REPORT ON EXAMINATION

OF THE

FARM FAMILY CASUALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT	JANUARY 18, 2013
EXAMINER	WAYNE LONGMORE

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January 18, 2013

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 30833 dated February 21, 2012, attached hereto, I have made an examination into the condition and affairs of Farm Family Casualty Insurance Company as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Farm Family Casualty 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 344 Route 9W, Glenmont NY, 12077.

1. SCOPE OF EXAMINATION

The Department has performed a group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2006. This examination covered the five-year period from January 1, 2007 through December 31, 2011. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination of the Company was performed concurrently with the examination of the following insurer: United Farm Family Insurance Company.

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, annual statement instructions and, when applicable, to domestic state statutes.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment assessment. 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 Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
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 incorporated under the laws of the State of New York on April 21, 1955 as Farm Family Mutual Insurance Company, became licensed on November 14, 1956 and commenced business on November 16, 1956.

On July 26, 1996, pursuant to a Plan of Reorganization and Conversion, Farm Family Mutual Insurance Company converted from a mutual company to a stock company, changed its name to Farm Family Casualty Insurance Company and became a wholly-owned subsidiary of Farm Family Holdings, Inc. ("FFH").

On April 10, 2001, American National Insurance Company ("ANICO"), a Texas domiciled insurance company, acquired FFH.

On August 23, 2007, American National Property and Casualty Holding Company, LLC merged into FFH, with FFH being the surviving entity. At the same time FFH changed its name to American National Property & Casualty Holdings, Inc. ("ANPAC Holdings").

At December 31, 2011 capital paid in was $3,606,205 consisting of 2,253,878 shares of common stock with a par value of $1.60 per share. Gross paid in and contributed surplus was $71,776,893. The balance has not changed since the prior report on examination.

Operations of the Company are closely related to those of affiliated property and casualty insurer United Farm Family Insurance Company ("UFFIC") and affiliated life insurer, Farm Family Life Insurance Company ("FFLIC"). All three entities share administrative office space.

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 thirteen or more than twenty-five members. The board met at least four times during each calendar year for the period under examination. At December 31, 2011, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Alexander P. Dowse Sherborn, MA	President, Treasurer & Clerk, C.A. Dowse & Son, Inc.
G. Richard Ferdinandtsen League City, TX	Director, President and Chief Operating Officer, ANICO
Stephen J. George Gladstone, NJ	Retired self-employed farmer and President, Friendship Business Ventures, LLC
Irwin M. Herz, Jr Galveston, TX	Partner/ Attorney, Greer, Herz & Adams, LLP, which serves as general counsel for ANICO
John W. Lincoln Bloomfield, NY	Owns and operates, Linholm Dairy Farm
A. Ingrid Moody Kemah, TX	Volunteer Worker and former farmer
Ross R. Moody Austin, TX	President, COO and Director, National Western Life Insurance Company
Edward J. Muhl Bonita Springs, FL	Retired Partner, PricewaterhouseCoopers, LLP
Gregory V. Ostergren Springfield, MO	Director, Chairman, President and CEO, American National Property and Casualty Company
James E. Pozzi Galveston, TX	Senior Executive Vice President and Chief Administrative Officer, ANICO
Victoria M. Stanton Glenmont, NY	Executive Vice President, General Counsel and Secretary, Farm Family Life Insurance Company, Farm Family Casualty Insurance Company and United Farm Family Insurance Company.

Name and Residence	Principal Business Affiliation
Timothy A. Walsh West Coxsackie, NY	President and Chief Executive Officer, Farm Family Life Insurance Company, Farm Family Casualty Insurance Company and United Farm Family Insurance Company.
Ronald J. Welch League City, TX	Senior Executive Vice President, Corporate Risk Officer and Chief Actuary, ANICO

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 had an acceptable record of attendance.

As of December 31, 2011, the principal officers of the Company were as follows:

Name	Title
Timothy A. Walsh	President and Chief Executive Officer
Victoria M. Stanton	Executive Vice President, General Counsel and Secretary
Michele M. Bartkowski	Senior Vice President, Chief Financial Officer and Treasurer

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in twelve states.

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
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability

Paragraph	Line of Business
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
26(B)	Motor vehicle lessee/debtor gap insurance

The Company is also authorized to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Cong. as amended; 33 USC Section 901 et seq. as amended).

