



I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused the Report on Examination of the North Carolina Farm Bureau Insurance Group as of December 31, 2022 with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 7th day of June, 2024.



Mike Causey
Commissioner of Insurance

Monique D. Smith, CPA, CFE, CIA
Deputy Commissioner
Financial Examination Division

North Carolina Farm Bureau Insurance Group

Raleigh, North Carolina

Multi-Entity Report on Examination

As of December 31, 2022

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May 7, 2024

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 North Carolina Farm Bureau Insurance Group or “NCFBI Group”), acknowledging that its main administrative and statutory home office is located at 5301 Glenwood Avenue, Raleigh, North Carolina.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of each company within the NCFBI Group. This examination covers the period from January 1, 2018, to December 31, 2022, 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 NCFBI Group was as of December 31, 2017.

The purpose of this examination is to review and evaluate the NCFBI Group’s business processes and controls to assist in assessing and monitoring their current financial condition and prospective solvency. Pursuant to GS §58-2-132, this Report on Examination comprises only facts appearing in the books, records, or other documents of the NCFBI 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 NCFBI 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 NCFBI Group were considered in accordance with the Handbook risk-focused surveillance process and the following key functional activities were identified:

Capital & Surplus
Investments
Reserves/Claims Handling
Underwriting/Premiums
Reinsurance (Ceding)
Related Party

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 insurers and their 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 NCFBI Group.

The NCFBI 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 NCFBI Group's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from the NCFBI Group's management.

The books and records of the NCFBI Group are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Johnson Lambert, LLP of Raleigh, North Carolina, the NCFBI Group's designated independent public accountant, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2022, for the companies within the NCFBI Group.

REPORT ABBREVIATIONS

| | |
|---|--------------------|
| Board of Directors | “Board” |
| Financial Condition Examiners Handbook | “Handbook” |
| General Statutes of North Carolina | “GS” |
| Information Technology General Controls | “ITGCs” |
| Information Technology Planning Questionnaire | “ITPQ” |
| National Association of Insurance Commissioners | “NAIC” |
| North Carolina Department of Insurance | “Department” |
| North Carolina Department of Revenue | “NCDOR” |
| North Carolina Farm Bureau Federation, Inc. | “Federation” |
| North Carolina Reinsurance Facility | “NCRF” |
| American Agricultural Insurance Company | “AAIC” |
| FBAlliance Insurance Company | “FBAlliance” |
| FBP 2015 Holding Company | “FBP 2015 Holding” |
| Southern Farm Bureau Life Insurance Company | “SFB” |
| North Carolina Farm Bureau Insurance Group | “NCFBI Group” |
| North Carolina Farm Bureau Mutual Insurance Co. | “NCFBMIC” |
| Farm Bureau Insurance of N.C., Inc. | “FBINC” |

ORGANIZATIONAL STRUCTURE

The companies within the NCFBI Group are part of an insurance holding company system as defined in GS § 58-19. NCFBMIC is the ultimate parent and owns all of the outstanding shares of FBINC. All business written by FBINC is ceded to NCFBMIC.

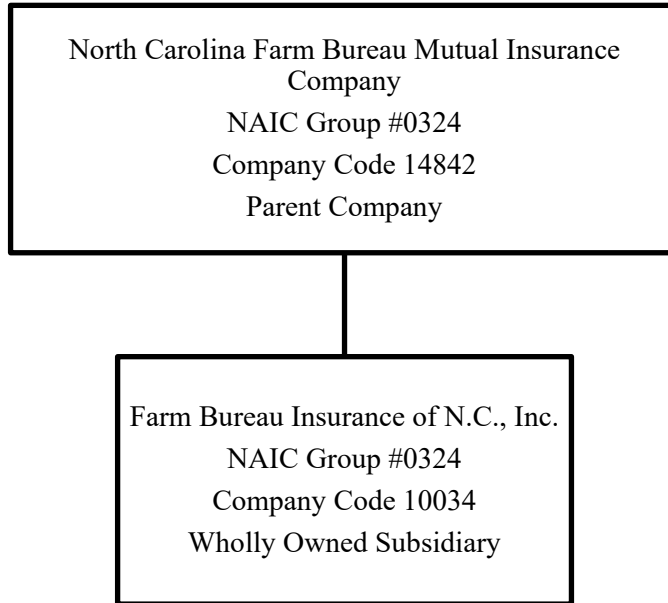
NCFBMIC holds a 14.5% ownership interest in FBP 2015 Holding Company (“FBP 2015 Holding”), who in turn wholly-owns FBAlliance Insurance Company, Inc. (“FBAlliance”). On March 18, 2016, a Disclaimer of Affiliation was approved by the Department to rebut the presumption that NCFBMIC controls or has the ability to influence the control of FBP 2015 Holding, directly, and FBAlliance, indirectly, through its ownership interest.

