Forestry Mutual Insurance Company

Raleigh, North Carolina

Report on Examination

As of December 31, 2014

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March 30, 2016

Honorable Wayne Goodwin
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

Forestry Mutual Insurance Company

(hereinafter referred to as the "Company"), at its main administrative office located at 801 Jones Franklin Road, Suite 100, Raleigh, North Carolina, 27606. The Company's statutory home office is located at the same address. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2010 to December 31, 2014, 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 Company was as of December 31, 2009.

The purpose of this examination was to assess the financial condition and controls of the Company and set forth findings of fact (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 auditing 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 Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Reserving
Underwriting
Reinsurance Ceding
Related Parties
Investing and Capital

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. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact and general information about the Company 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 separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was 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 Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185. Johnson Lambert LLC of Raleigh, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for the years 2012 through 2014. Prior to year ended December 31, 2012, the books and records of the Company were audited annually by independent certified public accountants Koonce, Wooten, & Hayward LLP of Raleigh, North Carolina.

The statutory reserves and related items for 2014 were reviewed and certified by the Company's Appointed Actuary, Chad Wischmeyer, FCAS, MAAA, CFA of Oliver Wyman Actuarial Consulting, Inc.

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

1. **Analysis of Examination Adjustments**

	December 31, 2009 (In Thousands)
Surplus as originally reported to the Department	$12,950
a. Amount receivable from affiliate	296
Adjusted surplus	$12,654

a. To non-admit amounts receivable from subsidiaries pursuant to SSAP No. 96. (Refer to Prior Examination Comments, Recommendation and Directives Notes 2a. and 2b.)

2. **Comments, Recommendations and Directives**

a. The Company is not settling intercompany balances with its subsidiary, FMIC Insurance Agency Inc. ("FMICA"), in accordance with the management services agreement approved by the Department. As such, the Company is in violation of SSAP No. 96, paragraph 2, (SSAP No. 96, replaced with SSAP No. 25, paragraph 7) in that the balances were not settled within 90 days. The Company is directed to comply with SSAP No. 96 (now SSAP No. 25) and to settle intercompany balances in accordance with the management services agreement approved by the Department. This issue has not been resolved and was noted again during the current examination.

b. The Company did not submit an agreement with Carolina-Virginia Sales Company, a wholly owned subsidiary, to the Department for approval as required by GS § 58-19-30(b) and was operating without an agreement. The Company is also not settling intercompany balances in a timely manner with Carolina-Virginia Sales Company. The Company is directed to submit an agreement to the Department for approval in accordance with GS § 58-19-30(b). This issue has been resolved.

c. The Company did not submit the Claims and Administrative Services Agreement with AEGIS Administrative Services, Inc. for 2009 to the Department for review and approval pursuant to GS § 58-34-10(a). The Company is directed to submit any management agreements to the Department in accordance with GS § 58-34-10. This issue has been resolved.

d. The Company did not have a reinsurance intermediary agreement with its reinsurance intermediary, US Re Corporation, in accordance with GS § 58-9-11(a). The company is directed to obtain a reinsurance intermediary agreement in accordance with GS § 58-9-11(a). This issue has been resolved.

e. The Company did not provide signed conflict of interest statements for all officers and directors for all periods under examination as required by Title 11 of the North Carolina Administrative Code, Chapter 11C, Section .0117. The Company is directed to require all officers and directors to sign statements annually and to disclose any conflicts to the board of directors for a determination of its acceptability or the remedial disposition of the conflict. This issue has been resolved.

f. The Company's Board of Directors ("Board") did not approve the designated Certified Public Accountant ("CPA") performing auditing services for the period under examination. Pursuant to GS § 58-10-210(j), all auditing services provided by a qualified independent CPA should be preapproved by the audit committee. The Company is directed to approve any auditing services provided by a qualified independent CPA in accordance with GS § 58-10-210(j). This issue has been resolved.

g. The Company's Board did not approve the appointed actuary as required by the NAIC Property and Casualty Annual Statement Instructions. The Company is directed to approve the appointed actuary as prescribed by the NAIC Property and Casualty Annual Statement Instructions. This issue has been resolved.

h. The Company did not file an amendment to the management agreement with FMICA prior to implementation of a new cost sharing schedule. The expenses allocated to FMICA during 2009 were not calculated based on the percentages listed in the agreement submitted to the Department. The Company is directed to file all amendments to any agreements approved by the Department for approval in accordance with GS § 58-19-30(b). This issue has been resolved.