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $4,000,000.

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

Calendar Year	New York State	Total United States	Premiums Written in NYS as % of US Premium
2007	$145,923,280	$390,973,534	37.32%
2008	$141,579,450	$380,727,535	37.19%
2009	$137,017,330	$366,408,135	37.39%
2010	$136,166,376	$362,934,416	37.52%
2011	$145,107,592	$377,610,990	38.43%

The largest lines of business are commercial auto liability and workers' compensation, which comprises 14.76% and 12.12%, respectively, of the Company's 2011 direct written business. The "Special Farm Package 10" (SFP-10) is considered the group's flagship product. This policy is a flexible, multi-line insurance contract that combines property and liability coverages for farm owners and a wide array of other agricultural businesses such as horse breeding and training facilities, nurseries, wineries and greenhouses.

At December 31, 2011, the Company wrote business primarily through career (exclusive) agents.

C. Reinsurance

Assumed reinsurance

Assumed reinsurance accounted for less than 6% of the Company's gross premium written at December 31, 2011. Approximately 83% of the Company's assumed premium is attributable to the pooling agreement with the Company's affiliate, UFFIC. The bulk of the remainder of the Company's assumed premiums are from certain mandated pools and associations. During the period covered by this examination, the Company's assumed reinsurance business has decreased. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

Effective January 1, 2004 the Company entered into a pooling agreement with UFFIC. Under the terms of the agreement, UFFIC cedes 100% of its assumed and direct business to the Company, net of any external reinsurance. The Company then retrocedes 2% of its net direct and assumed business to UFFIC. The pooling agreement allocation percentages have remained unchanged since inception, however, the agreement was amended effective March 5, 2010 modifying the terms of the provision relating to cash calls. Both the agreement and subsequent amendment were non-objected to by the Department in letters dated June 29, 2004 and March 5, 2010 pursuant to the requirements of Section 1505(d)(2) of the New York Insurance Law.

Ceded reinsurance

The Company has structured its ceded reinsurance program as of December 31, 2011, as follows:

Type of Treaty	Cession
Excess Multiple Line 100% Authorized	Property Business: $5 million excess $1 million any one risk, each loss; limit $10 million per occurrence. Terrorism: $5 million excess $1 million any one risk, each loss; limit $10 million in all during the term of the contract and any runoff period. Casualty Business: $5 million excess $1 million per occurrence ($6 million as respects any one occurrence involving at least one $2 million per occurrence policy issued by the Company in accordance with this contract). As respects all Workers Compensation losses arising out of acts of terrorism, $5 million excess $1

Type of Treaty	Cession
	million; limit $20 million as respects all Workers Compensation losses during the term of the contract and any runoff period.
	Pollution Liability: $5 million excess $1 million any one policy, each pollution incident; limit $5 million as respects all losses arising out of all pollution liability policies involved in all pollution incidents reported during the term of this contract and any runoff period.
Property Excess per Risk 70% Authorized	$9 million excess $6 million any one risk, each loss, any one loss occurrence; limit $36 million during the term of the contract (or during any runoff period). Limit of $9 million in all during the term of the contract or any runoff period for losses arising out of acts of terrorism or toxic mold.
Excess Casualty Clash (3 layers) Layer 1 90% Authorized	$4 million excess $6 million ultimate net loss per occurrence; limit $8 million during the term of the contract (or during any runoff period). Limit of $4 million in all during the term of the contract or any runoff period for all Workers Compensation losses arising out of acts of terrorism; limit of $4 million in all during the term of the contract or any runoff period for all toxic mold related losses.
Layer 2 93% Authorized	$20 million excess $10 million ultimate net loss per occurrence; limit $40 million during the term of the contract (or during any runoff period). Limit of $20 million in all during the term of the contract or any runoff period for all Workers Compensation losses arising out of acts of terrorism. Limit of $20 million in all during the term of the contract or any runoff period for all toxic mold related losses.
Layer 3 93.5% Authorized	$20 million excess $30 million ultimate net loss per occurrence; limit $40 million during the term of the contract (or during any runoff period). Limit of $20 million in all during the term of the contract or any runoff period for all Workers Compensation losses arising out of acts of terrorism. Limit of $20 million in all during the term of the contract or any runoff period for all toxic mold related losses.
	(Note: For all layers above as respects any one occurrence involving at least one $2 million per occurrence policy issued by the Company in

