

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF:

American Agricultural Insurance Company )  
225 South East Street )  
Indianapolis, IN 46202 )

Examination of American Agricultural Insurance Company

**NOTICE OF ENTRY OF ORDER**

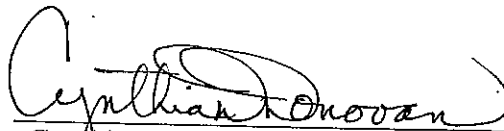
Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of American Agricultural Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of American Agricultural Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

Date

6/12/2015



Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0044 6159**

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COUNTY OF MARION ) COMMISSIONER OF INSURANCE

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American Agricultural Insurance Company )  
225 South East Street )  
Indianapolis, IN 46202 )

Examination of American Agricultural Insurance Company

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the American Agricultural Insurance Company (hereinafter "Company") for the time period January 1, 2009 through December 31, 2013.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on April 22, 2015

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 7, 2015 and was received by the Company on May 14, 2015.

On May 22, 2015, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:


1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2013.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 12th day of June, 2015.

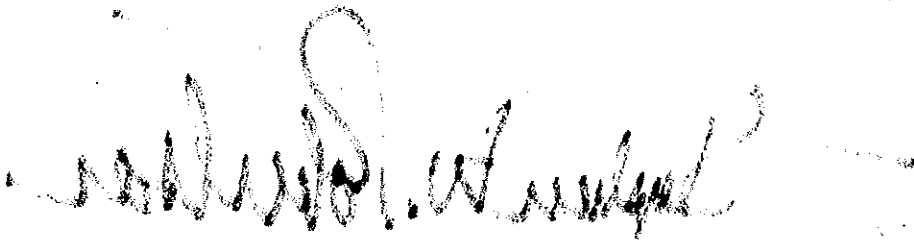
  
Stephen W. Robertson  
Insurance Commissioner

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A handwritten signature in dark ink, appearing to read "Michael J. ...", is written across the bottom of the page. The signature is cursive and somewhat stylized.

**STATE OF INDIANA**

**Department of Insurance**

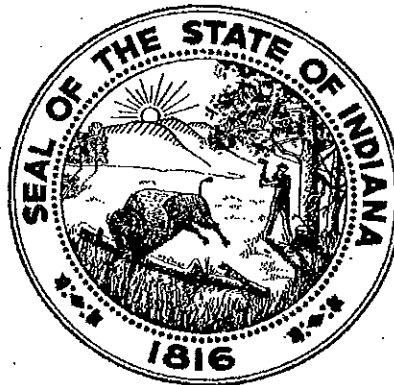
**REPORT OF EXAMINATION**

**OF**

**AMERICAN AGRICULTURAL INSURANCE COMPANY**  
NAIC COMPANY CODE 10103

As of

December 31, 2013



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# STATE OF INDIANA

# IDOI

MICHAEL R. PENCE, Governor

**Indiana Department of Insurance**  
311 W. Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787  
Telephone: (317) 232-2385  
Fax: (317) 232-5251  
Stephen W. Robertson, Commissioner

April 22, 2015

Honorable Stephen W. Robertson  
Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3843, an examination has been made of the affairs and financial condition of:

**American Agricultural Insurance Company**  
225 South East Street  
Indianapolis, Indiana 46202

an Indiana domestic, stock, property and casualty insurance company hereinafter referred to as the "Company." The examination was conducted at the main administrative offices of the Company located at 1501 E. Woodfield Road, Suite 300W, Schaumburg, Illinois 60173.

The Report of Examination, showing the status of the Company as of December 31, 2013, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

CONSUMER SERVICES  
(317) 232-2395

EXAMINATIONS/FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

SECURITIES/COMPANY RECORDS  
(317) 232-1991

STATE HEALTH INSURANCE PROGRAM  
1-800-332-4634

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2008. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2009 through December 31, 2013, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Blackman Kallick, LLP for the years 2009 through 2011 and Johnson Lambert LLP for the years 2012 and 2013 of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

The actuarial firm of Merlinos & Associates, Inc. (Merlinos) was appointed by the INDOI to conduct a review of the Company's Loss Reserves and Loss Adjustment Expenses as of December 31, 2013.

In accordance with the 2013 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company, and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the Examiners performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company was formed on May 18, 1948 and began business on May 26, 1948 as a capital stock company. It was reincorporated in 1954 and converted to a mutual carrier with the title American Agricultural Mutual Insurance Company. The Company was once again reincorporated on July 25, 1968 as a capital stock company under its present name.

