

# AAIC

AMERICAN AGRICULTURAL INSURANCE COMPANY

Providing Value Through Service, Integrity and Trust

2010 ANNUAL REPORT

The results of the Farm Bureau companies were similar to those of American Ag;

2010 was...a definite improvement over the prior two years.

## A Message from the President and the CEO

The 2010 financial results produced a solid year for American Ag and demonstrated a clear improvement over the two immediately prior years. Surplus increased by \$10,715,694, or 2.2% over 2009. High retrospective costs, driven by poor experience from 2008 and 2009, impacted 2010 and led to an underwriting loss for the year. The Farm Bureau business performed well, and the broker assumed business had another very strong year. While we did not match the large underwriting gains of 2007, we definitely headed back in that direction.

Below is a summary of the overall financial results:

- Calendar year loss ratio of 87.6% and combined ratio of 104.5%, a clear improvement over the 2009 loss and combined ratios of 100.3% and 120.0% respectively
- 2010 accident year loss ratio before stop loss of 81.3%
- Direct and assumed written premium of \$941,420,468, net written premium of \$374,222,306 and net earned premium of \$380,879,472
- Net investment income of \$17,381,501

- After tax net unrealized gain of \$10,592,829
- A growth in assets of \$38,082,466, or 3.5%, from \$1,094,391,787 in 2009 to \$1,132,444,253 in 2010
- Underwriting loss of \$15,827,108, driven mainly by high retrospective costs.

Two of our largest corporate retrocessions, the excess catastrophe cover and stop loss, are each purchased on a three-year basis. The poor experience in 2008 and 2009 drove the cost for these covers up in 2010, a year in which we had no recoveries from either of these covers. The cost of these covers is expected to be reduced significantly in 2011.

The results of the Farm Bureau companies were similar to those of American Ag; 2010 was not a great year, but a definite improvement over the prior two years. American Ag's results have historically been, and continue to be, more closely correlated with the Farm Bureau group results rather than the overall reinsurance industry results. Fortunately, the unprecedented frequency of weather events from 2008 and 2009 did not occur in 2010. While Farm Bureau catastrophe claims were still above the long-term average, they dropped from 22 events (2008) to 18 events (2009) and then to 14 events in 2010. In addition to an improvement in the weather in 2010,

## If the Farm Bureau companies continue to be successful, then American Ag will be successful as well, and we are confident this will be the case.

many of our companies began initiatives to improve their own experience on the property lines of business, which will help improve American Ag's results as we move forward into 2011 and beyond.

It is very clear that the future of American Ag is tied to the future of the entire Farm Bureau group. Our focus has always been and will continue to be on the success of our Farm Bureau companies. Our mission statement remains as true today as ever:

"We exist to assist the Farm Bureau insurance companies achieve financial stability and growth through a long-term partnership based on mutual integrity and trust."

If the Farm Bureau companies continue to be successful, then American Ag will be successful as well, and we are confident this will be the case. In 2010 we undertook several initiatives with our insurance companies to focus on their future success. We developed a benchmarking and best practices program and worked on a customer satisfaction project with several Farm Bureaus. American Ag continued to develop partnerships to help the

Farm Bureau companies explore and implement more sophisticated rating plans and value added coverages for their policyholders. We also continued to provide exposure management tools and reinsurance structure modeling in order to help our companies best manage their books of business and their overall cost of reinsurance, both through our own modeling efforts and through the resources of our business partners. We published research papers on such topics as growing medical marijuana, distracted driving, social networking and agritainment. We began an initiative to work with our companies on understanding and developing a plan to react to the changing environment and evolving insurance exposures for our farm customers.

American Ag also began a redesign of our Enterprise Risk Management process in 2010. This new process is robust, and we are developing new standards and methods for measuring risk. Our goals for this process are to promote the discussion of risks at an enterprise level, establish and monitor key risk indicators, enhance and embed risk/reward decision making into our business processes, and to improve risk management communica-

tion throughout the company. While American Ag is undertaking this as an internal process, we are also developing a tool kit for the Farm Bureau companies to use in their Enterprise Risk Management processes. We are striving to improve our understanding of our business and to make us all stronger organizations.

Another very big accomplishment in 2010 was the implementation of a new processing system. Anyone who has gone through such a transition will know that this is no small task. The success of such a massive project

depends on the hard work of many people from all disciplines within the company. It requires determination, flexibility and teamwork. We are very proud of all the accomplishments of our employees over the past year, but especially want to recognize their effort in getting us running on the new system. Thank you for all you have done and continue to do to make American Ag successful.

We are extremely grateful for these dedicated employees, our customers and the board of directors. We thank you all for your continued support.



