

CERTIFICATE

I, KEN SELZER, Commissioner of Insurance of Kansas, do hereby certify that the following and hereto attached is a true copy of

REPORT OF EXAMINATION

OF

BREMEN FARMERS MUTUAL INSURANCE COMPANY

201 BRENNEKE ST

BREMEN, KANSAS

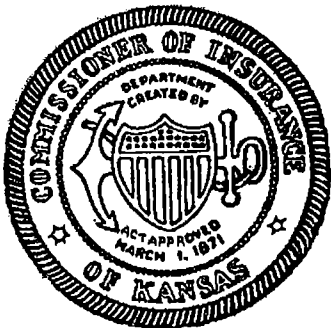
AS OF

DECEMBER 31, 2016

FILED
JAN 10 2019
KEN SELZER
Commissioner of Insurance

the original of which is now on file and a matter of record in this office.

In Witness Whereof, I, KEN SELZER, Commissioner of Insurance of Kansas, have hereto affixed by signature and the seal of the Commissioner of Insurance, in the city of Topeka, Kansas this 10th day of January, 2019.





Commissioner of Insurance

REPORT OF EXAMINATION
OF
BREMEN FARMERS MUTUAL INSURANCE COMPANY
201 BRENNEKE ST
BREMEN, KS 66412
AS OF
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Bremen, Kansas
November 10, 2018

Honorable Ken Selzer
Commissioner of Insurance
Kansas Insurance Department
420 SW 9th Street
Topeka, Kansas 66612-1678

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222 – *Examination of condition of company*, an examination has been conducted of the financial condition and business affairs of

**BREMEN FARMERS MUTUAL INSURANCE COMPANY
201 BRENNEKE ST.
BREMEN, KS 66412**

hereinafter referred to as the “Company” or “BFMIC”. The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a property and casualty single-state financial examination of Bremen Farmers Mutual Insurance Company. The last examination covered the four-year period from January 1, 2008 through December 31, 2011. This examination covers the four-year period from January 1, 2012, through December 31, 2016.

The examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department (KID) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook requires the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate

system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, *Examination of condition of company*, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Independent Audit Reports

Financial statements of the Company were audited by Summers, Spencer & Company, P.A. for the years ending December 31, 2012, through December 31, 2016. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the KID.

The independent auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during the course of this examination.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the course of the examination.

COMPANY HISTORY

The Company was first organized in 1878 as the Friendly Fire Society in Bremen, Kansas. The Company was incorporated and commenced business under the laws of the State of Kansas on March 26, 1888, to write fire, lightning and windstorm insurance coverage. Charter amendments expanded underwriting facilities to include loss or damage to buildings by hail in December 1940, and multiple lines in January 1951. In 1989, the Company amended its articles of incorporation to allow operation under K.S.A. 40-1201 – *Certification of authority: conditions for issuance.*

MANAGEMENT AND CONTROL

The Company's bylaws, as amended in 2007, consist of eleven articles that provide the framework for the operation, management and control of this domestic property and casualty insurance company. The Company is controlled by its policyholders and managed by a Board of Directors (Board). The elected Board will conduct the business of the Company. The Board shall consist of not less than five persons and no more than twenty-five persons. Board members are elected for a term of three years, and not more than one-third of the Board will be elected at any one annual meeting. Any vacancy on the Board will be filled by the remaining members until the next annual meeting of the policyholders, at which time a successor will be elected to fill the unexpired term.

The annual policyholder's (Members) meeting of the Company will be held on the fourth Tuesday in January at the Company's principal office. Members present or by a written proxy at the annual meeting or any special meeting will constitute a quorum.

Director nominations for the Board will be made in writing and filed with the secretary of the company at least forty days prior to the annual meeting. Policyholders are entitled to as many votes as there are Board members to be elected.

Subsequent to the retirement of Gary Holle, Curtis Holle (no relation) was nominated and elected by the Board as Company President effective January 1, 2013. Gary Holle retained the position of Chairman of the Board of Directors. Vicki Ryser was nominated and elected Secretary, replacing Curtis Holle. In 2014, Curtis Holle was nominated and elected Treasurer of the Company replacing Wayne Friedrichs.

