

Farm Bureau Insurance Group

Raleigh, NC

Multi-Entity Report on Examination

As of December 31, 2017

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February 28, 2019

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

**North Carolina Farm Bureau Mutual Insurance Company (“NCFBMIC”)
Farm Bureau Insurance of N.C., Inc. (“FBINC”)**

(hereinafter referred to as the “Farm Bureau Insurance Group”), at its main administrative and statutory home office located at 5301 Glenwood Avenue, Raleigh, North Carolina.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of each company within the Farm Bureau Insurance Group. This examination covers the period from January 1, 2013, to December 31, 2017, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Farm Bureau Insurance Group was as of December 31, 2012.

The purpose of this examination is to review and evaluate the Farm Bureau Insurance Group’s business processes and controls to assist in accessing and monitoring its current financial condition and prospective solvency. Pursuant to Section (“§”) 58-2-132 of GS, this Report on Examination comprises only facts appearing in the books, records, or other documents of the Farm Bureau Insurance Group (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Farm Bureau Insurance Group, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Farm Bureau Insurance Group were considered in accordance with the Handbook risk-focused surveillance process and the following key functional activities were identified:

Cash & Investments
Premiums & Underwriting
Loss & Reserves
Reinsurance

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to the Farm Bureau Insurance Group.

The Farm Bureau Insurance Group's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. Trial balance reconciliations of the Annual Statements were performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Farm Bureau Insurance Group's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from the Farm Bureau Insurance Group's management.

The books and records of the Farm Bureau Insurance Group are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). KPMG, LLP of Raleigh, North Carolina, the former designated independent public accountant of the Farm Bureau Insurance Group, issued an unqualified opinion for the year ended December 31, 2013, subsequent to the Department's prior examination. Johnson Lambert LLP of Raleigh, North Carolina, the current designated independent public accountant of the Farm Bureau Insurance Group, issued an unqualified opinion for each year from the year ended December 31, 2014, through the year ended December 31, 2017, for the companies within the Farm Bureau Insurance Group.

The statutory reserves and related items for 2017 were reviewed and certified by the Farm Bureau Insurance Group's Appointed Actuary, Robert Stewart, a Director with FTI Consulting, Inc. and a member of the American Academy of Actuaries.

REPORT ABBREVIATIONS

General Statutes of North Carolina	“GS”
North Carolina Department of Insurance	“Department”
North Carolina Farm Bureau Mutual Insurance Company	“NCFBMIC”
Farm Bureau Insurance of N.C., Inc.	“FBINC”
National Association of Insurance Commissioners	“NAIC”
Financial Condition Examiners Handbook	“Handbook”
Annual Statement	“AS”
Board of Directors	“Board”
Information Technology General Controls	“ITGCs”
Information Technology Planning Questionnaire	“ITPQ”
American Agriculture Insurance Company	“AAIC”
National Council on Compensation Insurance Inc.	“NCCI”
North Carolina Reinsurance Facility	“NCRF”
Southern Farm Bureau	“SFB”
National Flood Insurance Program	“NFIP”
North Carolina Department of Revenue	“NCDOR”

SUMMARY OF SIGNIFICANT FINDINGS

1. Comments, Recommendations and Directives

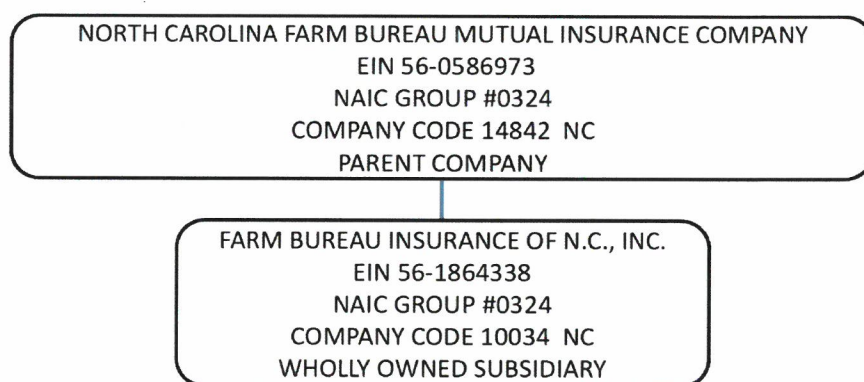
- a. FBINC improperly netted amounts due to and from NCFBMIC in its Annual Statement (“AS”) for the years 2013 through 2017 when no valid right of offset existed based on the terms of an executed agreement. FBINC also did not fully disclose all intercompany transactions in Note 10.B of the AS as required by the AS Instructions. FBINC is directed to provide accurate financial reporting in future filings with the Department, pursuant to GS § 58-2-165(c). FBINC remedied subsequently in the 2018 filing.
- b. The Farm Bureau Insurance Group maintained fidelity bond coverage totaling \$1,750,000 as of December 31, 2017, which is less than the NAIC’s recommended range of \$2,000,000 to \$2,250,000. We recommend that the Farm Bureau Insurance Group maintain fidelity bond coverage for no less than the minimum recommended by the NAIC and noted that its fidelity bond coverage was subsequently increased to \$2,000,000 effective June 25, 2018.
- c. NCFBMIC’s filings with the Department, including Form B, Form C and Management Discussion and Analysis, did not have the President’s signature. Pursuant to NCFBMIC’s bylaws filed with the Department, Article IV Section 4 states the "President shall sign all papers required by law to bear his signature, or to which the seal of the Corporation is affixed, including all policies of insurance, but his signature thereto may be a facsimile". NCFBMIC is directed to comply with its bylaws or amend its bylaws, if needed. Any amendments should be filed with the Commissioner in accordance with GS § 58-7-45(b). NCFBMIC amended its bylaws on December 5, 2018, to remove the language at Article IV Section 4.