Bob Stallman,  
President & Chairman of the Board

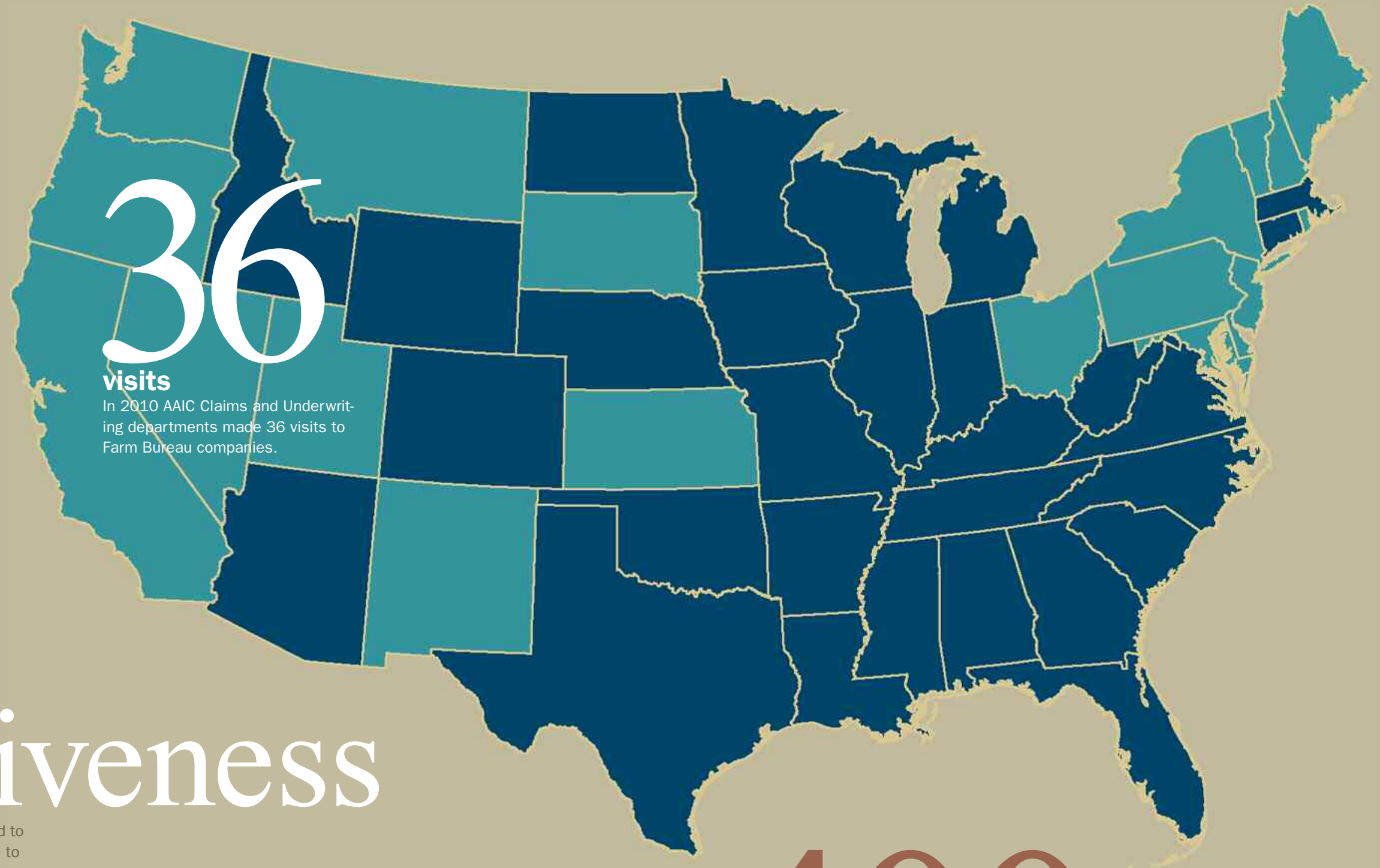


Janet Katz, Executive Vice President and  
Chief Executive Officer

American Agricultural Insurance Company  
Reliability in a world  
of uncertainty.

# 1.5 days

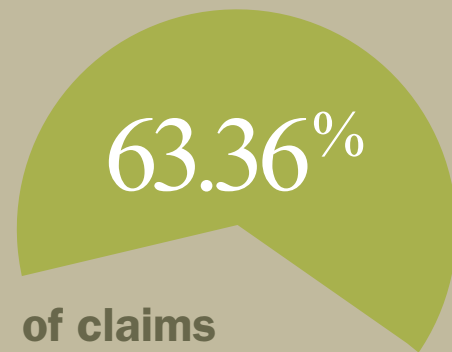
AAIC Claims department has a 1.5 day average claim payment time to Farm Bureau companies.



# responsiveness

One of the many ways we respond to clients is through numerous face to face meetings every year. We are here to help our customers solve the issues that face them every day.

And we are here to respond when claims are made. American Ag's claims payment turnaround time is measured in days.



