REPORT ON EXAMINATION

OF THE

FULMONT MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

DATE OF REPORT	DECEMBER 16, 2011
EXAMINER	SHEIK H. MOHAMED

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Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

December 16, 2011

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30741 dated July 13, 2011 attached hereto, I have made an examination into the condition and affairs of Fulmont Mutual Insurance Company as of December 31, 2010, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Fulmont Mutual Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's home office located at 2240 State Highway 29, Johnstown NY 12095.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Fulmont Mutual Insurance Company. The previous examination was conducted as of December 31, 2005. This examination covered the five-year period from January 1, 2006 through December 31, 2010. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was organized on August 9, 1853, as the Fulton and Montgomery Counties Farmers Mutual Fire Insurance Association for the purpose of transacting business as an assessment cooperative fire insurance association in Fulton and Montgomery Counties, New York.

A certificate was issued by this Department on December 27, 1910, which authorized the Company to continue the tranaction of business in the above named counties.

On December 31, 1986, the Company converted to an advance premium cooperative insurance company and adopted its current name. At the same time, the Company became qualified to write non-assessable policies and was permitted to extend its territorial limits to include the entire state of New York.

On May 1, 1998, the Company merged with The Mohawk Minden Insurance Company, with the Company being the surviving company.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than nine nor more than fifteen members. At least four board meetings were held in each of the years during the period under examination, thereby complying with Section 6624(b) of the New York Insurance Law. At December 31, 2010, the board of directors was comprised of the following eleven members:

Name and Residence	Principal Business Affiliation
Burlin C. Argotsinger Gloversville, NY	Retired Farmer and Insurance Agent
Marlene A. Benton Amsterdam, NY	President, Fulmont Mutual Insurance Company

Name and Residence	Principal Business Affiliation
Warren A. Canary St. Johnsville, NY	Retired Farmer and Retired Insurance Agent
Raynor B. Duncombe Middleburgh, NY	Attorney
G. Michael Kinowski Johnstown, NY	Insurance agent
Margaret Leackfeldt Pattersonville, NY	Retired Insurance Agent
Richard D. Rathbun Cooperstown, NY	Farmer
Deborah A. Sidney Gloversville, NY	Secretary and Treasurer, Fulmont Mutual Insurance Company
Clayton J. Sitterly Gloversville, NY	Licensed Real Estate Broker
Michael W. Smrtic Johnstown, NY	Attorney
Isabella A. VanDewerker Cherry Valley, NY	Homemaker

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2010, the principal officers of the Company were as follows:

Name	Title
Raynor B. Duncombe	Chairman of the Board
Richard Rathbun	Vice-Chairman of the Board
Marlene A. Benton	President
Deborah A. Sidney	Secretary and Treasurer
Joanne E. Gifford	Assistant Secretary
Brian Kingsley	Assistant Secretary
Terry Dufel	Assistant Treasurer

B. Territory and Plan of Operation

As of December 31, 2010, the Company was licensed to write business in New York only.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

The Company was also licensed to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

Based on the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13, 41 and 66 of the New York Insurance Law, as of December 31, 2010, the Company is required to maintain a minimum surplus to policyholders in the amount of $439,338.

From June 1, 1990 to October 15, 2002, the Company's license required it to reinsure 100% of its risk for all business written pursuant to paragraphs 7, 8, 13, 14, and 15 of Section 1113(a) of the New York Insurance Law. On October 15, 2002, the Company's license was amended to add paragraph 9 of Section 1113(a) of the New York Insurance Law; that line was also required to be 100% reinsured. Effective January 1, 2007, the Company's license was amended to remove paragraph 15 and to eliminate the requirement that it reinsure 100% of all business written pursuant to paragraphs 7, 8, 9, 13 and 14.

At December 31, 2010, the Company wrote insurance through independent agents, its two subsidiaries and director-agents.

The Company's predominant lines of business are homeowners multiple peril and commercial multiple peril, which accounted for 28.99 % and 54.98%, respectively, of the Company's 2010 direct written business.

The following schedule shows the direct premiums written by the Company in New York for the period under examination:

Calendar Year	Direct Premiums Written
2006	$3,658,349
2007	$3,873,358
2008	$4,349,843
2009	$4,939,688
2010	$5,476,725

C. Reinsurance

The Company has no assumed business at year-end 2010.