On April 30, 1999, the Company purchased Nationwide Re, a division of Nationwide Mutual Insurance Company, as part of its strategic plan to diversify its reinsurance business by expanding the non-Farm Bureau premium writings.

## CAPITAL AND SURPLUS

As of December 31, 2013, the Company's total capital and surplus was \$489,257,593 which included: common capital stock of \$31,881,000, consisting of 318,810 issued and 266,273 shares outstanding, with a par value of \$100 per share, 6.5% non-voting, non-cumulative preferred stock of \$31,129,000, consisting of 31,129 shares issued and outstanding, gross paid-in contributed surplus of \$13,385,086, unassigned funds (surplus) of \$391,159,212, and surplus notes of \$77,322,498, less treasury stock of \$55,619,203.



As of December 31, 2013, the Company had 16 issued and outstanding surplus notes (Notes) with a total par value of \$77,322,498. The Notes were issued to Farm Bureau insurance companies at various dates in 2005 and 2006. The Notes accrue interest at a rate of 7.5% annually, which is payable on July 1 and January 1 of each year. All Notes mature on January 1, 2036. During 2013, the Company paid \$5,799,188 of interest on all Notes issued and outstanding. In addition, as of December 31, 2013, the Company reported \$2,899,594 of interest accrued on the outstanding Notes.

### DIVIDENDS TO STOCKHOLDERS

The Company paid or declared preferred stock dividends of \$10,116,925 (\$2,023,385 each year) during the period covered by this examination. There were no common stock dividends declared or paid during the period covered by this examination.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was licensed to transact business in thirty-four states, the Commonwealth of Puerto Rico, and Canada. In addition, the Company is a qualified or accredited reinsurer in thirteen states. The Company is not licensed, qualified or accredited in Alaska, California, District of Columbia, Hawaii, or Nevada. The Company provides reinsurance for Farm Bureau insurance companies and assumes domestic and international business produced by brokers. The Company offers reinsurance coverages for property and casualty risks. The Company also writes crop hail and multi-peril crop insurance (MPCI) on a direct basis through an affiliate, American Farm Bureau Insurance Services (AFBIS), which performs underwriting and claims functions pursuant to a service agreement with the Company.

As of December 31, 2013, the Company reported gross direct written and assumed premiums of \$940,772,842. The lines of business which comprised the highest percentage of the 2013 gross written direct and assumed premiums were catastrophe (49.64%), crop (12.20%), property pro rata (9.91%), and casualty excess (8.30%). During 2013, gross written premiums, as distributed between Farm Bureau business and broker assumed business, were 84.06%, and 15.94%, respectively.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Net Premiums Earned</u>	<u>Net Income (Loss)</u>
2013	\$1,093,111,657	\$603,854,064	\$489,257,593	\$327,575,217	\$55,310,481
2012	1,041,034,284	600,912,893	440,121,391	326,431,346	10,005,318
2011	1,089,728,169	659,548,683	430,179,486	356,050,507	(86,454,693)
2010	1,132,444,251	638,440,162	494,004,089	380,879,471	(3,053,206)
2009	1,094,361,787	611,073,392	483,288,395	414,112,478	(36,519,653)

## LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Company for the period under examination. The amounts were compiled from the Company's filed Annual Statements, and from examination results:

<u>Year</u>	<u>Premiums Written</u>	<u>Premiums Earned</u>	<u>Losses and Loss Expenses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Loss and Loss Adjustment Expense Ratio</u>	<u>Combined Ratio</u>
2013	\$342,237,203	\$327,575,217	\$240,072,289	\$57,117,386	73.29%	89.98%
2012	283,567,497	326,431,346	281,715,070	42,884,918	86.30%	101.42%
2011	356,060,825	356,050,507	412,277,522	53,255,013	115.79%	130.75%
2010	374,222,306	380,897,471	333,814,589	62,891,997	87.64%	104.45%
2009	399,086,345	414,112,478	415,224,991	78,817,204	100.27%	120.02%

Losses Incurred fluctuated during the examination years mainly as a result of the unusually high frequency of storms associated with the Farm Bureau insurance company's property business during the years 2008, 2009, and 2011.