ORGANIZATIONAL STRUCTURE

The companies within the Farm Bureau Insurance Group are part of an insurance holding company system as defined in GS § 58-19. NCFBMIC is the ultimate parent and owns 100% of all outstanding shares of FBINC. NCFBMIC is owned by policyholders. NCFBMIC assumes 100% of the business that FBINC writes. Both NCFBMIC and FBINC are headquartered in Raleigh, NC.

ORGANIZATIONAL CHART

The following is a summarized organizational chart of the Farm Bureau Insurance Group as of December 31, 2017:



INDIVIDUAL COMPANY HISTORY

NCFBMIC

NCFBMIC was incorporated on September 13, 1953, under the laws of the State of North Carolina and commenced business on October 2, 1953. NCFBMIC is licensed in North Carolina only to write personal and commercial property and liability insurance.

FBINC

FBINC was incorporated on February 18, 1994, under the laws of the State of North Carolina and commenced business on March 29, 1994. FBINC is licensed the same as NCFBMIC but writes only auto insurance. FBINC offers non-deviated and non-standard pricing to customers that do not qualify for the preferred programs underwritten by NCFBMIC.

CAPITAL STOCK

NCFBMIC is a mutual company; therefore, there is no capital stock authorized, issued or outstanding.

As of December 31, 2017, capitalization of FBINC consisted of the following:

Description	Value
Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	1,800,000
Total common capital stock	\$1,800,000
Par value per share	\$1

No additional shares of FBINC were issued during the period under examination. As of December 31, 2017, all outstanding shares of FBINC were owned by NCFBMIC.

No additional paid in surplus was received during the period under examination. At December 31, 2017, FBINC reported \$2,700,000 in gross paid-in and contributed surplus and unassigned funds totaling \$4,468,119.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

The companies within the Farm Bureau Insurance Group have the same directors and principal officers. All personnel are employees of NCFBMIC. There are no employees under FBINC.

Board of Directors

The business of the Farm Bureau Insurance Group is conducted by its management team and is subject to review by the board of directors ("Board"). The bylaws for NCFBMIC and FBINC specify that the Board shall consist of twelve members. No more than one-half of the Board may be chosen by and from the holders of guaranty fund certificates of NCFBMIC. The remainder of the Board is elected by the membership. All of the directors shall be elected at the annual meeting of the members and each of them shall serve for a term of one year.

The following individuals served as directors of both NCFBMIC and FBINC as of December 31, 2017:

Name	Location	Principal Occupation
Larry Bernard Wooten	Raleigh, NC	President, Chairman of the Board
Elaine Bradley Fryar	McLeansville, NC	Principal of Elaine Fryar, CPA and Vice President of Waseda Farms
Donald Ross Smart	Waynesville, NC	Self-employed farm owner
Richard Blake Whitaker	Climax, NC	Self-employed farm owner
Jeffery Kirk Mathis	Roaring River, NC	Board member of Cranberry Farms
Larry Eugene Taylor	Concord, NC	Self-employed farm owner
James Larry Barbour	Clayton, NC	Self-employed farm owner
Gwendolyn Boykin Pitt	Macclesfield, NC	Self-employed farm owner

Name	Location	Principal Occupation
Malcolm Scott Whitford	Grantsboro, NC	Self-employed farm owner
Jackie Ellis Thompson Jr.	Wake Forest, NC	Self-employed farm owner
Leland McKinley Simmons	Newport, NC	Self-employed farm owner
Jerry Thomas Wyant	Vale, NC	Self-employed farm owner

The Board has the authority to establish committees including, but not limited to, an audit committee, an investment committee, a budget committee and a pension committee. The following individuals served on the Board committees as of December 31, 2017:

Audit Committee and Budget Committee

Malcolm Scott Whitford (Chair)
 Elaine Bradley Fryar
 Jerry Thomas Wyant

Investment Committee and Pension Committee

Larry Bernard Wooten (Chair)
 Hubert Julian Philpott, Jr.
 Perry Lynn Crutchfield
 Steven Dennis Carroll
 Roger Batdorff
 Allen William Houck
 Peter T. Daniel

Officers

The bylaws provide that the Board will elect the officers, which shall consist of a president, vice president, secretary, treasurer and any other officers deemed necessary. All officers shall hold office for one year, or until their successors are elected and qualified. Any two offices of NCFBMIC may be held by the same person, except the offices of president and vice president. Any two offices of FBINC may be held by the same person, except the offices of president and secretary. The offices of president and vice president shall be members of the Board and all officers shall be members of the Farm Bureau Insurance Group.

The following individuals served as officers as of December 31, 2017:

Name	Title
Larry Bernard Wooten	President
Hubert Julian Philpott Jr.	Secretary
Perry Lynn Crutchfield	Treasurer
Steven Dennis Carroll	Executive Vice President and General Manager
Malcolm Scott Whitford	Vice President

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Farm Bureau Insurance Group has established policies and procedures to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Farm Bureau Insurance Group requires a signed statement from each director and officer disclosing any conflict of interest. A review of

the signed conflict of interest statements for the examination period revealed that the Farm Bureau Insurance Group acted in accordance with its policy and procedures for disclosure of conflicts of interest.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Farm Bureau Insurance Group's significant transactions and events and that the directors approved these transactions and events.

The articles of incorporation and bylaws were reviewed for any changes during the period under examination. NCFBMIC amended its bylaws on December 11, 2013. There have been no other changes to any of the articles of incorporation or bylaws for the companies within the Farm Bureau Insurance Group during the period under examination.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The 2017 AS Schedule E, Part 3 contains a complete description and listing of the statutory deposits by state. The Farm Bureau Insurance Group maintains statutory deposits with North Carolina only.

