

REPORT ON EXAMINATION AS TO THE CONDITION OF

**FARMERS MUTUAL FIRE INSURANCE COMPANY
OF SALEM COUNTY**

SALEM, NEW JERSEY 08079

AS AT DECEMBER 31, 2006

N.A.I.C. GROUP CODE 0000

N.A.I.C. COMPANY CODE 13854

F I L E D

June 20th, 2008

**COMMISSIONER
NJ DEPT OF BANKING & INSURANCE**

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
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JON S. CORZINE
Governor

STEVEN M. GOLDMAN
Commissioner

June 17, 2008

Honorable Steven M. Goldman
Commissioner of Banking and Insurance
State of New Jersey
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

Farmers Mutual Fire Insurance Company of Salem County
SALEM, NEW JERSEY
N.A.I.C. GROUP CODE 0000
N.A.I.C. COMPANY CODE 13854

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the Farmers Mutual Fire Insurance Company of Salem County will be referred to in this report as the "Company" or "Farmers Mutual".

SCOPE OF EXAMINATION

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.

The examination was made as at December 31, 2006, and addressed the four-year period from December 31, 2002, the date of the last Financial Condition Examination. During this four-year period under examination, the Company's assets increased from \$60,936,786 to \$90,219,533. Liabilities increased from \$43,906,257 to \$62,217,804 and its surplus to policyholders increased from \$17,030,529 to \$28,001,729.

The conduct of the examination was governed by the procedures outlined in the NAIC Financial Condition Examiners Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance company examination standards.

In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control, the nature and size of each account, its relative importance to solvency, and the results of the analytical reviews performed within the New Jersey Department of Banking and Insurance.

The material accounts specific to the Company are Losses and Loss Adjustment Expenses, Unearned Premiums, Uncollected Premiums, Investments and Reinsurance. We have assessed the following emphasis level for these accounts:

Loss and Loss Adjustment Expenses	High
Unearned Premiums	High
Uncollected Premiums	High
Investments	High
Reinsurance	High

All other accounts were determined to have low control risk. Other areas reviewed during this examination included:

- History and Kind of Business
- Management and Control
- Territory and Plan of Operation
- Accounts and Records
- Employees' Welfare and Pension Plans
- Fidelity Bond and Other Insurance Coverages
- Treatment of Policyholders
- Continuity of Operations

The control risk level will ultimately determine the amount of emphasis placed on each account. Based on our review of Exhibit B, discussions with the Department's EDP Consultant concerning the completion of Exhibit C by the Company, the cycle questions and verification of Company responses to these questions on a test basis, the intended reliance on the Company's control environment has been determined to be low.

The examination report, contained herein, will address significant balance sheet accounts and, if necessary, comments on those accounts which involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

Reinsurance

2002 Examination Recommendation

It is recommended that the Company put together a better procedure to organize the process of updating its reinsurance agreements each year.

Company Response

The Company's is putting together a new log-in tracking procedure in the next year to allow the Company to better coordinate the reinsurance agreements and correspondences in the future. The Company also plans to create reinsurance summaries for each year.

2006 Examination Findings

The Company did comply with this recommendation.

Policy on Conflict of Interest

2002 Examination Recommendation

It is recommended that the Company establish a formal conflict of interest policy on Company letterhead that clearly outlines who is to complete the questionnaire, and the time frame in which the questionnaire is to be completed. The policy should require employees to disclose and report any possible conflict of interest to the Board of Directors, as soon as the situation occurs and also require presentation of executed conflict of interest questionnaires to the Board of Directors.

Company's Response

The Company currently conducts an annual conflict of interest questionnaire for Officers and Directors. The Company will work with the Board of Directors to establish a formal conflict of interest policy.

2006 Examination Review

The Company has established a formal conflict of interest policy.

Fidelity Bonds and Other Insurance Coverages

2002 Examination Report Recommendation

In the review of the Fidelity Bond, it was determined by this examination that the Fidelity Bond did not name the Company's affiliates as part of its fidelity bond. It is recommended that Farmers Mutual amend its fidelity bond to include all of its affiliates.

Company's Response

By year-end, we will review the Parent company's Fidelity Bond and look to amend it to include all of its affiliates as part of its coverage.

2006 Examination Review

The Company no longer has an insurance company affiliate since the Company sold Salem Insurance Company. The Company's only affiliate is Salem Oak Agency, Inc. which is a non-insurance entity. Since Salem Oak Agency, Inc. has its own Directors and Officers Liability Insurance Coverage and since Farmers Mutual manage the operations of Salem Oak Agency, Inc. through the Management Agreement, the Company complied with this recommendation.

Continuity of Operations

2002 Examination Report Recommendation

The Company does not have a Business Continuity Plan. It is recommended that the Company implement a Business Continuity Plan.

Company's Response

Farmer Mutual does not have a formal written Business Continuity Plan. The Company does have a disaster recovery plan documented, but will work on putting together a formal Business Continuity Plan.

2006 Examination Review

The Company has not complied with this recommendation. Please see recommendation in the forepart section titled Continuity of Operations.

Bonds

2002 Examination Recommendation

Upon review of this asset, the Company held bonds which had not been filed with and valued by the Securities Valuation Office (SVO). It is recommended the Company file all securities with the Securities Valuation Office in order to comply with NAIC Valuation of Securities procedures which are set forth in the Valuation of Securities manual.

Company Response

All of the Company's Bonds are currently filed with the SVO or are exempt since they are rated by at least one Nationally Recognized Statistical Rating Organization (NRSRO).

2006 Examination Findings

The Company did comply with this recommendation.

Taxes, Licenses and Fees

2002 Examination Recommendation

It is recommended by this examination that the Company file another exemption for assessment of the NJ FAIRA.

Company Response

The examiner noted that Farmers Mutual did not take down the accrual for the 1997 FAIRA assessment, which is exempted pursuant to N.J.S.A. 11:2-35. The Company since has taken down the accrual for the 1997 FAIRA assessment. The Company has sent a letter to the Department confirming the take down of the accrual.

2006 Examination Findings

The Company did comply with this recommendation.