## MANAGEMENT AND CONTROL

### **Directors**

The Company's Bylaws state that the Board of Directors shall be less than three (3) and not more than the number of Designating Shareholders plus the President of American Farm Bureau Federation (AFBF). Designating Shareholders are affiliated with a state Farm Bureau organization that is a member of AFBF that maintain a minimum investment level in the Company equal to or greater than either one percent of the Company's surplus at the prior year end or two and one half percent of the total outstanding securities of the Company. The Shareholders elect the Board of Directors at the annual meeting. The following is a listing of persons serving as directors as of December 31, 2013:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Roy R. Stallman, Jr. Columbus, Texas	President and Chairman of the Board American Farm Bureau Federation/ Farmer
Ronald R. Anderson Ethel, Louisiana	President Louisiana Farm Bureau Federation, Inc./ Farmer
Steven L. Baccus Minneapolis, Kansas	President Kansas Farm Bureau/ Farmer
Kenneth W. Dierschke San Angelo, Texas	President Texas Farm Bureau/ Farmer
Vincent M. Duvall Greensboro, Georgia	President Georgia Farm Bureau Federation/ Farmer

Mark E. Haney Nancy, Kentucky	President Kentucky Farm Bureau/ Farmer
John L. Hoblick Sr. Deleon Springs, Florida	President Florida Farm Bureau Federation/ Farmer
James A. Holte Elk Mound, Wisconsin	President Wisconsin Farm Bureau Federation/ Farmer
Charles B. Hurst Tarkio, Missouri	President Missouri Farm Bureau Federation/ Farmer
Doyle W. Johannes Underwood, North Dakota	President North Dakota Farm Bureau/ Farmer
Randy L. Knight Pelahatchie, Mississippi	President Mississippi Farm Bureau Federation/ Farmer
James L. Parnell Stanton, Alabama	President Alabama Farmers Federation/ Farmer
Frank S. Priestley Franklin, Idaho	President Idaho Farm Bureau Federation/ Farmer
Wayne F. Pryor Goochland, Virginia	President Virginia Farm Bureau Federation/ Farmer
Kevin G. Rogers Mesa, Arizona	President Arizona Farm Bureau Federation/ Farmer
Donald J. Shawcroft Alamosa, Colorado	President Colorado Farm Bureau/ Farmer
Willard L. Upchurch Columbia, Tennessee	President Tennessee Farm Bureau Federation/ Farmer
Harry R. Veach Manila, Arkansas	President Arkansas Farm Bureau Federation/ Farmer
Donald B. Villwock Edwardspoint, Indiana	President Indiana Farm Bureau, Inc./ Farmer
David M. Winkles West Columbia, South Carolina	President South Carolina Farm Bureau Federation/ Farmer

Wayne H. Wood Marlette, Michigan	President Michigan Farm Bureau/ Farmer
Larry B. Wooten Raleigh, North Carolina	President North Carolina Farm Bureau Federation, Inc./ Farmer

**Officers**

The Bylaws specify that the officers of the Company shall be a President, Chief Executive Officer, First Vice President, one (1) or more Vice Presidents, a Secretary, one (1) or more Assistant Secretaries, a Treasurer, one (1) or more Assistant Treasurers and such other officers as the Board of Directors may from time to time provide. The following is a list of key officers and their respective titles as of December 31, 2013:

<u>Name</u>	<u>Position</u>
Roy R. Stallman, Jr.	President and Chairman of the Board
Janet S. Katz	Executive Vice President & Chief Executive Officer
Donald B. Villwock	First Vice President
Ellen S. Greer	General Counsel & Secretary
Thomas M. Pavelko	Corporate Secretary
Julia A. Potts	Treasurer
August J. Tripi, Jr.	Assistant Treasurer

**Corporate Governance**

The Company's Bylaws require the establishment of board committees including an Executive Committee and an Investment Committee, and specify that the Board of Directors may also appoint such other committees as it may deem necessary. As of December 31, 2013, the Company had the following board committees and member directors that were elected to serve as follows:

Executive Committee:

Roy R. Stallman, Jr.	Chairman
Donald B. Villwock	Vice Chair
Ronald R. Anderson	
Perry E. Livingston	
Willard L. Upchurch	
Wayne H. Wood	

Investment Committee:

Roy R. Stallman, Jr.	Chairman
Julie A. Potts	
Donald B. Villwock	

Audit Committee:

John L. Hoblick Sr.	Chairman
Mark E. Haney	
Charles B. Hurst	

In addition to the board committees, the Bylaws provide that the Company shall also have an Advisory Committee elected by the Board of Directors from nominations submitted by the President consisting of seven (7) persons plus the President who shall be an ex officio member of the committee. Six (6) of these persons shall be Executive Vice Presidents, Chief Executive Officers or General Managers of property and/or casualty insurance companies owning shares in the Company. The Chief Executive Officer shall serve as chairman of the committee. As of December 31, 2013, the following members comprised the Company's Advisory Committee:

