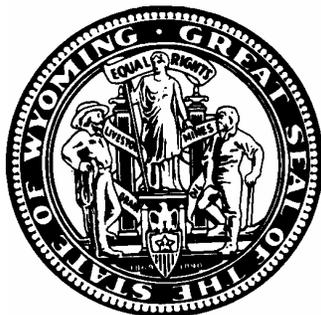


REPORT OF
EXAMINATION

Mountain West Farm Bureau Mutual Insurance Company

AS OF
DECEMBER 31, 2007



STATE OF WYOMING
DEPARTMENT OF INSURANCE
CHEYENNE, WYOMING

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SALUTATION

Cheyenne, Wyoming
January 16, 2009

Honorable Alfred W. Gross
Chairman, NAIC Financial Condition
(E) Committee
State Corporation Commission
Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

Honorable Kenneth G. Vines
Insurance Commissioner
State of Wyoming
106 East 6th Avenue
Cheyenne, WY 82002

Honorable Morris J. Chavez
Western Zone Secretary
Department of Insurance
State of New Mexico
Post Office Box 1269
Santa Fe, New Mexico 87504-1269

Chairman, Secretary, and Commissioner:

Pursuant to your instructions and in compliance with the provisions of the Wyoming Insurance Code and the rules and regulations promulgated by the National Association of Insurance Commissioners, hereinafter called "NAIC," an examination was made as of December 31, 2007, of the financial condition, management, and affairs of

MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY

hereinafter referred to as the "Company," at its home office located at 931 Boulder Drive, Laramie, Wyoming. The following report of the examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

The examination reported upon herein was undertaken as a routine examination as called for by Wyoming Statute § 26-2-116(a). The Company was most recently examined as of December 31, 2004. The current examination covers the intervening three-year period ending December 31, 2007.

We conducted our examination in accordance with the *NAIC Financial Condition Examiners Handbook*. The 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 annual statement instructions when applicable to domestic state laws and regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

DESCRIPTION OF THE COMPANY

Prior Examination Findings:

During the last examination it was noted that the Company had not filed unclaimed property reports with the states of Wyoming and Montana. During the current examination, it was noted that all unclaimed property reports had been properly filed.

Subsequent Events:

Due to the economic recession, the Company's stock portfolio has decreased in market value by \$9,241,000 as of December 31, 2008. This is an 18.1 percent decrease in the value of stocks from December 31, 2007. This is not considered a solvency issue, since the Company is in sound financial condition.

History of the Company:

The Company has been located in Laramie, Wyoming, for its entire existence. The Company, formerly known as Wyoming Farm Bureau Mutual Insurance Company, was formed from the consolidation of Agricultural Indemnity Company of Wyoming and Agricultural Insurance Company of Wyoming, both stock companies, in 1956. At the time of the merger, the Company converted to mutual form. The current Company name was adopted in 1972.

Corporate Records:

The articles of incorporation, bylaws, and minutes of the annual policyholders' meetings and meetings of the board of directors were reviewed in detail. In addition, the minutes of the budget,

investment, executive, compensation & benefits, and audit committees were reviewed. No compliance issues were noted during the review.

Management and Control:

Control of the Company rests with its board of directors, which is elected by the Company's policyholders. The only persons eligible to be directors are the members of the boards of directors of the Wyoming and Montana Farm Bureau Federations. The directors of the Federations are elected by their respective memberships. As of December 31, 2007, the following directors were holding office:

Kevin Baars	William Jones
Kristin Ellis	Perry Livingston
Keith Hamilton	David McClure
Robert Hanson	Jules Marchesseault
Jim Hefenieder	Tim Pexton
David Garber	Bruce Wright

The following were the officers of the Company as of December 31, 2007:

President – Perry Livingston
Vice President - David McClure
Secretary – Ken Hamilton
Treasurer – Dave Perdue
Assistant Secretary – Cindy Romero
Assistant Treasurer – John Dougherty

The daily operations of the Company are managed by Roy Schmett, Chief Executive Officer. Mr. Schmett is appointed by the board of directors.

Holding Company Structure:

The Company is a member of an insurance holding company system as defined in the Wyoming Statutes, Title 26, Chapter 44. The Company submitted a Registration Statement in accordance with Wyoming Statute § 26-44-104.

Western Computer Services, Inc. (WC) is a 33 percent owned subsidiary located in Sandy, Utah, which provides electronic data processing services to the Company. The agreement governing the services rendered to the Company is a cost reimbursement agreement. The Company filed the appropriate Form D with the Wyoming Department of Insurance for this agreement.