Funds Held by Company Under Reinsurance Treaties

2002 Examination Recommendation

It is recommended that the Company properly identify its funds held reinsurer as Northeastern Insurance Company of Hartford in future annual statements.

Company Response

Farmers Mutual had three thousand dollars of funds held listed on the wrong line of Schedule F of the Annual Statement and that the reinsurer was no longer on the Company's treaties. The Company will correct this by year-end 2004.

2006 Examination Findings

The Company did comply with this recommendation.

2002 Examination Recommendation

It is recommended that the Company return its funds held under reinsurance treaties to Northeastern Insurance Company of Hartford.

Company Response

Farmers Mutual had three thousand dollars of funds held listed on the wrong line of Schedule F of the Annual Statement and that the reinsurer was no longer on the Company's treaties. The Company will correct this by year-end 2004.

2006 Examination Findings

The Company did comply with this recommendation.

HISTORY AND KIND OF BUSINESS

The Farmers' Mutual Fire Insurance Company of Salem County was incorporated under a special act of the New Jersey State Legislature on March 6, 1851 and commenced business on that date.

At December 31, 1994, the Company was authorized under N.J.S.A. 17:17-1 to write the following lines of business: "a", "b", "d", "i", "j", "k", "l", "m", "n" and "o-1". An amendment noted the Company's desire to write only lines: "a", "b", "e", "j", "k", "l" and "o-1".

On July 26, 1995, the Certificate of Incorporation was amended to include Paragraph "o-3" (Mechanical Breakdown).

In 1998, the Company was affiliated with the Mutual Service Office for the Commercial Automobile Line of Business in the State of New Jersey. The Company explained in their Plan of Operation that their marketing effort will be directed toward retail store, servicing and installation, small contractor, church vehicles, and private passenger type owned by a business.

The Company's Charter and Certificate of Authority have been amended numerous times since incorporation.

At December 31, 2006, the Certificate of Authority authorized the Company under N.J.S.A. 17:17-1 to write the following lines of business: "a", "b", "e", "j", "k", "l", "o-1" and "o-3".

On January 10, 2005, the Company sold its affiliate - Salem Insurance Company - to C.B.I.P. Management, Inc. As part of the sale, the Company had to initiate the following closing documents with Salem Insurance Company:

1. Commutation and Release Agreement between Salem Insurance Company and Farmers Mutual Fire Insurance Company of Salem County with Salem Insurance Company being the Reinsurer.
2. Commutation and Release Agreement between Salem Insurance Company and Farmers Mutual Fire Insurance Company of Salem County with Farmers Mutual Fire Insurance Company of Salem County being the Reinsurer.
3. Loss Portfolio Transfer Reinsurance Contract issued to Salem Insurance Company by Farmers Mutual Fire Insurance Company of Salem County.
4. Indemnity Agreement between Salem Insurance Company and Farmers Mutual Fire Insurance Company of Salem County.

The Company entered into a Stock Purchase Agreement with C.B.I.P. Management, Inc. (CBIP). This agreement allowed CBIP to purchase from Farmers Mutual Fire Insurance Company of Salem County the issued and outstanding shares of Salem Insurance Company which Farmers Mutual owns.

CBIP shall purchase from Farmers Mutual the shares for an Aggregate Purchase Price of \$5,500,000 on the Closing Date. The \$5,500,000 shall be payable as follows:

- \$3,100,000 due on the Closing Date.
- Four annual payments of \$600,000 totaling \$2,400,000 due one year after the closing date.

The Effective Date and the Closing Date of the Stock Purchase Agreement is January 10, 2005, the same date as the official sale of Salem Insurance Company to CBIP.

On July 28, 2006, the Company signed a Share Delivery Agreement between the Company, C.B.I.P. Management, Inc. (CBIP) and Progressive Direct Holdings, Inc. (Progressive). The Agreement states that Progressive will pay to Farmers Mutual the remaining outstanding balance of \$2,400,000 which CBIP owed from the original purchase of the issued and outstanding shares of Salem Insurance Company that Farmers Mutual owned per the Stock Purchase Agreement.

The Company entered into an Escrow Agreement on November 29, 2006 with C.B.I.P. Management Inc. (CBIP), Salem Insurance Company, Inc. (Salem), Progressive Direct Holdings, Inc. (Progressive) and Duane Morris LLP. This Escrow Agreement engaged Duane Morris LLP as an Escrow Agent for the purposes of facilitating the exchanges and transactions described in the Share Delivery Agreement and certain other exchanges and transactions relating to the purchase by Progressive of all of the issued and outstanding common shares of Salem from CBIP.

The Company is a domestic mutual insurer.

The principal office of the Company is located at 125 West Broadway, Salem, New Jersey 08079. The agent in charge upon whom process may be served is Mr. Kent W. Jones, President of the Company.

STATUTORY DEPOSIT

The Company maintains a \$150,000 total par value US Treasury Note with the Commissioner of Banking and Insurance of the State of New Jersey for the benefit and security of the policyholders of Farmers Mutual Fire Insurance Company of Salem County.

TERRITORY AND PLAN OF OPERATION

At December 31, 2006, the Company is licensed and authorized to transact business in New Jersey, Maryland and Delaware. The Company conducts business actively in New Jersey

and Maryland. The New Jersey personal lines of business offerings are homeowners, combination dwelling and personal umbrella. The commercial lines of business offerings are business owner policy, specialty contractors, commercial auto, commercial multiple peril, other liability, fire, workers compensation and commercial umbrella.

The Company began underwriting in Maryland in December of 2005. The Company offers all of the above products other than commercial multiple peril and workers compensation. The commercial multiple perils are in the developmental stage.

All underwriting, accounting and administrative business is conducted from the Company's office located at 125 West Broadway, Salem, New Jersey 08079. The company employs approximately 46 full and part time employees.

The Company has approximately 160 New Jersey agents and 34 Maryland agents and all marketing efforts are directed through its agency force.

