

Fairmont Farmers Mutual Insurance Company

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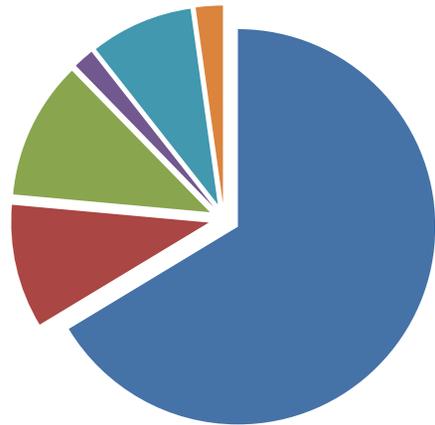
118 Downtown Plaza

Fairmont, MN 56031-1709

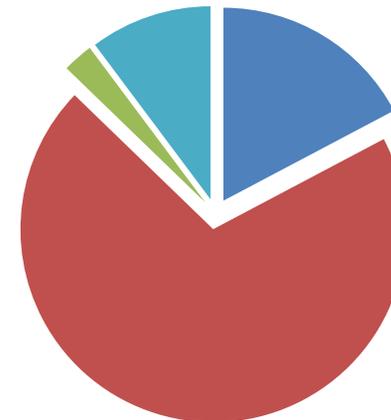
www.fairmontfarmersmutual.net

Fairmont Farmers Mutual Insurance Company was formed February 23, 1889, to meet the insurance needs of the people in the Fairmont area. The company operated from that time until January 1, 2002, as a Township Mutual under Minnesota Statute 67a. On December 24, 2001 the company received a license to operate under Minnesota Statute 66a. Up until this conversation, Fairmont Farmers Mutual had only underwritten fire and extended coverage. The company began underwriting the wind and hail perils on January 1, 2002. Effective January 1, 2007, Fairmont Farmers Mutual began underwriting Personal and Farm Liability, followed by Equipment Breakdown coverage on August 1, 2009. Today, as in 1889, the company is controlled by a local board of directors, management and staff. Fairmont Farmers Mutual has grown ever since. For more than 125 years, Fairmont Farmers Mutual has remained financially sound, providing stable rates and fair, prompt claim settlements.

Net Admitted Assets - 1st Quarter 2017



Liabilities - 1st Quarter 2017



BALANCE SHEET REPORT - 1ST QUARTER 2017

NET ADMITTED ASSETS	3/31/17	PERCENT TOTAL	12/31/16	PERCENT CHANGE	LIABILITIES AND POLICYHOLDERS' SURPLUS	3/31/17	PERCENT TOTAL	12/31/16	PERCENT CHANGE
BONDS	22,381,677	66.36%	22,326,508	0.25%	LOSSES AND LOSS ADJUSTMENT EXPENSES	2,356,955	6.99%	1,956,473	20.47%
STOCKS	3,398,088	10.07%	3,285,191	3.44%	UNEARNED PREMIUMS	9,552,475	28.32%	9,401,287	1.61%
CASH AND EQUIVALENTS	3,800,511	11.27%	2,796,743	35.89%	CEDED REINSURANCE PREMIUMS PAYABLE	347,322	1.03%	321,642	7.98%
OTHER CASH & INVESTED ASSETS	569,543	1.69%	576,744	-1.25%	PAYABLE TO PARENT, SUBSIDIARIES AND AFFILIATES	0	0.00%	0	0.00%
SUBTOTAL CASH AND INVESTED ASSETS	30,149,819	89.39%	28,985,186	4.02%	ALL OTHER LIABILITIES	1,395,757	4.14%	1,192,686	17.03%
PREMIUMS AND AGENTS' BALANCES	2,832,377	8.40%	2,791,501	1.46%	TOTAL LIABILITIES	13,652,509	40.48%	12,872,088	6.06%
ALL OTHER ASSETS	747,057	2.21%	749,718	-0.35%	POLICYHOLDERS' SURPLUS	20,076,744	59.52%	19,654,317	2.15%
TOTAL NET ADMITTED ASSETS	33,729,253	100.00%	32,526,405	3.70%	TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	33,729,253	100.00%	32,526,405	3.70%

Important: Financial Stability Ratings® must be verified by visiting www.demotech.com. Report data relies on submitted quarterly financial statements. Demotech makes no warranties or statements as to the accuracy of this information.