As of December 31, 2010, the Company had the following property and casualty excess of loss ceded reinsurance program in place:

Type of Treaty	Cession
Property 3 layers	$940,000 in excess of $60,000 each loss, each risk. Per occurrence limit of $120,000 on first layer, $800,000 on second layer and $1 million on the third.
Casualty 3 layers	$975,000 in excess of $25,000 each loss occurrence.
Casualty and property combined	$40,000 in excess of $60,000 each loss occurrence.
Casualty clash	$1 million in excess of $1 million each loss occurrence. $2 million in excess of $2 million (workers' compensation).
Property Catastrophe 4 layers	95% of $1.9 million in excess of $100,000 each loss occurrence (layers 1 & 2). $3 million in excess of $2 million each loss occurrence (layers 3 & 4).

As of December 31, 2010, the Company had an equipment breakdown coverage quota share treaty on boiler and machinery insurance as follows:

- Reinsurer obligates itself to accept as reinsurance of the Company and the Company obligates itself to cede to the reinsurer 100% of the Company's net retained liability as defined in the contract.

- Cessions under the contract shall not exceed $5 million on any one commercial multi-peril or farmowners risk and $50,000 on any one homeowner or mobile homeowners risk without prior written agreement of the reinsurer. One policy constitutes one risk.

As of December 31, 2010, the Company had an identity recovery coverage quota share treaty as follows:

- The Company shall cede to the reinsurer and the reinsurer shall accept from the Company 100% of the Company's liability for losses covered under the contract. The reinsurer's liability shall not exceed $15,000 annual aggregate as respects each Identity Recovery insured.

All of the Company's cessions during the period under examination were to authorized insurers.

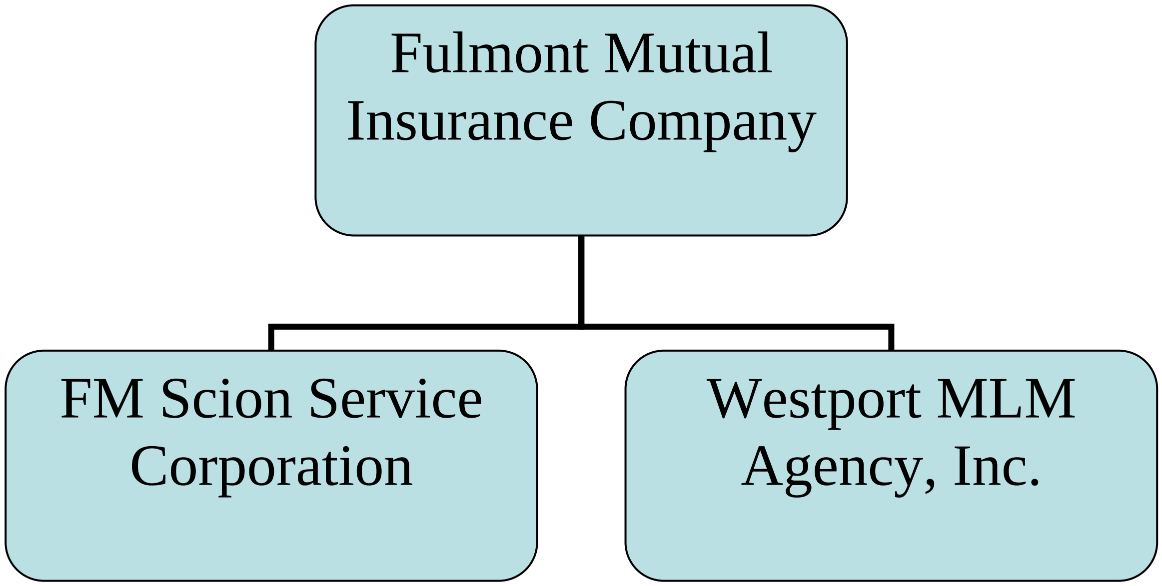
All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of Schedule F data reported by the Company in its 2010 filed Annual Statement was found to accurately reflect its reinsurance transactions.

Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62. Representations were supported by an attestation from the Company's chief executive officer and chief financial officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements.