CURRENT EXAMINATION

1. Adjustments and Reclassifications

a. The Company had amounts receivable from FMICA totaling $1,725,100 at December 31, 2014, of which $1,135,400 was over 90 days past due. This amount should be reported as a non-admitted asset pursuant to SSAP No. 25, paragraph 7. (Refer to Current Examination Comments, Recommendations, and Directives Note 2.a)

b. The Company is netting various amounts due to and from FMICA in the 2014 Annual Statement without a valid right of offset as prescribed in SSAP No. 64. Commissions payable to FMICA totaling $1,222,065 were netted against amounts receivable from FMICA totaling $1,725,100. This resulted in a net balance for receivables from parent, subsidiaries and affiliates of $503,035 as of December 31, 2014. A reclassification should be made to properly report the liability balance as an amount payable to parent, subsidiaries and affiliates in accordance with the NAIC Annual Statement Instructions. This reclassification will have no impact on the Company's surplus. (Refer to Current Examination Comments, Recommendations, and Directives Note 2.c)

2. Comments, Recommendations and Directives

a. The Company is not settling intercompany balances with FMICA in accordance with the management services agreement approved by the Department. As such, the Company is in violation of SSAP No. 25, paragraphs 7 and 8, in that the balances were not settled within 90 days. The Company is directed to comply with SSAP No. 25 and to settle intercompany balances in accordance with the management services agreement approved by the Department.

b. Various errors and omissions were noted in the Company's 2014 Annual Statement filed with the Department. The Company is directed to comply with GS 58-2-165(c) which requires that all statements filed with the Department be prepared in accordance with the appropriate NAIC Annual Statement Instructions and pursuant to the NAIC Accounting Practices and Procedures Manual.

c. The Company and FMICA have a management agreement whereby FMICA reimburses the Company for expenses and the Company pays commissions to FMICA for placed business with the Company. The Company is netting amounts due to and from FMICA in the 2014 Annual Statement without a valid right of offset as prescribed in SSAP No. 64. The management agreement does not contain a provision which gives the Company a legal right to offset amounts due to and from the affiliate. The Company is directed to comply with SSAP No. 64.

COMPANY HISTORY

The Company was incorporated on July 15, 1998 and became licensed on October 1, 1998, under the laws of the State of North Carolina as a mutual insurance company. On August 20, 1998, the Company received $1,086,855 in securities from the North Carolina Forestry Association Self Insurers Fund ("Fund"), and the Company issued a Surplus Note to the Fund. Effective January 1, 1999, the Company merged with the Fund, and the Surplus Note was extinguished. The Company was established to meet the workers' compensation insurance needs of the North Carolina Forestry Association ("Association"). In December 2000, the Company amended its articles of incorporation to change its name to Forestry Mutual Insurance Company.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Directors

The business of the Company is conducted by its management team and is subject to review by the Board. The bylaws specify that the number of directors shall be no more than fourteen. One director is elected annually, and the remaining directors are elected to serve staggered three year terms. All directors are elected by the membership.

The following individuals served as directors as of December 31, 2014:

Name	Location	Principal Occupation
Michael P. Walters Chairman	Fairmont, NC	Wood Dealer
Thomas P. Davis	Lattimore, NC	Owner - South Mountain Pulpwood Co.
Michael P. Macedo	Georgetown, SC	Regional Vice President International Paper
Matthew H. Thuman	Wilmington, NC	Southwest and East Coast Manager - The Campbell Group, LLC
Thomas G. Barnes, Sr.	Edgemore, SC	Owner - Ideal Logging
Randall W. Denman	Clyde, NC	Retired
George L. Pace	Nashville, NC	Retired
Marshall D. Thompson	Monroe, NC	Region Procurement Manager - Resolute
Weldon C. Capps, Jr.	Macon, NC	President - Arcola Logging Company
Candace J. Dinwiddle	Nashville, TN	Tennessee Forestry Association Executive Director
Bernard T. Rose	Roanoke Rapids, NC	Fiber Supply Manager Kapstone Paper
Joel L. Cathey	Keysville, VA	Forester - Ontario Hardwood Co., Inc.
Pryor A. Gibson III	Raleigh, NC	Executive Director North Carolina Forestry Association
James I. Sitts	Morganton, NC	Forester - Columbia Carolina Corp.

The Board has the authority to establish committees. These committees have the power and duties deemed appropriate by the Board; however, their power cannot exceed the power of the Board. The Board has established an Investment Committee, a Safety Committee, and a Salary Committee to act on behalf of the Company.