NCFBMIC holds a 10.45% ownership interest in American Agricultural Insurance Company (“AAIC”). On October 30, 2009, a Disclaimer of Affiliation was approved by the Department to rebut the presumption that NCFBMIC controls or has the ability to influence the control of AAIC through its ownership interest.

Pursuant to GS 58-19-25(j), NCFBMIC was relieved of its duty to register or report under Article 19 issues, which may arise out of its relationship with FBP 2015 Holding, FBAlliance, and AAIC.

ORGANIZATIONAL CHART

The following organizational chart contains the companies within the holding company group as of December 31, 2022:



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, as a multi-state, multi-line insurer. Currently, NCFBMIC is only writing business in the state of North Carolina. While NCFBMIC is only licensed and writing business in North Carolina, it assumes an immaterial amount of business from AAIC for risks located in other states. All policyholders are required to be members of the North Carolina Farm Bureau Federation, Inc (“Federation”).

FBINC

FBINC was incorporated on February 18, 1994, under the laws of the State of North Carolina. FBINC became licensed as a property and casualty insurer on March 29, 1994, and started writing business in 1995. FBINC is a stock company. FBINC offers nonstandard pricing to customers in North Carolina. All policyholders are required to be members of the Federation. FBINC does not carry any policyholder-related liabilities or reserves, as it cedes 100% of the business underwritten to NCFBMIC.

CAPITAL STOCK

NCFBMIC

NCFBMIC is a mutual company and has no capital stock authorized, issued or outstanding. At December 31, 2022, NCFBMIC reported surplus notes totaling \$150,085,800 and unassigned surplus totaling \$1,148,907,780.

FBINC

As of December 31, 2022, 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 | \$1.00 |

No additional shares of FBINC were issued during the period under examination. At December 31, 2022, all outstanding shares were owned by NCFBMIC.

FBINC reported \$2,700,000 in gross paid-in and contributed surplus and unassigned funds totaling \$6,366,784.

DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors (“Board”) of NCFBI Group. Under the insurance regulations of North Carolina, the maximum amount of ordinary dividends which the NCFBI Group may pay to shareholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. Any amounts in excess of this are considered extraordinary. NCFBMIC and FBINC paid no dividends during the examination period.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

The companies within the NCFBI Group have the same directors and principal officers. The companies occupy the same home office space and share accounting systems and personnel. All personnel are employees of NCFBMIC.

Members

The bylaws for NCFBMIC and FBINC provide that an annual meeting of the members shall be held during the time designated for the Annual Convention of the Federation. Special meetings of the shareholders

may be called at any time by the order of the president, who shall call a special meeting whenever thirty percent (30%) or more of the members, or a majority of directors, shall request in writing.

Board of Directors

The business of the NCFBI Group is conducted by its management team and is subject to review by the Board. The bylaws for NCFBMIC and FBINC specify that the number of directors shall consist of twelve members and are elected at the annual meeting of members, and each director elected shall serve for a term of one year.

The following individuals served as directors as of December 31, 2022:

| Name | Location | Principal Occupation |
|-------------------------|-------------------|--|
| William S. Harding | Raleigh, NC | President of the Federation |
| Elaine B. Fryar | McLeansville, NC | Principal of Elaine Fryar, CPA, and Vice President of Waseda Farms |
| Donald R. Smart | Waynesville, NC | Self Employed Farmer |
| Richard B. Whitaker | Climax, NC | Self Employed Farmer |
| Jeffery K. Mathis | Roaring River, NC | Member of Cranberry Farms |
| Larry E. Taylor | Concord, NC | Owner/Operator of Larry E. Taylor Farm |
| David H. Overman | Goldsboro, NC | President of Overman Farms, Inc. |
| Gwendolyn B. Pitt | Macclesfield, NC | Self Employed Farmer |
| Malcolm S. Whitford | Grantsboro, NC | Self Employed Farmer |
| Jackie E. Thompson, Sr. | Wake Forest, NC | Owner of J & J Farms, Inc. |
| Leland M. Simmons | Newport, NC | Self Employed Farmer |
| Jerry T. Wyant | Vale, NC | Self Employed Farmer |

The Board has the authority to establish committees including, but not limited to, a pension committee, audit committee, and an investment committee.