**of claims**  
63.36% of claims submitted to AAIC from Farm Bureau companies are paid by the next day.

# 400

**days**  
In 2010 over 400 AAIC staff days were spent visiting Farm Bureau companies.

# strength

We work hard to maintain the A.M. Best Rating that demonstrates our commitment to protecting our customers. Our conservative investment strategies and diligent financial reporting processes are what help us make the most of our assets to reinsure our customers.

**257.2**  
overall P&C BCAR score

**298.2**  
median BCAR score

**339.0**  
AAIC's BCAR score

American Ag's most recent BCAR (Best's Capital Adequacy Ratio) score was 339.0. This compares to a median BCAR score of 298.2 for other companies that are rated "A" by A.M. Best, and an overall P&C industry BCAR score of 257.2. BCAR is an integrated review of an insurer's underwriting, financial and asset leverage. A.M. Best analysts use this calculation to test the impact of scenarios that affect an insurer's financial outcomes.

# 39

## countries

AAIC assumed premium from reinsurance programs in 39 different countries in 2010.



As long as AAIC has been rated by AM Best (59 years), the rating has been "A" or better.

# 1,350

## models

1350 individual catastrophe modeling analyses are run annually for the FB companies.

# service

Our unique relationship with the Farm Bureau companies allows us to do much more than a typical reinsurer. Our in-house staff of catastrophe modeling professionals and data processing resources, along with that of our strategic business partners, is a valuable resource for our clients.

fraction, benchmarking, ethnic marketing, underground sewer line coverage and identity theft recovery to name a few.

Whether assisting Farm Bureaus in meetings with rating agencies, hosting and facilitating dialogue with catastrophe reinsurance markets, or exploring and implementing new coverage concepts and marketing strategies, we view our role not only as reinsurer, but also as partner of the Farm Bureau companies.

Through our strategic business partners, AAIC co-hosts webinars for our Farm Bureau clients on a variety of topics such as market segmentation and demographics, customer satis-

# 20

## webinars

In 2010 AAIC hosted over 20 webinar sessions that delivered information to the Farm Bureau companies.

# 13.6 million

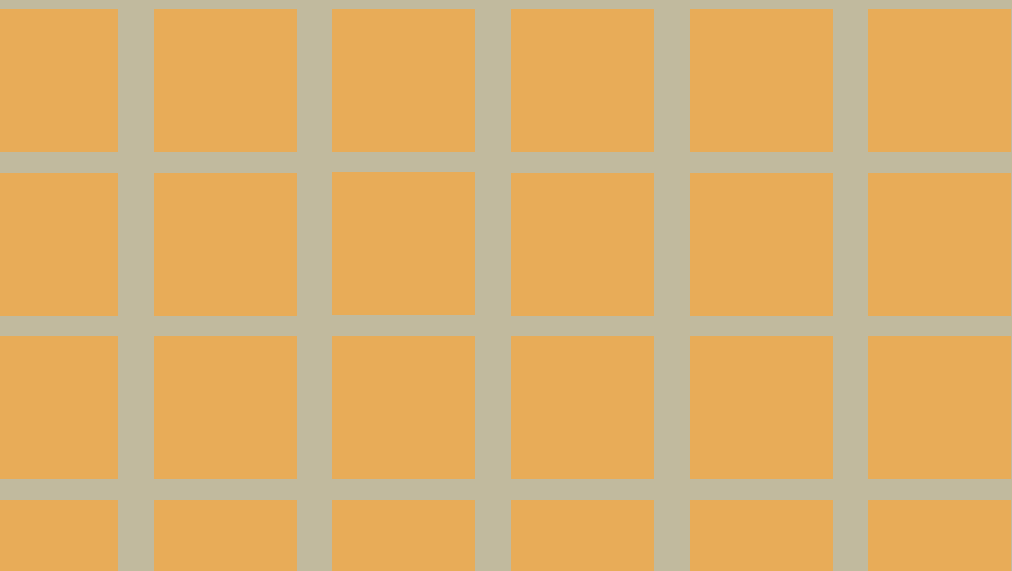
## properties

The total number of properties that are run through the cat modeling analyses is 13,600,000.

# \$1,660,000,000,000

## property values

The total value of properties run through the cat modeling analyses is \$1.660 trillion.



98

**retention**

AAIC employee turnover was only 2% in 2010.

85.6

**average retention**

The national average employee turnover is 14.4% annually, according to the Bureau of National Affairs.

# experience

American Ag dedicates itself to having a professional staff capable of covering all the needs of our clientele. Our employee mix includes those with years of prior

Farm Bureau experience, and many others who have worked in the reinsurance brokerage and direct writer segments of the industry.

350

**years**

Current AAIC employees have a total of 350 years experience working at Farm Bureau insurance companies before beginning their careers at AAIC.

**employee retention**

11 years

Average tenure with AAIC was 11 years in 2010.

4.4 years

The national average is 4.4 years, according to the U.S. Bureau of Labor Statistics.