ACCOUNTS AND RECORDS

The Farm Bureau Insurance Group's books and records are maintained at its main administrative office located at 5301 Glenwood Avenue, Raleigh, North Carolina 27612. The companies occupy the same home office space, operate under the same internal controls, policies and procedures and share accounting systems and personnel. FBINC has no employee.

INFORMATION TECHNOLOGY CONTROLS

The Department performed a risk-based assessment and review of the Farm Bureau Insurance Group's Information Technology General Controls ("ITGCs") in accordance with the NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Farm Bureau Insurance Group's ITGCs were derived from Exhibit C Part 1 – Information Technology Planning Questionnaire ("ITPQ") and Exhibit C Part 2 – Information Technology Work Program (collectively, Exhibit C).

The Farm Bureau Insurance Group's responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly.

The Department's objectives were to obtain reasonable assurance about whether:

1. The Farm Bureau Insurance Group had a process in place to effectively identify, mitigate and manage its IT risks;
2. The Farm Bureau Insurance Group's control structure, policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C; and
3. The Farm Bureau Insurance Group was complying with those policies and procedures.

The objectives above were achieved through a combination of reviewing the Farm Bureau Insurance Group's policy and procedures, testing in key areas related to Exhibit C, interviewing the Farm Bureau Insurance Group's IT management, reviewing IT risk assessment processes, and leveraging relevant risk assessment procedures performed by Johnson Lambert LLP.

Based upon the risk-based assessment and review, the Farm Bureau Insurance Group's ITGCs were determined to be effective.

FIDELITY BONDS AND OTHER INSURANCE

The companies in the Farm Bureau Insurance Group are named insureds under a fidelity bond which provides coverage totaling \$1,750,000 in aggregate as of December 31, 2017, which is less than the minimum recommended by the NAIC. The Farm Bureau Insurance Group increased its fidelity bond coverage to \$2,000,000, effective June 25, 2018, which meets the minimum amount recommended by the NAIC.

EMPLOYEE BENEFITS AND PENSION PLANS

All employees of the Farm Bureau Insurance Group are employees of NCFBMIC and are eligible to participate in a defined benefit pension plan that is 100% funded by NCFBMIC, the ultimate parent. Employees are vested in the plan after 5 years of service. Costs allocated to NCFBMIC for this plan were \$13,448,310 for 2017. NCFBMIC does not sponsor any postretirement benefit plans.

RELATED PARTY AGREEMENTS

NCFBMIC has a management agreement with FBINC, effective February 18, 1994, whereby NCFBMIC provides FBINC with all personnel, material, facilities and services necessary for FBINC to transact business. FBINC cedes 100% of its premiums, including fees, to NCFBMIC. Premium cessions by FBINC to NCFBMIC are full reimbursement for all services provided by NCFBMIC and all expenses associated with the insurance contracts written by FBINC.

NCFBMIC and FBINC are included in a consolidated federal income tax return in accordance with the Federal Income Tax Allocation Agreement, effective January 1, 1995. Under this agreement, the provision for federal income tax is computed as if the companies within the Farm Bureau Insurance Group were filing a separate federal income tax return. Benefits, which arise from tax credits and net operating losses, are allocated to NCFBMIC and FBINC to the extent they are utilized in the consolidated federal income tax provision.

TERRITORY AND PLAN OF OPERATION

NCFBMIC

NCFBMIC is a multi-line insurance company operating only in North Carolina. The primary lines of business are homeowners multiple peril, automobile liability, and automobile physical damage. With a network of agents located throughout the State, NCFBMIC provides insurance coverage for farm and non-farm policyholders in all 100 counties of North Carolina. NCFBMIC assumes risk underwritten by its

wholly owned subsidiary, FBINC. It also manages and provides administrative support for FBINC and is compensated through premiums ceded.

FBINC

FBINC writes private passenger auto, commercial auto, and auto physical damage insurance policies in North Carolina at a non-discounted rate or on a consent-to-rate basis. The FBINC cedes 100% of its written premiums to NCFBMIC.

GROWTH OF THE COMPANIES

The data obtained from annual statements filed with the Department, as reflected in Appendix B, illustrates the growth of the companies within the Farm Bureau Insurance Group for the five-year period ended December 31, 2017. (Refer to Appendix B)

ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2017 were reviewed and certified by the Farm Bureau Insurance Group's appointed actuary, Robert Stewart, ACAS, MAAA, Director of FTI Consulting, Inc. Actuarial opinions regarding the reserves for losses and loss adjustment expenses were issued by the appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Farm Bureau Insurance Group for reasonableness and consistency of the losses and loss adjustment expense reserves. According to the actuarial opinions, the reserves on the loss and loss adjustment expenses reserves met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid losses and loss adjustment expense obligations of the Farm Bureau Insurance Group.