<u>Name</u>	<u>Affiliation</u>
Janet Katz, Chairman	American Agricultural Insurance Company
Kurt Bock	Country Mutual Insurance Company
Jim Brannen	Farm Bureau Property & Casualty Insurance Company
Blaine Briggs	Louisiana Farm Bureau Mutual Insurance Company
Steve Rutledge	Alfa Mutual Insurance Company
Michelle Sheppard	Farm Bureau Town & Country Insurance Company of Missouri
Bob Stallman	American Agricultural Insurance Company (ex officio member)
Jack Williams	Mississippi Farm Bureau Casualty Insurance Company

**CONFLICT OF INTEREST**

The directors, officers and employees of the Company are required to sign Annual Conflict of Interest Statements for the disclosure of any material interest or affiliation which is likely to conflict with their official duties. From a review of the officers and directors signed statements, there were no material conflicts of interest noted for the period under examination.

**OATH OF OFFICE**

Indiana Code 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each director signed an "Oath of Office" statement.

## CORPORATE RECORDS

### **Articles of Incorporation**

The Company's Articles of Incorporation were not amended during the period under examination.

### **Bylaws**

On December 13, 2011, the Board of Directors approved certain amendments to the Company's Bylaws. The amended Bylaws were adopted by a resolution of the Shareholders on May 1, 2012. The significant Bylaw amendments are summarized as follows:

#### Article II, Section 1

The month of the annual shareholders meeting was changed from March to May.

#### Article IV, Section 1

Allows individuals nominated by Designating Shareholders to determine number of directors, consistent with current practice.

#### Article IV, Section 12

(1) Removes Vice Presidents as individuals qualified to serve as directors.

(2) Allows any Designating Shareholder, including multiple affiliated Shareholders, to nominate a qualified individual to the board, provided that nominations are received not less than 14 days before the annual meeting. An individual placed in nomination by more than one Shareholder would appear once on the nominating slate prepared by the Secretary for presentation to the Shareholders.

### **Minutes**

The Board of Directors, Shareholder, and committee meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted. It was determined that the annual meetings and other regular board and committee meetings were held in accordance with the Company's Bylaws.

## AFFILIATED COMPANIES

### **Organizational Structure**

The Company is owned by the insurance company affiliates of various state Farm Bureau insurance companies, and by the AFBF, an Illinois not-for-profit agricultural membership organization. As of December 31, 2013, the Farm Bureau insurance companies owned a combined 213,293 (80.103%) of the Company's outstanding common shares, AFBF owned 443 common shares (.166%), and the Company held 52,537 (19.731%) common shares of treasury stock.

As of December 31, 2013, there were three Farm Bureau insurance companies that owned 10% or more of the Company's outstanding common stock: County Mutual Insurance Company (13.660%), Tennessee Farmers Mutual Insurance Company (13.040%), and North Carolina Farm Bureau Mutual Insurance (10.454%). All of these insurers filed disclaimers of control statements with the INDOI.

The Company is a member of a holding company system whereby it is the ultimate controlling entity. The Company is the parent of one wholly owned subsidiary, American Agricultural Insurance Agency (AAIA). In addition, as of December 31, 2013, the Company owned 9.1% of the voting shares of AFBIS. A brief description of these entities is as follows:

AAIA is a for-profit company incorporated in the state of Illinois. The Company acquired 100% of the outstanding shares of AAIA from AFBF effective October 27, 2008. AAIA is an active insurance agency.

AFBIS was founded in June 1995 for the purpose of providing various crop insurance services to Farm Bureau insurance companies. These services include software to meet reporting requirements, underwriting reviews, claims handling, data entry, policy distribution and billing functions. AFBIS also administers the Company's crop hail and MPCCI business.

### **Affiliated Agreements**

The following affiliated agreements and transactions were disclosed in the Form B Holding Company Registration Statement and were not disapproved by the INDOI in accordance with IC 27-1-23-4.

#### Inter-company Cost Sharing Agreement

The Company entered into an Inter-company Cost Sharing Agreement with AFBF and AFBIS effective January 1, 2008, and amended November 11, 2011. The parties agree to share the use of certain management and office services, property, equipment, and facilities owned or leased by each of them at various locations. The Company received \$1,502,343 for the shared items provided to AFBF and AFBIS.