Demotech, Inc.

About Demotech, Inc.

Demotech, Inc. is a Columbus, Ohio based financial analysis firm providing a wide range of services including Financial Stability Ratings® (FSRs), pricing analysis, state filings assistance and support for other required regulatory reporting. Having worked with insurers of all sizes, Demotech possesses broad experience addressing actuarial and financial analysis issues, whether the issue is unique to a particular insurer or prevalent throughout the industry.

Proactively Responding to Market Needs

Since our beginning in 1985, Demotech has proactively responded to the market with our clients in mind. Starting in 1989, Demotech gained acceptance from the secondary mortgage marketplace, including the Federal National Mortgage Association (Fannie Mae) and later the Federal Home Loan Mortgage Corporation (Freddie Mac) and the United States Department of Housing and Urban Development (HUD), for Financial Stability Ratings® to facilitate activities for financially stable clients.

In 2005, Demotech was approved to provide Financial Stability Ratings® for regional insurance companies, captive insurance entities, risk retention groups and risk sharing entities providing professional liability insurance under HUD Notice H04-15, Professional Liability Insurance for Section 232 and 223(f) Programs.

Offering an Individualized Approach to Industry Challenges

Demotech understands the industry is fluid and that every company has unique challenges and objectives. We offer an individualized approach, learning an organization's needs and goals to offer a customized solution.

Working within the Property and Casualty (P&C) insurance sector, Demotech provides a variety of solutions, including Financial Stability Ratings®, actuarial consulting, market analysis and loss and loss adjustment expense reserve analysis. Each of our services has continually adapted to address our clients' challenges.

Solutions as Unique as Your Company

Demotech continues to assess the market with our clients' interests in mind. Since 1985, clients have looked to Demotech to provide information, analysis and proactive solutions. We continue to evolve along with the industry through the development of innovative solutions, driven by our commitment to our clients.

SERIOUS ABOUT SOLVENCY®



Financial Stability Ratings® (FSRs)

Description of the Analysis Process

The methodology utilized by Demotech, Inc. is proprietary. However, it relies on the underlying records and summaries prepared by responsible officers or employees of the P&C insurer and/or its parent company as reported in the financial statements of the insurer.

The Financial Stability Analysis Model involves a tactile review as well as computation and analysis of financial ratios to determine the current and future financial stability of the P&C insurer.

Tactile Review

The tactile review includes the study and summarization of materials provided to us. Set forth below is an example of some of the items that Demotech, Inc. typically receives:

1. Annual and quarterly statements of the insurer, its parent company and subsidiaries
2. Statement of actuarial opinion, managements' discussion and analysis audit
3. Changes in working capital
4. Change in the restricted cash and receivables from affiliates
5. Comparison of actual versus budget operating results
6. Summary of current reinsurance program.

Financial Ratio Calculation

A major item to determine the financial stability of a P&C insurer is the calculation of financial stability ratios measured against our financial stability test. These ratios and tests have been sampled on an industry wide basis and have been substantiated by other firms as well as Demotech, Inc.

A series of solvent and insolvent P&C insurers was subjected to our battery of ratios and tests in order to determine the predictability and reliability of our financial analysis model. The Financial Stability Analysis Model would have flagged P&C insurers that became insolvent at least one year in advance of formal regulatory action.

The basic information to develop our ratios is readily available from GAAP or statutory statements. Our strategic weighting of ratios to arrive at a final score is based on regression analysis and multi-variate analysis. The formula is proprietary and for that reason cannot be released. Those Balance Sheet and Income Statement items reviewed include but are not limited to:

- | | |
|---------------------------|------------------------------|
| * Total current assets | * Total assets |
| * Working capital | * Total current liabilities |
| * Total liabilities | * Surplus |
| * Administrative expenses | * Total revenues |
| * Net income | * Receivables |
| * Total expenses | * Amount of business written |

The concept of financial stability is, in our opinion, independent of size. Accordingly, small, well-managed P&C insurers can have more financial stability than larger, highly leveraged insurers.