The following individuals served on Board committees as of December 31, 2014:

Investment Committee
Randall Denman, Chair
Thomas P. Davis
James I. Sitts

Safety Committee
James I. Sitts, Chair
Randall W. Denman
Thomas P. Davis

Salary Committee
George L. Pace, Chair
Michael P. Walters
Joel L. Cathey

Policyholders

An annual meeting of the policyholders is held during the month of November in each year at a place designated in the notice of the meeting. The presence, in person or by proxy, of 15 policyholders entitled to vote is required for a quorum. Special meetings may be called by the Chairman when requested in writing by at least ten percent of the policyholders, or the holders of at least ten percent of the total par value of guaranty capital certificates, if any, or any two Directors.

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president and a secretary and any other officers deemed necessary by the Board. All officers are elected annually and subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices may be held by the same person.

The following individuals served as officers of the Company as of December 31, 2014:

Name	Title
Keith S. Biggs	President
Eugene C. Baker	Secretary/Treasurer

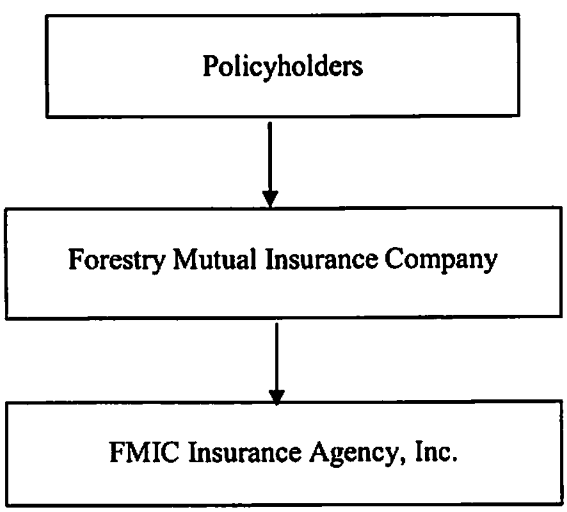
Code of Conduct and Conflict of Interest

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company 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 Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

Corporate Records

The minutes of the meetings of the Board and its committees were reviewed for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

Organizational Chart



Statutory Deposits

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2014 Annual Statement, Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

Accounts and Records

The Company's books and records are maintained at its administrative office at 801 Jones Franklin Road, Suite 100, Raleigh, North Carolina, 27606.

Due to the size of the Company, most Information Technology ("IT") operations have been outsourced to third parties. The Company utilizes two IT providers. The first provider provides the day to day support for the Company's hardware and software. The second provider provides IT support for the Company's policy/claims system. The operations manager oversees the outsourced IT functions and the contracts with third party service providers. Outsourced IT functions include managed IT services (desktop, server, and infrastructure support and maintenance), 24x7 Helpdesk support, Chief Information Technology Officer, project management, backup services and network administration, and monitoring. All of the Company's applications and software are "out-of-the-box" packages developed by others. The Company does retain ownership of the hardware.

Fidelity Bonds and Other Insurance

The Company and its subsidiary, FMICA, are named as insureds under a fidelity bond with coverage totaling $500,000. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook.

In addition, the Company and FMICA are named insureds on various property and liability policies, which appeared to be adequate to cover risks in the normal course of business.

Employee Benefits and Pension Plans

The Company sponsors a deferred compensation plan for which employees become eligible on the first day of January or July, following twelve full months of employment. The Company matches up to 6% of the employees' salary. Employee contributions are fully vested, and the Company's contribution is vested at a rate of 20% each year starting with the third year and is fully vested after the sixth year. The Company's contribution to the Plan totaled $81,578 and $67,408, in 2014 and 2013, respectively.

Related Party Agreements

The Company has a management agreement with FMICA, effective January 31, 2007, under which the Company provides certain administrative services necessary for FMICA to transact business. The agreement provides for FMICA to reimburse the Company quarterly for the services provided. At December 31, 2014 and 2013, the Company reported a net amount receivable from FMICA totaling $503,035 and a net amount payable of $100,678, respectively.

The Company and FMICA are included in a consolidated income tax return in accordance with a tax allocation agreement, effective November 11, 2013. The provision for federal income tax is computed as if the Company was filing a separate federal income tax return. Tax balances are to be settled within ninety days after the consolidated return is filed.

Certain directors of the Company are also officers of the Association. The Company pays an annual royalty fee of $25,000 to the Association for its endorsement of the Company's insurance products.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company was licensed in five jurisdictions as follows: Georgia, North Carolina, South Carolina, Tennessee and Virginia.

