

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

IN THE MATTER OF:)
)
American Agricultural Insurance Company)
1501 East Woodfield Road, Suite 300W)
Schaumburg, Illinois 60173-5422)

Examination of American Agricultural Insurance
Company

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Carol Cutter, 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 sent to you on September 10, 2009, 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

October 6, 2009

Connie Ridinger
Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 1654

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

IN THE MATTER OF:)
)
American Agricultural Insurance Company)
1501 East Woodfield Road, Suite 300W)
Schaumburg, Illinois 60173-5422)

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, 2004 through December 31, 2008.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on September 3, 2009.

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 September 10, 2009 and was received by the Company on September 14, 2009.

The Company did not file any objections.


NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following FINDINGS:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the American Agricultural Insurance Company as of December 31, 2008.
2. That the Examiners' Recommendations are reasonable and necessary in order for the American Agricultural Insurance Company to comply with the 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, 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. 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 6th day of
October, 2009.



Carol Cutter
Insurance Commissioner

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

AMERICAN AGRICULTURAL INSURANCE COMPANY

NAIC COMPANY CODE 10103

As of

December 31, 2008

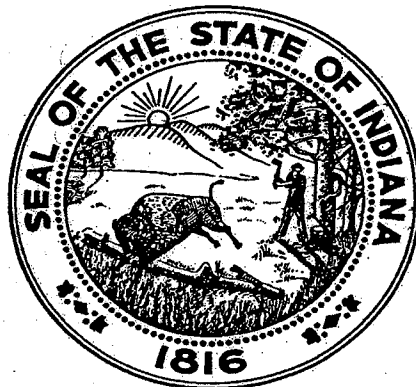


TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION.....	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	2
Common Stock.....	2
Preferred Stock.....	2
Surplus Notes.....	3
Dividends.....	3
TERRITORY AND PLAN OF OPERATION.....	3
GROWTH OF THE COMPANY.....	3
LOSS AND UNDERWRITING EXPERIENCE.....	4
MANAGEMENT AND CONTROL.....	4
Directors.....	4
Officers.....	6
Corporate Governance.....	6
CONFLICT OF INTEREST.....	6
OATH OF OFFICE.....	7
CORPORATE RECORDS.....	7
AFFILIATED COMPANIES.....	7
Organizational Structure.....	7
Affiliated Agreements.....	8
FIDELITY BOND AND OTHER INSURANCE.....	8
STATUTORY AND SPECIAL DEPOSITS.....	8
REINSURANCE.....	9
Assumed Reinsurance.....	9
Retroceded Reinsurance.....	9
RESERVES.....	11
ACCOUNTS AND RECORDS.....	11
FINANCIAL STATEMENTS.....	12
Assets.....	12
Liabilities, Surplus and Other Funds.....	13
Statement of Income.....	14
Capital and Surplus Account.....	15
COMMENTS ON THE FINANCIAL STATEMENTS.....	16
OTHER SIGNIFICANT FINDINGS.....	16
SUBSEQUENT EVENTS.....	16
MANAGEMENT REPRESENTATION.....	16
CONCLUSION.....	17



STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

FAX: (317) 232-5251

CAROL CUTTER, Commissioner

September 4, 2009

Honorable Alfred W. Gross
Chairman, Financial Condition (E) Committee, NAIC
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Honorable Carol Cutter
Commissioner, Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204

Dear Commissioners,

Pursuant to the authority vested in Appointment Number 3593, an examination has been made of the affairs and financial condition of:

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

hereinafter referred to as the "Company", an Indiana domestic, stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Schaumburg, Illinois.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, 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
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of Indiana Department of Insurance (IDOI) as of the period ending December 31, 2003. The present risk focused examination covered the period from January 1, 2004 through December 31, 2008, and was conducted by Huff, Thomas & Company (HuffThomas) 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 examination, the IDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by PricewaterhouseCoopers LLP and Blackman Kallick for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

David Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc., a consulting actuary appointed by the IDOI, conducted a review of the Company's loss reserves and loss adjustment expense reserves as of December 31, 2008.

The examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determination of liabilities and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

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

Common Stock

As of December 31, 2008, the Company had 500,000 authorized shares of common stock of which 318,810 shares were issued and 269,420 shares were outstanding. The Company's common stock has a par value of \$100 per share. The Company is owned by the American Farm Bureau Federation (AFBF), an Illinois not-for-profit agricultural membership organization and the insurance affiliates of various state Farm Bureaus (Farm Bureau insurance companies). As of December 31, 2008, the Farm Bureau insurance companies owned a combined 268,977 common shares, AFBF owned 443 common shares and the Company held 49,390 common shares of treasury stock.

Preferred Stock

As of December 31, 2008 the Company had issued a total of 31,129 shares of 6.5% non-voting, non-

cumulative preferred stock to Farm Bureau insurance companies and AFBF. The Company has the option to redeem all or part of the outstanding preferred stock beginning January 1, 2011. The redemption price of the preferred stock is \$1,000 per share plus any authorized and unpaid dividends.

Surplus Notes

As of December 31, 2008, the Company had 20 issued and outstanding surplus notes with a total par value of \$77,322,498. The surplus notes were issued to Farm Bureau insurance companies at various dates during 2005 and 2006. The surplus notes accrue interest at a rate of 7.5% annually, which is payable on July 1 and January 1 of each year. The surplus notes mature on January 1, 2036. During 2008, the Company paid \$5,799,188 of interest on the surplus notes issued and outstanding. As of December 31, 2008 the Company reported \$2,899,594 of interest due and unpaid on the surplus notes.

Dividends

The Company paid or declared preferred stock dividends of \$2,023,384, \$2,953,795, and \$1,454,601 in 2008, 2007 and 2006, respectively. There were no common stock dividends declared or paid during the period covered by this examination.

TERRITORY AND PLAN OF OPERATION

The Company is licensed or accredited in forty-three (43) states and conducts business in Canada and internationally. 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.

As of December 31, 2008, the Company reported gross direct and assumed written premiums of \$868,524,465. The four types of treaties which comprised the highest percentage of the 2008 gross premiums included Catastrophe (32.36%), Property Pro-rata (26.62%), Quota Share (11.55%) and Crop Insurance (8.80%). Gross written premiums as distributed between Farm Bureau business and broker assumed business was 87.55% and 12.45%, 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 & Surplus</u>	<u>Premiums Earned</u>	<u>Net Income (Loss)</u>
2008	\$1,188,211,395	\$683,066,747	\$505,144,648	\$388,463,454	\$2,241,401
2007	1,290,394,108	737,123,945	553,270,163	462,758,951	68,168,638
2006	1,134,939,929	650,424,468	484,515,461	441,795,060	24,392,437
2005	1,161,496,070	702,508,086	458,987,984	425,615,846	27,256,709
2004	985,768,590	653,870,904	331,897,686	462,559,508	11,498,752

The drop in the Company's surplus from 2007 to 2008 was primarily attributable to unrealized losses in its common stock portfolio. The decrease in net income from 2007 to 2008 was mainly due to a large underwriting loss (See Loss and Underwriting Experience below).

LOSS AND UNDERWRITING EXPERIENCE

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

<u>Year</u>	<u>Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Expenses Incurred</u>	<u>Combined Ratio</u>
2008	\$388,463,454	\$329,801,662	\$96,203,249	110%
2007	462,758,951	300,097,270	95,085,200	85%
2006	441,795,060	365,359,624	88,789,562	103%
2005	425,615,846	291,101,249	123,450,819	97%
2004	462,559,508	347,046,868	124,657,854	102%

A combined ratio of losses incurred and expenses incurred to premiums earned in excess of 100% typically indicates an underwriting loss. As indicated from the ratio column above, the Company experienced underwriting losses in 2004, 2006, and 2008. The Company experienced a large underwriting loss in 2008 due to weather related incidents including hurricanes Ike and Gustav and storms in the Midwest and South Central United States. Earned premiums dropped in 2008 by approximately 16% from 2007 due to additional premiums retroceded as a result of catastrophe losses.