Type of Treaty	Cession
	accordance with the contract the Company's retention for each excess layer shall be increased by $1 million).
Property Catastrophe Excess (5 layers) Layer 1 65.5% Authorized	97.5% of $30 million in excess of $10 million ultimate net loss each loss occurrence (two or more risks involved); limit $60 million during the term of the contract.
Layer 2 66% Authorized	97.5% of $30 million in excess of $40 million ultimate net loss each loss occurrence (two or more risks involved); limit $60 million during the term of the contract.
Layer 3 67.38% Authorized	97.5% of $50 million in excess of $70 million ultimate net loss each loss occurrence (two or more risks involved); limit $100 million during the term of the contract.
Layer 4 59.58% Authorized	97.5% of $120 million in excess of $120 million ultimate net loss each loss occurrence (two or more risks involved); limit $240 million during the term of the contract.
Layer 5 52.68% Authorized	97.5% of $260 million in excess of $240 million ultimate net loss each loss occurrence (two or more risks involved); limit $520 million during the term of the contract.
Earthquake Property Catastrophe Excess of loss 55% Authorized	97.5% of $50 million in excess of $25 million ultimate net loss each loss occurrence (two or more risks involved); limit $100 million during the term of the contract.
Aggregate Property Catastrophe Excess 43.583% Authorized	65.5833% of $30 million in excess of $90 million aggregate subject ultimate net loss arising out of loss occurrence commencing during the term of the contract (two or more risks involved). Subject ultimate net loss arising from loss occurrences commencing 1/1/2011 through 2/15/2011 shall not contribute more than $11,250,000 towards the Company's aggregate retention of $90 million.
Casualty Facultative Master Certificate Umbrella Facultative contract - covering policies classified as personal, farm, and commercial umbrella liability. 100% Authorized	$10 million in excess of $5 million, each loss occurrence or offense.

Type of Treaty	Cession
Property Facultative Excess of Loss – agreement expired 4/1/12 100% Authorized	$15 million excess of $15 million each risk, each occurrence in excess of the Company's net and treaty retention on each risk, each occurrence.
Employment Practices Liability Insurance Coverage Quota share treaty (“EPL”) 100% Authorized	100% of the gross liability of the Company (including defense costs) under the Employment Practices Liability Insurance Coverage Endorsement up to a maximum limit of $250,000 each Wrongful Employment Act subject to an annual aggregate limit in the policy not to exceed $250,000. In the event the reinsurer accepts a referral with an EPL coverage in excess of $250,000 each wrongful employment act, such limit shall be covered up to a maximum limit of $1 million each Wrongful Employment Act subject to an annual aggregate limit on the policy not to exceed $1 million.
Boiler and Machinery quota share contract (Businessowners, Special Farm Package “10” and Commercial Package policies that include an equipment breakdown coverage endorsement) 100% Authorized	100% of $25,000,000 any one Accident, any one policy.
Boiler and Machinery quota share (Homeowners) 100% Authorized	100% of $50,000 any one policy, any one Accident.

Since the previous examination, the Company's net retention has remained at $1 million on property and casualty business.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company were reviewed for compliance with Department Regulation 133. No significant exceptions were noted.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed for the required clauses.

Insolvency Clause

The insolvency clauses in the Company's ceding agreements make reference to a novation. Department Circular Letter No. 5 (1988) states, in part, the following in reference to a novation:

> "Any references to such an event in the reinsurance agreement should indicate that, prior to the implementation of a novation, the certificate of assumption on New York risks would have to be approved by the Superintendent. . ."

It is recommended that the Company include the above referenced language from Department Circular Letter No. 5 (1988) in all reinsurance contracts which make reference to a novation.

The Schedule F data as reported in the Company's filed annual statements for December 31, 2011 did not accurately reflect its reinsurance transactions. The database used to prepare Schedule F was not updated in 2010 or 2011 to reflect the changes in the reinsurers and allocation percentages in the underlying reinsurance contracts. While the totals reported in the financial statements were correct, certain balances reported for the affected reinsurers were incorrectly reported. It should be noted that the resulting differences were immaterial at December 31, 2011, therefore no examination change was warranted. Nonetheless, it is recommended that in future filings the Company comply with the annual statement instructions and complete Schedule F with data that accurately reflects its reinsurance transactions.

Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and 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. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a wholly-owned subsidiary of ANPAC Holdings. All of the outstanding common stock of ANPAC Holdings is directly owned by ANICO, whereas all the outstanding preferred stock is owned by Comprehensive Investment Services, Inc., an investment company that is wholly owned by ANICO.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2011:

- American National Insurance Company (TX) 1.
    - American National County Mutual Ins. Company (TX) 2.
    - American National Property & Casualty Holdings, Inc. (DE)
        - **Farm Family Casualty Insurance Company (NY)**
        - Farm Family Life Insurance Company (NY)
        - **United Farm Family Insurance Company (NY)**
        - Rural Agency and Brokerage, Inc. (NY)
            - Rural Agency and Brokerage of New Hampshire, Inc. (NH)
        - American National Property & Casualty Company (MO)
        - American National General Insurance Company (MO)
        - American National Ins. Service Company (MO)
        - ANPAC Louisiana Ins. Company (LA)
        - Pacific Property & Casualty Company (CA)
        - ANPAC Lloyds Ins. Management, Inc. (TX)
            - American National Lloyds Insurance Company (TX) 3.
        - American National Administrators, Inc. (TX)
    - American National Life Holdings, Inc. (NV)
        - Garden State Life Ins. Company (TX)
        - American National Life Insurance Co. of Texas (TX)
        - American National Life Insurance Co. of New York (NY)
        - Standard Life & Accident Insurance Company (TX)
            - Standard Plus, Inc. (TX)
    - Alternative Benefit Management, Inc. (NV)
    - Comprehensive Investment Services, Inc. (NV)
    - American National Registered Investment Advisor (TX)
    - ANICO Financial Services, Inc. (TX)
    - ANTAC, Inc. (NV)
        - Eagle 99, Inc. (NV)
        - ANDV 97, Inc. (TX)
            - ANIND TX, Inc. (TX)
            - ANREINV, Inc. (TX)
        - ANREM Corporation (TX)
            - ANH2O, Inc. (TX)
            - South Shore Harbour Development, Ltd. (TX) 4.
                - Harbour Title Company (TX) 5.

1. 22.95% owned by the Moody Foundation and 37.07% owned by the Libbie S. Moody Trust
2. Not a subsidiary company, but managed by American National Insurance Company
3. Not a subsidiary company, but managed by ANPAC Lloyds Insurance Management, Inc.
4. Not a subsidiary, but a partnership between ANREM Corporation (5% general partnership interest) and ANTAC, Inc. (95% limited partnership interest)
5. 50% owned by South Shore Harbour Development, Ltd

At December 31, 2011, the Company was party to the following noteworthy agreements with other members of its holding company system:

Net Pooling Reinsurance Agreement

Refer to section 2C. of this report for a description of the Net Pooling Reinsurance Agreement between the Company and United Farm Family Insurance Company.

Service Agreement with United Farm Family Insurance Company

Effective July 25, 1988, the Company entered into a service agreement with UFFIC. The agreement provides that the Company will perform certain administrative and special services for UFFIC and allows UFFIC to make use of its facilities. UFFIC reimburses the Company for all directly allocable expenses, reasonably and equitably determined to be attributable to UFFIC, plus a reasonable overhead charge determined periodically by the parties. The review of the allocation of expenses between the parties revealed that the charges appeared reasonable and in accordance with the requirements of Department Regulation No. 30.

The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved.

Amended and Restated Mortgage Loan and Real Estate Investment Services Agreement

The Company originally entered into this mortgage loan and real estate investment services agreement with UFFIC and ANICO effective June 1, 2001. Under the terms of the amended and restated agreement, effective March 11, 2010, ANICO agrees to solicit and underwrite proposed mortgage loans deemed by ANICO to be suitable mortgage loan investments for the Company and UFFIC and consistent with an Investment Plan approved by Company and UFFIC's Board of Directors.

The amended and restated agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved.

Amended and Restated Service Agreement with ANICO

The Company originally entered into this administrative services agreement with ANICO effective April 10, 2001. Pursuant to the terms of the amended and restated agreement dated June 24, 2009 FFCIC and ANICO shall perform for each other and their respective affiliates as each company may request, certain services necessary to conduct their respective insurance operations.