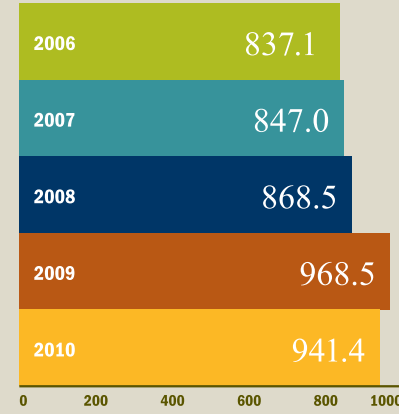
## Summary Charts and Commentaries

### Combined Ratio 104.5



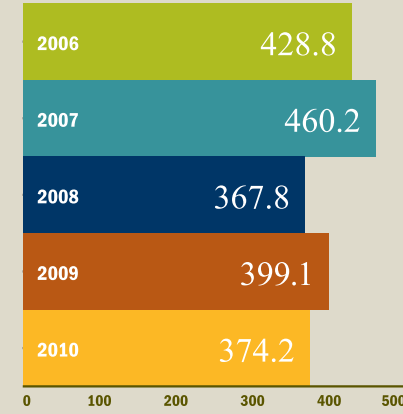
The cost associated with retrocessional contracts written on a three year basis covering 2008 through 2010 was the main factor contributing to the 2010 underwriting loss ratio of 87.6%. The expense ratio decreased 2.9% from the previous year, primarily attributable to a decline in commission expense, ending 2010 at 16.8%.

### Gross Written Premium \$941,420,468



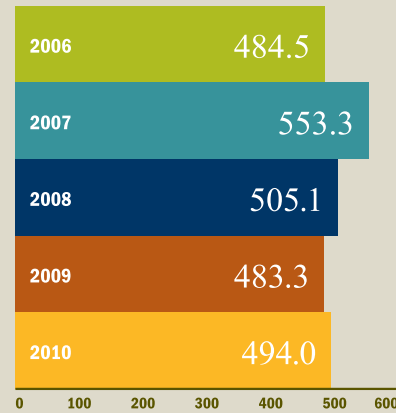
Gross written premium decreased by \$27,036,438. The most significant decrease was in Multi Peril Crop Insurance, which impacted gross written premium but not net written premium.

### Net Written Premium \$374,222,306



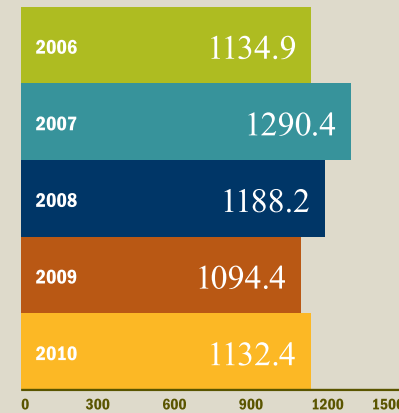
Net written premium decreased by \$24,864,039. The decrease is primarily attributable to the Farm Bureau Companies increasing their retention of property business.

### Surplus \$494,004,089



The surplus increase of \$10,715,694, or 2.2%, was substantially attributable to the after tax unrealized gain of \$10,592,823 in the equity portfolio. Other key components increasing surplus, a decline in non-admitted assets and a positive change in deferred taxes, were offset by reductions to surplus associated with preferred dividends paid to stockholders and a stock repurchase.