MANAGEMENT AND CONTROL

Directors

The Company's amended Bylaws state that the Board of Directors shall be equal to the number of Designating Shareholders plus one. The Company determines Designating Shareholders based on affiliation with the Company and a minimum investment level in the Company equal to or greater than either 1% of the Company's surplus at the prior year end or 2.5% of the Company's outstanding stock. The shareholders elect the Board of Directors at the annual meeting. The following is a listing of persons serving as Directors at December 31, 2008:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Eric Aasmundstad Devils Lake, ND	President, North Dakota Farm Bureau, Farmer
Ronald Anderson Ethel, LA	President, Louisiana Farm Bureau Farmer
Steven Baccus Minneapolis, KA	President, Kansas Farm Bureau Farmer
William Bruins Waupun, WI	President, Wisconsin Farm Bureau Farmer
Kenneth Dierschke San Antonio, TX	President, Texas Farm Bureau Farmer
Vincent Duvall Greensboro, GA	President, Georgia Farm Bureau Farmer
Alan Foutz Akron, CO	President, Colorado Farm Bureau Farmer
Mark Haney Nancy, KY	President, Kentucky Farm Bureau Farmer

John Hoblick DeLeon Springs, FL	President, Florida Farm Bureau Farmer
Charles Kruse Jefferson City, MO	President, Missouri Farm Bureau Farmer
Perry Livingston Sundance, WY	President, Wyoming Farm Bureau Rancher
Philip Nelson Seneca, IL	President, Illinois Farm Bureau Farmer
Jerry Newby Athens, AL	President, Alfa Insurance Company Farmer
Frank Priestly Franklin, ID	President, Idaho Farm Bureau Farmer
Wayne Prior Gouchland, VA	President, Virginia Farm Bureau Farmer
Kevin Rogers Laveen, AZ	President, Arizona Farm Bureau Farmer
Michael Spradling Sand Springs, OK	President, Oklahoma Farm Bureau Rancher
Roy Stallman Columbus, TX	President & Chairman, AAIC Farmer
Willard Upchurch Crossville, TN	President, Tennessee Farm Bureau Rancher
Randy Veach Manila, AK	President, Alaska Farm Bureau, Farmer
Donald Villwock Edwardsport, IN	President, Indiana Farm Bureau Farmer
David Waide Jackson, MS	President., Mississippi Farm Bureau Farmer
David Winkles Cayce, SC	President, South Carolina Farm Bureau, Farmer
Wayne Wood Marlette, MI	President, Michigan Farm Bureau Farmer
Larry Wooten Raleigh, NC	President, North Carolina Farm Bureau, Farmer

Officers

The Company's Bylaws state the officers of the Company, who shall be elected by the Board of Directors, shall consist of a President, Chief Executive Officer, First Vice President, one or more Vice Presidents, a Secretary, one or more Assistant Secretaries, a Treasurer, one or more Assistant Treasurers, a General Counsel, and such other officers as the Board of Directors may from time to time provide. The President and the First Vice President of the corporation shall be members of the Board of Directors of the Company. The following is a list of key officers and their respective titles as of December 31, 2008:

<u>Name</u>	<u>Title</u>
Roy Robert Stallman Jr.,	President & Chairman of the Board
Charles Edward Kruse	First Vice President
Richard Walter Newpher	Treasurer
Charles David Mayfield	Corporate Secretary
Fred Belmont Baechle	Assistant Treasurer
Virgil Howard Applequist	Executive Vice President & CEO
Julie Anna Potts	Secretary & General Counsel

Corporate Governance

The Board of Directors, which is comprised of the Presidents of the member state Farm Bureaus, take an active role in the Company's corporate governance as determined from a detailed review of the minutes and from an inspection of board meeting materials. Additional oversight of the Board of Directors is provided by an Advisory Committee. The Advisory Committee is made up of executives of the various Farm Bureau insurance companies. The Advisory Committee provides technical expertise and operates in accordance with a formal charter. In addition to the Advisory Committee, the Board has an Audit Committee which meets four times a year and addresses such matters as external audits, reviews of regulatory filings, financial statement reviews and other responsibilities as described in the Audit Committee Charter. From a review of Board and Committee minutes, it was determined the Committees are operating in accordance with their respective charters as well as providing effective governance over the Company's operations.

Based on a review of biographical information and through management interviews it was determined the Company's senior officers are adequately qualified and have the experience necessary to administer the operations and affairs of the Company. The Company's senior officers have provided a stable and conservative management approach in conducting the Company's operations.

It was determined, overall, that the Company maintains an effective corporate governance structure. The Board and key executives set an appropriate "tone at the top" with a clear commitment to promote integrity and ethical behavior throughout the Company.