#### Multiple Peril Crop/Livestock Insurance Full Service Agreement

Effective January 1, 2013, the Company entered into a Multiple Peril Crop/Livestock Insurance Full Service Agreement with AFBIS. Under the terms of this agreement, AFBIS agrees to process and service the Company's crop/livestock insurance policies that are approved by the Federal Crop Insurance Corporation (FCIC) and reinsured by FCIC. The services performed by AFBIS include underwriting, policy issuance, premium billing, premium collection, claims adjusting, claim payment, policy and claim data/file maintenance, and reinsurance placement to FCIC. During 2013, the Company paid AFBIS \$5,967,326 under the terms of this agreement.

#### Crop Hail Full Service Insurance Agreement

Effective January 1, 2013, the Company entered into a Crop Hail Full Service Insurance Agreement with AFBIS. Under the terms of this agreement, AFBIS agrees to process and service the crop hail business that is written on the Company's policy forms. The services performed by AFBIS include underwriting, policy issuance, premium billing, premium collection, claims adjusting, claim payment, policy and claim data/file maintenance, and regulatory filings. During 2013, the Company paid AFBIS \$280,321 under the terms of this agreement.

## FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by a fidelity bond. The bond has an aggregate limit of liability coverage of \$2,000,000 with a \$50,000 deductible. The fidelity bond exceeds the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2013, including but not limited to directors and officers, and commercial umbrella, commercial general liability, commercial property, and cyber liability coverages.

## STATUTORY AND SPECIAL DEPOSITS

The Company reported statutory deposits as of December 31, 2013, as follows:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$2,000,656	\$2,057,440
Letters of Credit	10,068,698	9,870,300
Total For All Policyholders	<u>\$12,069,354</u>	<u>\$11,927,740</u>
All Other Special Deposits:		
Arkansas	64,072	58,961
Georgia	83,787	77,104
Missouri	999,677	1,003,100
New Mexico	410,844	431,280
North Carolina	301,564	326,280
Puerto Rico	1,016,613	844,700
Total Deposits	<u>\$14,945,911</u>	<u>\$14,669,165</u>

## REINSURANCE

### Reinsurance Assumed

As of December 31, 2013, the Company reported assumed premiums of \$891,134,000. Approximately 84% of the Company's assumed premiums were produced under both property and casualty treaties with Farm Bureau insurance companies. The remaining 16% of the business was assumed from brokers which was 70% comprised of domestic business and 30% was derived from international sources on a non-admitted basis, and from Canada where the Company is licensed for reinsurance.

The treaty coverage is provided in the form of both proportional and excess covers and includes the following types of contracts: property quota share, all lines quota share, property surplus share, property per risk excess, property and auto occurrence catastrophe, per occurrence excess casualty and umbrella, umbrella quota share, property catastrophe perils aggregates, property defined event aggregates, and all lines aggregates.

The following table provides a summary of the Company's largest cedants based on assumed premiums in 2013.



<u>Ceding Insurer</u>	<u>Gross Premiums Assumed (\$000)</u>	<u>Percentage</u>
North Carolina Farm Bureau Mutual Insurance Company	\$111,641	12.53%
Kentucky Farm Bureau Mutual Insurance Company	89,561	10.05%
United Farm Family Mutual Insurance Company	88,488	9.93%
Country Mutual Insurance Company	81,036	9.09%
Texas Farm Bureau Mutual Insurance Company	62,901	7.06%
Oklahoma Farm Bureau Mutual Insurance Company	51,156	5.74%
Tennessee Farmers Mutual Insurance Company	43,996	4.94%
Mississippi Farm Bureau Casualty Insurance Company	22,878	2.57%
Nodak Mutual Insurance Company	21,890	2.46%
Farm Bureau Mutual Ins. Company of Arkansas, Inc.	21,814	2.45%
Florida Farm Bureau Casualty Insurance Company	21,582	2.42%
Total assumed premium from significant cedants	\$616,943	69.23%
All other ceding insurers combined	274,191	30.77%
Total 2013 assumed premiums	\$891,134	100.00%

### **Retroceded Reinsurance**

The Company's retrocessional program principally includes aggregate excess of loss coverage for losses net of retrocessions under various catastrophe, property and casualty excess of loss agreements. The following significant retrocessional agreements were in place as of December 31, 2013:

#### Aggregate Excess of Loss

Effective January 1, 2013, the Company entered into a three year aggregate excess of loss contract with three retrocessionaires. The agreement essentially provided coverage in excess of a loss ratio between 83% to 85% with a maximum annual limit of \$51,000,000 and a maximum reimbursement of \$127,500,000 over the term of the three year contract. The agreement also provided for separate limits for losses resulting from asbestos, acts of terror, pandemic, loss in excess of policy limits, and extra-contractual obligations. The coverage provided under this agreement was net after the other retrocessional agreements described below. This agreement was commuted effective December 31, 2013 at 11:59:59 p.m. Central Standard Time.