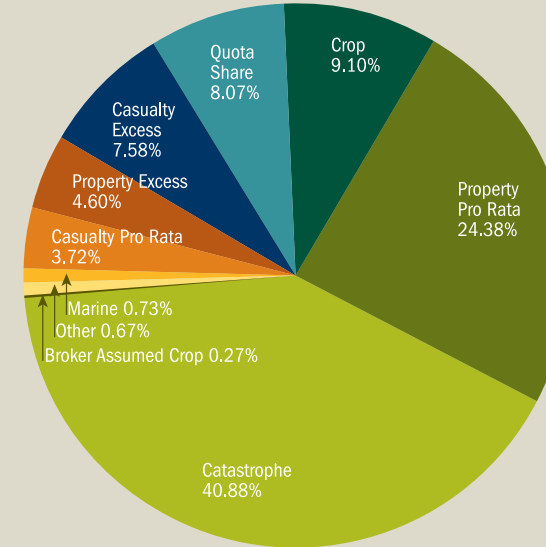
### Assets \$1,132,444,253



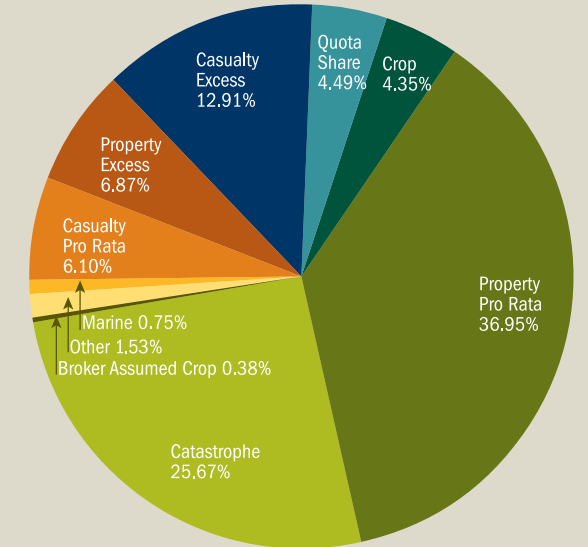
Assets increased \$38,082,466 in 2010. The overall increase in assets resulted from an increase in unrealized gain in the equity portfolio combined with an increase in reinsurance recoverable. The increase in reinsurance recoverable is principally related to prior years' ceded loss reserves associated with an aggregate stop loss contract becoming paid loss recoverable.

## Written Premium Charts

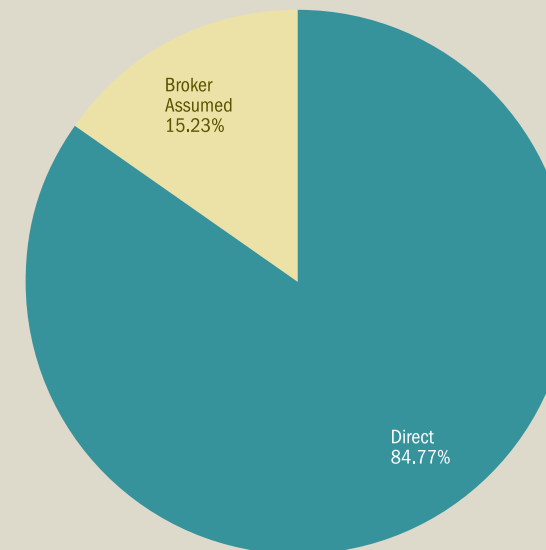
### Gross Written Premium By Major Class