CONFLICT OF INTEREST

Directors, officers and certain employees are required to annually complete a questionnaire which discloses conflicts of interest. It was determined that all officers and Directors serving during the examination period completed the required conflict of interest questionnaire. No exceptions were noted.

OATH OF OFFICE

IC 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. It was noted during the examination the Directors did subscribe to an Oath of Office.

CORPORATE RECORDS

The Shareholder, Board of Directors and Committee meeting minutes were reviewed for the period under examination and 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

Prior to 2003, AFBF owned a majority of the Company's voting common stock. In 2003, the Company changed the structure of its capital stock. Previously, stock consisted of Class A (voting) and Class B (non-voting) shares. The change created one class of common stock and a method for converting Class A and Class B shares to the new common stock. As a result of the conversion, AFBF agreed to have its ownership of voting shares reduced from over 40% to less than 4%. The Company and AFBF also entered into an agreement whereby the Company would repurchase, over five years, 8,521 of the 8,963 converted common shares that AFBF owned. As of the December 31, 2008, AFBF owned 443 common shares which was less than 1% of the total issued and outstanding common shares of the Company.

As of December 31, 2008, four stockholders owned shares that exceeded 10% of the Company's total issued and outstanding common stock. The four stockholders included the following along with their respective percentage of total common shares owned as of December 31, 2008:

Southern Farm Bureau Casualty Insurance Company – 15.960%
Country Mutual Insurance Company – 13.500%
Tennessee Farmers Mutual Insurance Company – 12.888%
North Carolina Farm Bureau Mutual Insurance Company - 10.332%

Pursuant to the provisions of IC 27-1-23-1, control is presumed to exist if any person beneficially owns ten percent (10%) or more of the voting securities of any other person. However, each of the four shareholders, as listed above, filed a "Disclaimer of Control" with the IDOI which states none of them maintains actual control of the Company. The IDOI has granted all of the disclaimers.

As of December 31, 2008, the Company is a member of a holding company system whereby it is the ultimate controlling entity. The Company is the parent of two wholly owned subsidiaries which includes AAIC Reinsurance Underwriters Services LLC (ARUS) and American Agricultural Insurance Agency (AAIA). In addition, as of December 31, 2008, the Company owned 9.1% of the voting shares of American Farm Bureau Insurance Services (AFBIS), an MGA. A brief description of the Company's wholly owned subsidiaries is as follows:

ARUS – ARUS was incorporated in the state of Illinois on June 12, 2000. ARUS provides office facilities and office equipment for the Company's broker assumed business operations in Columbus, Ohio.

AAIA – 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.

Affiliated Agreements

The Company is a party to a Services Agreement with ARUS, whereby ARUS agrees to provide the Company with office space and office equipment necessary for the Company to conduct its "non-Farm Bureau reinsurance business." In return, the Company agrees to reimburse ARUS for its pro-rata share of the services and rent. In 2008, the Company paid ARUS \$3,200,000 under the terms of the Services Agreement. The Services Agreement was approved by the IDOI, prior to the period covered by this examination.

The Company leases office spaces to AFBF and AFBIS. Rental rates are based on prevailing market rates. The Company also provides certain management and administrative services to AFBF, its subsidiaries, and AFBIS and recovers the costs of these services based on usage. The amount received by the Company in 2008 for rent and services it provides to AFBF, its subsidiaries and AFBIS totaled \$927,199.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond. The Company is insured for losses up to \$2,000,000 with a \$50,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

Other major insurance coverages in force at December 31, 2008, included Liability, Employment Practices Liability, Professional Liability, and Directors & Officers Liability. All other major coverages were determined to be adequate as of December 31, 2008.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following special deposits primarily comprised of US Treasury Notes as of December 31, 2008:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Arkansas	\$ 65,105	\$ 72,506
Georgia	85,138	94,815
Indiana	2,013,209	2,155,568
Louisiana	49,962	50,899
Missouri	997,740	1,051,561
New Mexico	399,634	423,876
North Carolina	304,359	321,579
Aggregate, Alien and Other	16,995,320	17,155,610
Total Deposits	<u>\$ 20,910,467</u>	<u>\$ 21,326,414</u>

REINSURANCE

Assumed Reinsurance

During 2008 the majority of the Company's premiums were assumed under both property and casualty treaties with Farm Bureau insurers. The treaty coverage is provided in the form of both proportional and excess covers and includes the following types of contracts:

- Quota Share
- Surplus Share
- Excess of Loss
- Occurrence Catastrophe
- Aggregate (Stop Loss) Catastrophe

In addition, during 2008, the Company assumed premiums from over 500 non-Farm Bureau insurance companies that purchase reinsurance through the broker market. The broker business is primarily assumed under property excess of loss and property pro-rata treaties. The table below provides a summary of the Company's ten largest cedants based on assumed premium in 2008.