#### Property Excess of Loss Retrocession Agreement

The Company entered into a Property Excess of Loss Retrocession Agreement effective January 1, 2013. This agreement primarily covered Farm Bureau Surplus Share and Per Risk treaties. The first layer provided coverage of 92% of \$7,000,000 for each risk in any one loss occurrence in excess of \$3,000,000 for each risk in any one loss occurrence. The second layer provided 100% coverage of \$10,000,000 for each risk in any one loss occurrence in excess of \$10,000,000 with a \$42,000,000 occurrence limit in any one calendar year.

### Casualty Excess of Loss Retrocession Agreement

This agreement was effective January 1, 2013, and covered Farm Bureau Excess Casualty and Umbrella Quota Share treaties. The first layer provided coverage of 90% of \$4,500,000 of ultimate net loss as respects any one loss occurrence in excess of \$2,500,000. The second layer provided 100% of \$23,000,000 of ultimate net loss as respects any one loss occurrence in excess of \$7,000,000. The agreement also provides for a \$19,000,000 limit in excess of the Company's retention of \$32,000,000 for liability and workers' compensation clash coverages.

### Commercial Umbrella Liability Retrocessional Excess of Loss Reinsurance Agreement

The Commercial Umbrella Liability Retrocessional Excess of Loss Reinsurance Agreement was effective January 1, 2013. The agreement limits losses to \$10,000,000 in excess of the Company's retention of \$5,000,000.

### Property Catastrophe Excess of Loss

Effective June 1, 2013, the Company entered into a Property Catastrophe Excess of Loss Reinsurance Contract with various retrocessionaires for property business assumed from Farm Bureau insurance companies under the first layer the Company cedes 85% of \$20,000,000 in excess of \$25,000,000. The contract provides for an extension until June 1, 2015, and the retrocessionaires' maximum liability is \$20,000,000 per any one loss occurrence and \$40,000,000 in aggregate. This agreement was commuted effective February 28, 2014 at 11:59:59 pm central standard time.

Effective June 1, 2013, the Company entered into two Property Catastrophe Excess of Loss Reinsurance Contracts with various retrocessionaires. Both contracts had coverage A and B, under coverage A, the Company retained \$45,000,000 and retroceded \$45,000,000, and under coverage B, the Company retained \$35,000,000 and retroceded \$10,000,000 after an annual aggregate deductible of \$10,000,000.

### Other Retrocessional Coverages

During 2013, the Company was covered under an Industry Loss Warranty Agreement whereby the Company would be indemnified for losses up to \$90,000,000 triggered by an industry loss of \$10 billion related to New Madrid earthquake risks.

The Company also retroceded pooled business produced by its Columbus office effective January 1, 2013 as follows:

- 29.900% cession on International Broker Assumed Pool
- 51.750% cession on Domestic Broker Assumed Catastrophe Pool
- 25.875% cession on Domestic Broker Assumed Per Risk Pool

In addition to the treaty coverage discussed above, the Company also purchased facultative reinsurance for both property and casualty business in amounts in excess of treaty limits, or for other special coverage arrangements.

## RESERVES

Malgorzata Timberg, FCAS, MAAA, an employee of American Agricultural Insurance Company, was

the Company's Appointed Actuary during the period under examination. Ms. Timberg was appointed by the Board of Directors of the Company during each of the years under examination to render an opinion on the reserves of the Company.

The scope of the opinion stated the Actuary examined the reserves as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials as of December 31, 2013. In forming the opinion information prepared by the Company was relied upon. The provided data was evaluated for reasonableness and consistency. The data was reconciled to Schedule P - Part 1 of the Company's Annual Statement as of December 31, 2013.

The 2013 opinion stated the reserve balances: 1) meet the requirements of the insurance laws of Indiana, 2) are computed in accordance with accepted actuarial standards and principals, and 3) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ended December 31, 2013, was agreed to the Annual Statement without exception.

The Company's independent auditors issued unqualified opinions on the Company's audited statutory statements for each year during the examination period. The audited financial statements were agreed to the Annual Statement for the year ended December 31, 2013, with no exceptions noted. All of the independent audit work papers were made available to the Examiners during the examination.

