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FILED
MAR 28 2013
Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

OF THE STATE OF IDAHO

In the Matter of: FARM BUREAU MUTUAL INSURANCE COMPANY OF IDAHO Certificate of Authority No. 531 NAIC No. 13765	Docket No. 18-2861-13 **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 Farm Bureau Mutual Insurance Company of Idaho (Farm Bureau), 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 Farm Bureau Mutual Insurance Company of Idaho as of December 31, 2011 (Report), as filed.

FINDINGS OF FACT

1. Farm Bureau 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. 531.

2. The Department completed an examination of Farm Bureau 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 Farm Bureau on the same date. Thereafter, on February 19, 2013, a copy of the verified Report was retransmitted to Farm Bureau to correct a typographical error. 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 Farm Bureau. By execution of such Waiver, a copy of which is attached hereto as Exhibit "B," Farm Bureau 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 Farm Bureau.

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 Farm Bureau meets the minimum basic and additional 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 Farm Bureau Mutual Insurance Company of Idaho 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, Farm Bureau 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 28th day of March, 2013.

STATE OF IDAHO
DEPARTMENT OF INSURANCE

William Deal

WILLIAM W. DEAL
Director

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 28th day of March, 2013, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2011 to be served upon the following by the designated means:

Farm Bureau Mutual Insurance Company of Idaho 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
Farm Bureau Mutual Insurance Company of Idaho 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, 3rd Floor Boise, ID 83720-0043 georgia.siehl@doi.idaho.gov	☐ first class mail ☐ certified mail ☐ hand delivery ☒ email

Teresa Jones

Teresa Jones
Assistant to the Director

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, 2011

EXHIBIT

A

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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
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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

Dear 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:

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. 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 27, 1947 under the name of Idaho Farm Insurance Company, Inc. The Company commenced operations on May 1, 1947.

On December 30, 1955, the Articles of Incorporation were amended, whereby the Company converted to a mutual insurance company and changed its name to Farm Bureau Mutual Insurance Company of Idaho, Inc.

The Articles of Incorporation and By-laws were amended on January 25, 1991 changing the Company's name to Farm Bureau Mutual Insurance Company of 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	Inland Marine
Allied Lines	Other Liability Occurrence
Farmowners Multiple Peril	Private Passenger Automobile Liability
Homeowners Multiple Peril	Auto Physical Damage
Fidelity	

Dividends to Policyholders

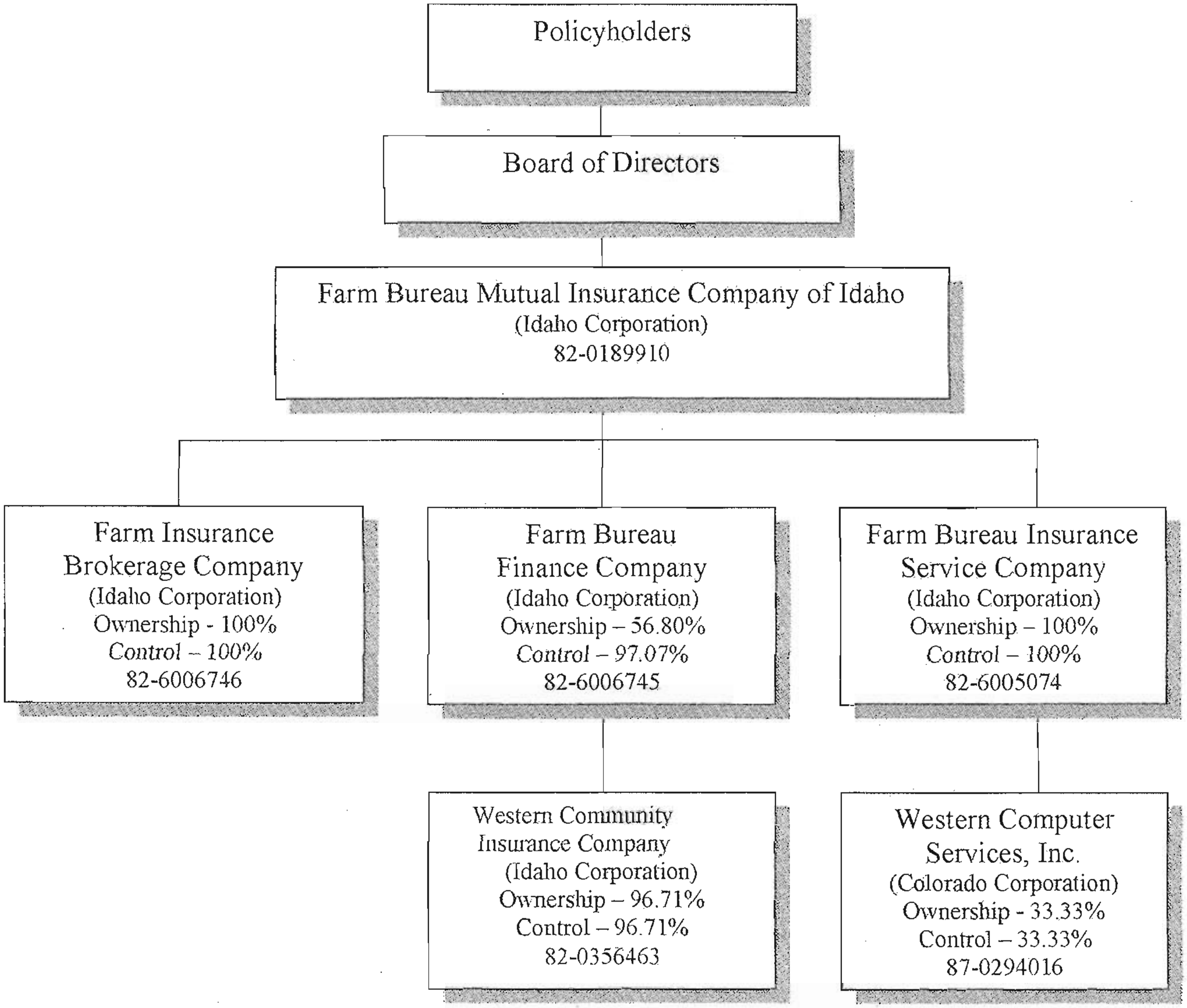
On April 15, 2008, the Board of Directors approved a dividend payment to the Company's policyholders of $5,000,000. The Company notified the Idaho Department of Insurance of the Board's action in a letter dated April 18, 2008. The actual dividend payments totaling $5,002,278 were made around May 21, 2008.