The Board will, within five days after the annual meeting, elect a company President, Vice-President(s), Secretary, Treasurer, Chairman of the Board and an executive committee consisting of four board members. An assistant secretary may also be elected.

Directors

The table below contains a listing of the directors, officers committee assignments and term expirations as of December 31, 2016.

Name	Board/Officer Role	Audit Committee	Executive Committee	Term - January Ending
Gary Lee Holle	Chairman, Prior President	Yes	Yes	2017
Curtis James Holle	Director, President, Treasurer	Yes	Yes	2018
Wayne Dean Friedrichs	Director, Prior-Prior President	Yes	Yes	2018
Steven Wayne Meier	Director, VP, Claims Manager	Yes	Yes	2019
Kirk Charles Bradford	Director, N/A	No	No	2018
Timothy Kevin Davis	Director, N/A	No	No	2017
Alan Wilbur Bruna	Director, N/A	No	No	2019
Vicki Ellen Ryser	N/A, Secretary	No	No	N/A

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Company is authorized to transact business in Kansas. The NAIC Schedule T Exceptions Report was reviewed for the states of Kansas where the Company is licensed. No exceptions were noted.

As of December 31, 2016, the Company's largest lines of business were farm owners multiple peril at 40.6%, homeowners multiple peril at 39.8% of direct premiums written and allied lines at 14.1%. The remaining 5.7% represented fire, inland marine and other liability business. The Company utilizes independent agents to sell its insurance products. The Company is aware of the risk of geographical concentration and monitors this risk.

GROWTH OF COMPANY

The exhibit below shows the Company's financial growth (in thousands) for the period of December 31, 2012, through December 31, 2016. The financial growth amounts were obtained from annual statements filed by the Company.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<i>(in thousands)</i>					
Admitted Assets	28,460	31,861	36,676	39,754	43,998
Liabilities	17,073	19,098	21,995	22,482	22,992
Capital and Surplus	11,388	12,762	14,681	17,271	21,007
Net Underwriting Gain/(Loss)	(902)	138	1,108	2,514	4,402
Net Income	162	818	1,390	2,501	3,930
Net Premiums Written	18,751	21,790	24,441	25,172	25,876

REINSURANCE

BFMIC cedes business to the reinsurers in all of its lines retaining approximately 80% of its premium. The Company uses its ceded reinsurance program to reduce its exposure from catastrophic losses but does not have a quota share provision in its reinsurance. Annually, the reinsurance program is reviewed by management and their reinsurance

intermediary, Willis Re. The review ensures that the reinsurance agreements are updated annually to reflect changing retentions, language and coverage.

All reinsurance agreements reviewed during the course of the examination contained insolvency and cancellation clauses as required by paragraph (c) of K.S.A. 40-221a–*Reinsurance of risks of and by Kansas companies*. All reinsurance agreements reviewed provided for the transfer of risk.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Kansas Insurance Department and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

BREMEN FARMERS MUTUAL INSURANCE COMPANY
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2016

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 35,710,890	\$ -	\$ 35,710,890
Preferred stocks	-	-	-
Common stocks	32,739	-	32,739
Real estate - occupied by company	116,386	-	116,386
Cash and short-term investments	1,919,076	-	1,919,076
Other invested assets	-	-	-
Receivable for securities	-	-	-
Investment income due & accrued	256,339	-	256,339
Uncollected premiums and agents' balances in the course of collection	35,073	-	35,073
installments booked but deferred and not yet due	4,490,880	-	4,490,880
Amounts recoverable from reinsurers	269,385	-	269,385
Current federal and foreign income tax recoverable	(342)	-	(342)
Net deferred tax asset	1,160,875	-	1,160,875
EDP equipment and software	518,742	512,415	6,327
Furniture and equipment	28,345	28,345	-
Aggregate write-ins for other than invested assets	521	-	521
Totals	\$ 44,538,909	\$ 540,760	\$ 43,998,149