The amended and restated agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved.

Amended and Restated Service Agreement with American National Property and Casualty Company ("ANPAC")

The Company originally entered into this administrative services agreement with ANPAC on April 10, 2001. That agreement was amended and restated effective July 1, 2005. Pursuant to the terms of the amended and restated agreement, FFCIC and ANPAC shall perform (either directly or through subcontracts with third parties) for each other as each company may request, certain services necessary in the conduct of their insurance operations.

This amended and restated agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved.

Amended and Restated Investment Advisory Agreement

The Company and UFFIC entered into an investment advisory agreement with ANICO dated August 1, 2001. That agreement was amended and restated effective November 7, 2006, and March 11, 2010. Pursuant to the terms of the March 11, 2010 amended and restated agreement, ANICO shall act as the investment adviser and shall manage their investment portfolios in compliance with the laws and regulations of the State of New York. The agreement further states that the performance of services by ANICO as adviser pursuant to the agreement shall in no way impair the absolute control of the business and operations of FFCIC or UFFIC by their respective Boards of Directors.

This amended and restated agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved.

Tax Payment Allocation Agreement

The Company participates in a tax payment allocation agreement with its ultimate parent, ANICO, and American National Property & Casualty Holdings, Inc. for taxable years beginning January 1, 2008. This agreement provides that the tax charge or refund to the Company shall be the amount the Company would have paid or received if it had filed on a separate return basis with the Internal Revenue Service. The review of the agreement revealed that it is in substantial compliance with Department Circular Letter No. 33 (1979).

The agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved.

Service Agreement with FFFS

The Company entered into an administrative services agreement with Farm Family Financial Services Inc. ("FFFS") effective October 1, 1997, whereby the Company performs certain administrative and special services for FFFS and makes available its facilities to FFFS as FFFS determines to be reasonably necessary to conduct its operations. This agreement was revised per Amendment No. 1, effective January 1, 1999, to change the fees to be charged by the Company to FFFS.

This agreement and its amendment were filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and were non-disapproved.

Lease Agreement

The Company (Tenant) is a party to a lease agreement with Farm Family Life Insurance Company ("FFLIC') as landlord. The agreement was initially made effective January 1, 1999 through December 31, 2000 with an exercised option to renew for two additional years upon expiration of the initial lease term. This agreement has since been amended four times with the most recent amendment being effective January 1, 2010, to extend the end date of the lease to December 31, 2014. The lease stipulates that the Company rents office and storage spaces in the Glenmont, New York location of the home office building of the landlord.

This agreement and all subsequent amendments, were filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and were non-disapproved.

Amended and Restated Expense Sharing Agreement with FFLIC and ANPAC Holdings, Inc. (f/k/a Farm Family Holdings, Inc.)

The Company is a party to an amended and restated expense sharing agreement with affiliates Farm Family Life Insurance Company and ANPAC Holdings, Inc., made effective October 30, 2001. The agreement provides for the sharing of certain expenses among the parties and defines the methods to be used for allocating such expenses.

The review of the allocation of expenses among the parties revealed that the charges appeared reasonable and in accordance with the requirements of Department Regulation No. 30.

This agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.

Renewal Note with ANPAC Holdings, Inc

Effective December 31, 2011, the Company entered into a renewal note with its immediate parent (note holder) ANPAC Holdings for a $10 million (principal amount), revolving line of credit. Under the terms of the Note, the Company has agreed to pay ANPAC Holdings: (i) an annual fee of 0.125% of the face amount, provided that the annual fee for December 31, 2013 shall be prorated in recognition of the maturity date of July 1, 2014; and (ii) a fee calculated and accrued monthly, and paid at the end of each calendar quarter, equal to an annualized one-quarter percent (0.25%) of the difference between the face amount and the amount of principal outstanding.

The renewal note was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved.

Administrative Services Agreement Between Farm Family Casualty Insurance Company and American National Life Insurance Company of New York (“ANLICONY”)

The Company entered into an administrative services agreement with American National Life Insurance Company of New York effective January 4, 2010, whereby the Company performs certain administrative and other special services for ANLICONY and makes available its facilities to ANLICONY as ANLICONY determines to be reasonably necessary to conduct its operations.