The distribution of dividends set forth above appears to be equitable and in compliance with Section 41-2844, Idaho Code.

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. The Company was the designated "Ultimate Controlling Person" in the holding company 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:

Name and Location	Position
Brandon Scott Bird Pocatello, Idaho	Farmer
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 McEvoy 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
Bryan Lloyd Searle Shelley, Idaho	Farmer/Rancher
Mark Dennis Trupp Driggs, Idaho	First Vice President Farmer/Rancher

All of the Directors noted above were policyholders of the Company in compliance with Section 41-2835(3), Idaho Code.

Officers:

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

Name	Position
Frank Steven Priestley	President & Chairman of the Board of Directors
Mark Dennis Trupp	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	Robert Harold Callihan
Mark Dennis Trupp, Vice-Chairman	Danny Gene Ferguson
Brandon Scott Bird	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 agreements in force at December 31, 2011 with affiliates or related parties:

Management Agreement – Farm Insurance Brokerage Company, Inc.

The Company entered into a management agreement with direct subsidiary, Farm Insurance Brokerage Company, Inc. The original term of the agreement began January 1, 1997. The agreement was subsequently updated in 2003 and 2008. The services provided under the agreement included management services, underwriting, processing, travel, promotion expense, rent, secretarial, agent training, personnel, employee related expenses, data processing and accounting. In addition, Farm Insurance Brokerage pays the Company for supplies, printing, telephone, postage, insurance, and other similar expenses on a cost basis. 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. Farm Insurance Brokerage paid an annual fee, that is determined annually in advance for the year to which it applies, for the management services noted above. Billing reports are provided monthly.

The agreement is continuous until terminated at the end of any year by either party with at least ninety days written notice.

Management Agreement – Farm Bureau Insurance Service Company of Idaho

The Company entered into a management agreement with direct subsidiary, Farm Bureau Insurance Service Company of Idaho. The original term of the agreement began January 1, 1997. The agreement was subsequently updated in 2003 and 2008. The Company receives an annual management fee for services it provides under the agreement, including management services, underwriting, processing, rent, secretarial, personnel, employee related expenses, data processing and accounting. The management fee is agreed upon by the parties annually in advance of the year to which it applies. In addition, Farm Bureau Insurance pays the Company for supplies, printing, telephone, postage, insurance, and other similar expenses on a cost basis. 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. Billing reports are provided monthly.

The agreement is continuous until terminated at the end of any year by either party giving at least ninety days written notice.