A summary of gross premiums written over the past four years is summarized below:

<u>Year</u>	<u>Gross Direct Premiums Written</u>
2003	\$42,952,358
2004	\$44,290,246
2005	\$45,059,852
2006	\$43,103,667

Gross premiums written in 2006 were allocated among the following lines of business:

<u>Line of Business Written</u>	<u>Gross Direct Premiums Written</u>
Fire	1,617,305
Allied Lines	838,274
Homeowners Multiple Peril	20,774,834
Commercial Multiple Peril	9,708,862
Inland Marine	872,469
Workers Compensation	1,908,755
Other Liability-Occurrence	2,577,163
Commercial Auto Liability	3,523,571
Auto Physical Damage	665,509
Product Liability- Occurrence	35,689
Burglary and Theft	1,659
Boiler and Machinery	579,577

Farmers Mutual Fire Insurance Company of Salem County maintains various service agreements with vendors who are not affiliated with the Company. These include the following:

- **Master (Claims Handling for Commercial Auto LOB) Service Agreement** - This agreement, entered into on October 27, 2005, outlines the business arrangement between the Company and Claims Management Resources, LLC. (CMR), a Pennsylvania corporation, with providing certain services with respect to the claims handling of commercial auto insurance claims. Under the terms of this agreement, CMR agrees to provide full claims handling for the commercial auto LOB as outlined within the agreement to the insurer.
- **Recovery Services Agreement** - This agreement, entered into on July 6, 2005, between Recovery Networks, Inc. and Farmers Mutual, allows for the Backup Net Services of Recovery Networks, Inc. with a 288 GB server for Live Backup Application. This agreement also allows for the Recovery Networks, Inc. On Call restoration service of the Company's data.
- **Non Custody Investment Agency Agreement** - This agreement, dated September 1, 1993, between Farmers Mutual Fire Insurance Company and Wilmington Trust Company where the Company has transferred their securities to a financial institution of New Jersey but the Company retains the investment management services of Wilmington Trust Company.
- **Asset Management Client Agreement** - This agreement, entered into on October 2, 2002, between Farmers Mutual and A.G. Edwards maintains an asset management client agreement by the Company with A.G. Edwards. In this agreement, the Company requests that A.G. Edwards to act as investment advisor and to direct and manage the investment of all property and assets in the Company's investment account such as direction of investment transactions, purchases of securities, sales of securities and other related services.
- **System and Program Purchase Agreement** - This agreement, dated August 7, 2006, between Farmers Mutual and Creditron Corporation allows for the Company to use the Creditron Scanning System to issue checks.

Farmers Mutual conducts its everyday business operations from its statutory home and main administrative office located at 125 West Broadway, Salem, New Jersey 08079. These operations include underwriting and claims handling, among others. The Company uses independent adjusters to physically inspect all claims for property damage, with few exceptions. The independent adjusters, in turn, report to an in-house staff adjuster, who reviews their report to confirm that coverage is being properly interpreted, and a pro-active approach is taken to settle the claim. Each in-house staff adjuster has an authority limit. All payments over the adjuster's authority level are approved by management. In addition, if the claim reserve is over their authority level; or if the claim involves unusual circumstances; or if suit is filed; a manager reviews the file regularly to confirm that proper procedures are being followed. All denial letters are also approved by management, to ensure that claims are not being improperly denied.

Farmers Mutual also uses independent adjusters to investigate all liability claims, with few exceptions. The independent adjusters will report to an in-house adjuster, who ensures proper coverage interpretation, and directs the course of the investigation when necessary.

At the March 2, 2006 organizational meeting, the following officers were elected and serving at December 31, 2006:

William C. DeCinque	Chairman of the Board
John Burke	Vice Chairman
Kent W. Jones	President
James R. Doherty	Vice President and Treasurer
Georgianna Anderson	Vice President-Underwriting
William C. Horner	Secretary
Jeanette M. Gerlack	Assistant Secretary

All directors were outside directors, therefore, the Company was determined to be in compliance with N.J.S.A. 17:27A-4(d)(3). All transactions, including the approval of investments, were approved by the Board of Directors. The previous examination report was read and approved by the Board on July 28, 2004.

Committees

The by-laws state that the Chairman of the Board shall appoint an Executive Committee and may appoint such other committees as is deemed expedient. Each committee shall consist of two or more directors of the Corporation. The following Committees were appointed and serving at December 31, 2006:

Executive Committee

William C. DeCinque, Chairman
William C. Hancock, Jr.
William C. Horner

Budget and Auditing Committee

Robert R. McHarness, Chairman
Robert E. Swartz
John D. Burke

Planning Committee

William C. Hancock, Jr., Chairman
William C. Horner
Lee C. Williams, Jr.

Finance/Investment Committee

Robert E. Swartz, Chairman
Robert R. McHarness
William C. Hancock

of office of Directors shall be three years or until their successors have been elected. A majority of the whole number of Directors shall constitute a quorum for the transaction of business and a majority vote of the quorum shall be sufficient to take Board action. The Chairman of the Board shall appoint an Executive Committee and may appoint such other committees as is deemed expedient. Each Committee shall consist of two or more Directors of the Corporation.

A review of the minutes of the Board of Directors indicated that transactions and events of the Company overall are adequately approved and supported.

MANAGEMENT AND CONTROL

Annual policyholder meetings are held on the first Thursday in March, each year. Directors are appointed at this time to serve three year terms or until their successors are elected. A majority of the whole number of Directors shall constitute a quorum for the transactions of the business.

The By-laws provide that the affairs, property and concerns of the Corporation shall be managed and conducted by a Board of not less than seven nor more than eleven directors, each of whom must be a policyholder of the Corporation.

The following were the Directors of the Company as of December 31, 2006:

<u>Director</u>	<u>Address</u>	<u>Occupation</u>
William C. DeCinque	691 Route 45 Salem, NJ 08079	Retired
William C. Hancock, Jr.	373 Route 45 Salem, NJ 08079	Retired
William C. Horner	67 Market Street Salem, NJ 08079	Attorney
Lee C. Williams, Jr.	319 Sharptown-Auburn Rd. Pilesgrove, NJ 08079	Farmers Exchange Owner
Robert R. McHarness	53 Main Street Woodstown, NJ 08098	Retired
Robert Swartz	P.O. Box 548 Egg Harbor Twp., NJ 08234	Accountant
John D. Burke	43 Bittenwood Dr. Pilesgrove, NJ 08079	Title Company Owner

At the March 7, 2002 organizational meeting, the following officers were elected and serving at December 31, 2002:

William C. DeCinque	Chairman of the Board
John Burke	Vice Chairman
Kent W. Jones	President
James R. Doherty	Vice President and Treasurer
Georgianna Anderson	Vice President-Underwriting
William C. Horner	Secretary
Jeanette M. Gerlack	Assistant Secretary

All directors were outside directors, therefore, the Company was determined to be in compliance with N.J.S.A. 17:27A-4(d)(3). All transactions, including the approval of investments, were approved by the Board of Directors. The previous examination report was read and approved by the Board on July 28, 2004.