Western Farm Bureau Service Company is a wholly-owned Wyoming subsidiary. Business activities include: leasing of property and equipment primarily to the parent company;

financing purchases of real estate and personal property; and investing in corporate bonds and stock.

Significant, On-Going Contractual Relationships:

The Company was originally formed to serve the specific insurance needs of the agricultural community. While non-agricultural risks are underwritten by the Company, agricultural interests still dominate it. These interests result in the Company being associated with a network of farm bureau organizations. These farm bureaus consist of associations of farmers and ranchers who have common interests and concerns. Individuals join county farm bureaus, which are, in turn, associated with state farm bureaus. Finally, the American Farm Bureau Federation represents the mutual concerns of these various state farm bureaus.

The Company maintains long-term business relationships with various entities which also have farm bureau associations. The following are companies that are associated with the Company through the farm bureau network, but do not meet the requirements of the Holding Company Act so as to be considered part of the Company's holding company system:

American Agricultural Insurance Company (AA) is an Indiana-domiciled insurer, licensed as a property and casualty insurer in Wyoming, which provides reinsurance to the Company. See the "Reinsurance" section.

The Company owns 8,538 shares of the Class A voting common stock of AA, valued by the Company at \$11,637,294 at December 31, 2007. The Company also purchased a surplus note from AA on December 30, 2005. It is valued at \$2,250,000 as of December 31, 2007.

Western Agricultural Insurance Company (WA) is an Iowa-domiciled insurer, licensed in Wyoming, which provides reinsurance to the Company. It also services the Company's sub-standard auto business written in the State of Arizona. Likewise, the Company services the sub-standard auto business that WA writes in the states of Montana and Wyoming. See the "Territory and Plan of Operation" and "Reinsurance" sections.

The Company owns 53,325 shares of the Class A voting common stock of WA, valued by the Company at \$1,921,833 at December 31, 2007. The Company also owns 750 shares of Class B preferred stock, valued by the Company at \$133,646 at December 31, 2007.

EquiTrust Investment Management Services, Inc. (EIMSI) is a subsidiary of FBL Financial Group. EIMSI executed an agreement with the Company in late 1994 to provide investment research and advice and to manage the Company's investment portfolio subject to the Company's supervision and review.

The Company owns 463,904 shares of the voting and 25,400 shares of the non-voting common stock of FBL Financial Group, valued by the Company at \$16,018,605 and \$877,062 respectively, at December 31, 2007. The Company non-admitted \$98,622 of this

investment at December 31, 2007, in order to be in compliance with the 5 percent statutory limitation.

Fidelity Bonds and Other Insurance:

The Company has fidelity insurance with Fidelity and Deposit Company of Maryland. The policy has an aggregate limit of liability of \$2,500,000, which meets the NAIC suggested minimum. Also, the Company has \$10,000,000 of directors and officers liability insurance with Great American Insurance Company and \$10,000,000 of professional liability insurance with Great American E&S Insurance Company.

The Company self-insures its buildings, equipment and automobiles.

Officers', Employees', and Agents' Welfare and Pension Plans:

The Company participates in a self-administered multi-employer defined benefit pension plan with several other farm bureau companies. The cost of the plan is borne entirely by the employer and is available to employees who meet certain age and service requirements. The Company contributed \$1,182,285 to the plan in 2007.

The Company has a defined contribution plan under I.R.C. Section 401(K) for the benefit of its employees. Under the plan, the Company is required to contribute 100 percent of the employee's contribution, limited to the first 4 percent of the employee's compensation. The Company contributed \$238,014 to the plan in 2007.

The Company has a self-administered supplemental retirement income plan (SRIP) for the officers of the Company. Benefit payments to the participants begin once they have reached the retirement age of 65. The Company made no contributions to this plan in 2007.

The Company has a deferred compensation plan for certain officers of the Company. The officers may elect to reduce their salary and have the Company make payments into a trust. The Company made no contributions to the plan in 2007.

In addition to pension benefits, the Company has established a postretirement health benefits plan, which provides medical benefits to the retired employees and agents of the Company. Retirees pay a monthly premium based on whether or not they are Medicare-eligible and whether or not any dependents are covered. Retirees whose age and years of service is equal to or greater than ninety (90) receive the benefit at no cost. Employees hired after December 31, 2003, are not eligible for the Rule of 90. The Company did not make any contributions to this plan in 2007.

Territory and Plan of Operation:

The Company is authorized as a multi-line property and casualty insurer in the State of Wyoming. The Company is also licensed to write property, casualty (including workers' compensation), marine, surety, and disability insurance in the State of Montana; and additionally, the Company is authorized

to write property, casualty (without workers' compensation), and vehicle insurance in the State of Arizona.