Management Agreement – Farm Bureau Finance Company

The Company entered into a management agreement with direct subsidiary, Farm Bureau Finance Company. The original term of the agreement began January 1, 1999. The agreement was subsequently updated in 2003 and 2008. The Company receives an annual fee for services it provides under the agreement, including management services, processing, travel, rent, secretarial, personnel, employee related expenses, data processing and accounting. The fee is agreed upon by the parties annually in advance of the year to which it applies. In addition, Farm Bureau Finance pays the Company for supplies, printing, telephone, postage, insurance, and other similar expenses on a cost basis. 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. Billing reports are provided monthly.

Farm Bureau Finance also pays a percentage of its annual loan interest received, including premium finance interest to the Company. This fee is to reimburse the Company for Farm

Bureau Finance's share of the royalty fee the Company pays annually to the Idaho Farm Bureau Federation, Inc. for use of the Farm Bureau name and logo.

The agreement is continuous until terminated at the end of any year by either party giving at least ninety days written notice.

Management Agreement – Western Community Insurance Company

The Company entered into a management agreement with its indirect subsidiary, Western Community Insurance Company. 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.

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

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

Furthermore, the agreement provided for the Company to arrange for excess reinsurance coverage facilities and to provide reinsurance reporting services for Western Community on its direct written premium. The Company and Western Community 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 updated Exhibit A, Inter-Company Billing, for each of the four management agreements noted above, 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.

Services Agreement - Western Computer Services, Inc.

A service agreement was entered into between the Company, Western Agricultural Insurance Company, Mountain West Farm Bureau Mutual Insurance Company, and indirect subsidiary, Western Computer Services, Inc., effective January 1, 2004. During the current examination period, the agreement was revised effective January 1, 2010.

Under the agreement, Western Computer provides and maintains data processing services as requested by the parties to the agreement. The Companies reimburse Western Computer for 100 percent of the administrative expenses, programming expenses and computer expenses, which include the cost of programming and computer services provided exclusively for each of the Companies, as well as each of the Companies' allocated share of Western Computer's administrative expenses.

The term of the agreement was for one year commencing on January 1, 2010 through December 31, 2010. The agreement renews automatically for one-year terms unless cancelled by any of the parties by giving at least one hundred eighty days notice. A termination fee equal to the amount necessary to fund all expenses accrued as of the date of termination shall be paid by all parties to Western Computer.

A Form D filing for the service agreement was submitted to the Idaho Department of Insurance on December 15, 2009 in compliance with Section 41-3807(2)(d), Idaho Code. In a letter to the Company dated January 4, 2010, the Department indicated that it had no objections to the proposed agreement filed by the Company.

A related Management and Services Agreement was executed by Mountain West Farm Bureau Mutual Insurance Company and Western Computer Services, Inc. The agreement was entered into in order for Western Computer to provide services to the parties under the Services Agreement noted above. Examples of services provided include human resources services, legal services, and physical property and equipment, among other things. The term of the agreement is ten years and may be extended an additional ten years. The agreement may be terminated by either party upon one hundred eighty days prior written notice.

In addition, an indemnification agreement was entered into by the Company, Mountain West Farm Bureau Mutual Insurance Company, and Western Agricultural Insurance Company. The agreement was executed on December 14, 2009. Under the agreement, Mountain West agrees to indemnify and hold the Companies harmless from any matters resulting from Mountain West's activities and actions emanating from the Management and Services Agreement discussed above.

<u>Consolidated Income Tax Allocation Agreement</u>
On January 26, 1998, the Company entered into a consolidated income tax allocation agreement along with Farm Bureau Finance Company, Farm Insurance Brokerage Company, Inc., Farm Bureau Insurance Service Company of Idaho, Western Community Insurance Company 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.

Reinsurance Agreement

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

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

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*.

Lease Agreements with Affiliated Companies

The Company entered into three lease agreements with Farm Bureau Finance Company during the prior examination period. Those leases remained in-force during the current examination period and/or were subsequently renewed. The agreements were for the rental of space, on property owned by the Finance Company located in Jerome, Idaho; Arco, Idaho; and Lewiston, Idaho. The agreements were effective on various dates in 2005 and 2008. The agreements were renewed at the Lewiston and Arco locations effective December 15, 2011 to December 31, 2014.

The Jerome location lease was renewed for the term December 1, 2011 through December 31, 2014 with Farm Bureau Insurance Service Company. Due to a change in ownership of the property, a field office agreement was subsequently executed between the Company and Jerome County Farm Bureau and Gooding/Lincoln County Farm Bureau. The effective date of the lease is May 11, 2012 and shall continue for three years. The Company will assume the management of the office, office facilities, and secretaries and pay all utilities and general maintenance. The secretaries will be employees of the Company. The agreement may be terminated by either party by giving sixty days written notice in advance of the next annual period.