REINSURANCE PROGRAM OVERVIEW

The following table provides a summarized overview of each company and the reinsurance contracts in effect as of December 31, 2017:

<u>NCFBMIC</u>		
Company Operations:	Ceded Contracts:	Assumed Contracts:
<p>Licensed in North Carolina</p> <p>Writes personal and commercial property and liability</p> <p>Reinsurer of FBINC's risk</p>	<ol style="list-style-type: none"> 1. Property Surplus Share - AAIC 2. Property Quota Share – various reinsurers 3. Occurrence Property and Auto Catastrophe Aggregate - AAIC <ul style="list-style-type: none"> - 24 Months - Gap Layer - Rated 4. Occurrence Property and Auto Catastrophe Aggregate Top and Drop - AAIC 5. Occurrence Property and Auto Catastrophe Aggregate - AAIC <ul style="list-style-type: none"> - 7th Layer 6. Over Other Protections - AAIC 7. Occurrence Property Catastrophe (Terrorism) - AAIC 8. Aggregate Excess Crop Hail - AAIC 9. Proportional Crop Hail - AAIC 10. Liability and Workers' Compensation Excess of Loss - AAIC 11. Umbrella Liability - AAIC 12. Insurance Agents Professional Liability - AAIC 13. Farm Pollution Liability - AAIC 14. Non-Standard Private Passenger Auto Liability - NCRF 15. National Flood Insurance Program - Federal Flood - Southern Farm Bureau 	<ol style="list-style-type: none"> 1. Occurrence Property Catastrophe (Terrorism) Pool Retrocessional - AAIC 2. Domestic Broker Assumed Risk Pool Retrocessional - AAIC 3. Domestic Broker Assumed Catastrophe Pool Retrocessional – AAIC 4. International Broker Assumed Pool Retrocessional - AAIC 5. Multi-line Pool Retrocessional - AAIC 6. Aggregate Excess Crop Hail Pool Retrocessional – AAIC 7. Proportional Crop Hail Pool retrocessional - AAIC 8. Quota Share Reinsurance - FBINC 9. Workers Compensation Reinsurance Pool - NCCI

<u>FBINC</u>		
Company Operations:	Ceded Contracts:	Assumed Contracts:
Licensed in North Carolina Writes private passenger auto, commercial auto, and auto physical damage insurance	Quota Share Reinsurance – NCFBMIC	None

REINSURANCE ASSUMED

Catastrophe Coverage

Under an Occurrence Property Catastrophe (Terrorism) Pool Retrocessional contract, effective January 1, 2017, NCFBMIC assumes approximately 13.42% of the pool of original Occurrence Property Catastrophe (Terrorism) insurance contracts reinsured by American Agricultural Insurance Company (“AAIC”). NCFBMIC assumed premiums totaling approximately negative \$7,000 in 2017 from AAIC under this contract.

Under a Domestic Broker Assumed Catastrophe Pool Retrocessional contract, effective January 1, 2017, NCFBMIC assumes 1% of covered business from AAIC. NCFBMIC assumed premiums totaling \$580 in 2017 from AAIC under this contract.

Crop Insurance Coverage

Under an Aggregate Excess Crop Hail Pool Retrocessional contract, effective January 1, 2017, NCFBMIC assumes 6% of the pool of aggregate excess crop hail insurance contracts reinsured by AAIC.

Under a Proportional Crop Hail Pool Retrocessional contract, effective January 1, 2017, NCFBMIC assumes 12.89% for the quota share layer and 4% for each of the three surplus layers of the pool of proportional crop hail insurance contracts reinsured by AAIC.

NCFBMIC assumed premiums totaling \$402,949 in 2017 from AAIC under these two crop hail contracts.

Pool Coverage

Under a Domestic Broker Assumed Risk Pool Retrocessional contract, effective January 1, 2017, NCFBMIC assumes 0.5% of covered business from AAIC primarily within the United States. NCFBMIC assumed premiums totaling \$522,153 in 2017 from AAIC under this contract.

Under an International Broker Assumed Pool Retrocessional contract, effective January 1, 2017, NCFBMIC assumes 2% of covered exposures from AAIC primarily outside the United States. NCFBMIC assumed premiums totaling \$584,378 in 2017 from AAIC under this contract.

Multi Line Coverage

Under a Multi-Line Pool Retrocessional contract, effective January 1, 2017, NCFBMIC assumes different retrocessional percentages for the different retrocessional pools that AAIC has with NCFBMIC. NCFBMIC assumed written premiums totaling approximately \$1.6 million in 2017 from AAIC under this contract.

Quota Share Coverage

Under a quota share contract, effective September 16, 2010, NCFBMIC assumes 100% all premiums and liabilities written by FBINC, its wholly owned subsidiary. NCFBMIC assumed premiums totaling \$733,518 in 2017 from FBINC under this contract.

Workers Compensation Coverage

NCFBMIC assumes risks which include premiums and losses from the National Council on Compensation Insurance Inc. (“NCCI”). NCFBMIC assumed premiums totaling approximately \$1.3 million in 2017 from NCCI.

REINSURANCE CEDED

The Farm Bureau Insurance Group has multiple ceded reinsurance contracts that collectively provide an excess of loss catastrophe reinsurance program. The following provides a listing of the individual reinsurance contracts and a summary of contract terms as of December 31, 2017:

- Property Surplus Share Contract (with AAIC)
- Property Quota Share Contract (with various subscribing reinsurers) (covers property losses as well as assessments from the North Carolina Joint Underwriting Association and the North Carolina Insurance Underwriting Association)
- Catastrophe Contracts: Multiple Occurrence Property and Auto Catastrophe contracts (with AAIC) (includes assessments from the North Carolina Joint Underwriting Association and the North Carolina Insurance Underwriting Association, in the form of the following:
 - 5 excess of loss layers consisting of 8 separate contracts; some on a premium rated basis and some on an exposure rated basis;
 - Gap Layer contract (with AAIC)
 - 7th Layer contract (with AAIC)
 - Occurrence Property and Auto Catastrophe Aggregate Top and Drop (with AAIC)
 - Over Other Protections (with AAIC)
 - Catastrophe Terrorism (AAIC)

The Farm Bureau Insurance Group places the majority, but not all, of its catastrophe reinsurance contracts on a 24-month basis with staggered January 1 renewal dates. Those contracts not on a 24-month basis are 12 month contracts renewed annually.