<u>Ceding Insurer</u>	<u>Gross Premiums Assumed (\$000)</u>	<u>Percentage</u>
Texas Farm Bureau Mutual Insurance Company	\$110,843	13.20%
Oklahoma Farm Bureau Mutual Insurance Company	106,103	12.64%
North Carolina Farm Bureau Mutual Insurance Company	98,432	11.72%
Virginia Farm Bureau Mutual Insurance Company	53,846	6.41%
Country Mutual Insurance Company	53,220	6.34%
United Farm Family Mutual Insurance Company	45,719	5.45%
Florida Farm Bureau Mutual Insurance Company	28,030	3.34%
Tennessee Farmers Mutual Insurance Company	27,942	3.33%
Farm Bureau Mutual Ins. Company of Arkansas	26,547	3.16%
Kentucky Farm Bureau Mutual Insurance Company	24,138	2.88%
Top Ten Cedant Assumed Premium	\$574,820	68.47%
All Other Ceding Insurers Combined	264,762	31.53%
Total 2008 Assumed Premiums	\$839,582	100.00%

Retroceded Reinsurance

Much of the property business the Company assumes is "pooled" and retro-ceded back to participating Farm Bureau insurers to spread risk for each company. The Company participates in reinsurance pools covering property catastrophe reinsurance, surplus share, crop hail and MPCI crop hail programs, and multi-line property business.

In addition to pool retrocessions, the Company was covered under the following four principal agreements as of December 31, 2008:

2008 Property Excess of Loss

The Company reinsured its property business under an excess of loss agreement that generally provides coverage through two layers as follows:

	<u>Limit per Risk per Occurrence</u>	Retention or Underlying Layer <u>per Risk</u>
First Layer	\$3,000,000	\$2,000,000
Second Layer	\$10,000,000	\$5,000,000

The maximum limit on all risks any one occurrence for the first and second layers are \$9,000,000 and \$20,000,000, respectively.

2008 Casualty Excess of Loss

The Company was reinsured for its casualty business under an excess of loss agreement that provided for coverage through three layers as follows.

	<u>Limit per Occurrence</u>	Retention or Underlying Layer <u>per Occurrence</u>
First Layer	\$5,000,000	\$2,000,000
Second Layer	\$15,000,000	\$7,000,000
Third Layer	\$8,000,000	\$22,000,000

The treaty also provides for specific maximum limits by layer for terrorism and workers compensation clash covers.

2008 Property Catastrophe Excess of Loss

As of December 31, 2008, the Company was reinsured for catastrophic property loss under a thirty-six (36) month catastrophe excess of loss treaty. The treaty provides coverage of \$40,000,000 in excess of \$30,000,000 retained by AAIC for each loss occurrence. The maximum recoverable under the treaty is \$40,000,000 for any one loss occurrence and \$80 million for any one contract year. Also, there is a \$120,000,000 limit for all loss occurrences during the 36 month contract period.

2008 Aggregate Excess of Loss

Effective January 1, 2008, the Company entered into a three year aggregate excess of loss contract which provides for \$74,000,000 of coverage on all losses incurred during any contract year in excess of \$81,000,000 of earned premiums. The Company is subject to a minimum retention of \$310,000,000 and the maximum coverage for all years of the contract is limited to \$185,000,000.

Other Retrocessional Coverages

During 2008, the Company was covered under an Industry Loss Warranty Agreement whereby the Company would be indemnified for losses up to \$150,000,000 triggered by an industry loss of \$10 billion related to New Madrid earthquake risks.

The Company cedes broker produced business through an 11% quota share treaty to R & V Re, a German reinsurer. This treaty accounts for approximately \$10.7 million in ceded premium in 2008.