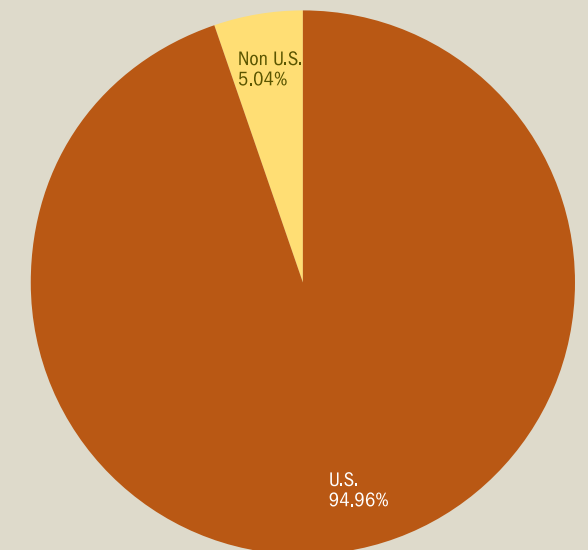
### Net Written Premium By Major Class



### Gross Written Premium Direct Reinsurance vs. Broker Assumed Reinsurance

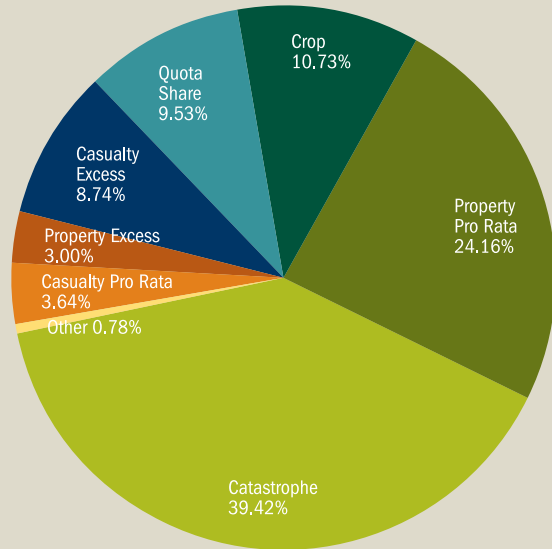


### Gross Written Premium U.S. Reinsurance vs. Non-U.S. Reinsurance

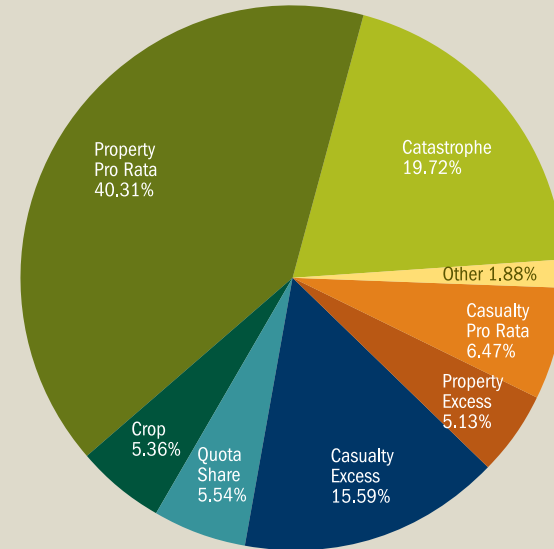


## Direct Reinsurance

### Gross Written Premium By Major Class



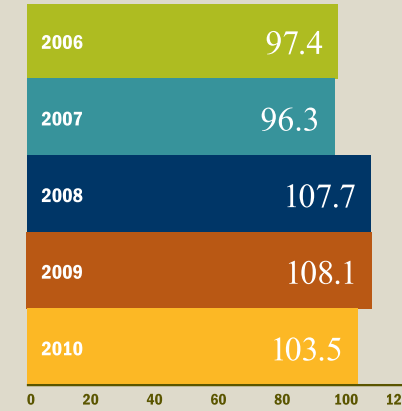
### Net Written Premium By Major Class



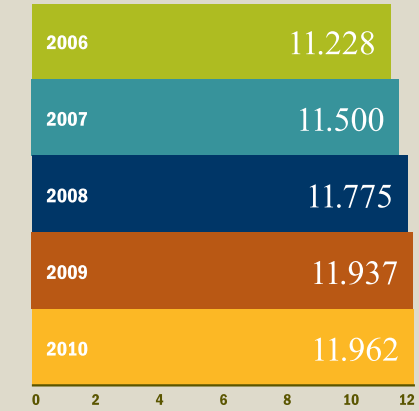
## Farm Bureau Insurance Companies

The following charts show the last five years' composite Annual Statement results for all Farm Bureau Property & Casualty companies as a group, not including American Ag.

### Combined Ratio 103.5



### Direct Written Premium \$11,961,924,624

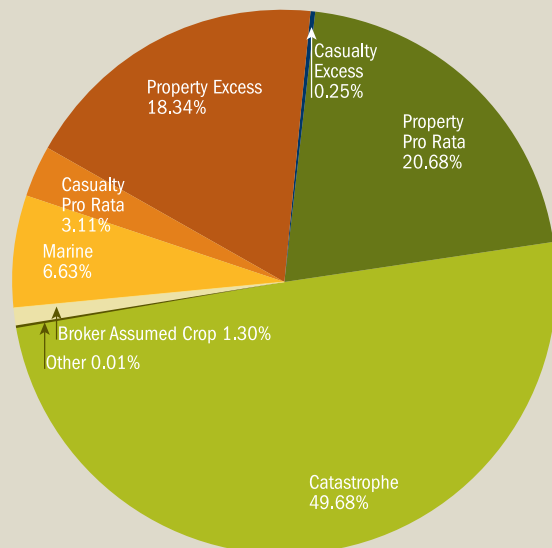


### Net Written Premium \$11,092,349,966

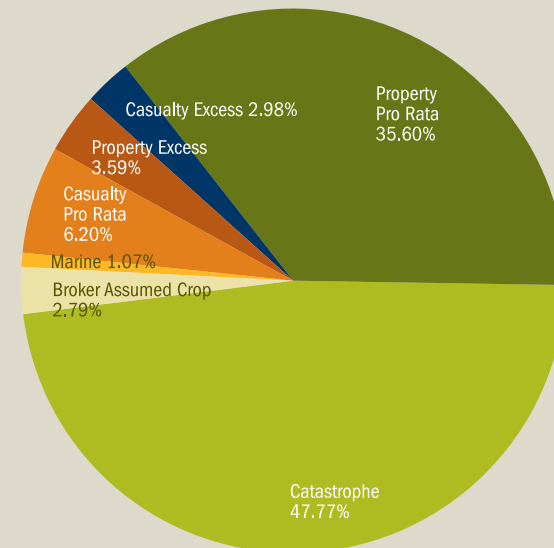


## Broker Assumed Reinsurance

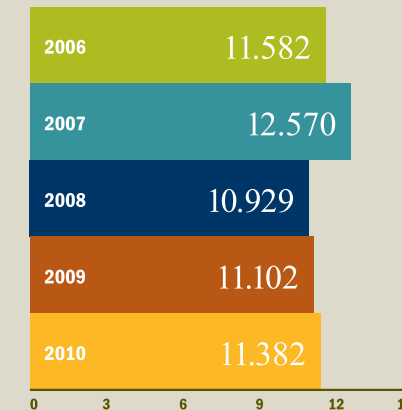
### Gross Written Premium U.S. Reinsurance



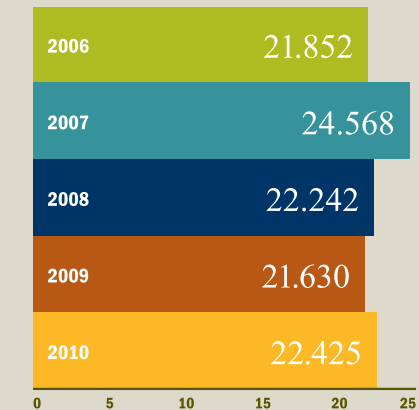
### Gross Written Premium Non-U.S. Reinsurance