Surplus Share Coverage

The Farm Bureau Insurance Group has a Property Surplus Share contract with AAIC, effective January 1, 2017, whereby the Farm Bureau Insurance Group cedes a first, second and third surplus share of its business on specified property risks. The contract is effective on losses between \$1 million and \$40 million. The Farm Bureau Insurance Group ceded premiums totaling approximately \$8.5 million in 2017 to AAIC under this contract. Losses under this contract inure to the benefit of the quota share and catastrophe excess of loss contracts, subject to a limit.

Quota Share Coverage

The Farm Bureau Insurance Group has a Property Quota Share contract with various subscribing reinsurers (“Reinsurers”), effective January 1, 2017, for a one-year term, whereby the Farm Bureau Insurance Group cedes 35% of its specified property risks under policies in force during the year of 2017. The Farm Bureau Insurance Group ceded premiums totaling approximately \$131.1 million in 2017 to the Reinsurers under this contract.

Catastrophe Coverage

The Farm Bureau Insurance Group's 35% property quota share coverage sits side by side next to its catastrophe program, from the first dollar of loss subject to an event limit cap on property losses and assessments of \$726.6 million. Therefore, the Farm Bureau Insurance Group's excess of loss catastrophe contracts are only placed at 65% (less any Farm Bureau Insurance Group participation) until the \$726.6 million level is reached.

Under the catastrophe program, the Farm Bureau Insurance Group retains 65% of the first \$50 million of property and auto catastrophe losses and assessments from an event. For losses from \$50 million to \$930 million, the Farm Bureau Insurance Group retains 5% of the 65% not covered by quota share, or 3.25%. For losses from \$726.6 million to \$930 million, above where the quota-share program has capped its loss, the Farm Bureau Insurance Group has a Gap layer contract covering the 35% of loss above the quota share (and not covered by the other catastrophe contracts). The Farm Bureau Insurance Group retains 5% of the 35% loss covered by the Gap layer or 1.75%.

From \$930 million to \$1.03 billion of losses, the Farm Bureau Insurance Group has an Occurrence Property and Auto Catastrophe Aggregate Top and Drop contract with AAIC, effective for 36 months from January 1, 2015, to January 1, 2018. This contract replaced the Property Catastrophe Aggregate Excess of Loss contract with Swiss Reinsurance American Corporation, which expired on December 31, 2014. Under this contract,

- Coverage A – Per Occurrence: The Farm Bureau Insurance Group retains the first \$930 million of ultimate loss for each occurrence. AAIC provides coverage up to \$100 million for any one occurrence.
- Coverage B – Aggregate: The Farm Bureau Insurance Group retains the first \$50 million of Coverage B aggregate retention. AAIC provides coverage up to \$100 million in the aggregate.
- Coverage A and B combined: AAIC provides coverage up to \$100 million in the aggregate for all occurrences each agreement year and \$200 million in the aggregate for all occurrences during the term of the contract.

From \$1.03 billion to \$1.13 billion, the Farm Bureau Insurance Group has a 7th Layer contract. Under the 7th Layer contract, AAIC provides up to \$95 million of coverage for specified property and auto risks from catastrophes. The Farm Bureau Insurance Group has a 5% participation rate on losses in excess of \$1.03 billion up to \$1.13 billion.

From \$1.13 to \$1.28 billion, the Farm Bureau Insurance Group has an Over Other Protections contract with AAIC, effective January 1, 2017, which provides up to \$150 million of coverage for its ultimate net loss in excess of the attachment point of \$1.03 billion on specified property risks.

The Farm Bureau Insurance Group has an Occurrence Property Catastrophe (Terrorism) contract with AAIC, effective January 1, 2017, which provides up to \$35 million of coverage for its ultimate net loss in excess of \$18.45 million on property that would have been covered under the Occurrence Property and Auto Catastrophe contracts, but were excluded by the terrorism exclusion.

The Farm Bureau Insurance Group ceded premiums totaling approximately \$57 million in 2017 to AAIC under all catastrophe reinsurance contracts above.

Crop Insurance Coverage

The Farm Bureau Insurance Group has an Aggregate Excess Crop Hail contract with AAIC, effective January 1, 2017, whereby AAIC provides excess of loss coverage applicable to each of the two layers, pool

and individual layers, for the Farm Bureau Insurance Group's crop hail line of business. The Farm Bureau Insurance Group has a 10% participation rate on the ultimate net loss in excess of its retained losses.

The Farm Bureau Insurance Group has a Proportional Crop Hail contract with AAIC, effective January 1, 2017, whereby the Farm Bureau Insurance Group cedes a cession percentage applicable to each of the seven layers of coverage for its crop hail line of business.

The Farm Bureau Insurance Group ceded premiums totaling approximately \$1.2 million in 2017 to AAIC under the crop hail reinsurance contracts above.

Casualty Coverage

The Farm Bureau Insurance Group has a Liability and Workers' Compensation Excess of Loss Reinsurance agreement with AAIC, effective January 1, 2017, which provides six layers of excess coverage for each of the two class groups - Group I automobile and general liability and Group II workers compensation. The contract provides different rates and limits of liability for each layer of losses in excess of \$750,000 for Class Group I and \$1 million for Class Group II.

The Farm Bureau Insurance Group ceded premiums totaling approximately \$6.7 million in 2017 to AAIC under above casualty contracts.

Umbrella Coverage

The Farm Bureau Insurance Group has an Umbrella Liability contract with AAIC, effective January 1, 2017, which provides seven layers of coverage for each of the three class groups (personal, farm and ranch, and commercial) of its umbrella line of business. The contract provides different rates, limits of liability and retentions for each layer per class group. The Farm Bureau Insurance Group ceded premiums totaling approximately \$5.9 million in 2017 to AAIC under this contract.