D. Affiliated Group

At December 31, 2010, the Company owned 100% of the common stock of FM Scion Service Corporation ("FM Scion") and Westport MLM Agency, Inc. ("Westport"). A review of the annual filings made pursuant to Department Regulation 53 during the examination period indicated that such filings were complete and were filed in a timely manner. The following is a chart of the affiliated group at December 31, 2010:



FM Scion was organized for the purpose of providing certain ancillary services to the Company. In 1982, FM Scion expanded its scope to include the business of insurance broker, which provided a vehicle for those agents, who were also brokers, to write coverage that the Company does not write, through FM Scion.

Westport was organized in 1987 to conduct business as a general insurance agency and brokerage company, with the provision that neither Westport nor the Company would broker business for each other.

On December 5, 2005, Westport entered into an installment sale contract for the sale of its agency book of business and real estate that it owned. The sale price was $575,253, payable in monthly installments of $5,170.54 commencing January 5, 2006 and continuing for 15 years. The interest rate on the installment loan is 7%. Westport carries the contract on its balance sheet as a non-admitted asset.

On August 19, 2011, Westport and FM Scion merged, with FM Scion as the surviving company. Pursuant to the merger agreement, all assets and liabilities of Westport at the time of the merger were assumed by FM Scion.

At December 31, 2010, the Company was party to the following agreement with other members of its holding company system:

Expense Allocation

The Company and its subsidiaries share operating expenses pursuant to an expense sharing agreement. A new expense allocation agreement is executed in November of each year. Each subsidiary pays its proportionate share of operating expenses, employee wages and benefits to the Company. Additionally, pursuant to this agreement, FM Scion provides computer and other services to the Company.

This agreement was filed with this Department and was found to be non-objectionable.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2010, based upon the results of this examination:

Net premiums written to policyholders' surplus	156%
Adjusted liabilities to liquid assets	80%
Gross agents balances (in collection) to policyholders' surplus	16%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$ 8,078,988	55.20%
Other underwriting expenses incurred	7,289,410	49.81
Net underwriting loss	(733,799)	(5.01)
Premiums earned	$14,634,599	100.00%

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2010 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$2,286,498	$ 0	$2,286,498
Common stocks (stocks)	182,291	0	182,291
First liens - mortgage loans on real estate	102,504	0	102,504
Properties occupied by the company	151,515	0	151,515
Cash, cash equivalents and short-term investments	988,953	0	988,953
Investment income due and accrued	15,602	0	15,602
Uncollected premiums and agents' balances in the course of collection	352,077	73,327	278,750
Deferred premiums, agents' balances and installments booked but deferred and not yet due	431,591	0	431,591
Amounts recoverable from reinsurers	552,467	342,123	210,344
Current federal and foreign income tax recoverable and interest thereon	11,000	0	11,000
Net deferred tax asset	74,905	0	74,905
Furniture and equipment, including health care delivery assets	68,439	68,439	0
Receivables from parent, subsidiaries and affiliates	53,414	0	53,414
A/R Other	6,877	0	6,877
Fair Plan	77,337	1,109	76,228
Loan	6,440	6,440	0
Automobiles	42,809	42,809	0
Total assets	$5,404,719	$534,247	$4,870,472

Liabilities, Surplus and Other Funds

Liabilities		
Losses and Loss Adjustment Expenses		$ 816,595
Commissions payable, contingent commissions and other similar charges		210,539
Other expenses (excluding taxes, licenses and fees)		124,166
Taxes, licenses and fees (excluding federal and foreign income taxes)		3,806
Unearned premiums		2,070,645
Advance premium		90,641
Ceded reinsurance premiums payable (net of ceding commissions)		(254,953)
Amounts withheld or retained by company for account of others		3,270
Payable to parent, subsidiaries and affiliates		15,715
Salaries & vacation accruals		29,800
Total liabilities		$3,110,224
Surplus and Other Funds		
NYS required special surplus	$ 430,000	
Unassigned funds (surplus)	1,330,248	
Surplus as regards policyholders		1,760,248
Total liabilities, surplus and other funds		$4,870,472

NOTE: The Internal Revenue Service did not audit the Company's Federal Income Tax returns for the period under examination. Audits covering subsequent tax years have yet to commence. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $135,422 during the five-year examination period January 1, 2006 through December 31, 2010, detailed as follows:

Underwriting Income		
Premiums earned		$14,634,599
Deductions:		
Losses and loss adjustment expenses incurred	$8,078,988	
Other underwriting expenses incurred	7,289,410	
Total underwriting deductions		15,368,398
Net underwriting gain or (loss)		$ (733,799)
Investment Income		
Net investment income earned	$ 652,271	
Net realized capital gain	77,832	
Net investment gain or (loss)		730,103
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (2,378)	
Finance and service charges not included in premiums	425,881	
Total other income		423,503
Net income before federal and foreign income taxes		$ 419,807
Federal and foreign income taxes incurred		28,783
Net income		$ 391,024

C. Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2005			$1,895,670
Net income	$391,024		
Net unrealized capital gains or (losses)		$ 8,013	
Change in net deferred income tax	19,032		
Change in nonadmitted assets		450,019	
Aggregate write-ins for gains and losses in surplus	0	7,446	
Total gains and losses	$410,056	$545,478	
Net increase (decrease) in surplus			(135,422)
Surplus as regards policyholders per report on examination as of December 31, 2010			$1,760,248

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $816,595 is the same as reported by the Company as of December 31, 2010. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained ten recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Management	
	It was recommended that the Company comply with all the provisions of its by-laws, henceforth or that it request Department approval to change its by-laws to reflect the way that the Company is currently operating.	4
	The Company has complied with this recommendation.	
B.	Reinsurance	
	It was recommended that the Company comply with the Annual Statement Instructions and classify its reinsurers properly as affiliated or non-affiliated based upon the actual parties to the contracts.	9
	The Company has complied with this recommendation.	
C.	Accounts and Records	
i.	It was recommended that the Company ensure that matured/redeemed security proceeds are not taken out of the Superintendent's custodial account without the written approval of the New York Insurance Department as required by Section 1314 of the New York Insurance Law.	11
	The Company has complied with this recommendation.	
ii.	It was recommended that the Company comply with its established "EXPENSE ALLOCATION AMONG CORPORATIONS" agreement with respect to the use of allocation bases or amend its agreement to conform to how expenses are actually being allocated. In addition, it was recommended that the Company establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by Department Regulation 30.	12
	The Company has complied with this recommendation.	
iii.	It was recommended that the Company comply with Section 1411(e) of the New York Insurance Law and ensure that no director or officer receive, in addition to their fixed salary or compensation, any money or valuable thing, directly or indirectly, for negotiating, procuring,	13

ITEM		PAGE NO.
	recommending or aiding in any purchase or sale of property, made by such insurer or any affiliate or subsidiary thereof. The Company has complied with this recommendation.	
iv.	It was recommended that the Company comply with all written commitments made to this Department, henceforth. The Company has complied with this recommendation.	14
v.	It was recommended that the Company continue to finalize the process of amending its custodial agreement to include all the provisions required by the New York Insurance Department and the NAIC Financial Condition Examiners Handbook. The Company has complied with this recommendation.	14
vi.	It was recommended that the Company comply with the investment authorization requirements of Section 1411(a) of the New York Insurance Law. The Company has complied with this recommendation.	15
vii.	It was recommended that the Company comply with SSAP No. 26 paragraph 2, SSAP No. 2 paragraph 3 as well as the Annual Statement Instructions and classify certificates of deposit that have a maturity date in excess of one year from the date of acquisition of bonds. The Company has complied with this recommendation.	15
viii.	It was recommended that the Company adopt a resolution which incorporates the specific Department guidance provided in the body of the report relative to its arrangement with PayTrust. In addition, it was recommended that the board of directors ensure that the management of the Company has put into place adequate controls over this arrangement in order to adequately protect the assets of the Company. Evidence that the board has verified periodically, but no less frequently than annually, that the controls are operating properly must be maintained and provided for review upon examination. The Company has complied with this recommendation.	16

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments and recommendations.

Respectfully submitted,

______________/s/_____________

Sheik H. Mohamed, CPCU, CPA
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF FULTON)

SHEIK H. MOHAMED, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

______________/s/_____________

Sheik H. Mohamed

Subscribed and sworn to before me

this__________ day of ____________________, 2012.

Appointment No. 30741

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Sheik Mohamed

as proper person to examine into the affairs of the

FULMONT MUTUAL INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 13th *day of July, 2011*

JAMES J. WRYNN
Superintendent of Insurance