The Company agreed to pay the rent set forth in the agreements on or before the fifth of the month and that the premises were 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 its Home Office and Boise locations. The property located in Caldwell, Idaho, is owned by Farm Bureau Finance Company.

The above affiliated companies agreed to pay 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.

The leases were subsequently renewed for the term January 1, 2012 through December 31, 2014.

In addition, the Company has numerous lease agreements with non-affiliated parties throughout the State of Idaho for the Idaho Federation's county offices.

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 Farm Bureau Finance according to the Company's specifications. The Company's monthly lease installment was comprised of a 2 percent 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 percent 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.

The following agreements with related entities were in-force as of December 31, 2011:

Royalty Agreement – Idaho Farm Bureau Federation, Inc.

The Idaho Farm Bureau Federation, Inc. 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 of the Farm Bureau name and logo, and its services and product. In this connection, the Company entered into a royalty agreement with the Idaho Farm Bureau Federation effective January 1, 1999. Under this agreement, 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 Company made monthly royalty payments, which were calculated by using the applicable contract rate multiplied by the prior month's written premiums.

The agreement was effective January 1, 1999 for one year and is continuous year to year thereafter until terminated. The agreement may be terminated by giving sixty days written notice.

Agreement for Payment of Rent and Services – Idaho Farm Bureau Federation, Inc.
The Company entered into an agreement with Idaho Farm Bureau Federation, Inc., with an original term beginning January 1, 2003, continuous from year to year. Under the agreement, the Company provided 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 reimburses 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. 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. Exhibit A was updated in 2008.

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.

The agreement also provides that each party shall pay its share of per diem and travel expense for the common officers and Board of Directors, office facilities in certain county offices as agreed upon, advertising, supplies and other shared expenses which shall be reconciled monthly.

The agreement is continuous until terminated by either party at the end of any calendar year by giving written notice at least ninety days prior to such calendar year-end.

Lease – Idaho Farm Bureau Federation
The Company entered into a lease agreement with Idaho Farm Bureau Federation effective January 1, 2012 to December 31, 2014. This replaced a previous lease. Under the lease, Idaho Farm Bureau rents office space from the Company at its home office location in Pocatello, Idaho. The Company pays for all heating, power bills, sewer, and garbage and provides all janitorial and maintenance, pays all state and county taxes, and property and fire insurance covering the building. Idaho Farm Bureau has the option to enter in to a new lease at the

termination of the lease agreement for an additional one-year period, at a rental rate to be negotiated.

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. Furthermore, the minutes also reflected acceptance of the independent auditors' reports, approval of policyholder dividends and the chief executive's salary.

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 Directors meeting, held on November 10, 2009, 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 has a defined benefit pension plan covering substantially all of its employees. Benefits are based on years of service and the employee's highest average annual compensation during any five of the last ten calendar years. The Company's funding and accounting policies are to contribute annually the maximum amount that can be deducted for Federal Income Tax purposes and to charge such contributions to expenses in the year paid. The 2011 pension liability of $16,173,828, was reported as a write-in item in the 2011 Annual Statement.

In addition to pension benefits, the Company provides certain life insurance and health care benefits for retired employees. Substantially all employees may become eligible for those benefits if they meet the criteria and reach retirement age while working for the Company. The Company accounted for the funding of those programs using an accrued method. In 2011, the obligation of $4,477,933 was reported as part of *Other Expenses* in the 2011 Annual Statement.

The Company also sponsored an optional 401(k) plan providing for both employer and employee contributions. The maximum Company contribution is $390 per participant per year. The Company's expense for 2011 was $74,295. A separate personal investment plan was also available to employees, but had limited participation.

Employees of the Company were provided numerous employee benefits, such as group insurance, holiday, vacation, and sick leave, among other things. Other benefits available to the employees included an attendance bonus incentive and the Stakeholder Bonus Program, an incentive program available to all employees.

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 Certificate of Authority issued by the State of Idaho was inspected and verified with nothing exceptional noted.

The Company's key lines of business included farm and homeowners multiple peril and private passenger automobile lines of business.

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

Operations of the Company were conducted from its main administrative office located in Pocatello, Idaho.

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.