Committees

The by-laws state that the Chairman of the Board shall appoint an Executive Committee and may appoint such other committees as is deemed expedient. Each committee shall consist of two or more directors of the Corporation. The following Committees were appointed and serving at December 31, 2006:

Executive Committee

William C. DeCinque, Chairman
William C. Hancock, Jr.
William C. Horner

Budget and Auditing Committee

Robert R. McHarness, Chairman
Robert E. Swartz
John D. Burke

Planning Committee

William C. Hancock, Jr., Chairman
William C. Horner
Lee C. Williams, Jr.

Finance/Investment Committee

Robert E. Swartz, Chairman
Robert R. McHarness
William C. Hancock

Employee Policy, Compensation & Benefits Committee

John D. Burke, Chairman
Lee C. Williams, Jr.
William C. Horner

Executive Committee recommends the perks of the management, evaluates the management and proposes the nominations to the Board of Directors.

The Budget and Audit Committee recommends appointment of the independent auditor, meets with the independent auditor, reviews proposed budgets with management, along with other duties in accordance with N.J.S.A. 17:27A-4(d)(4).

The Planning Committee is responsible for reviewing the status of the Company within the industry and for recommending strategic initiatives to improve its competitive position.

The Finance/Investment Committee is responsible for the prudent management and investment of Company assets.

REINSURANCE

The Company's reinsurance program is managed through Guy Carpenter and Company, Inc. of Philadelphia, PA., a licensed reinsurance intermediary pursuant to N.J.S.A. 17:22E-2.

Each year a reinsurance program is offered that either results in the updating of previously executed contracts or new contracts being issued.

The Company was the named party to these reinsurance treaties in effect at December 31, 2006:

Casualty (Liability) Program

- Casualty First Excess of Loss Reinsurance

Covering: Workers' Compensation and Employers Liability

Coverage: \$300,000 in excess of \$200,000 ultimate net loss, each loss occurrence.

Covering: In respect of all other business reinsured hereunder:

Coverage: \$800,000 in excess of \$200,000 ultimate net loss, each loss occurrence.

Contingent Commission: 25% after 25% reinsurer's expense on a two-year block basis. First adjustment one year after close of period. Period commencing on January 1, 2005 and ending January 1, 2007.

- **Casualty Second Excess of Loss Reinsurance**

Covering: All Casualty Lines

Coverage: \$2,000,000 in excess of \$1,000,000 ultimate net loss, each loss occurrence.

Workers Compensation Program

- **First and Second Workers Compensation**

Covering: Workers Compensation

Coverage: \$500,000 in excess of \$5,000,000 ultimate net loss, each loss occurrence.

- **Third and Fourth Workers Compensation**

Covering: Workers Compensation

Coverage: \$5,000,000 in excess of \$20,000,000 ultimate net loss, each loss occurrence.

Umbrella Program

- **Personal Umbrella Liability Program**

Covering: Personal (non-business) liability of individuals, particularly businesspersons, executives and professional men and women.

Coverage: Up to 95% of the first \$1,000,000 and 100% of the remaining \$4,000,000, for a total coverage of \$5,000,000.

Retention: Minimum retention of 5% of first \$1,000,000 of coverage, with higher retentions available.

- **Farm Umbrella Liability Program**

Covering: Above average, owner occupied farming operations.

Coverage: Up to 95% of the first \$1,000,000 and 100% of the remaining \$4,000,000, for a total coverage of \$5,000,000.

Retention: Minimum retention of 5% of first \$1,000,000 of coverage, with higher retentions available.

- **Commercial Umbrella Liability Program**

Covering: **Liability needs of the Business Community for small to medium sized risks.**

Coverage: **Up to 95% of the first \$1,000,000 and 100% of \$2,000,000 in excess of \$1,000,000.**

Retention: **Minimum retention of 5% of first \$1,000,000 of coverage, with higher retentions available.**

Property Program

- **First Property Per Risk Excess of Loss Reinsurance**

Covering: **All Property Lines.**

Coverage: **\$300,000 in excess of \$200,000 ultimate net loss, each loss, each risk.**

Occurrence Limit: **\$900,000 any one loss occurrence**

- **Second Property Per Risk Excess of Loss Reinsurance**

Covering: **All Property Lines.**

Coverage: **\$500,000 in excess of \$500,000 ultimate net loss, each loss, each risk.**

Occurrence Limit: **\$1,500,000 any one loss occurrence.**

- **Third Property Per Risk Excess of Loss Reinsurance**

Covering: **All Property Lines.**

Coverage: **\$3,000,000 in excess of \$1,000,000 ultimate net loss, each loss, each risk.**

Occurrence Limit: **\$9,000,000 any one loss occurrence.**

- **Multiple Line Facultative Binding Authority Reinsurance**

Covering: Fire and Allied Lines, Inland Marine, Multiple Lines (Section I only)

Coverage: Three and one third times the net retained liability of the Company and shall be subject to a maximum amount of \$500,000.

Retention: Minimum retention of \$2,500 as respects to any one risk.

- **Property Catastrophe Excess of Loss**

Covering: Covering Property Line, excluding Auto Physical Damage.

<u>Layer</u>	<u>Coverage</u>
1 st	100% of \$1,000,000 in excess of \$1,000,000
2 nd	100% of \$3,000,000 in excess of \$2,000,000
3 rd	100% of \$5,000,000 in excess of \$5,000,000
4 th	100% of \$10,000,000 in excess of \$10,000,000
5 th	100% of \$26,500,000 in excess of \$20,000,000

- **Quota Share Reinsurance Boiler and Machinery Insurance Agreement**

Covering: Boiler and Machinery

Limits: \$15,000,000 on any one risk per cession.