Errors & Omissions Coverage

The Farm Bureau Insurance Group has an Insurance Agents Professional Liability contract with AAIC, effective January 1, 2017, which provides two layers of coverage on its professional liability line of business. The contract provides coverage in excess of \$100,000 for both layers. The Farm Bureau Insurance Group ceded premiums totaling \$258,480 in 2017 to AAIC under this contract.

Pollution Coverage

The Farm Bureau Insurance Group has a Farm Pollution Liability Contract with AAIC, effective January 1, 2017, which provides coverage for its farm pollution liability line of business. The contract has different rates and limits of liability for each farm risk type in excess of \$500. The Farm Bureau Insurance Group ceded premiums totaling \$12,905 in 2017 to AAIC under this contract.

North Carolina Reinsurance Facility ("NCRF")

The Farm Bureau Insurance Group cedes 100% of its non-standard private passenger auto liability to the NCRF. The Farm Bureau Insurance Group ceded premiums totaling approximately \$35.5 million in 2017 to NCRF.

Federal Flood

NCFBMIC has flood insurance in collaboration with Southern Farm Bureau ("SFB") which is authorized to write flood insurance. SFB then cedes, on behalf of NCFBMIC, flood insurance to the National Flood Insurance Program ("NFIP"). NCFBMIC ceded premiums totaling approximately \$12.3 million in 2017 to NFIP.

FINANCIAL STATEMENTS

The financial statements in the Appendix A are based on the statutory financial statements filed with the Department and present the financial condition of each company in the Farm Bureau Insurance Group for the period ending December 31, 2017. The supporting tables and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statement information related to the prior year is unexamined and is presented for comparative purposes only.

COMMENTS ON FINANCIAL STATEMENTS

Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department. The more significant accounting policies followed by the Farm Bureau Insurance Group are as follows:

Bonds: Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

Common stocks: Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under the equity method. (NCFBMIC only)

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Real estate occupied by the Company: Land is reported at cost. Real Estate is recorded at cost, net of accumulated depreciation. Depreciation on real estate is computed by the straight-line method over the useful lives of the properties. (NCFBMIC only)

Other invested assets: Carried at the outstanding face value of the surplus note. (NCFBMIC only)

Premiums: Earned over the policy period and reduced for reinsurance ceded.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are accounted for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported net of balances ceded to reinsurers. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Non-admitted assets: Certain assets, such as excess of book value over market value for securities, furniture, equipment, prepaid expenses, electronic data processing equipment and software, and deferred tax assets not allowed due to admissibility calculations, are "non-admitted" and are charged against surplus.

Unpaid loss & loss adjustment expense: The reserves for unpaid losses and loss adjustment expenses represent the estimated ultimate net cost of all reported and unreported losses that are unpaid as of the balance sheet date, net of amounts recoverable pursuant to reinsurance agreements.

Analysis of Assets

The following represents an analysis of NCFBMIC's net admitted assets as of December 31, 2017:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$1,432,353,482		\$1,432,353,482
Common stocks	325,113,206		325,113,206
Properties occupied by the company	905,000		905,000
Cash and short-term investments	42,484,957		42,484,957
Other invested assets	368,145		368,145
Total cash and invested assets	1,801,224,790		1,801,224,790
Investment income due and accrued	16,102,860		16,102,860
Premiums and agents' balances in course of collection	3,775,837	1,271,577	2,504,260
Deferred premiums and agents' balances booked but not yet due	121,973,646	390,964	121,582,682
Reinsurance recoverable	20,864,998		20,864,998
Funds held by or deposited with reinsured companies	171		171
Federal income tax recoverable and interest	3,317,469		3,317,469
Net deferred tax assets	27,822,749		27,822,749
Electronic data processing equipment and software	5,048,831	4,982,078	66,753
Furniture and equipment	5,453,072	5,453,072	-
Health care and other amounts receivable	360,960	155,102	205,858
Accounts receivable	809,760		809,760
Advances to agents/employees	20,736	20,736	-
Equities and deposits in pools and associations	313,203		313,203
Premium tax credits	7,186,174		7,186,174
Total admitted assets	\$ 2,014,275,256	\$12,273,529	\$2,002,001,727

The following represents an analysis of FBINC's net admitted assets as of December 31, 2017:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$9,462,703		\$9,462,703
Cash and short-term investments	331,247		331,247
Total cash and invested assets	9,793,950		9,793,950
Investment income due and accrued	68,382		68,382
Premiums and agents' balances in course of collection	9,815	6,997	2,818
Deferred premiums and agents' balances booked but not yet due	107,742		107,742
Total admitted assets	\$9,979,889	\$6,997	\$9,972,892

Reinsurance Activity

The Farm Bureau Insurance Group has excess of loss contracts to minimize its exposure to losses. Reinsurance contracts do not relieve its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Farm Bureau Insurance Group. The Farm Bureau Insurance Group utilizes Guy Carpenter & Company as the reinsurance intermediary to negotiate and obtain quota share reinsurance contracts on its behalf for specifically identified risks.

Direct, assumed, and ceded premiums written and earned were as follows:

NCFBMIC	2017
Direct and assumed written	\$1,091,527,572
Ceded written	258,446,360
Net written	833,081,212
Direct and assumed earned	1,071,884,079
Ceded earned	256,003,968
Net earned	\$815,880,111

FBINC	2017
Direct and assumed written	\$733,518
Ceded written	733,518
Net written	0
Direct and assumed earned	757,011
Ceded earned	757,011
Net earned	\$0

FBINC has a reinsurance contract with NCFBMIC, whereby NCFBMIC provides 100% coverage of FBINC's losses and loss adjustment expenses in exchange for the cession of all premiums written by FBINC.