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

It was determined that all reinsurance agreements provided for risk transfer in accordance with the requirements of SSAP #62. In addition, all agreements contained the necessary language as required by the provisions of SSAP #62 and Indiana law. No exceptions were noted.

RESERVES

Malgorzata Timberg, FCAS, MAAA, is the Company's Reserving Actuary. Ms. Timberg was appointed by the Board of Directors on May 7, 2008 to render an opinion on the statutory-basis loss reserves of the Company. She rendered an opinion on such reserves for the year ended December 31, 2008. For the years ended December 31, 2004 to 2007, an opinion on the statutory-basis loss reserves of the Company was provided by Charles E. Van Kampen, FCAS, MAAA. Mr. Van Kampen is Vice President and Actuary for the Company.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves, loss adjustment expense reserves, and long duration unearned premium reserves, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The 2008 opinion stated the balances of reserves 1) meet the requirements of the insurance laws of Indiana, 2) are consistent with reserves computed in accordance with accepted loss reserving standards and principles, 3) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements and 4) make a reasonable provision for the unearned premium reserves for long duration contracts of the Company under the terms of its contracts and agreements.

During the examination, it was determined by the IDOI consulting actuary, David Shepherd, FCAS, MAAA, the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the year ended December 31, 2008 was agreed to the Annual Statement without exception. The Annual Statement for the years ended December 31, 2004 through December 31, 2008 were agreed to each year's independent audit report with no exceptions noted. The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

AMERICAN AGRICULTURAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

	As of December 31, 2008			December 31 Prior Year
	Per Annual Statement	Exam Adjustments	Per Examination	
Assets:				
Bonds (Schedule D)	\$ 615,545,909	\$ -	\$ 615,545,909	\$ 679,848,413
Stocks (Schedule D)				
Preferred stocks	-	-	-	650,000
Common stocks	77,214,730	-	77,214,730	109,788,923
Cash, cash equivalents and short term investments	164,431,397	-	164,431,397	118,895,089
Other invested assets (Sch. BA)	7,500,000	-	7,500,000	-
Subtotals, cash and invested assets	\$ 864,692,036	\$ -	\$ 864,692,036	\$ 909,182,425
Investment income due and accrued Uncollected premiums and agents balances in the course of collection	6,990,398 145,465,041	- -	6,990,398 145,465,041	6,736,046 101,549,213
Deferred premiums, agents balances and installments booked but deferred	23,299,341	-	23,299,341	57,616,701
Accrued retrospective premiums	-	-	-	4,168,331
Amounts recoverable from reinsurers	63,139,364	-	63,139,364	6,711,819
Funds held by or deposited with reinsured companies	38,873,257	-	38,873,257	190,402,484
Current federal and foreign income tax recoverable	22,162,444	-	22,162,444	-
Net deferred tax asset	23,589,514	-	23,589,514	13,956,689
EDP equipment and software	-	-	-	70,400
Total Assets	\$ 1,188,211,395	\$ -	\$ 1,188,211,395	\$ 1,290,394,108

AMERICAN AGRICULTURAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

As of December 31, 2008

	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Liabilities:				
Losses	\$ 361,614,593	\$ -	\$ 361,614,593	\$ 459,906,300
Reinsurance payable on paid losses and loss adjustment expenses	45,604,411	-	45,604,411	42,348,342
Loss adjustment expenses	6,485,638	-	6,485,638	8,122,146
Other expenses	497,924	-	497,924	849,326
Current federal and foreign income taxes	-	-	-	19,391,013
Borrowed money	2,899,594	-	2,899,594	2,899,594
Unearned premiums	117,977,362	-	117,977,362	142,833,683
Dividends declared and unpaid - stockholders	1,011,693	-	1,011,693	2,023,385
Ceded reinsurance premiums payable	141,513,037	-	141,513,037	53,271,994
Funds held by co. under reinsurance treaties	1,683,034	-	1,683,034	-
Provision for reinsurance (Schedule F, Part 7)	283,171	-	283,171	2,162,333
Aggregate write-ins for liabilities	3,496,290	-	3,496,290	3,315,824
Total Liabilities	\$ 683,066,747	\$ -	\$ 683,066,747	\$ 737,123,945
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 & contributed surplus	13,385,086	-	13,385,086	13,385,086
Unassigned funds (surplus)	402,546,195	-	402,546,195	445,542,334
Less treasury stock, at cost	51,119,131	-	51,119,131	45,989,755
Surplus as regards policyholders	\$ 505,144,648	\$ -	\$ 505,144,648	\$ 553,270,163
Total liabilities, capital and surplus	\$ 1,188,211,395	\$ -	\$ 1,188,211,395	\$ 1,290,394,108