The Company writes workers' compensation policies. The Company utilizes FMICA for the distribution of its product and solicitation of business. All policies are issued annually. Insureds may elect to pay on an installment basis.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five year period ended December 31, 2014:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2014	$53,219,819	$17,207,515	$22,813,320	$18,120,542	$2,055,869
2013	$47,242,016	$15,557,998	$20,269,065	$15,463,403	$1,534,097
2012	$45,267,853	$13,759,244	$18,223,930	$13,890,461	($1,179,893)
2011	$42,968,834	$14,247,322	$15,070,578	$10,494,222	$657,627
2010	$43,294,032	$14,005,017	$14,426,104	$9,666,727	$759,410

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 2014 were reviewed and certified by the Company's Appointed Actuary, Chad Wischmeyer, FCAS, MAAA, CFA of Oliver Wyman Actuarial Consulting, Inc. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserves on loss and loss adjustment expenses 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 loss and loss adjustment expense obligations of the Company.

Reinsurance Program Overview

Agreements for Reinsurance Ceded

The Company has four excess of loss agreements with various reinsurers, effective January 1, 2014, which provide coverage up to a maximum of $30,000,000 of the net liability in excess of $500,000 per accident on its workers' compensation losses.

Agreements for Reinsurance Assumed

The Company participates in the National Workers' Compensation Reinsurance Pool ("Pool"), a residual market reinsurance mechanism for servicing carriers of workers' compensation assigned risk plans administered by the National Council on Compensation Insurance, Inc. ("NCCI").

Financial Statements

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2014. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2013, are unexamined and are presented for comparative purposes only.

Forestry Mutual Insurance Company
Statutory Statement of Admitted Assets
December 31,

	2014	2013 *(unexamined)*
Bonds	$28,034,455	$25,769,238
Common Stocks	8,319,278	7,541,531
Cash and short-term investments	4,886,408	2,853,035
Receivable for securities	-	14,812
Total cash and invested assets	**41,240,141**	**36,178,616**
Investment income due and accrued	303,214	267,151
Uncollected premiums and agents' balances	1,966,236	1,781,279
Deferred premiums and agents' balances	7,339,848	6,755,214
Amounts recoverable from reinsurers	836,972	1,027,613
Federal income tax recoverable	-	466,113
Other amounts receivable under reinsurance contracts	28	-
Net deferred tax asset	928,328	752,848
Guaranty funds receivables	59,797	(65,234)
Electronic data processing equipment and software	42,221	78,416
Receivables from subsidiaries	503,034	-
Total Admitted Assets	**$53,219,819**	**$47,242,016**

Forestry Mutual Insurance Company
Statutory Statement of Liabilities and Surplus
December 31,

	2014	**2013** *(unexamined)*
Losses	$17,276,368	$16,487,333
Reinsurance payable on paid losses and loss adjustment expenses	140,044	104,668
Loss adjustment expenses	1,134,687	1,166,993
Commissions payable	518,009	395,216
Other expenses	277,338	169,807
Taxes, licenses and fees	260,980	437,470
Current federal income taxes	395,468	-
Unearned premiums	7,319,831	6,611,770
Advance premium	78,767	64,142
Ceded reinsurance premiums payable	5,017,341	4,147,852
Funds held by company under reinsurance treaties	-	(41)
Amounts withheld or retained by company for account of others	(604)	-
Provision for reinsurance	578,947	231,816
Payable for securities	1,214,594	59,734
Payable to Affiliates	-	100,678
Member deposits	1,799,627	1,705,434
Escheat liability	652	806
Suspense	255	340
Total Liabilities	**$36,012,304**	**$32,668,370**
Unassigned funds	17,207,515	15,557,998
Surplus as regards policyholders	17,207,515	15,557,998
Total Liabilities and Surplus	**$53,219,819**	**$47,242,016**

Forestry Mutual Insurance Company
Statutory Statement of Operations
December 31,

	2014	2013 *(unexamined)*
Underwriting Income		
Premiums earned	$ 18,120,542	$ 15,463,403
Deductions		
Losses incurred	9,281,024	7,949,315
Loss adjustment expenses incurred	1,353,210	1,252,221
Other underwriting expenses incurred	6,442,359	6,018,637
Premium deficiency	-	(397,461)
Total underwriting deductions	17,076,593	14,822,712
Net underwriting gain (loss)	**1,043,976**	**640,691**
Investment Income		
Net investment income earned	540,599	536,968
Net realized capital gains	888,706	368,930
Net investment gain	**1,429,421**	**905,898**
Other Income		
Other income	90,947	101,827
Net income before taxes	**2,564,144**	**1,648,416**
Federal income taxes incurred	508,275	114,319
Net Income	**$2,055,869**	**$1,534,097**