BREMEN FARMERS MUTUAL INSURANCE COMPANY
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2016

Losses	3,119,079
Loss adjustment expense	206,778
Commissions payable on paid losses and loss adjustment expenses	587,394
Other expenses	226,988
Taxes, licenses and fees	192,867
Current federal and foreign income taxes	1,745,349
Unearned premiums	16,615,612
Ceded reinsurance premiums payable	248,511
Funds held by company under reinsurance treaties	49,000
Total liabilities	<u>22,991,578</u>
Unassigned funds	-
Surplus as regards policyholders	<u>21,006,571</u>
Totals	<u><u>43,998,149</u></u>

**BREMEN FARMERS MUTUAL INSURANCE COMPANY
STATEMENT OF OPERATIONS
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2016**

UNDERWRITING INCOME:

Premiums earned \$ 25,675,201

DEDUCTIONS:

Losses incurred 12,492,165

Loss expenses incurred 1,231,078

Other underwriting expenses incurred 7,549,946

Total underwriting deductions 21,273,189

Net underwriting gain or (loss) 4,402,012

INVESTMENT INCOME:

Net investment income earned 756,703

Net realized capital gains or (losses) 9,052

Net investment gain or (loss) 765,755

OTHER INCOME:

Net gain (loss) from agents' or premium balances charged off -

Finance and service charges not included in premiums 494,882

Aggregate write-ins for miscellaneous income 12,441

Total other income 507,323

Net income after dividends to policyholders and before federal income taxes 5,675,090

Federal income taxes incurred 1,745,349

Net income \$ 3,929,741

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012 \$ 17,271,357

Net income 3,929,741

Change in net unrealized capital gains (losses) (109)

Change in net deferred income tax -

Change in nonadmitted assets (194,418)

Change in provision for reinsurance -

Aggregate write-ins for gains and losses in surplus -

Change in surplus as regards policyholders for the year 3,735,214

Surplus as regards policyholders, December 31, 2013 \$ 21,006,571

**BREMEN FARMERS MUTUAL INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2011			<u>\$ 11,108,647</u>
Net income	2012	161,959	
	2013	817,772	
	2014	1,389,933	
	2015	2,500,767	
	2016	<u>3,929,741</u>	8,800,172
Change in net unrealized capital gains or (losses)	2012	551 *	
	2013	1,870	
	2014	3,949	
	2015	1,342 *	
	2016	<u>(109)</u>	7,603
Change in nonadmitted assets	2012	116,527	
	2013	555,003	
	2014	525,149	
	2015	87,888	
	2016	<u>(194,418)</u>	1,090,149
Surplus as regards policyholders, December 31, 2016			<u>\$ 21,006,571</u>

**Adjustments were made for rounding by increasing the balance \$1*

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company, as of December 31, 2016, was \$21,006,571, which was the same amount, reported by the Company in its 2016 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in the Report on Examination.

SUBSEQUENT EVENTS

As a subsequent event, the Company has a new investment manager, BOK Financial as of April 24, 2018. The Company established and approved an investment policy as of July 24, 2018.

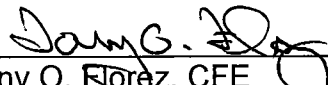
SUMMARY OF RECOMMENDATIONS

None.

CONCLUSION

The assistance and cooperation by the officers and employees of the Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Mr. Thomas Burlingham and Mr. Shane Mead, CISA, CRISC, an information technology examiner representing the Kansas Insurance Department, participated in this examination.

Respectfully submitted,



Tony O. Flores, CFE
Senior Insurance Examiner
Examiner-in-Charge

EXHIBIT 5
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Kansas

County of Shawnee

Tony O. Florez being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Bremen Farmers Mutual Insurance Company.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Bremen Farmers Mutual Insurance Company was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Tony O. Florez
Examiner's Signature

Subscribed and sworn before me by _____ on this
11 day of December, 2018.

(SEAL) 

Dale Hubbell
Notary Public

My commission expires 3/9/2019
(date)