It was determined by this examination that this reinsurance agreement still had Salem Insurance Company as a ceding reinsurer on this contract even though Salem Insurance Company was sold to C.B.I.P. Management, Inc. in January of 2005. It is recommended by this examination that the Company amend its quota share reinsurance boiler and machinery insurance agreement to remove Salem Insurance Company from this agreement.

The Company is also a member of the following mandatory pools:

1. National Council on Compensation Insurance
2. New Jersey Fair Plan
3. AIPSO / NJ CAIP

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

As at December 31, 2006, the Company was a member of an Insurance Holding Company System in accordance with N.J.S.A. 17:27A. An organizational chart of this system follows:



At December 31, 2006, the Company's Schedule Y – Part 1 – Organizational Chart did not reflect its affiliate Salem Financial Corporation as defined in N.J.S.A. 17:27A-1a. It is recommended by this examination that the Company disclose all affiliates on Schedule Y – Part 1 – Organizational Chart in future annual statements in accordance with N.J.S.A. 17:27A-1a.

A review indicated that the holding company filings were made for the period under examination by Farmers Mutual Fire Insurance Company of Salem County as registrant to the requirements and standards under N.J.S.A. 17:27A-3.

INTER-COMPANY AGREEMENTS

The Company had the following Inter-Company Agreements as of December 31, 2006:

Federal Income Tax Sharing Agreement

The agreement is between Farmers Mutual Fire Insurance Company of Salem County (Company) and its subsidiaries, Salem Financial Corporation and Salem Oak Agency, Inc. dated January 11, 2005. The Agreement defines the method by which the federal income tax liability is to be allocated between the parties and the manner in which such allocated liability will be paid. The allocation of taxes is based upon separate tax returns with current credit for net losses. Payments with respects to such taxable year shall be made as follows: At the end of each taxable year to which the Company files their Consolidated return which includes all subsidiaries, a) it is determined that the actual Separate Tax Liability or Additional Amount for such taxable period exceeds the aggregate amount of any deposits paid for that tax year, then such excess shall be paid on or before the later of (i) the 15th day of the third month after the end of such taxable period and (ii) the date on which such excess is finally determined, which shall be not later than 60 days after the Consolidated Return for such taxable period is filed b) it is determined that the actual deposit paid for such taxable period exceeds the actual Separate Tax Liability or Additional Amount for such taxable

period, then such excess shall be paid on or before the later of (i) the 15th day of the third month after the end of such taxable period and (ii) the date on which such excess is finally determined, which shall be not later than 60 days after the Consolidated Return for such taxable period is filed.

Upon review of the Tax Sharing Agreement between the Company and its subsidiaries, Salem Financial Corporation and Salem Oak Agency, Inc., it was determined by this examination that the Company had never submitted a Form D filing for the 2005 Federal Income Tax Sharing Agreement. It is recommended that the Company submit a Form D filing with the New Jersey Department of Banking and Insurance in accordance with N.J.S.A. 17:27A-4.

Agreement between Farmers and Salem Oak Agency:

Salem Oak Agency is designated as an "Agent" and Farmers as "Company". The management and operations of the "Agent" shall be conducted by the personnel and using the facilities of the Company. The Fixed Costs to cover equipment and office space will be \$1,500 per month. The Variable cost to cover the Company personnel will be based on the activities. All direct expenses of the Agent paid by the Company will be billed by the Company. Nothing said above will create a relationship of employer and employee.

POLICY ON CONFLICT OF INTEREST

The Company has a questionnaire regarding conflict of interest in which the officers and directors are informally required to disclose any possible conflict. This questionnaire is to be completed each year before the first Board of Directors meeting. The Company does not have a formal policy to complete conflict of interest questionnaires. Upon review of the conflict of interest questionnaire, it was determined that the Company had no reported conflicts of interest during the examination period.

EMPLOYEE WELFARE AND PENSION PLANS

The Company offers the following plans to eligible full time employees:

Health Insurance - The Company offers health insurance for all full-time employees.

Dental Insurance - After six (6) months of employment, the Company currently provides and pays the employer's premium for a dental program.

Long Term Disability - The Company provides a long-term disability plan that begins after 180 days of disability.

Life Insurance - The Company provides for all full-time employees and at no cost to the employee, life insurance in the amount of 1-times the employees annual salary.

Pension Plan - The Company provides at no cost to the employee, pension benefits under a Simplified Employee Pension Plan (SEPP) as allowed by the Federal Government. The employee is eligible in their 3rd year of employment with the Company. The employee must be 21 years of age and earn in excess of \$300 per year. At the end of each calendar year, the company issues a check made payable to an eligible depository selected by the employee. The check will be a percentage of the employee salary as determined by the Board of Directors each year. The pension plan may be terminated at the discretion of the Board of Directors.

Temporary Disability Benefits – The Company offers this plan to both full time and part-time employees. The Company has chosen to cover to its employees under a private plan approved by the State of New Jersey. The only difference between the full time plan and the part-time plan is that the Company does not pay any additional monies to part time employees.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company maintains insurance coverage designed to protect its assets from losses arising out of various risks. The following summary shows the types and amounts of coverage that were in force as at December 31, 2006:

Business Property and Loss of Business Income:

**A. Buildings - Limits of Liability for 125 West Broadway - \$995,589
Limits of Liability for 127 West Broadway - \$287,048
\$1,000 Deductible**

**B. Business Personal Property - Limits of Liability for 125 West Broadway - \$412,456
\$1,000 Deductible**

C. Loss of Business Income - Limits of Liability - Included

**D. Money and Securities - On Premises - Limits of Liability - \$10,000
Money and Securities - Off Premises - Limits of Liability - \$ 2,000**

Business Liability

**\$1,000,000 Each Occurrence Limit
\$5,000 Medical Payments
\$2,000,000 General Aggregate Totals**

Platinum Management Protection

A. Insured Person and Organizational Liability Coverage - Limit of Liability \$5,000,000

B. Employment Practices Liability Coverage - Limit of Liability \$1,000,000

Policy Aggregate for all Insuring Agreements - \$6,000,000.