The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains adequate supporting work papers which were reviewed during the examination. From a review of the internal controls, it was determined that the Company's current information systems possess most of the physical and internal controls as prescribed by the NAIC.

Overall, the Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

**FINANCIAL EXHIBITS**

Comparative Exhibit – Statutory Statement of Assets  
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds  
Comparative Exhibit - Statutory Statement of Income  
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

**AMERICAN AGRICULTURAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Assets**

	As of December 31, 2013			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
<b>Assets:</b>				
Bonds	\$ 638,405,468	\$ -	\$ 638,405,468	\$ 484,395,658
Preferred stocks		-	-	-
Common stocks	127,172,407	-	127,172,407	103,512,962
Cash \$47,085,713, cash equivalents \$0 and short-term investments \$84,648,396	131,734,110	-	131,734,110	227,224,826
Derivatives	419,036	-	419,036	424,610
Other invested assets	15,999,779	-	15,999,779	8,380,731
Receivable for securities	53,834	-	53,834	-
Subtotals, cash and invested assets	\$ 913,784,634	\$ -	\$ 913,784,634	\$ 823,938,787
Investment income due and accrued	3,542,587	-	3,542,587	3,629,876
Uncollected premiums and agents' balances in the course of collection	102,156,745	-	102,156,745	67,757,879
Deferred premiums, agents' balances and installments booked but deferred and not yet due	7,900,245	-	7,900,245	9,412,301
Amounts recoverable from reinsurers	27,956,794	-	27,956,794	75,763,608
Funds held by or deposited with reinsured companies	13,961,735	-	13,961,735	21,911,829
Net deferred tax asset	23,679,999	-	23,679,999	37,047,244
Aggregate write-ins for other than invested assets	128,918	-	128,918	1,572,761
<b>Total Admitted Assets</b>	<b>\$ 1,093,111,657</b>	<b>\$ -</b>	<b>\$ 1,093,111,657</b>	<b>\$ 1,041,034,284</b>

**AMERICAN AGRICULTURAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus, and Other Funds**

	As of December 31, 2013			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Liabilities:</b>				
Losses	\$ 443,802,036	\$ -	\$ 443,802,036	\$ 374,045,749
Reinsurance payable on paid losses and loss adjustment expenses	30,844,546	-	30,844,546	60,345,917
Loss adjustment expenses	6,967,137	-	6,967,137	7,108,210
Other expenses	1,033,022	-	1,033,022	995,838
Current federal and foreign income taxes	121,655	-	121,655	-
Borrowed money	2,899,594	-	2,899,594	2,899,594
Unearned premiums	68,102,519	-	68,102,519	53,440,533
Dividends declared and unpaid: stockholders	1,011,693	-	1,011,693	1,011,693
Ceded premium payable (net of ceding commission)	27,194,070	-	27,194,070	40,223,648
Funds held by company under reinsurance treaties	16,219,904	-	16,219,904	56,468,929
Provision for reinsurance	426,000	-	426,000	293,000
Aggregate write-ins for liabilities	5,231,888	-	5,231,888	4,079,782
<b>Total Liabilities</b>	<b>\$ 603,854,064</b>	<b>\$ -</b>	<b>\$ 603,854,064</b>	<b>\$ 600,912,893</b>
Common capital stock	\$ 31,881,000	\$ -	\$ 31,881,000	\$ 31,881,000
Preferred capital stock	31,129,000	-	31,129,000	31,129,000
Surplus notes	77,322,498	-	77,322,498	77,322,498
Gross paid in and contributed surplus	13,385,086	-	13,385,086	13,385,086
Unassigned funds (surplus)	391,159,212	-	391,159,212	342,023,010
Treasury stock	(55,619,203)	-	(55,619,203)	(55,619,203)
<b>Surplus as Regards Policyholders</b>	<b>\$ 489,257,593</b>	<b>\$ -</b>	<b>\$ 489,257,593</b>	<b>\$ 440,121,391</b>
<b>Total Liabilities, Surplus, and Other Funds</b>	<b>\$ 1,093,111,657</b>	<b>\$ -</b>	<b>\$ 1,093,111,657</b>	<b>\$ 1,041,034,284</b>