Management indicated that the agreement was filed with the Life Bureau of the Department as an exhibit to the Plan of Operations for ANLICONY, which was filed as part of the standard Uniform Certificate of Authority Application.

This agreement was not filed with the Department pursuant to 1505(d) of the Insurance Law at the time it was entered into. Upon being made aware of this oversight, the agreement was subsequently filed with the Department and was non-disapproved.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	121%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	73%
Premiums in course of collection to surplus as regards policyholders	10%

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	$1,409,653,203	78.36%
Other underwriting expenses incurred	489,074,058	27.19
Net underwriting loss	(99,687,127)	(5.54)
Premiums earned	$1,799,040,134	100.00%

F. Accounts and Records

Bank Signatories

The previous report on examination included the following recommendation:

> "It is recommended that in the future the Company update in a timely manner and maintain all signatory cards for all of its bank accounts in order that check signing authority is given only to the signatories approved by the board of directors."

During the current review it was noted that the above recommendation was not fully complied with. In response to this observation management indicated agreement that the signature cards, including applicable titles were not updated in a timely manner. They further indicated that they are currently completing a full documentation review for all banks which was expected to be completed shortly.

It is recommended that the Company update in a timely manner all signatory cards for all of its bank accounts to reflect changes in authorizations approved by the Board.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$757,540,857	$ 0	$757,540,857
Preferred stocks (stocks)	6,688,927		6,688,927
Common stocks (stocks)	52,742,572		52,742,572
Cash, cash equivalents and short-term investments	16,468,008		16,468,008
Other invested assets	4,502,086		4,502,086
Receivables for securities	361		361
Investment income due and accrued	9,942,491		9,942,491
Uncollected premiums and agents' balances in the course of collection	29,845,143	1,563,220	28,281,923
Deferred premiums, agents' balances and installments booked but deferred and not yet due	56,909,528	340,902	56,568,626
Amounts recoverable from reinsurers	3,086,337		3,086,337
Current federal and foreign income tax recoverable and interest thereon	14,189,885	9,449,885	4,740,000
Net deferred tax asset	29,274,795	5,941,552	23,333,243
Receivables from parent, subsidiaries and affiliates	293,052		293,052
Aggregate write-ins for other than invested assets	6,237,109	3,875,539	2,361,570
Total assets	$987,721,151	$21,171,098	$966,550,053

Liabilities, surplus and other funds

Liabilities

Losses and loss adjustment expenses		$463,209,575
Reinsurance payable on paid losses and loss adjustment expenses		2,522,837
Commissions payable, contingent commissions and other similar charges		3,567,281
Other expenses (excluding taxes, licenses and fees)		6,764,880
Taxes, licenses and fees (excluding federal and foreign income taxes)		5,395,515
Unearned premiums		176,241,689
Advance premium		4,565,078
Ceded reinsurance premiums payable (net of ceding commissions)		(4,221,360)
Funds held by company under reinsurance treaties		2,524,488
Amounts withheld or retained by company for account of others		1,403,203
Remittances and items not allocated		(1,029,449)
Payable to parent, subsidiaries and affiliates		3,244,955
Aggregate write-ins for liabilities		9,143,813
Total liabilities		$673,332,505
Surplus and other funds		
Aggregate write-ins for special surplus funds	$ 5,538,993	
Common capital stock	3,606,205	
Gross paid in and contributed surplus	71,776,893	
Unassigned funds (surplus)	212,295,457	
Surplus as regards policyholders		293,217,548
Total liabilities, surplus and other funds		$966,550,053

Note: The Internal Revenue Service has not completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2008. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2006 through 2008 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2009 through 2011. 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. Statement of Income

Surplus as regards policyholders increased $50,048,316 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income		
Premiums earned		$1,799,040,134
Deductions:		
Losses and loss adjustment expenses incurred	$1,409,653,203	
Other underwriting expenses incurred	489,074,058	
Total underwriting deductions		1,898,727,261
Net underwriting gain or (loss)		$ (99,687,127)
Investment Income		
Net investment income earned	$ 186,692,182	
Net realized capital gain	(12,114,786)	
Net investment gain or (loss)		174,577,396
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (5,687,159)	
Finance and service charges not included in premiums	12,952,621	
Aggregate write-ins for miscellaneous income	(359,644)	
Total other income		6,905,818
Net income before dividends to policyholders and before federal and foreign income taxes		$ 81,796,087
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$ 81,796,087
Federal and foreign income taxes incurred		5,016,118
Net income		$ 76,779,969