Forestry Mutual Insurance Company
Statutory Statement of Surplus
December 31,

Surplus Account	2014	2013 *(unexamined)*
Surplus, beginning of year	$15,557,998	$13,759,244
Surplus increases (decreases):		
Net Income	2,055,869	1,534,097
Change in net unrealized capital gains	25,278	578,871
Change in net deferred income tax	(30,650)	(277,512)
Change in non-admitted assets	(53,849)	195,114
Change in provision for reinsurance	(347,131)	(231,816)
Change in surplus as regards policyholders for the year	1,649,517	1,798,754
Surplus, end of year	**$17,207,515**	**$15,557,998**

Forestry Mutual Insurance Company
Statutory Statement of Cash Flow
December 31,

	2014	2013 *(unexamined)*
Cash From Operations		
Premiums collected net of reinsurance	$18,882,408	$15,891,780
Net investment income	884,186	636,881
Net investment income	90,957	101,827
Total	19,857,551	16,630,488
Benefit and loss related payments	8,266,000	9,359,285
Commissions, expenses paid and aggregate write-ins	8,059,279	6,402,267
Federal income taxes paid	126,051	229,729
Total	16,451,330	15,991,281
Net cash from operations	**3,406,221**	**639,207**
Cash Used By Investments		
Proceeds from investments sold, matured, or repaid	15,050,739	17,039,258
Cost of investments acquired	16,181,570	18,403,935
Net cash used by investments	**(1,130,831)**	**(1,364,677)**
Cash Used By Financing and Miscellaneous Sources		
Other cash applied	(242,017)	(202,379)
Net cash used by financing and miscellaneous sources	**(242,017)**	**(202,379)**
Reconciliation of Cash and Short-Term Investment		
Net change in cash, cash equivalents and short-term investments	2,033,373	(927,849)
Cash and short-term investments, beginning of year	2,853,035	3,780,884
Cash and short-term investments, end of year	**$4,886,408**	**$2,853,035**

COMMENTS ON FINANCIAL STATEMENTS

Department examiners recommend an adjustment to surplus and a balance sheet reclassification related to the Company's 2014 financial statements as a result of the Company's improper reporting of related party transactions with FMICA. (Refer to the Current Examination Note on page 4)

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 Company 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.

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.

Premiums: Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported 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 as reductions of those items. 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 premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses are "non-admitted" and are charges against surplus.

Reserves for loss & loss adjustment expenses: Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

Analysis of Assets:

The following represents an analysis of the Company's net admitted assets as of December 31, 2014:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	$28,034,455		$28,034,455
Common Stocks	8,319,278		8,319,278
Cash and short-term investments	4,886,408		4,886,408
Total cash and invested assets	**41,240,141**		**41,420,141**
Investment income due and accrued	303,214		303,214
Uncollected premiums and agents' balances	2,226,064	259,828	1,966,236
Deferred premiums and agents' balances	7,339,848		7,339,848
Amounts recoverable from reinsurers	836,972		836,972
Other amounts receivable under reinsurance contracts	28		28
Net deferred tax asset	971,877	43,549	928,328
Guaranty funds receivable	59,797		59,797
Electronic data processing equipment & software	42,221		42,221
Furniture and equipment	7,521	7,521	
Receivables from subsidiaries	503,034		503,034
Aggregate write-ins for other than invested assets	106,504	106,504	
Total Assets	**$53,637,221**	**$417,402**	**$53,219,819**

Reinsurance:

The Company has excess of loss reinsurance contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilizes Aon Benfield, Inc. as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

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

	2014	2013
Direct and assumed written	$22,813,320	$20,269,065
Ceded written	(3,984,717)	(3,713,064)
Net written	**18,828,603**	**16,556,001**
Direct and assumed earned	22,085,395	19,479,865
Ceded earned	(3,964,853)	(4,016,462)
Net earned	**$18,120,542**	**$15,463,403**

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts, retention limits and insurance coverages are described below.