At December 31, 2006, Farmers Mutual Fire Insurance Company of Salem County maintained fidelity bond coverage of \$500,000. It was determined by this examination that Farmers Mutual had adequate coverage, in accordance with the suggested minimum required amount of the NAIC.

POLICY FORMS AND UNDERWRITING PRACTICES

The Company has policy forms for the following programs:

Personal Lines Program

Business Owners Program

Commercial Property Program

Commercial Liability Program

Commercial Auto Program

Umbrella Liability Program

The Company uses Mutual Service Office policy forms.

The Company has underwriting manuals for each line of business that the Company writes. The underwriting guidelines of the Company are tailored for each line of business.

The Company submitted to the New Jersey Department of Banking and Insurance (NJDOBI) of its intention to non-renew 2,000 policies; including 1,040 homeowners policies, 779 commercial multi peril policies, 128 combination dwelling policies and 53 business owners policies commencing with policies effective on or after January 1, 2007, in New Jersey.

NJDOBI approved the Company submission to non-renew the 2,000 policies on November 2, 2006 and NJDOBI determined that the non-renewal plan by the Company does not appear to create a market disruption in the State of New Jersey.

ACCOUNTS AND RECORDS

The Company uses Solomon software to prepare the general ledger entries and trial balance.

The Company's Premium and Loss systems are recorded in the Small Company Insurance Processing System (SCIP) processing systems.

Premium receipts are recorded through the SCIPS system. All checks (except app deposit checks) are scanned through the Company check scanning system called Creditron. An uploaded file from Creditron is created to post to the individual accounts in SCIPS. All payments for the insured's policies are recorded against the Accounts Receivable account in the General Ledger.

Interest receipts are deposited to the appropriate general ledger accounts through Solomon software.

Checks are issued on all claims in compliance with the Unfair Claims Practices Act. Pictures of damage are required for all property files. Proof of Loss is required for property claim payments over \$5,000. Pictures are required for liability files as appropriate, which is almost every file. A Release is obtained for almost all liability claims. However, on rare occasion, depending on the scope and nature of the liability claim, the release requirement is waived.

All settlements reached with insured's or claimants by the Company's independent adjusters are subject to company approval. All loss payment requests submitted by independent adjusters are reviewed by the Claims Examiner to confirm the settlement is appropriate based on coverage available and scope of damage. All Claims Examiners have authority levels. Any payment request that exceeds their individual authority must be reviewed with the Claims Manager before issuance.

Payments to adjusters for expenses require an invoice. A copy of the adjuster invoice is maintained in the claim file as documentation. Farmers Mutual Fire Insurance Company of Salem County requires each adjuster to include an itemized invoice which the Company can use to evaluate the expense charged on all billings other than the flat fee schedule.

The Claims Examiner writes up the payment request, and is responsible to ensure the reserve is adequate. The Company's Claims Clerks, enter the checks into the computer system. If the reserve on the file is not adequate, the system generates a message that must be reviewed by the Claims Examiner or Claims Manger, before they can proceed.

The Company's Claims Manager and Claims Specialist are the only members of the Claims Department who can approve checks for release in the computer system. The physical payment request is reviewed against the amount entered in the computer system to ensure accuracy. Spot checks of the claims files are done during the approval process. All claim checks require two signatures.

A copy of the payment request and printed check is scanned into the claim file for documentation.

Commissions to the Company's agents are paid monthly. Commissions are paid based on the effective date of the written premium. Before commissions are paid to individual agents, the written premium for the month is reconciled against the agent's total written premium shown on their commission statements. Commission checks are approved and issued in the Accounting department.

ADVERTISING AND SALES MATERIAL

A review of the Company's advertising and sales materials disclosed that the Company is in compliance with N.J.S.A. 17:18-10 and that there were no material inconsistencies between the Company's sales material and the Company's policies.

TREATMENT OF POLICYHOLDERS

The Company's complaint log for complaints filed with the Department of Banking and Insurance for the years 2003 through 2006 were reviewed. The review of these complaint logs determined that the treatment of complainants, the record keeping of complaints and the response time by the Company was in compliance with N.J.S.A. 17:29B-4(10) (Complaint Handling Procedures).

CONTINUITY OF OPERATIONS

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. It was recommended in the prior examination report that the Company formalize and test a business continuity plan.

Farmers Mutual Fire Insurance Company of Salem County has not complied with this recommendation. The Company has not created a formal, comprehensive business continuity plan. It is again recommended, as was in the prior examination report, that the Company formalize and test a comprehensive business continuity plan.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A Balance Sheet at December 31, 2006 and December 31, 2002

Exhibit B Summary of Operations for the Four-Year Period Ending
December 31, 2006

Exhibit C Capital and Surplus Account for the Four-Year Period Ending
December 31, 2006

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY
BALANCE SHEET AT DECEMBER 31, 2006 AND DECEMBER 31, 2002