**AMERICAN AGRICULTURAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Statement of Income**

	As of December 31, 2013			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Underwriting Income:</b>				
Premiums earned	\$ 327,575,217	\$ -	\$ 327,575,217	\$ 326,431,346
Losses incurred	\$ 232,024,164	\$ -	\$ 232,024,164	\$ 275,099,416
Loss adjustment expenses incurred	8,048,125	-	8,048,125	6,615,654
Other underwriting expenses incurred	57,117,386	-	57,117,386	42,884,918
Total underwriting deductions	\$ 297,189,675	\$ -	\$ 297,189,675	\$ 324,599,988
Net underwriting gain (loss)	\$ 30,385,542	\$ -	\$ 30,385,542	\$ 1,831,358
<b>Investment Income:</b>				
Net investment income earned	\$ 11,044,375	\$ -	\$ 11,044,375	\$ 8,855,803
Net realized capital gains (losses) less capital gains tax	10,976,663	-	10,976,663	2,224,491
Net investment gain	\$ 22,021,038	\$ -	\$ 22,021,038	\$ 11,080,294
Net income before dividends to policyholders after capital gains tax and before federal and foreign income taxes	\$ 50,521,624	\$ -	\$ 50,521,624	\$ 8,807,515
Net gain from operations after dividends to policyholders, after capital gains tax before all other federal and foreign income taxes	\$ 50,521,624	\$ -	\$ 50,521,624	\$ 8,807,515
Federal and foreign income taxes incurred	(4,788,857)	-	(4,788,857)	(1,197,803)
<b>Net Income</b>	<b>\$ 55,310,481</b>	<b>\$ -</b>	<b>\$ 55,310,481</b>	<b>\$ 10,005,318</b>

**AMERICAN AGRICULTURAL INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Account**

	As of December 31, 2013			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Capital and Surplus Account:</b>				
Surplus as regards policyholders, December 31, prior year	\$ 440,121,391	\$ -	\$ 440,121,391	\$ 430,179,486
Net income	\$ 55,310,481	\$ -	\$ 55,310,481	\$ 10,005,318
Change in net unrealized capital gains or (losses) less capital gains tax of \$5,306,324	9,854,603	-	9,854,603	5,258,916
Change in net unrealized foreign exchange capital gain (loss)	(3,280,568)	-	(3,280,568)	(378,154)
Change in net deferred income tax	(14,581,564)	-	(14,581,564)	(3,482,900)
Change in nonadmitted assets	7,570,263	-	7,570,263	521,110
Change in provision for reinsurance	(133,000)	-	(133,000)	41,000
Dividends to stockholders	(2,023,385)	-	(2,023,385)	(2,023,385)
Aggregate write-ins for gains and losses in surplus	(3,580,628)	-	(3,580,628)	-
<b>Change in surplus as regards policyholders for the year</b>	<b>\$ 49,136,202</b>	<b>\$ -</b>	<b>\$ 49,136,202</b>	<b>\$ 9,941,905</b>
<b>Surplus as regards policyholders, December 31, current year</b>	<b>\$ 489,257,593</b>	<b>\$ -</b>	<b>\$ 489,257,593</b>	<b>\$ 440,121,391</b>



**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., hereinafter collectively referred to as the "Examiners" performed an examination of the **American Agricultural Insurance Company** as of **December 31, 2013**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2013 NAIC *Financial Condition Examiners Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **American Agricultural Insurance Company** as of **December 31, 2013**, as determined by the undersigned.

\_\_\_\_\_  
**Patrick Huth, CFE**  
**The Thomas Consulting Group, Inc.**

State of:  
County of:

On this \_\_\_\_\_ day of \_\_\_\_\_, 2015, before me personally appeared, Patrick Huth, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

### **COMMENTS ON THE FINANCIAL STATEMENTS**

There were no recommended adjustments to surplus as of December 31, 2013, based on the results of this examination.

### **OTHER SIGNIFICANT FINDINGS**

There were no significant findings noted as a result of this examination.

### **SUBSEQUENT EVENTS**

There were no material events subsequent to the date of this report of examination.

### **MANAGEMENT REPRESENTATION**

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the Examiners.

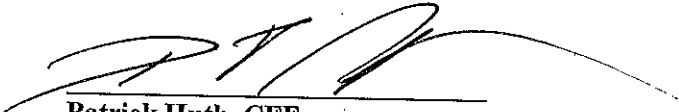
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**Patrick Huth, CFE**  
**The Thomas Consulting Group, Inc.**

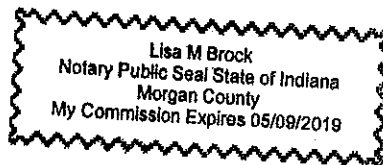
State of:  
County of:

On this 1st day of June, 2015, before me personally appeared, Patrick Huth, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires 5/9/2019

Lisa M Brock  
Notary Public



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