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described in the Reinsurance Program Overview.

Summary of Reserves

The following provides a reconciliation of the reserves for losses and loss adjustment expenses:

NCFBMIC	2017
Reserve for losses and loss adjustment expenses, beginning of year	\$323,673,074
Add:	
Provision for losses and loss adjustment expenses, current year	624,009,796
Change in estimated losses and loss adjustment expenses, prior years	(37,022,000)
Total incurred	586,987,796
Deduct:	
Losses and loss adjustment expenses paid, current year	421,146,000
Losses and loss adjustment expenses paid, prior year	154,114,549
Total paid	575,260,549
Reserve for losses and loss adjustment expenses, end of year	335,400,321
Increase in reserve for losses and loss adjustment expenses	\$11,727,247

NCFBMIC did not reduce reserves for anticipated salvage and subrogation at December 31, 2017. Such recoveries are reported as a reduction of losses incurred when the cash related to such recoveries is received.

NCFBMIC's reserves for losses and loss adjustment expenses are reported net of the reinsurance recoverable. At December 31, 2017, the liability for losses and loss adjustment expenses was reduced by approximately \$80.5 million for amounts to be recovered from reinsurers.

FBINC's reserves for losses and loss adjustment expenses, as well as losses and loss adjustment expenses incurred and paid net of reinsurance were reported zero at December 31, 2017.

Capital and Surplus

The following, in conjunction with the Statutory Statement Capital and Surplus in Appendix A, represents the changes in capital and surplus since the Department's last examination as of December 31, 2012:

NCFBMIC	<i>(in thousands)</i>			
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$1,077,228	\$1,008,867	\$ 933,116	\$836,010
Capital and surplus increases (decreases):				
Net income	8,582	78,827	94,670	86,806
Change in net unrealized capital gain (loss)	16,506	(3,271)	7,513	19,151
Change in net deferred income tax	9,259	(13,833)	(18,603)	(15,494)
Change in nonadmitted assets	3,452	4,267	8,743	26,632
Change in provision for reinsurance	-	7	-	-
Overfunding of pension plan reversal	-	-	-	(3,790)
Pension benefit obligation	(7,780)	2,365	(16,572)	(16,198)
Change in surplus as regards policyholders for the year	30,019	68,362	75,750	97,107
Capital and surplus, end of year	\$1,107,247	\$1,077,228	\$1,008,867	\$933,116

FBINC	<i>(in thousands)</i>			
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$9,347	\$ 9,156	\$8,968	\$8,789
Capital and surplus increases (decreases):				
Net income	196	195	188	187
Change in nonadmitted assets	4	(3)	-	(8)
Change in surplus as regards policyholders for the year	200	192	188	180
Capital and surplus, end of year	\$9,547	\$9,348	\$9,156	\$8,968

Contingencies and Commitments

The Farm Bureau Insurance Group is involved in routine legal and administrative proceedings incidental to the conduct of its business. The Farm Bureau Insurance Group is of the opinion that these proceedings will not have a material effect on its financial position.

NCFBMIC's premium tax returns for years 2014 - 2016 are under audit by the North Carolina Department of Revenue ("NCDOR"), as disclosed in Note 14 of the AS, related to premium tax credits. A Notice of Final Determination from the NCDOR was received on November 19, 2018, assessing an additional \$24 million in gross premium taxes plus a penalty and interest. While the outcome of this matter cannot yet be

determined, it is the opinion of management that the resolution of this matter will not have a material effect on the financial position of the Farm Bureau Insurance Group.

SUBSEQUENT EVENTS

In September 2018, Hurricane Florence caused severe damage in the State of North Carolina, resulting in 18,923 claims reported to the Farm Bureau Insurance Group in that month. Total projected claims are 25,000 to 30,000 with a gross loss of \$175 to \$223 million, and a Fair Plan assessment of approximately \$12 million. The Farm Bureau Insurance Group estimated that the net loss, after reinsurance, will be in the range of \$45 to \$50 million.

On August 6, 2018, the Department approved NCFBMIC's request to pay \$2,527,885 in interest on its \$200 million surplus notes, due September 17, 2018. Additionally, on November 20, 2018, the Department approved NCFBMIC's request to pay \$2,443,921 in interest on the same surplus notes, due December 17, 2018.

Farm Bureau Insurance Group
REPORT DISTRIBUTION
December 31, 2017

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CONCLUSION

We conclude that the Farm Bureau Insurance Group complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Farm Bureau Insurance Group has been authorized to write, which is \$1,800,000 for NCFBMIC and \$2,250,000 for FBINC.

The courteous cooperation and assistance extended by the officers and employees of the companies during the examination is hereby acknowledged.

Respectfully submitted,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

February 28, 2019

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Venus Ang, Examination Supervisor, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this multi-entity report on examination, subscribed by her is true and correct to the best of her knowledge and belief.

Signature:

Venus Ang
Name

Date:

2/28/19

Sworn and subscribed before me this 28th day of February, 2019.