	Current Examination at 12/31/06	Balance per Company at 12/31/06	Examination Change	Note Number	Previous Examination at 12/31/02
Assets					
Bonds and Stocks	\$69,221,333	\$69,612,346	(\$391,013)	1	\$45,527,211
Real Estate:					
Properties Occupied by the Company	\$497,279	\$497,279	0		\$619,170
Properties Held for the Production of Income	\$125,222	\$125,222	0		\$108,294
Cash and Short Term Investments	8,686,330	8,686,330	0		4,660,294
Investment Income Due and Accrued	622,841	622,841	0		476,741
Premiums and Considerations:					
In Course of Collection	571,757	571,757	0		613,539
Booked but Deferred and Not Yet Due	5,553,033	5,553,033	0		5,521,851
Reinsurance:					
Amounts Recoverable from Reinsurers	1,097,062	1,097,062	0		729,218
Current Federal and Foreign Income Taxes Recoverable	0	0	0		349,802
Net Deferred Tax Asset	1,669,805	1,669,805	0		1,724,217
Guaranty Funds Receivable or on Deposit	221,029	221,029	0		0
Electronic Data Processing Equipment and Software	77,930	108,161	(30,231)	2	179,067
Receivable from Parent, Subsidiaries and Affiliates	0	0	0		101,600
Aggregate Write-ins for other than Invested Assets	1,454,668	1,454,668	0		325,782
Total Admitted Assets	\$89,798,289	\$90,219,533	(\$421,244)		\$60,936,786
Liabilities					
Losses and Loss Adjustment Expenses	\$33,460,359	\$33,460,359	\$0	3	\$20,282,140
Commissions Payable, contingent commissions and other similar charges	1,724,855	1,724,855	0		1,611,195
Other Expenses	341,296	341,296	0		430,522
Taxes, Licenses and Fees	225,174	225,174	0	4	757,710
Current Federal and Foreign Income Taxes Payable	753,325	753,325	0		0
Unearned Premiums	22,409,245	22,409,245	0		16,881,589
Advance Premium	271,790	271,790	0		461,993
Ceded Reinsurance Premiums Payable	3,031,760	3,031,760	0		3,211,288
Funds Held by Company under Reinsurance Treaties	0	0	0		3,850
Amounts Withheld or Retained by Company	0	0	0		265,970
Total Liabilities	\$62,217,804	\$62,217,804	\$0		\$43,906,257
Surplus and Other Funds					
Surplus Notes	\$4,000,000	\$4,000,000	0		\$4,000,000
Unassigned Funds (Surplus)	23,580,485	24,001,729	(421,244)		13,030,529
Surplus as Regards Policyholders	\$27,580,485	\$28,001,729	(\$421,244)	5	\$17,030,529
Total Liabilities, Surplus and Other Funds	\$89,798,289	\$90,219,533	(\$421,244)		\$60,936,786

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY
SUMMARY OF OPERATIONS FOR THE
FOUR-YEAR PERIOD ENDING DECEMBER 31, 2006

<u>UNDERWRITING INCOME</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Premiums Earned	\$35,591,217	\$34,564,832	\$32,260,263	\$28,642,262
Deductions:				
Losses Incurred	\$16,243,100	\$22,398,322	\$18,118,051	\$16,556,680
Loss Expenses Incurred	3,045,759	4,348,978	3,814,081	3,354,299
Other Underwriting Expenses Incurred	13,060,190	11,394,473	10,254,686	10,413,569
Aggregate Write-ins for Underwriting Deductions	0	0	0	0
Total Underwriting Deductions	<u>\$32,349,049</u>	<u>\$38,141,773</u>	<u>\$32,186,818</u>	<u>\$30,324,548</u>
Net Underwriting Gain or (Loss)	<u>\$3,242,168</u>	<u>(\$3,576,941)</u>	<u>\$73,445</u>	<u>(\$1,682,286)</u>
<u>INVESTMENT INCOME</u>				
Net Investment Income Earned	\$2,589,228	\$3,006,346	\$1,676,191	\$1,513,988
Net Realized Capital Gains or (Losses)	<u>(292,658)</u>	<u>3,962,872</u>	<u>381,836</u>	<u>696,555</u>
Net Investment Gain or (Loss)	<u>\$2,296,570</u>	<u>\$6,969,218</u>	<u>\$2,058,027</u>	<u>\$2,210,543</u>
<u>OTHER INCOME</u>				
Net Gain or (Loss) from Agents' Balances Charged Off	(\$16,929)	(\$14,259)	\$8,840	\$1,027
Finance and Service Charges not Included in Premium	390,586	407,531	420,578	437,514
Miscellaneous Income	<u>117</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Income	<u>\$373,774</u>	<u>\$393,272</u>	<u>\$429,418</u>	<u>\$438,541</u>
Net Income Before Dividends to Policyholders and before Federal & Foreign Income Taxes	\$5,912,512	\$3,785,549	\$2,560,890	\$966,798
Dividends to Policyholders	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Income Before Federal Income Taxes	\$5,912,512	\$3,785,549	\$2,560,890	\$966,798
Federal Income Taxes Incurred	<u>2,094,894</u>	<u>614,164</u>	<u>1,015,651</u>	<u>617,549</u>
Net Income	<u><u>\$3,817,618</u></u>	<u><u>\$3,171,385</u></u>	<u><u>\$1,545,239</u></u>	<u><u>\$349,249</u></u>

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY
CAPITAL AND SURPLUS ACCOUNT FOR
THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
NET INCOME	\$3,817,618	\$3,171,385	\$1,545,239	\$349,249
<u>OTHER SURPLUS GAINS OR (-) LOSSES</u>				
Net Unrealized Capital Gains or (-) Losses	\$2,038,380	(\$2,091,458)	\$1,047,913	\$982,008
Change in Net Deferred Income Tax	(584,755)	174,894	(136,253)	112,127
Change in Nonadmitted Assets	179,223 +	(328,663)	445,828	(172,779)
Change in Provision for Reinsurance	0	0	0	0
Cumulative Effect change in Accounting Principles	0	0	0	0
Capital Changes:				
Paid In	0	0		0
Surplus Adjustments:				
Paid In	0	0		0
Dividends to Stockholders	0	0	0	0
Extraordinary Amounts of Taxes for Prior Years	0	0	0	0
Aggregate Write-in Gain or Loss in Surplus:				
Prior Period Adjustment	0	0		0
Total Other Surplus Gains or (-) Losses	\$1,632,848	(\$2,245,227)	\$1,357,488	\$921,356
Change in Surplus as Regards				
Policyholders for the Year	\$5,450,466	\$926,158	\$2,902,727	\$1,270,605
Surplus as Regards Policyholders				
December 31, Previous Year	<u>\$22,130,019</u>	<u>\$21,203,861</u>	<u>\$18,301,134</u>	<u>\$17,030,529</u>
Surplus as Regards Policyholders				
December 31, Current Year	<u>\$27,580,485</u>	<u>\$22,130,019</u>	<u>\$21,203,861</u>	<u>\$18,301,134</u>

* 2006 Examination Adjustments totaling \$421,244

NOTE 2: ELECTRONIC DATA PROCESSING EQUIPMENT AND SOFTWARE

At December 31, 2006 the Company reported an asset for Electronic Data Processing Equipment and Software of \$108,161 which was \$30,231 more than the amount determined by this examination of \$77,930.