### Surplus \$11,382,391,296



### Assets \$22,424,882,330



### Consolidated Balance Sheet

Assets	2010	2009	Increase (Decrease)
Bonds	\$ 605,250,533	\$ 645,319,263	\$ (40,068,730)
Stocks	119,930,612	103,739,442	16,191,170
Other Invested Assets	8,380,731	7,500,000	880,731
Cash and Short Term Securities	143,093,114	101,887,066	41,206,048
<b>Total Cash and Investments</b>	<b>876,654,990</b>	<b>858,445,771</b>	<b>18,209,219</b>
Premiums Receivable	151,841,776	153,450,060	(1,608,284)
Reinsurance Recoverable on Loss Payments	81,611,813	20,277,631	61,334,182
Interest and Dividends Receivable	5,289,588	6,153,870	(864,282)
Deferred Federal Income Taxes	13,546,086	15,872,998	(2,326,912)
Other Assets	3,500,000	40,161,457	(36,661,457)
<b>Total other than Cash and Investments</b>	<b>255,789,263</b>	<b>235,916,016</b>	<b>19,873,247</b>
<b>Total Assets</b>	<b>1,132,444,253</b>	<b>1,094,361,787</b>	<b>38,082,466</b>
<b>Liabilities and Stockholders' Equity</b>			
Unpaid Losses and Loss Adjustment Expenses	\$ 375,538,040	\$ 349,132,885	\$ 26,405,155
Reinsurance Payable on Paid Loss and LAE	65,250,291	40,728,174	24,522,117
Ceded Reinsurance Premiums Payable	62,655,471	76,286,578	(13,631,107)
Unearned Premium Reserve	96,294,064	102,951,229	(6,657,165)
Other Liabilities	38,702,298	41,974,526	(3,272,228)
<b>Total Liabilities</b>	<b>638,440,164</b>	<b>611,073,392</b>	<b>27,366,772</b>
<b>Total Stockholders' Equity</b>	<b>494,004,089</b>	<b>483,288,395</b>	<b>10,715,694</b>
<b>Total Liabilities and Equity</b>	<b>1,132,444,253</b>	<b>1,094,361,787</b>	<b>38,082,466</b>

### Consolidated Statement of Operations

	2010	2009
Premiums Written	\$ 374,222,306	\$ 399,086,345
Premiums Earned	380,879,472	414,112,478
Losses and Loss Adjustment Expense	333,814,583	415,224,991
Commission Expense	46,865,303	62,481,934
Underwriting Expense	16,026,694	16,335,270
<b>Net Underwriting Income (Loss)</b>	<b>(15,827,108)</b>	<b>(79,929,717)</b>
Net Investment Income	16,124,023	17,932,818
Gain From Sale of Investments	1,257,478	705,921
<b>Net Investment Gain</b>	<b>17,381,501</b>	<b>18,638,739</b>
Other Income	(4,232,060)	(2,386,389)
Net Income (Loss) Before Taxes	(2,677,667)	(63,677,367)
Federal Income Tax (Recovery)	375,540	(27,157,714)
<b>Net Income</b>	<b>(3,053,207)</b>	<b>(36,519,653)</b>

### Consolidated Statement of Stockholders' Equity

	2010	2009
Net Income	\$ (3,053,207)	\$ (36,519,653)
Change in Value of Investments Owned	10,592,829	12,484,007
Other Changes in Equity	7,699,081	6,203,226
Change in Surplus Notes		
Dividends to Stockholders	(2,023,385)	(2,023,385)
Change in Treasury Stock	(2,499,624)	(2,000,448)
<b>Change in Stockholder's Equity</b>	<b>10,715,694</b>	<b>(21,856,253)</b>
Beginning Stockholder's Equity	483,288,395	505,144,648
<b>Ending Stockholder's Equity</b>	<b>494,004,089</b>	<b>483,288,395</b>