The following individuals served on Board committees at December 31, 2022:

Pension Committee

William S. Harding, Chair
 Matthew J. Currin
 Roger Batdorff
 Allen W. Houck
 Phillip J. Parker, Jr.
 William G. Poland
 Michael P. Sherman

Audit Committee

Malcom S. Whitford, Chair
 Elaine B. Fryar
 Jerry T. Wyant

Investment Committee

William S. Harding, Chair
 Roger Batdorff
 Matthew J. Currin
 Allen W. Houck
 Phillip J. Parker, Jr.
 William G. Poland
 Michael P. Sherman

Officers

The bylaws provide that the Board will elect the officers, which shall consist of a president, vice-president, treasurer, secretary, and any other officers deemed necessary. The president and vice-president shall be members of the Board, but no such qualification shall be required of the secretary or the treasurer. All officers shall be members of the corporation.

The following individuals served as officers as of December 31, 2022:

| Name | Title |
|------------------------|--|
| William S. Harding | President |
| Malcolm S. Whitford | Vice President |
| Allen W. Houck | Executive Vice President & General Manager |
| Matthew J. Currin | Treasurer |
| Phillip J. Parker, Jr. | Secretary |

CODE OF CONDUCT AND CONFLICT OF INTEREST

The NCFBI Group has established policies and procedures to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the NCFBI Group requires a signed statement from each director and officer disclosing any conflict of interest. Conflict of interest statements were properly executed by all officers and directors of the NCFBI Group for all years under examination.

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 NCFBI 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. On December 5, 2018, NCFBI Group amended its bylaws to remove language requiring the President's signature on all papers "to which the seal of the corporation is affixed, including all policies of insurance." The minutes of the meetings of the Board and investment and audit committees were reviewed for the period under examination. Based on the review, it appears that there have been no other changes to any of the articles of incorporation or bylaws for the companies within the NCFBI 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 2022 AS Schedule E, Part 3 contains a complete description and listing of the statutory deposits by state.

ACCOUNTS AND RECORDS

The NCFBI Group's books and records are maintained at its main administrative office located at 5301 Glenwood Avenue, Raleigh, North Carolina.

The NCFBI Group utilizes information systems to sell products to customers, to establish service and maintain customer policies, as well as to gather and report financial data. The environment for internal controls over financial reporting is highly automated and includes application controls and system generated reports supporting its financial reporting functions. Significant applications are hosted on multiple servers at the data center located in Raleigh, North Carolina. The majority of the NCFBI Group's financially significant applications were developed internally by its information technology staff.

INFORMATION TECHNOLOGY CONTROLS

The Department performed a risk-based assessment and review of the NCFBI 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 NCFBI 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 NCFBI 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 NCFBI Group had a process in place to effectively identify, mitigate and manage its IT risks;
2. The NCFBI Group's control structure, policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C; and
3. The NCFBI Group complied with those policies and procedures.

The objectives above were achieved through a combination of reviewing the NCFBI Group's policy and procedures, testing in key areas related to Exhibit C, interviewing the NCFBI 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 NCFBI Group's ITGCs were determined to be effective.

FIDELITY BONDS AND OTHER INSURANCE

NCFBMIC and FBINC are named insureds under a fidelity bond, which provides coverage totaling \$2,000,000 in aggregate, which exceeded the minimum recommended by the Handbook for the NCFBI Group on a consolidated basis.

In addition, the NCFBI Group is covered by various corporate property and liability policies issued to NCFBI Group, which appeared to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

FBINC has no employees. All employees of the NCFBI Group are employees of NCFBMIC.

NCFBMIC has a defined contribution 401(k) plan for all eligible employees. Plan participants make all contributions to the plan and NCFBMIC only pays certain administrative expenses associated with the operation of the plan. In 2022 and 2021, NCFBMIC paid 401(k) plan expenses totaling \$47,704 and \$58,144, respectively.