Description	Par Value**	Statement Value***	Fair Value *
Cedar Park Tx Ref Impt, 4.125%, Due 2/15/2022	$ 500,000	$ 498,141	$ 535,885
Pierce Cnty Wa Sch Dist No 083, 5.00%, Due 12/01/2025	500,000	524,485	552,545
Weber St Univ Ut Rev Student Facs, 4.00%, Due 4/1/2023	500,000	475,143	518,465
Total	$1,500,000	$1,497,769	$1,606,895

* The fair market value amounts were taken from the December 2011 Annual Statement.
** - 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 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:

Description	Par Value**	Statement Value	Fair Value *
Idaho Health Facs Auth Rev, 6.65%, Due 2/15/21	$200,000	$236,795	$279,300
Total	$200,000	$236,795	$279,300

* The fair market value amounts were taken from the December 2011 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 Western Community Insurance Company in May of 2003.

In addition, the following securities were held by and confirmed with the custodial bank, U.S. Bank, in escrow for the excess reinsurance agreement with American Agricultural Insurance Company:

Description	Par Value	Statement Value	Fair Value *
Austin Tx Ctfs Oblig, 4.00%, Due 9/01/33	$1,000,000	$ 978,740	$1,007,150
Total	$1,000,000	$ 978,740	$1,007,150

* 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:

Year	Admitted Assets	Liabilities	Capital & Surplus	Net Income(Loss)
2007*	$365,491,203	$164,631,163	$200,860,040	$18,808,234
2008	353,974,542	160,454,701	193,519,841	7,729,958
2009	363,323,482	153,192,865	210,130,617	15,536,615
2010	373,727,020	150,721,067	223,005,954	14,697,446
2011*	388,486,179	164,112,271	224,373,908	4,503,544

*As determined by Examination.

The Company saw declining assets and liabilities in 2008 due primarily to poor economic conditions. Capital & surplus as well as net income decreased in 2008 due mostly to the approximate $5,000,000 dividend paid to policyholders. Assets, capital & surplus and net income have increased steadily since 2008 due to premium growth and acquisition of new investments arising from investment income/gains. Due to the low interest rate environment, the pension liability and related expense increased significantly in 2011, causing a decrease in net income.

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:

Year	Net Premiums Written	Net Losses Paid	Underwriting Expenses	Ratio of Benefits and Expenses to Written Premium
2007*	$141,311,380	$81,124,588	$46,085,493	90.03%
2008	132,731,787	89,760,086	45,914,140	102.22%
2009	129,485,876	90,077,156	44,462,942	103.91%
2010	131,076,967	78,668,611	47,723,617	96.43%
2011*	134,797,973	86,817,864	50,643,722	101.98%

*As determined by Examination.

REINSURANCE

Assumed

The Company entered into a reinsurance agreement with Western Community Insurance Company (Western Community), effective April 1, 2010. In this agreement, the Company agreed to assume and Western Community agreed to cede 100 percent of its premium on all direct and assumed lines of business and class groups to the Company. The Company agreed to pay Western Community a ceding commission of 33 percent of the direct premium. In the prior agreement with Western Community effective July 1, 2005, the Company agreed to assume only the direct lines of business and class groups from Western Community.

American Agricultural Insurance Company (AAIC), an Indiana Company, with its administrative office located at Schaumburg, Illinois, was 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	American Agricultural Insurance Company-Pool Manager	Proportional Crop Hail-Pool	Quota Share Layer-5% 1st Surplus Layer-3% 2nd Surplus Layer-3% 3rd Surplus Layer-3%

Multiple Peril Crop Quota Share Pool Retrocessional	American Agricultural Insurance Company-Pool Manager	Multiple Peril Crop-Pool	2.8%
Aggregate Excess Crop Hail Pool Retrocessional	American Agricultural Insurance Company-Pool Manager	Aggregate Excess Crop-Pool	Pool Layer-4% 2nd layer Illinois-3%
Occurrence Property and Auto Catastrophe Pool Retrocessional	American Agricultural Insurance Company-Pool Manager	Occurrence Property and Auto Catastrophe-Pool	1st Pool-1%
Occurrence Property Catastrophe Pool (Terrorism) Retrocessional	American Agricultural Insurance Company-Pool Manager	Occurrence Property Catastrophe Pool (Terrorism)	1.2983%
Over Other Protections Pool Retrocessional	American Agricultural Insurance Company-Pool Manager	Over Other Protection Pool-Property Catastrophe	0.175%

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 those pools as follows:

Type of Contract	Name of Reinsured	Type of Business Assumed	Company's Assumed Percentage
Domestic Broker Assumed Pool Retrocessional	American Agricultural Insurance Company-Pool Manager	Property reinsurance assumed by AAIC on business other than from Farm Bureau Companies.	0.6%
International Broker Assumed Pool Retrocessional	American Agricultural Insurance Company-Pool Manager	Property reinsurance assumed by AAIC outside of the United States.	1%

Ceded

The Company ceded its business including that 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	American Agricultural Insurance Company	$600,000 plus 10% of the amount exceeding $600,000.	90% of $1.4 million or $1,260,000 Occurrence Limit: Primary layer-applies to first $2.5 million to each risk; limit is three times the sum of annual reinsurance premiums with a minimum of $4 million to a maximum of $10 million. First excess layer-Each risk is greater than $2.5 million but less than or equal to $10 million; limit is $15 million. Second excess layer-Each risk is greater than $10 million but less than or equal to $20 million; limit is $15 million. Third excess layer-Each risk is greater than $20 million but less than or equal to $40 million; no limit.
Property Surplus Share	American Agricultural Insurance Company	"A" risk (other than B) -$2 million "B" risk-high risk and $1 million or more property-$600,000. Note: "B" risk is not covered by the above property per risk excess agreement.	Proportional Treaty maximum amount is $40 million.

Occurrence Property Catastrophe	American Agricultural Insurance Company	$3.9 million plus 5% of the amount excess of $3.9 million.	95% of $10 million or $9.5 million.
Over Other Protections-Property Catastrophe	American Agricultural Insurance Company	$13.9 million	$5.7 million Annual limit is $11.4 million
Occurrence Property Catastrophe (Terrorism)	American Agricultural Insurance Company	$1.96 million	$3.92 million excess of $1.96 million.
Liability Excess of Loss-Auto and General Liabilities	American Agricultural Insurance Company	$600,000	Maximum policy limit-$1.5 million Limits of Liability (two or more policyholders): 1st layer-$2.5 million 2nd layer $4.5 million 3rd layer-$5 million 4th layer-$5 million 5th layer-$5 million 6th layer-8 million Total limit is $30 million.
Umbrella Liability Quota Share	American Agricultural Insurance Company	10% of the first $1 million.	95% of the first $1 million; 100% of $14 million excess of the first $1 million.
Farm Pollution Quota share	American Agricultural Insurance Company	0%	100%; not to exceed $1.5 million on any one policy, any one loss event.
Proportional Crop Hail	American Agricultural Insurance Company (AAIC); Reinsurance pool formed by AAIC and participated by many Farm Bureau companies	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 $2.5 million excess of $1.45 million.

Aggregate Excess Crop Hail	American Agricultural Insurance Company (AAIC); Reinsurance pool formed by AAIC and participated by many Farm Bureau companies.	136% 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 136% of retained loss cost under the above Proportional Crop Hail Agreement. Maximum recovery is based on loss ratio not exceeding 237.6%.
Federal Crop Insurance Corporation (FCIC) Cession of Multiple Peril Crop Insurance (MPCI) Business	Under this agreement, the Company cedes a major portion of its MPCI to FCIC through American Agricultural Insurance Company (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	American Agricultural Insurance Company	5%	95%
Livestock Quota Share	American Agricultural Insurance Company	0%	100%

All of the above ceded reinsurance agreements contained the clauses and termination provisions suggested in the NAIC *Financial Condition Examiners Handbook*. The reinsurance agreements also carried adequate transfer of risk and were in compliance with Statement of Statutory Accounting Principles (SSAP) Number 62R.

To comply with a request from AM Best, the Company and Western Community Insurance Company 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

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, and 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 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 if the Company was in compliance with Section 41-1018, Idaho Code (Appointments of Producers), Section 41-1323, Idaho Code (Excess Charges for Insurance), and Section 41-1843, Idaho Code (Insurance Rates and Credit Rating). The results of the review indicated that the Company's agents were properly licensed with the Idaho Department of Insurance, premiums were correctly calculated and credit score discounts were properly applied following the Company's guidelines. It appears that the Company has complied with aforementioned Idaho Code Sections.

Policies Renewed in 2011

A random sample of 24 policies renewed in 2011 was selected for review to determine if the increase or decrease in premiums from 2010 to 2011 were reasonable and were in compliance with Section 41-1323, Idaho Code (Excess Charges for Insurance). Changes in credit score discounts from 2010 to 2011 were also reviewed to determine whether the Company complied with Section 41-1843, Idaho Code (Insurance Rates and Credit Rating). The results of the review indicated that the Company was in compliance with the aforementioned Code sections.

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 41-2401(1)(J), Idaho Code (Fire Policy Cancellations), Section 41-2508(1), Idaho Code and Section 41-2508(2), Idaho Code (Notice of Cancellations or Intention not to Renew). In addition, timing for premium refunds was tested to determine if such were excessive (30 days or more from the date of cancellation). The results of the review indicated that the Company sent out cancellation notices 30 days in advance and 15 days in advance for cancellations due to non-payments. Premium refunds were usually made within 30 days of the date of cancellation. The results of the review indicated that the Company complied with the above Code sections.