AMERICAN AGRICULTURAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2008

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Underwriting Income				
Premiums earned	\$ 388,463,454	\$ -	\$ 388,463,454	\$ 462,758,951
Losses incurred	\$ 329,801,662	\$ -	\$ 329,801,662	\$ 300,097,270
Loss expenses incurred	9,140,121	-	9,140,121	11,303,644
Other underwriting expenses incurred	87,063,128	-	87,063,128	83,781,556
Total underwriting deductions	\$ 426,004,911	\$ -	\$ 426,004,911	\$ 395,182,470
Net underwriting gain (loss)	\$ (37,541,457)	\$ -	\$ (37,541,457)	\$ 67,576,481
Investment Income				
Net investment income	\$ 28,817,699	\$ -	\$ 28,817,699	\$ 28,737,598
Net realized capital gains or (losses)	(1,511,223)	-	(1,511,223)	2,393,706
Net investment gain	\$ 27,306,476	\$ -	\$ 27,306,476	\$ 31,131,304
Other Income				
Aggregate write-ins for miscellaneous income	\$ 1,658,236	\$ -	\$ 1,658,236	\$ (84,174)
Total other income	\$ 1,658,236	\$ -	\$ 1,658,236	\$ (84,174)
Net income before dividends, after capital gains tax and before all other federal and foreign income taxes	\$ (8,576,745)	\$ -	\$ (8,576,745)	\$ 98,623,611
Dividends to policyholders	-	-	-	-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ (8,576,745)	\$ -	\$ (8,576,745)	\$ 98,623,611
Federal and foreign income taxes incurred	(10,818,146)	-	(10,818,146)	30,454,973
Net Income	\$ 2,241,401	\$ -	\$ 2,241,401	\$ 68,168,638

AMERICAN AGRICULTURAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

As of December 31, 2008

	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Capital and Surplus Account:				
Surplus as regards policyholders, December 31, prior year	\$ 553,270,163	\$ -	\$ 553,270,163	\$ 484,515,46
Net income	\$ 2,241,401	\$ -	\$ 2,241,401	\$ 68,168,631
Change in net unrealized capital gains [losses]	(27,029,523)	-	(27,029,523)	1,400,011
Change in net unrealized foreign exchange capital gain	(7,303,384)	-	(7,303,384)	2,949,974
Change in net deferred income tax	(5,551,973)	-	(5,551,973)	3,477,681
Change in nonadmitted assets and related items	(6,220,130)	-	(6,220,130)	(3,652,143)
Change in provision for reinsurance	1,879,162	-	1,879,162	4,088,595
Capital changes: paid in	-	-	-	2,501,000
Dividends to stockholders	(1,011,692)	-	(1,011,692)	(2,953,795)
Change in treasury stock	(5,129,376)	-	(5,129,376)	(7,225,263)
Net change in surplus as regards policyholders for the year	\$ (48,125,515)	\$ -	\$ (48,125,515)	\$ 68,754,702
Surplus as regards policyholders, December 31, current year	\$ 505,144,648	\$ -	\$ 505,144,648	\$ 553,270,163

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2008 based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

There were no significant findings made as a result of this examination. In addition, the Company has substantially complied with the comments made in the prior Report of Examination.

SUBSEQUENT EVENTS

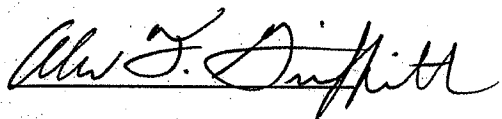
Effective July 1, 2009, Janet Katz was elected as Executive Vice President Chief Executive Officer due to the retirement of Virgil Applequist.

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 IDOI.

CONCLUSION

The preceding Report of Examination of American Agricultural Insurance Company as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, D. Patrick Huth, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of American Agricultural Insurance Company.



Alan T. Griffith, CFE
Examinations Manager
Indiana Department of Insurance