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2006			$243,169,232
Net income	$76,779,969		
Net unrealized capital gains or (losses)	6,856,531		
Change in net deferred income tax	4,843,732		
Change in non-admitted assets		7,912,415	
Change in provision for reinsurance	33,000		
Cumulative effect of changes in accounting principles	1,163,823		
Dividends to stockholders		27,069,074	
Aggregate write-ins for gains and losses in surplus	0	4,647,250	
Total gains or losses in surplus	$89,677,055	$39,628,739	
Net increase (decrease) in surplus			50,048,316
Surplus as regards policyholders per report on examination as of December 31, 2011			$293,217,548

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $463,209,575 is the same as reported by the Company as of December 31, 2011. 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.	Contract with KPMG, LLP	
i.	It was recommended that the Company ensure that the contract with its CPA firm comply with the requirements of Department Regulations 118 and 152.	17
	A review of the CPA contracts provided for the examination period revealed that the 2010 contract was not in full compliance with current Regulation 118 requirements. It should be noted that the contract for 2011 was reviewed and was found to be in substantial compliance. No repeat recommendation is being made.	
ii.	Custodian Agreement	
	It was recommended that the Company amend its custodian agreement to include all the protective covenants and provisions in order to comply with the requirements set forth in the NAIC Financial Condition Examiners Handbook and to Department guidelines.	18
	The Company has complied with this recommendation.	
iii.	Advance Premiums	
	It was recommended that the Company develop the reporting capability to accurately identify "Advance premium" and report the amount as a liability in the Annual Statement in accordance with SSAP No. 53.	19
	The Company has complied with this recommendation.	
iv.	Uncollected Premiums Aging Report	
	It was again recommended that the Company develop reports that will clearly show the aging status of all uncollected premium balances.	19
	The Company has complied with this recommendation.	
	It was further recommended that the Company periodically review system generated reports for accuracy.	19
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
v.	Uncollected Premiums – Deferred Premiums Report	
	It was again recommended that the Company develop reports to accurately identify the uncollected premiums as either Premiums in course of collection or deferred premiums, including the non-admitted amounts.	20
	The Company has complied with this recommendation.	
vi.	Bank Signatories	
	It was recommended that in the future the Company updates in a timely manner and maintains all signatory cards for all of its bank accounts in order that check signing authority is given only to the signatories approved by the board of directors.	20
	The Company has not complied with this recommendation. A similar comment is made in this report.	
vii.	Fidelity Bond	
	It was recommended that the Company maintain fidelity bond coverage that meets the minimum suggested amounts as set forth in the NAIC Financial Condition Examiners Handbook.	21
	The Company has complied with this recommendation.	
viii.	Directors' & Officers' Indemnification Policy	
	It was recommended that the Company comply with the required retention and coinsurance percentages stipulated in Department Regulation 110.	21
	The Company has complied with this recommendation.	
ix.	Information System Controls Evaluation- Contingency Planning	
	It was recommended that the Company place a high priority on the implementation of a comprehensive corporate business contingency plan that is kept current, based on a business impact analysis, tested, and that addresses all significant business activities.	22
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Reinsurance	
i.	It is recommended that the Company include the above referenced language from Department Circular Letter No. 5 (1988) in all reinsurance contracts which make reference to a novation.	11
ii.	It is recommended that in future filings the Company comply with the annual statement instructions and complete Schedule F with data that accurately reflects its reinsurance transactions.	11
	Accounts and Records	
B.	It is recommended that the Company update in a timely manner all signatory cards for all of its bank accounts to reflect changes in authorizations approved by the Board.	19

Respectfully submitted,

_____________/s/____________
Wayne Longmore,
Senior Insurance Examiner

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

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

_____________/s/____________
Wayne Longmore

Subscribed and sworn to before me

this_________ day of __________________, 2013.

APPOINTMENT NO. 30833

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Wayne Longmore

as a proper person to examine the affairs of the

FARM FAMILY CASUALTY INSURANCE COMPANY

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

COMPANY

with such other information as he shall deem requisite.

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

this 21st day of February, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent