, the Company had admitted assets of $365,491,203, liabilities of $164,631,163, and surplus as regards policyholders of $200,860,040. The Company was in compliance with the minimum capital and surplus requirements of Idaho Code Section 41-313.

Comments and Recommendations

Page	Description
13	Producer Licensing It is 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.
22	Treatment of Policyholders It is recommended that the Company add the necessary fields, to bring the complaint logs into compliance.

CONCLUSION

The courteous assistance and cooperation extended by the Company's officers and staff during the course of this examination is acknowledged and appreciated.

In addition to the undersigned, Ann McClain, CIE, FLMI, FLHC, AIC, CCP, AIRC, AIAA, ARA, ACS, AIS, Senior Market Conduct Examiner, and Kelvin Ko, CFE, Senior Insurance Examiner, from the Idaho Department of Insurance; Taylor-Walker & Associates, Inc., Actuarial Consultants; and Jenny Jeffers, CISA, AES (IT examiner) of Examination Resources, LLC, participated in the examination.

Respectfully submitted,

David W. Emery

David W. Emery, CFE, FLMI
Senior Insurance Examiner
Department of Insurance
State of Idaho

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

David W. Emery, 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 Farm Bureau Mutual Insurance Company for the period from January 1, 2003 through December 31, 2007, 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.

David W. Emery

David W. Emery, CFE, FLMI
Examiner-in-Charge
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 8th day of April, 2009 at Boise, Idaho

Debbi Judd

Notary Public

My commission Expires: 7/30/2010

DEBBI JUDD
NOTARY PUBLIC
STATE OF IDAHO

State of Idaho
DEPARTMENT OF INSURANCE
700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

C.L. "BUTCH" OTTER
Governor

WILLIAM W. DEAL
Director

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2009 APR 20 AM 11:48
STATE OF IDAHO
DEPT OF INSURANCE

WAIVER

In the matter of the Report of Examination as of December 31, 2007, of:

FARM BUREAU MUTUAL 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 8th day of April 2009, 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 16 day of April, 2009

PAUL B. ROBERTS
Name (print)

[signature]
Name (signature)

TREASURER
Title

EXHIBIT
B

Farm Bureau® Mutual Insurance Company of Idaho
P.O. Box 4848 • 275 Tierra Vista Drive • Pocatello, Idaho • 83205-4848 • Phone: (208) 232-7914 • Fax: (208) 232-3608

April 16, 2009

RECEIVED
2009 APR 20 AM 11: 12
STATE OF IDAHO

William R. Michels
Examination Supervisor
Idaho Department of Insurance
P O Box 83720
Boise, ID 83720-0043

Dear Mr. Michels:

Please include the following company comments with the recommendations section of the examination report for Farm Bureau Mutual Insurance Company of Idaho.

> <u>Producer Licensing</u> The Company has implemented procedures to ensure that retiring agents are notified that their appointment with the company has been terminated.
>
> <u>Treatment of Policyholders</u> The Company has modified the complaint log to include all of the required categories.

I have attached the examination waiver form for the company.

Sincerely,

Paul B. Roberts
Treasurer

cc: Phillip R. Joslin, Executive Vice President & CEO

EXHIBIT
C