Notary Public Signature:

Sue Ann Webster

Notary Public Seal:

Farm Bureau Insurance Group
Appendix A
December 31, 2017

2017 Statutory Statement of Admitted Assets

	NCFBMIC	FBINC
Bonds	\$1,432,353,482	\$9,462,703
Common stocks	325,113,206	-
Properties occupied by the company	905,000	-
Cash and short-term investments	42,484,957	331,247
Other invested assets	368,145	-
Total cash and invested assets	1,801,224,790	9,793,950
Investment income due and accrued	16,102,860	68,382
Premiums and agents' balances in course of collection	2,504,260	2,818
Deferred premiums, agents' balances booked but deferred and not yet due	121,582,682	107,742
Reinsurance recoverable	20,864,998	-
Funds held by or deposited with reinsured companies	171	-
Federal income tax recoverable	3,317,469	-
Net deferred tax asset	27,822,749	-
Electronic data processing equipment and software	66,753	-
Health care and other amounts receivable	205,858	-
Accounts receivable	809,760	-
Equities and deposits in pools and associations	313,203	-
Premium tax credits	7,186,174	-
Total admitted assets	\$2,002,001,727	\$9,972,892

2017 Statutory Statement of Liabilities, Surplus and Other Funds

	NCFBMIC	FBINC
Losses	\$288,410,346	-
Loss adjustment expenses	46,989,975	-
Commissions payable, contingent commissions and other similar charges	17,511,845	-
Other expenses	3,206,349	-
Taxes, licenses and fees	(7,724,849)	-
Current federal and foreign income taxes	-	\$107,826
Unearned premiums	301,136,439	-
Advance premium	15,888,839	7,262
Ceded reinsurance premiums payable	26,827,816	110,295
Remittances and items not allocated	3,932,260	-
Provision for reinsurance	95,234	-
Payable to parent, subsidiaries and affiliates	7,262	-
Retiree health insurance	3,634,000	-
Clean risk allocations	7,206,331	-
Accrued vacation payable	4,171,000	-
Agents termination commission payable	65,701,000	-
Pension benefit obligation	44,687,333	-
Total liabilities	821,681,180	225,383
Common capital stock	-	1,800,000
Surplus Notes	200,085,800	-
Gross paid in and contributed surplus	-	2,700,000
Unassigned funds	980,234,747	5,247,509
Total capital and surplus	1,180,320,547	9,747,509
Total liabilities, capital and surplus	\$2,002,001,727	\$9,972,892

2017 Statutory Statement of Income

	NCFBMIC	FBINC
Underwriting Income		
Premiums earned	\$815,880,111	-
Deductions		
Losses incurred	538,407,117	-
Loss adjustment expenses incurred	48,580,679	-
Other underwriting expenses incurred	201,319,830	-
Total underwriting deductions	788,307,626	-
Net underwriting gain	27,572,485	-
Investment Income		
Net investment income earned	42,209,513	\$308,073
Net realized capital (losses)	(2,150,856)	-
Net investment gain	40,058,657	308,073
Other Income		
Net (loss) from agents' or premium balances charged off	(2,564,015)	-
Finance and service charges not included in premiums	8,262,456	-
Other income	4,688,415	-
Total other income	10,386,856	-
Net income before dividends to policyholders	78,017,998	308,073
Federal income taxes incurred	12,521,574	107,826
Net Income	\$65,496,424	\$200,247

2017 Statutory Statement of Capital and Surplus

	NCFBMIC	FBINC
Capital and surplus, beginning of year	\$1,107,246,883	\$9,547,401
Capital and surplus increases (decreases):		
Net Income	65,496,424	200,247
Change in net unrealized capital gains	54,315,871	-
Change in net deferred income tax	(28,448,989)	-
Change in non-admitted assets	3,230,031	(139)
Change in provision for reinsurance	(95,234)	-
Pension benefit obligation	(21,424,439)	-
Change in capital and surplus as regards policyholders for the year	73,073,664	200,108
Capital and surplus, end of year	\$1,180,320,547	\$9,747,509

2017 Statutory Statement of Cash Flow

	NCFBMIC	FBINC
Cash from Operations		
Premiums collected net of reinsurance	\$826,148,340	-
Net investment income	46,633,964	\$337,952
Miscellaneous income	10,386,856	-
Total	883,169,160	337,952
Benefit and loss related payments	524,213,850	-
Commissions, expenses paid and aggregate write-ins	262,795,878	-
Federal income taxes paid	10,402,862	105,356
Total	797,412,590	105,356
Net cash from operations	85,756,570	232,596
Cash Used by Investments		
Proceeds from investments sold, matured, or repaid	147,973,409	-
Cost of investments acquired	229,930,659	818,556
Net cash used by investments	(81,957,250)	(818,556)
Cash From Financing and Miscellaneous Sources		
Other cash provided	5,262,567	-
Net cash from financing and miscellaneous sources	5,262,567	-
Reconciliation of Cash and Short-Term Investments		
Net change in cash and short-term investments	9,061,887	(585,960)
Cash and short-term investments, beginning of year	33,423,069	917,207
Cash and short-term investments, end of year	\$42,484,956	\$331,247

Farm Bureau Insurance Group
Appendix B
December 31, 2017

Growth of the Company

The following data, obtained from annual statements filed with the Department, illustrates the trends of the companies for the five-year period ended 2017:

NCFBMIC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2017	\$2,002,001,727	\$1,180,320,547	\$1,091,527,572	\$815,880,111	\$65,496,424
2016	\$1,895,432,242	\$1,107,246,883	\$1,025,961,939	\$755,386,910	\$8,581,717
2015	\$1,815,106,976	\$1,077,228,313	\$972,504,611	\$715,628,394	\$78,826,703
2014	\$1,740,325,866	\$1,008,866,593	\$943,755,594	\$704,886,840	\$94,669,837
2013	\$1,664,749,145	\$933,116,217	\$937,041,483	\$732,031,873	\$86,805,974

FBINC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2017	\$9,972,892	\$9,747,509	\$733,518	\$0	\$200,247
2016	\$9,788,723	\$9,547,401	\$861,028	\$0	\$195,662
2015	\$9,605,529	\$9,347,851	\$1,007,156	\$0	\$194,867
2014	\$9,437,512	\$9,156,000	\$1,196,302	\$0	\$187,876
2013	\$9,284,340	\$8,968,119	\$1,470,783	\$0	\$187,294