The Company markets its products through exclusive agents who are independent contractors. The Company has focused its marketing on rural dwellings in the past, however, it also writes some business and commercial policies as well. The Company uses mainly radio and newspaper advertisements, as well as some other local print media. No new lines of business are proposed at this time.

As described above in "Significant, On-Going Contractual Relationships," the Company directly writes sub-standard auto business on risks located in the State of Arizona. That business is serviced by Western Agricultural Insurance Company (WA) and is assumed 100 percent by WA (see the "Reinsurance" section).

Growth of the Company:

The Company has increased its surplus \$46,962,557 during the three-year examination period and its reported direct premiums written have grown from \$105,039,416 in 2005, to \$112,751,640 in 2007, an increase of \$7,712,224. The Company's admitted assets have increased by \$38,407,071 from \$297,533,831 in 2005, to \$335,940,902 in 2007.

Business In Force by State:

Revenues are generated by line of business in the following percentages for 2007:

Line of business*	+Wyoming	+Montana	+Arizona	Grand Total
Farmowners multiple peril.	18	18		18
Homeowners multiple peril.	20	17		19
Commercial multiple peril.	11	11		11
Private passenger auto liability.	20	28	60	23
Private passenger auto physical damage.	25	20	40	23
All other lines **	6	6		6
Totals	100	100	100	100

* All figures are per the December 31, 2007, Annual Statement.

** Fire, other liability, other commercial auto liability, and commercial auto physical damage.

+ Percentages in each column are calculated using direct premiums written by state.

Loss Experience:

Taylor-Walker & Associates, actuarial consultants, were retained to review the Company's loss experience and reserving methods. Reported loss and loss adjustment expense (LAE) reserves were

found to be excessive as stated. The reserves and expense for unpaid losses were overstated by \$11,151,866 and the reserve and expense for loss adjustment expenses were overstated by \$3,020,726.

The Company's loss and LAE reserves as reported on the 2007 Annual Statement did not relate to the ultimate cost of settling the Company's incurred claims. The Department's consulting actuary was not provided with specific information to support the reserve levels that management selected. Therefore, the Department's consulting actuary relied on the actuarial estimates, which were established in compliance with Statements of Statutory Accounting Principles (SSAP) 55. The booked reserves were outside of the actuarial reasonable range.

Per SSAP 55, paragraph 8, which states in part, "The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience."

Recommendation 1: It is recommended that the Company follow SSAP 55 when accruing the reserves for unpaid losses and loss adjustment expenses.

The Company has been given a copy of the actuarial report prepared by Taylor-Walker & Associates.

Reinsurance:

Reinsurance is primarily assumed from pools administered by American Agricultural Insurance Company (AA), and Western Agricultural Insurance Company (WA).

The following table presents 2007 data.

Ceding Company	Premium Assumed
AA Pools	\$4,808,674
WA Pools	1,483,066
Total	<u>\$6,291,740</u>

Reinsurance is ceded predominantly to AA as shown in the following table.

Reinsurer	Premium Ceded
AA – Property Pro Rata Surplus Share	\$1,445,955
AA – Casualty Excess of Loss	925,051
AA – Umbrella	2,103,940
AA – Other*	1,386,526
Factory Mutual – Boiler and Machinery	305,472
WA **	1,123,691
Total	<u>\$7,290,635</u>

* Other consists of catastrophe auto and property, property per risk excess and facultative.

** As described above, the Company cedes 100 percent of its substandard auto business written on Arizona risks to WA.

Taylor-Walker & Associates reviewed the reinsurance agreements for proper risk transfer. No exceptions were noted.

Accounts and Records:

The Company's administrative, accounting, underwriting, policy administration, and claims handling functions are performed at its home office in Laramie, Wyoming. Electronic data processing services are performed at Western Computer Services, Inc. in Sandy, Utah. The Arizona sub-standard auto business that is directly written by the Company is serviced by Western Agricultural Insurance Company.

The Company has its investments in a custodial account with First Interstate Bank of Laramie, Wyoming. This agreement was approved by the Wyoming Department of Insurance as complying with Wyoming Statute § 26-24-129(a)(iii), which requires a domestic insurance company's assets to be maintained in the State of Wyoming.

Farm bureau federation dues are being deducted from agent's commissions or from the intended premium payment when not paid by the insured. Also, the Company is not paying premium taxes on farm bureau federation dues received by the Company.

The effect of this condition is that federation dues that are paid for by the agent could be considered an inducement that is not allowed under the Montana and Wyoming insurance laws. In addition, premium taxes are not being paid on the federation dues that are received by the Company in accordance with Montana and Wyoming statutes.