## Corporate Officers

**Bob Stallman**  
President and Chairman of the Board

**Donald Villwock**  
First Vice President

**Richard Newpher**  
Treasurer

**Fred Baechle**  
Assistant Treasurer

**Janet S. Katz**  
Executive VP & Chief Executive Officer

**Ellen Steen**  
Corporate Secretary and General Counsel

## AAIC Staff Officers

**Janet S. Katz**  
Executive VP & Chief Executive Officer

**Jenny L. Adams**  
Senior VP, Accounting

**Virgil R. Maxwell**  
Senior VP, Broker Assumed Reinsurance

**Darnell Pettengill**  
Senior VP, Business Development

**Charles E. Van Kampen**  
Senior VP, Actuarial, IS and Analytics

**Fred B. Baechle**  
VP, Investments

**James Beckley**  
VP, Claims

**Graham Nelson**  
VP, Administrative Services

**Timothy W. Smith**  
VP, Underwriting

## 2010 Board of Directors

**Bob Stallman**  
American Farm Bureau Federation

**Eric Aasmundstad**  
Nodak Mutual Insurance Company

**Ronald Anderson**  
Louisiana Farm Bureau Mutual  
Insurance Company

**Steve Baccus**  
Farm Bureau Mutual  
Insurance Company

**William Bruins**  
Rural Mutual Insurance Company

**Kenneth Dierschke**  
Texas Farm Bureau Mutual  
Insurance Company

**Vincent Duvall**  
Georgia Farm Bureau Mutual  
Insurance Company

**Mark Haney**  
Kentucky Farm Bureau Mutual  
Insurance Company

**John Hoblick**  
Florida Farm Bureau Casualty  
Insurance Company

**Blake Hurst**  
Farm Bureau Town & Country  
Insurance Company of Missouri

**Randy Knight**  
Mississippi Farm Bureau  
Casualty Insurance Company

**Perry Livingston**  
Mountain West Farm Bureau  
Mutual Insurance Company

**Philip Nelson**  
Country Mutual Insurance Company

**Jerry Newby**  
Alfa Mutual Fire Insurance Company

**Frank Priestley**  
Farm Bureau Mutual Insurance  
Company of Idaho

**Wayne Pryor**  
Virginia Farm Bureau Mutual  
Insurance Company

**Kevin Rogers**  
Western Agricultural Insurance Company

**Don Shawcroft**  
Colorado Farm Bureau Mutual  
Insurance Company

**Mike Spradling**  
Oklahoma Farm Bureau Mutual  
Insurance Company

**Lacy Upchurch**  
Tennessee Farmers Mutual  
Insurance Company

**Randy Veach**  
Farm Bureau Mutual Insurance  
Company of Arkansas, Inc.

**Donald Villwock**  
United Farm Family Mutual  
Insurance Company

**David Winkles**  
South Carolina Farm Bureau  
Mutual Insurance Company

**Wayne Wood**  
Farm Bureau Mutual Insurance  
Company of Michigan

**Larry Wooten**  
North Carolina Farm Bureau  
Mutual Insurance Company

## Description of Operations

	Schaumburg, IL	Columbus, OH
Primary Operations	Direct Reinsurance	Assumed Reinsurance
Primary Markets	Farm Bureau Companies	Reinsurance Brokers
Territory	U.S.	Worldwide
Began operations	1948	1999*
2010 GWP	\$798,003,002	\$143,417,465

\*American Ag purchased Nationwide Mutual Insurance Company's Office of Reinsurance in 1999. Nationwide created the office in 1961, although the company started to actively write assumed reinsurance in 1958. Some reinsurance contracts were even negotiated as far back as 1942, but Nationwide, or Ohio Farm Bureau as it was known back then, did not actively seek assumed reinsurance opportunities in those days.

## Countries in Which Ceding Partners are Located:

Australia	Dominican Republic	Poland
Austria	Egypt	Puerto Rico
Bahrain	Finland	Romania
Barbados	France	Russian Federation
Belgium	Georgia	Slovakia
Bermuda	Germany	Slovenia
Bulgaria	Greece	Sweden
Canada	Ireland	Taiwan, Province of China
Cayman Islands	Israel	Tunisia
China	Italy	Turkey
Croatia	Japan	United Arab Emirates
Czech Republic	Netherlands	United Kingdom
Denmark	New Zealand	United States



American Ag carries an A.M. Best's rating of "A" Excellent.

**Our Mission: We exist to assist the Farm Bureau insurance companies achieve financial stability and growth through a long-term partnership based on mutual integrity and trust**

## Strategic Goals

- Participate in all the reinsurance business of the Farm Bureau companies while retaining as much exposure as prudent and financially responsible
- Maintain the existing market niche of broker assumed reinsurance business and expanding (or contracting) this niche where prudent and financially responsible
- Promote and facilitate cooperative efforts of the Farm Bureau insurance companies

## Operating Principles

- Make innovative and flexible reinsurance programs, products and services individually tailored and available to all Farm Bureau companies
- Use sound actuarial principles to price equitably and consistently based upon individual company experience and exposure
- Build and maintain strong business relationships with worldwide insurance markets and brokers and access their expertise and services for the benefit of the Farm Bureau companies
- Maintain a knowledgeable, well educated, stable staff of dedicated reinsurance professionals involved in industry organizations with a mixture of Farm Bureau and insurance industry experience

## Financial Objectives

- Manage underwriting and investment risk to provide an increase in book value every year and a longterm average annual increase of 8%
- Maintain a healthy balance sheet through strong reserves and high quality, diversified investments
- Maintain an A.M. Best rating of A or higher
- Maintain internal expenses substantially below industry norms
- Provide prompt and long-term collectability of claims

**AMERICAN AGRICULTURAL INSURANCE COMPANY**

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