

BACK TO THE BASICS

4TH QUARTER 2004

MANY DATA PROCESSING ENHANCEMENTS OCCURRING NOW AND IN JANUARY:

- Farmers Mutual Insurance Company will be experiencing many data related enhancements, upgrades and new equipment in the next few weeks.
- ♦ We will be upgrading our documentation and workflow system, ImageRight, starting on December 28th. This will be the first upgrade to our document processing system since implementation in April of 2000. The upgrade is scheduled to be completed on December 30th.
- ♦ With the upgrade of ImageRight we will be replacing many of our computers that are currently operating on Window NT and have a processor speed of 333 MHz with new computers operating on Windows XP and have a processor speed of 2.8 GHz.
- ♦ Farmers Mutual will be upgrading our Ethernet network from 100 meg to 1 gig relay switches in early January. This upgrade should significantly improve our network speed.
- ♦ The company will be installing a dedicated firewall system in January this will enhance our network security and protect our system from outside attacks.
- ♦ Along with the firewall system we will also be installing an e-mail checker that will scan incoming mail for spam and viruses.
- ♦ Farmers Mutual will be upgrading to INSCO.Net in the latter part of January.



David L. Corsini, II

As we approach this holiday season it is unbelievable that another year is rapidly coming to a close. 2004 continues to be a banner year with the company continuing its profitability trend. Currently the company has a combined ratio of 88.9% and a surplus position which has increased over year end 2003.

We appreciate the steady increase in new business noted since our re-implementation in May of this year. Forty one of our fifty six current agencies submitted 127 new business applications for the month of November. Slow growth with a focus on profitability remains our

In order to recognize efficient, effective and profitable performance Farmers Mutual will be introducing a new agency contingency bonus plan in 2005.

The plan is quite simple and is based upon current year results only. There are no carryovers, carrybacks or multi-year calculations. The agents contingency bonus plan uses current year net loss ratio to determine a loss ratio multiplier that would provide larger contingency bonuses to the more profitable agencies.

Company Qualification Criteria:

- Company **MUST HAVE** Current year net underwriting income

PRESIDENT'S CORNER

goal as we move into 2005.

I am pleased to announce our new and improved agency contingency bonus program effective January 1, 2005. This new program will be based upon current year results, underwriting profits and a sliding scale determined by the financial strength of the company. Look for more details to follow.

We are moving closer to rolling out our new insurance management system. Currently testing of the new system has begun and we are working to resolve any remaining outstanding issues. Other projects for 2005 include modification to our website as well as agency interface that will improve the service we provide our customers. In addition programs that would allow the

agencies to obtain a credit score at the point of sale and a property valuation program are currently being reviewed for implementation.

The interaction between company and agency has been tremendous. We appreciate all the suggestions and comments which you have passed along. Our common goal is to provide a high level of service to our policyholders, expeditious and efficient and geared towards mutual profitability. The employees of Farmers Mutual wish you and your family a healthy and prosperous holiday season.

Dave Corsini
President/CEO

NEW AGENT CONTINGENCY BONUS PLAN

- Direct Written Premium to Surplus Ratio before Bonuses of less than 3:1
- Recipient must be employed or licensed with the company at date of payment of bonus.

Agents Loss Ratio Multiplier	
Current Year Net Loss Ratio	Agent Direct Written Premium Multiplier
> 50%-40%	1
>40%-30%	2
>30%-20%	3
>20%-10%	4
>10%	5

Agents Bonus Allocation Formula:

- Multiply agents current year direct written premium by loss ratio multiplier.
- Sum all qualified loss ratio multiplier written premium amounts.
- Agents bonus allocation amount calculated

based upon agents loss ratio multiplier written premium divided by total loss ratio multiplier written premium multiplied by bonus amount determined above.