The examination difference was due to the Company recording incorrectly two equipment and furniture items under the Electronic Data Processing Equipment and Software asset.

It is recommended by this examination that the Company record all equipment and furniture items under the asset titled Furniture and Equipment and non-admitted this asset as per SSAP No. 19 – Furniture, Fixtures and Equipment.

NOTE 3: LOSSES AND LOSS ADJUSTMENT EXPENSES

At December 31, 2006 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$33,460,358. A review of the reserves for losses and loss adjustment expenses was completed under the direction of the Property and Casualty Actuarial Division of the New Jersey Department of Banking and Insurance. On the basis of this review, the Company's reserves were determined to be reasonable and the balance will be accepted as stated.

Net loss reserves, as reported by the Company and as determined by this examination, totaled \$26,047,340.

Net loss adjustment expense reserves, as reported by the Company and as determined by this examination, totaled \$7,413,018.

The examination performed reconciliations of case reserves and paid loss totals from annual statement page 9 "Losses Paid and Incurred" and page 10 "Unpaid Losses and Loss Adjustment Expenses" to Schedule P of the Company's annual statement.

NOTE 4: TAXES, LICENSES AND FEES

At December 31, 2006 the Company reported a liability for Taxes, Licenses and Fees of \$225,174 which was accepted for purposes of this examination.

It was determined by this examination that the Company did not report World Wide Premiums on their New Jersey Premium Tax form. It is recommended that the Company report their New Jersey Premium Tax form on a World Wide Premiums basis in future filings.

NOTE 5: SURPLUS AS REGARDS POLICYHOLDERS

Surplus Note

At December 31, 2006, the Company reported a surplus note in the amount of \$4,000,000 which was approved by the New Jersey Department of Banking and Insurance Office of Solvency Regulation Division. This issuance of the surplus note was part of a pooled securities transaction arranged by FTN Financial and Keefe, Bruynette and Woods, Inc.

The surplus note is in compliance with SSAP No. 41 – Surplus Notes.

Unassigned Funds (Surplus)

The Company reported surplus as regards to policyholders at December 31, 2006 of \$28,001,729 which consisted of surplus note of \$4,000,000 and unassigned funds of \$24,001,729. The examination reported surplus as regards to policyholders of \$ 27,580,485 which was \$ 421,244 less than the amount reported by the Company. This decrease is due to examination changes to the Company's various assets accounts, which ultimately affect the unassigned funds (surplus) account as follows:

Unassigned Funds (Surplus) at December 31, 2006 (per Company) \$ 24,001,729

Decreases in Surplus:

Bonds and Stocks	391,013
Electronic Data Processing Equipment and Software	<u>30,231</u>
Total Decreases in Surplus	421,244
Net Decrease in Unassigned Funds (Surplus)	<u>421,244</u>
Unassigned Funds (Surplus) at December 31, 2006 (per Examination)	<u>\$23,580,485</u>

SUMMARY OF RECOMMENDATIONS

Reinsurance (pg. 16)

It is recommended by this examination that the Company amend its quota share reinsurance boiler and machinery insurance agreement to remove Salem Insurance Company from this agreement.

Regulation of Insurance Holding Company Systems (pg. 17)

It is recommended by this examination that the Company disclose all affiliates on Schedule Y – Part 1 – Organizational Chart in future annual statements in accordance with N.J.S.A. 17:27A-1a.

Inter-Company Agreements (pg. 18)

It is recommended that the Company submit the Federal Income Tax Sharing Agreement through a Form D filing with the New Jersey Department of Banking and Insurance in accordance with N.J.S.A. 17:27A-4.

Continuity of Operations (pg. 22)

It is again recommended, as was in the prior examination report, that the Company formalize and test a comprehensive business continuity plan.

Bonds and Stocks (pg. 27)

It is recommended by this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit assets which exceed the basket clause limits at year end.

Electronic Data Processing Equipment and Software (pg. 28)

It is recommended by this examination that the Company record all equipment and furniture items under the asset titled Furniture and Equipment and non-admitted this asset as per SSAP No. 19 – Furniture, Fixtures and Equipment.

Taxes, Licenses and Fees (pg. 29)

It is recommended that the Company report their New Jersey Premium Tax form on a World Wide Premiums basis in future filings.

SUBSEQUENT EVENTS

The Company on January 15, 2008 officially liquidated their affiliate – Salem Financial Corporation.

The Company has filed a Form D in 2008 to amend the Tax Sharing Agreement to officially remove Salem Financial Corporation from the Inter-Company Tax Sharing Agreement.

**STATEMENT BY NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE
PROPERTY AND CASUALTY ACTUARY**

Losses and Loss Adjustment Expenses findings in the 2006 financial condition examination report of Farmers Mutual Fire Insurance Company of Salem County are the responsibility of the Property and Casualty Actuarial Unit of the Office of Solvency Regulation of the New Jersey Department of Banking and Insurance.

/S/

Boris Privman, MAAA, FCAS

State of New Jersey

County of Mercer

Subscribed and sworn to before me, on this 20th day of June, 2008.

/S/

Catherine M. Liptak

Notary Public of New Jersey

My commission expires: January 21st, 2013

CONCLUSION

A regular statutory financial condition examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.

The examination and audit was conducted at the Farmers Mutual Fire Insurance Company of Salem County's office in Salem, New Jersey. The courteous assistance and cooperation of the Company's officers and employees is acknowledged.

Respectfully Submitted,

/S/

**Vincent Kaighn, CFE
Examiner-in-Charge**

FARMER MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY

I, Vincent Kaighn, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2006 to the best of my information, knowledge and belief.

Respectfully Submitted,

/S/

**Vincent Kaighn
Supervising Insurance Examiner
New Jersey Department of Banking & Insurance**

State of New Jersey

County of Mercer

Subscribed and sworn to before me, on this 20th day of June, 2008.

/S/

**Catherine M. Liptak
Notary Public of New Jersey
My commission expires: January 21st, 2013**