New Policies cancelled/declined in 2011

A random sample of 24 new policies in force in 2011 which were cancelled/declined during the year was reviewed to determine if the reasons for cancellations were reasonable and were in compliance with Section 41-2507, Idaho Code (Cancellation of Policies-Grounds) and Section 41-1843, Idaho Code (Insurance Rates and Credit Rating). Timing of premium refunds was also reviewed to determine if refunds were issued timely (30 days or less from the cancellation date). Minor exceptions were noted with respect to grounds for cancellation for several policies. These exceptions were addressed separately in the Management Letter to the Company. No other exceptions were noted during this review.

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 payments 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. Claims payments were also made timely in compliance with Sections 41-1328 and 41-1329, Idaho Code.

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 advertising materials used by the Company during the period under examination included TV commercials, radio commercials, print advertising and other media advertising. A review was made of those advertising materials and no deceptive or misleading information was noted.

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 the Company 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 includes 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)	$46,569,755
Reserve for unpaid loss adjustment expenses (Page, 3 Line 3)	$11,719,000
Reserve for unpaid losses - direct and assumed (Schedule P, Part 1 Summary, totals from columns 13 and 15)	$54,959,000
Reserve for unpaid loss adjustment expenses - direct and assumed (Schedule P, Part 1 Summary, totals from columns 17, 19, and 21)	$12,014,000

The Company participated in several pooling arrangements. In addition, beginning in 2010, the Company assumed all pooling arrangement reserves of its downstream affiliate, Western Community Insurance Company. This is discussed further under the caption, *REINSURANCE.*

Anticipated net salvage and subrogation of $3,870,000 was included as a reduction to loss reserves as reported in Schedule P Part 1 Summary and on the Liabilities, Surplus and Other Funds page of the 2011 Annual Statement.

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 2011 Schedule P, Part 2 Summary shows net loss and loss adjustment expenses, one year development of $5.3 million.

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

The Information System Specialist's findings were presented to the Company in the Management Letter.

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

ASSETS

	Assets	Non Admitted Assets	Net Admitted
Bonds	$225,845,401	$ 0	$225,845,401
Stocks			
Preferred stocks	167,000	0	167,000
Common stocks	73,472,125	0	73,472,125
Real estate		0	
Properties occupied by the company	12,287,355		12,287,355
Properties held for sale	1,257,423		1,257,423
Cash, cash equivalents and short-term investments	5,884,468	0	5,884,468
Other invested assets	15,239,643		15,239,643
Investment income due and accrued	3,526,508	0	3,526,508
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	8,442,787	49,210	8,393,577
Deferred premiums, agents' balances and installments booked but deferred and not yet due	25,179,750	0	25,179,750
Amounts recoverable from reinsurers	181,445	0	181,445
Current federal and foreign income tax recoverable and interest thereon	1,003,951	0	1,003,951
Net deferred tax asset	10,422,558	0	10,422,558
Electronic data processing equipment and software	498,947	0	498,947
Furniture and equipment, including health care delivery assets	14,383,495	10,537,097	3,846,398
Receivables from parent, subsidiaries and affiliates	840,795		840,795
Other receivables	687,738	248,902	438,836
Rounding	(1)	0	(1)
Totals	$399,321,388	$10,835,209	$388,486,179

LIABILITIES, CAPITAL AND SURPLUS

Losses (Note 1)	$ 46,569,755
Reinsurance payable on paid losses and loss adjustment expenses	464,308
Loss adjustment expenses (Note 1)	11,719,000
Commissions payable, contingent commissions and other similar charges	10,351,516
Other expenses	8,131,504
Taxes, licenses and fees	380,195
Unearned premiums	64,694,506
Ceded reinsurance premiums payable	4,295,878
Funds held by company under reinsurance treaties	136,340
Amounts withheld or retained by company for account of others	11,316
Drafts outstanding	1,125,559
Payable to parent, subsidiaries and affiliates	22,204
Aggregate write-ins for liabilities:	
Miscellaneous payables	36,362
Pension liability	16,173,828
Total liabilities	$164,112,271
Unassigned funds (surplus)	$224,373,908
Total Surplus as regards policyholders	$224,373,908
Total liabilities, capital and surplus	$388,486,179