Agent Bonus Calculation Formula:

(Agent Direct Written Premium * Written Premium Multiplier) / Sum of All Contingency Bonus Qualified Agents Loss Multiplier Direct Written Premium * Total Agent Bonus Amount = Agent Bonus Amount

Direct Written Premium To Surplus Percentage Calculation Factor	
Direct Written To Surplus Ratio	Agents Bonus Percentage
>3.0:1-2.5:1	20.00%
>2.5:1-2.0:1	22.50%
>2.0:1-1.5:1	25.00%
>1.5:1-1.0:1	27.50%
>1.0:1	30.00%

AGENCY ADVISORY COUNCIL REVIVED

Farmers Mutual will be reviving the agents advisory council in 2005. The councils primary objective will be to share trends, practices and techniques of the industry that might be beneficial to the operation of Farmers Mutual Insurance Company and also assist you, the agent, in the operation of your agency.

Farmers Mutual has asked five agencies to set on the new council. These agencies will be contacting

our agency force in the near future and discussing issues that you the agent, might want presented at the council.

Please use this opportunity so that it may not only benefit you, the agent, but also us, the company.

The advisory council will meet twice a year. The first meeting is tentatively scheduled for March at our home office in Fairmont. A second meeting will be held in the fall.

MEET OUR EMPLOYEES



Gary Auvil

It all started at home, naturally, but the environment there was insurance. My Dad, Kermit Auvil, who married

my Mother, Jewell Britton Auvil, 55 years ago, was a claims adjuster when I was growing up. I always admired the way he was able to help people. That's what I wanted to do.

Less than one month after college graduation, I was fortunate to get a job in June of 1972 with Mutual Fire Insurance Company in Clarksburg, WV as a trainee. Their training program was very comprehensive and included all areas of the company business. In 1973, Mutual Fire took over the management of Harrison County Farmers Mutual and I was asked to become the Secretary of the company, a position I held for 18 years. Later, Celina Group took over the failing Mutual Fire and they opened a brokerage facility, First Insurance Mart, offering non standard auto and hard to place risks which I operated in conjunction with the Harrison County Farmer Mutual until 1988. At that time, Celina Group closed First Insurance Mart and I became a commercial underwriter with WV Fire and Casualty, a Celina Group company. I look back on those years of such broad exposure with

tremendous affection and consider them the best training I could possibly have received.

In August of 1990, Conn Johnson approached me about a commercial underwriting position with Farmers Mutual Insurance Company. The position was to be new and to include the creation of commercial lines of business for the company along with the claims manager's position until it was filled in December of 1990. The rest, they say, is history.

I was born in Clarksburg, WV and have lived in Quiet Dell, WV for 43 years. I am married to Ellen Marie Auvil from Smithville, WV and we have 5 children, 3 boys and 2 girls, all grown. Ellen is a 'professional' substitute schoolteacher. I still play basketball 2 nights a week and Ellen is a great cook, especially candies and cakes, which is the reason for the basketball. We enjoy camping, fishing, gardening, long walks and working in our community church where I am a Sunday school teacher and Chairman of the Administrative Council.

I have enjoyed my time at Farmers Mutual, watching it evolve from a small farm mutual to a \$10,000,000 company at its zenith. Today, I am proud to be part of a close-knit capably operated organization offering commercial lines of coverage to West Virginia agents, some I have known for over 30 years and consider my friends. I am blessed.

EMPLOYEES ENJOYING HOLIDAY FESTIVITIES



Employees Enjoying Thanksgiving Luncheon

On Friday November 19th the employees enjoyed a Thanksgiving luncheon provided and prepared by the employees. Each employee brought a covered dish. Vineet Aurora, a software consultant who is developing our new policy processing system, brought in an Indian styled chicken dish from his native country India that was quite popular among the employees.

On Saturday December 4th Dave and Robin Corsini

hosted the company's Christmas dinner at their home. Everyone had a marvelous time and the employees wish to express their gratitude to both Dave and Robin for their hospitality.

On Wednesday December the 22nd Farmers Mutual will be providing a Christmas luncheon for the employees as we prepare for the holiday.

The office will be closed December 23rd, 24th and 31st for the holiday season.



Hurry-Up! Where Is The Food?



"According to this report 90% of household accidents take place in the kitchen."

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