Reinsurance Ceded

Excess of Loss Coverage

The Company has four excess of loss contracts with various reinsurers, effective January 1, 2014. In 2014 and 2013, the Company ceded premiums of approximately $2,904,000 and $4,869,000 under these contracts, respectively. The following chart provides information related to the Company's reinsurance coverage:

Company Retention $500K

$500,000 in excess of $500,000 4.2% Premium Rate Reinstatements – 1 free @ 50%, 4 Free
$1 million in excess of $1 million 2.75% Premium Rate Reinstatements – 1 @ 100%, 2 Free
$3 million in excess of $2 million 2.8% Premium Rate Reinstatements – 1 @ 100%
$5 million in excess of $5 million 2.0% Premium Rate Reinstatements – 1 @ 100%
$10 million in excess of $10 million with $15 million MAOL 0.8125% Premium Rate Reinstatements – 1 @ 100% (Maximum Any One Life ("MAOL")
$10 million in excess of $20 million with $15 million MAOL 0.6% Premium Rate Reinstatements – 1 @ 100%

Reinsurance Assumed

The Company participates in the Pool, which is a residual market reinsurance mechanism for servicing carriers of workers' compensation assigned risk plans administered by NCCI. As a participant, the Company assumes premiums, losses, costs, and other expenses arising from coverage provided under authorized insurance plans written through a servicing carrier. The business assumed from the Pool is the Company's proportionate share of the total voluntary market for workers' compensation in the state. During 2014 and 2013, the Company assumed approximately $1,483,000 and $1,342,000, respectively, in premiums from the Pool.

Summary of Reserves:

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

	Current Year	Prior Year
Reserve for losses and loss adjustment expenses, beginning of year	17,654,326	$19,327,973
Add:		
Provision for losses and loss adjustment expenses, current year	13,417,000	10,650,000
Change in estimated losses and loss adjustment expenses, prior years	(2,782,766)	(1,448,464)
Total incurred	10,634,234	9,201,536
Deduct:		
Losses and loss adjustment expenses paid, current year	4,148,000	2,774,000
Losses and loss adjustment expenses paid, prior year	5,729,505	8,101,184
Total paid	9,877,505	10,875,184
Reserve for losses and loss adjustment expenses, end of year	18,411,055	17,654,326
Increase in reserve for losses and loss adjustment expenses	$756,729	($1,673,647)

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2014 and 2013, the liability for losses and loss adjustment expenses was reduced by $11,889,142 and $11,805,236, respectively, for amounts to be recovered from reinsurers.

Capital and Surplus:

The following, in conjunction with the Capital and Surplus Account table (see page 14), represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2009:

	2012	2011	2010
Capital and surplus, beginning of year	$14,247,322	$14,005,017	$12,950,401
Capital and surplus increases (decreases):			
Net income (loss)	(1,179,893)	657,627	759,410
Change in net unrealized capital gain (loss)	268,830	(317,709)	423,592
Change in net deferred income tax	313,568	(102,355)	(137,822)
Change in non-admitted assets	(144,136)	4,742	9,430
Change in accounting principle	253,553		
Change in surplus as regards policyholders for the year	(488,078)	242,305	1,054,610
Capital and surplus, end of year	**$13,759,244**	**$14,247,322**	**$14,005,017**

Contingencies and Commitments:

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

SUBSEQUENT EVENTS

Effective February 22, 2016, the Company amended its Investment Management Agreement with Franklin Street Trust Company to allow for the management of the Company's entire investment portfolio

On October 30, 2014, the Company's subsidiary, FMICA, entered into an Asset Purchase Agreement with Manry-Rawls, LLC, to purchase a book of business. Effective January 9, 2015, FMICA acquired the book of business upon satisfaction of the purchase price.

In December 2015, the Company became licensed in Florida. The Company has not written any business in the state as of the date of our examination.

Forestry Mutual Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2014

Mr. Keith Biggs, President
Forestry Mutual Insurance Company
801 Jones Franklin Rd. Suite 100
Raleigh, NC 27606

Mr. Michael P. Walters, Chairman of the Board
Forestry Mutual Insurance Company
801 Jones Franklin Rd. Suite 100
Raleigh, NC 27606

Amy Almond, Controller
Forestry Mutual Insurance Company
801 Jones Franklin Rd. Suite 100
Raleigh, NC 27606

CONCLUSION

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is $1,000,000.

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

Respectfully submitted,

Monique D. Smith, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

March 30, 2016

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Herb Maltba, Examination Supervisor, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: ______________________ Date: 3-30-2016
Herb Maltba

Sworn and subscribed before me this 30 day of March, 2016.

Notary Public Signature: ______________________ Notary Public Seal:

THOMAS SMITH
NOTARY PUBLIC
WAKE COUNTY, NC