STATEMENT OF INCOME

For the Year Ending December 31, 2011

	Per Examination and Per Company
Premiums earned	$133,666,629
Losses incurred	88,829,422
Loss adjustment expenses incurred	12,732,547
Other underwriting expenses incurred	37,500,506
Rounding	1
Total underwriting deductions	$139,062,476
Net underwriting loss	($5,395,847)
Net investment income earned	$ 10,960,255
Net realized capital losses less capital gains tax	(354,943)
Rounding	(1)
Net investment gain	$ 10,605,311
Net loss from agents' or premium balances charged off	$ (46,060)
Finance and service charges not included in premiums	268,808
Miscellaneous income	$ 30,921
Rounding	(1)
Total other income	$ 253,668
Rounding	
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 5,463,132
Federal and foreign income taxes incurred	959,588
Net income	$ 4,503,544

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2011

	Per Company	Examination Changes	Per Examination
Capital and surplus, December 31, 2010	$223,005,954	$ 0	$223,005,954
GAINS AND (LOSSES) IN SURPLUS			
Net income	$ 4,503,544	$ 0	$ 4,503,544
Change in net unrealized capital gains	3,803,047	0	3,803,047
Change in net deferred income tax	2,943,604	0	2,943,604
Change in nonadmitted assets	(1,729,869)	0	(1,729,869)
Change in excess pension liability	(8,152,370)	0	(8,152,370)
Rounding	(2)	0	(2)
Change in surplus as regards policyholders for the year	$ 1,367,954	$ 0	$ 1,367,954
Surplus as regards policyholders, December 31, 2011	$224,373,908	$ 0	$224,373,908

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2007 Through December 31, 2011

	2008	2009	2010	2011
Capital and surplus, December 31, previous year	$200,860,040	$193,519,841	$210,130,617	$223,005,954
Net income	$ 7,729,958	$ 15,536,615	$ 14,697,446	$ 4,503,544
Change in net unrealized capital gains	(9,345,932)	376,882	6,414,522	3,803,047
Change in net deferred income tax	3,505,714	(777,805)	(939,349)	2,943,604
Change in nonadmitted assets	(1,270,069)	1,457,284	(7,964,562)	(1,729,869)
Change in excess pension liability	(7,959,870)	17,799	667,280	(8,152,370)
Rounding	0	1	0	(2)
Change in surplus as regards policyholders for the year	$ (7,340,199)	$ 16,610,776	$ 12,875,337	$ 1,367,954
Surplus as regards policyholders, December 31,	$193,519,841	$210,130,617	$223,005,954	$224,373,908

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NOTES TO THE FINANCIAL STATEMENTS

Note (1)

Losses	$46,569,755
Loss adjustment expenses	11,719,000

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 the 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 and reviewed the Company's 2011 Annual Statement, and in particular Schedule P, for reasonableness and consistency. Finally, Taylor-Walker assisted the examiners 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:

Loss & LAE Reserves	Actuary's Low Estimate	Actuary's Point Estimate	Actuary's High Estimate	Company Carried
Gross of Reinsurance	$55,258,000	62,613,000	$71,290,000	$66,973,000
Net of Reinsurance	$48,977,000	$55,796,000	$62,784,000	$58,288,755

Taylor-Walker concluded that the ranges of gross loss and loss adjustment expense (LAE) 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.

The Company did not book a premium deficiency reserve in the 2011 Annual Statement. The loss and loss adjustment expense ratios reported in Schedule P are less than 76 percent for each of the past five accident years. Additionally, the calendar-year ratios of other incurred underwriting expenses to earned premiums, as reported on the income statements, have been between 25 percent and 28 percent the last five years. Based on Taylor-Walker's review of this information, it is their opinion that premium rates are generally adequate. Considering most of the non-claim expenses are paid at the beginning of the policy period, zero premium deficiency reserve is self-evident.

Recommendations resulting from Taylor-Walker's examination were presented to the Company in the Management Letter.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2011, the Company had admitted assets of $388,486,179, liabilities of $164,112,271, and total surplus as regards policyholders of $224,373,908. Therefore, the Company's total capital and surplus exceeded the $2,000,000 minimum prescribed by Section 41-313, Idaho Code.

Comments and Recommendations

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15 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

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 Farm Bureau Mutual Insurance Company of Idaho 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.

Lois Haley

Lois Haley, CFE
Examiner-in-Charge
Department of Insurance
State of Idaho

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

SHERRY BAZILE NOTARY PUBLIC STATE OF IDAHO

Sherry Bazile
Notary Public

My commission Expires: 1·18·19

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

WAIVER

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

Farm Bureau Mutual Insurance Company of Idaho

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

Farm Bureau Mutual Insurance Company of Idaho
Name of Entity

Phillip R. Joslin
Signature

Executive Vice President and Chief Executive Officer
Title

EXHIBIT
B