Montana Code Annotated § 33-18-210 states, "A title, property, casualty, or surety insurer or an employee, representative, or insurance producer of an insurer may not, as an inducement to purchase insurance or after insurance has been effected, pay, allow, or give or offer to pay, allow, or give, directly or indirectly, a: (a) rebate, discount, abatement, credit, or reduction of premium named in the insurance policy; (b) special favor or advantage in the dividends or other benefits to accrue on the policy; or (c) valuable consideration or inducement not specified in the policy, except to the extent provided for in an applicable filing with the commissioner as provided by law."

Montana Code Annotated § 33-2-705 states, "Each authorized insurer . . . with respect to premiums received while an authorized insurer in this state shall file with the commissioner, on or before March 1 each year, a report in a form prescribed by the commissioner showing total direct premium income, including policy, membership, and other fees, . . . and all other consideration for insurance from all kinds and classes of insurance, whether designated as a premium or otherwise, received by a life insurer or written by an insurer other than a life insurer during the preceding calendar year"

Wyoming Statute § 26-13-112(a) states, "No property, casualty or surety insurer or any employee or representative thereof, and no broker or agent shall pay, allow or give, or offer to pay, allow or give, in any manner, as an inducement to insurance, or after insurance has been effected, any valuable

consideration or inducement of any kind not specified or provided for in the policy, except to the extent provided for in an applicable filing with the commissioner as provided by law.”

Wyoming Statute § 26-4-103(a) states in part, “Each authorized and formerly authorized insurer shall file with the commissioner . . . a report in a form the commissioner prescribes showing . . . total direct premium income including policy, membership and other fees, and all other considerations for insurance and annuity contracts, however designated, it received during the immediately preceding calendar year. . . .”

Recommendation 2: It is recommended that the Company pay premium taxes on federation dues received by the Company, or request that the insurance agents get two separate checks from the policyholders. The checks for the insurance premium should be sent to the Company, and the checks for the federation dues should be sent directly to the Federation by the agent.

It is also recommended that the Company stop deducting federation dues from agents’ commissions or from the intended insurance premium payment.

Out of 22 claims examined, one claim was not paid within the 45-day statutory requirement. Based on discussions with the Company, this was an unusual circumstance where payment was delayed while repair options for the structure were explored. However, this information was not documented in the claim file.

Wyoming Statute § 26-15-124 (b) states, “Claims for benefits under a property or casualty insurance policy shall be rejected or accepted and paid by the insurer or its agent designated to receive those claims within forty-five (45) days after receipt of the claim and supporting bills.”

Recommendation 3: It is recommended that the Company fully document its compliance with the 45-day requirement of Wyoming Statute § 26-15-124(b).

Statutory Deposit:

The Company has US Treasury Notes, with a book value of \$1,270,156, on deposit with the State of Wyoming for the protection of all policyholders.

MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

as of December 31, 2007

ASSETS	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	\$243,271,450		\$243,271,450	
Stocks – preferred	6,212,205		6,212,205	
Stocks – common	44,935,228	98,622	44,836,606	
Real estate occupied by the company	6,573,829		6,573,829	
Properties held for sale	265,670		265,670	
Cash, cash equivalents, and short-term investments	6,329,273		6,329,273	
Other invested assets	2,570,877		2,570,877	
Receivable for securities	109,206		109,206	
Subtotal – cash and invested assets	<u>\$310,267,738</u>	\$98,622	<u>\$310,169,116</u>	
Investment income due and accrued	3,051,773		3,051,773	
Uncollected premiums and agents’ balances in course of collection	21,895,287	143,670	21,751,617	
Amounts recoverable from reinsurers	435,700		435,700	
Aggregate write-ins for other than invested assets	531,860	(836)	532,696	
Total – all assets	<u>\$336,182,358</u>	<u>\$241,456</u>	<u>\$335,940,902</u>	
LIABILITIES & SURPLUS				
Losses			\$58,063,501	1
Loss adjustment expenses			9,459,274	2
Commissions payable, contingent commissions and other charges			1,195,054	
Other expenses			12,126,904	
Taxes, licenses and fees			207,688	
Current federal and foreign income taxes			614,823	
Net deferred tax liability			2,148,288	
Unearned premiums			52,145,081	
Advance premiums			2,490,676	
Ceded reinsurance premiums payable			1,084,133	
Funds held by company under reinsurance treaties			53,302	
Aggregate write-ins for liabilities			413,701	
Total liabilities			<u>140,002,425</u>	
SURPLUS				
Unassigned funds (surplus)			<u>195,938,477</u>	
Surplus as regards policyholders			<u>195,938,477</u>	
Total liabilities & surplus			<u>\$335,940,902</u>	

MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME

for the Year Ending December 31, 2007

		Notes
<u>Underwriting Income (Loss)</u>		
Premiums earned	\$108,201,187	
Losses incurred	68,001,380	1
Loss expenses incurred	6,254,433	2
Other underwriting expenses incurred	25,877,977	
Total underwriting deductions	100,133,790	
	Net underwriting gain (loss)	\$8,067,397
<u>Investment Income</u>		
Net investment income earned	11,176,653	
Net realized capital gains (losses)	7,810,819	
	Net investment gain	18,987,472
<u>Other Income</u>		
Net gain (loss) from agents' or premium balances charged-off	(74,207)	
Finance and service charges	591,970	
	Total other income	517,763
Net income (loss) before federal and foreign income taxes	27,572,632	
Federal and foreign income taxes	3,530,900	
	Net income	\$24,041,732

MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY
RECONCILIATION OF SURPLUS ACCOUNT

January 1, 2005 Through December 31, 2007

	*****Per Annual Statements *****		Per Exam
	2005	2006	2007
Surplus, December 31, of previous year	\$134,803,329	\$153,056,148	\$176,684,304
Net income (loss)	16,178,808	21,583,068	24,041,732
Change in net unrealized capital gains or (losses)	2,960,260	5,313,693	(10,215,614)
Change in net deferred income tax	(417,975)	(1,727,644)	2,867,679
Change in nonadmitted assets	(468,274)	(1,540,961)	2,560,376
Net change in surplus	18,252,819	23,628,156	19,254,173
Surplus, December 31, of current year	\$153,056,148	\$176,684,304	\$195,938,477

MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION
December 31, 2007

		Notes
Surplus as regards policyholders per 2007 Annual Statement	\$181,765,885	
Change in loss reserves	11,151,866	1
Change in LAE reserves	3,020,726	2
Total change in surplus as regards policyholders	14,172,592	
Surplus as regards policyholders per examination	<u>\$195,938,477</u>	

MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 1: Per the actuarial review, losses and losses incurred were overstated by \$11,151,866 on the 2007 Annual Statement. Therefore, the loss reserve was reduced from \$69,215,367 to \$58,063,501 and losses incurred were reduced from \$79,153,246 to \$68,001,380 as a result of the examination. See Recommendation 1.

Note 2: Per the actuarial review, loss adjustment expenses and loss expenses incurred were overstated by \$3,020,726 on the 2007 Annual Statement. Therefore, the loss adjustment expense reserve was reduced from \$12,480,000 to \$9,459,274 and the loss expenses incurred were reduced from \$9,275,159 to \$6,254,433 as a result of the examination. See Recommendation 1.

SUMMARY OF RECOMMENDATIONS

Recommendation 1: It is recommended that the Company follow SSAP 55 when accruing the reserves for unpaid losses and loss adjustment expenses.

Recommendation 2: It is recommended that the Company pay premium taxes on federation dues received by the Company, or request that the insurance agents get two separate checks from the policyholders. The checks for the insurance premium should be sent to the Company, and the checks for the federation dues should be sent directly to the Federation by the agent.

It is also recommended that the Company stop deducting federation dues from agents' commissions or from the intended insurance premium payment.

Recommendation 3: It is recommended that the Company fully document its compliance with the 45-day requirement of Wyoming Statute § 26-15-124(b).

CONCLUSION

Doug Melvin, Jeff Braunschweig, and Katy Cotton, examiners for the Wyoming Insurance Department, participated in the examination. Review of the Company's reserves was conducted by R. Glenn Taylor, ACAS, MAAA, and Randy Ross, ACAS, MAAA, of the firm Taylor-Walker & Associates, Inc.

Appreciation is expressed for the cooperation and assistance extended by the officers and employees of the Company during the course of the examination.

I, the undersigned, hereby certify that an examination has been made of **MOUNTAIN WEST FARM BUREAU MUTUAL INSURANCE COMPANY**, and the preceding report is true and correct to the best of my knowledge and information.

Respectfully submitted,

G. Douglas Melvin, CPA, CFE
Examiner In-Charge
Senior Examiner
Department of Insurance
State of Wyoming

This report has been reviewed and is true and correct to the best of my knowledge and information.

Linda Johnson, CPA, CFE
Chief Financial Examiner
Department of Insurance
State of Wyoming

The foregoing instrument was acknowledged under oath before me this _____ day of March, 2009.

Witness my hand and official seal.

Notary Public

My Commission Expires: _____