NCFBMIC has a noncontributory defined benefit pension plan covering substantially all of its employees. Plan contributions are invested in a Southern Farm Bureau Life Insurance Company ("SFB") Deposit Administration Contract, which provides a guaranteed minimum interest rate for a defined period. The Plan's guaranteed interest rate is 3.7% and 3.6% for the years ending June 30, 2022, and June 30, 2023,

respectively. Thereafter, the guaranteed minimum rate will be determined by SFB and guaranteed for the next contract year.

RELATED PARTY AGREEMENTS

Pursuant to various agreements, services such as financial management, operational management, accounting, payroll, internal audit, human resources management, tax, legal, investment advisory, and data processing are provided for or by NCFBMIC and FBINC as follows:

- a. NCFBMIC has a shared Management Agreement with FBINC, effective February 18, 1994, whereby NCFBMIC agrees to provide FBINC with all personnel, material, facilities, and services necessary for FBINC to transact the business of insurance in the State of North Carolina. Premium cessions by FBINC to NCFBMIC are the full reimbursement for all services provided by NCFBMIC.
- b. NCFBMIC has a Consolidated Federal Income Tax Agreement with FBINC, effective January 1, 1995, whereby each party is charged the same amount of federal income tax liability, if any, that it would be obligated to pay if it had filed on a separate basis, using the consolidated corporate tax rate less the separate tax credits. Under this agreement, FBINC paid consulting fees to NCFBMIC totaling \$44,572 and \$46,877 in 2022 and 2021, respectively.
- c. NCFBMIC has an Intercompany Reinsurance Agreement with FBINC, effective September 16, 2010, whereby FBINC agrees to cede and NCFBMIC, the reinsurer, agrees to accept all liabilities under all voluntary policies of insurance issued by FBINC. Under this agreement, FBINC ceded premiums totaling \$356,707 and \$403,291 in 2022 and 2021, respectively.

TERRITORY AND PLAN OF OPERATION

Both companies within the NCFBI Group are licensed to write insurance coverage to residents of the State of North Carolina only. As of December 31, 2022, NCFBMIC operates through captive independent contractor agents to write personal and commercial property and liability coverage with the most significant of these lines being automobile liability, homeowners' multiple peril, and automobile physical damage.

FBINC provides automobile insurance in North Carolina at a non-discounted rate or on a consent-to-rate basis. The insurer offers nonstandard pricing to customers that do not qualify for the preferred programs underwritten by NCFBMIC, which is the parent company.

GROWTH OF THE COMPANIES

The following data obtained from Annual Statements filed with the Department illustrates the growth of the companies within the NCFBI Group for the five-year period ended December 31, 2022:

NCFBMIC

| Year | Net Admitted Assets | Surplus | Gross Premiums Written | Net Earned Premiums | Net Income (Loss) |
|------|---------------------|-----------------|------------------------|---------------------|-------------------|
| 2022 | \$2,381,836,561 | \$1,298,993,580 | \$1,423,303,305 | \$1,109,740,190 | (\$73,133,183) |
| 2021 | \$2,396,709,429 | \$1,367,614,272 | \$1,313,175,163 | \$1,103,503,373 | \$64,122,022 |
| 2020 | \$2,236,125,989 | \$1,239,080,613 | \$1,259,928,260 | \$967,798,321 | \$22,888,018 |
| 2019 | \$2,169,837,260 | \$1,262,511,975 | \$1,203,486,513 | \$910,867,756 | \$39,849,630 |
| 2018 | \$2,056,872,218 | \$1,216,237,274 | \$1,151,813,652 | \$870,195,793 | \$49,801,173 |

FBINC

| Year | Net Admitted Assets | Capital and Surplus | Gross Premiums Written | Net Earned Premiums* | Net Income |
|------|---------------------|---------------------|------------------------|----------------------|------------|
| 2022 | \$10,966,452 | \$10,866,784 | \$356,707 | \$- | \$167,678 |
| 2021 | \$10,810,472 | \$10,698,942 | \$403,291 | \$- | \$176,349 |
| 2020 | \$10,652,868 | \$10,522,588 | \$441,347 | \$- | \$246,320 |
| 2019 | \$10,425,271 | \$10,276,402 | \$529,535 | \$- | \$263,309 |
| 2018 | \$10,188,781 | \$10,011,417 | \$657,706 | \$- | \$258,623 |

*FBINC cedes 100% of its premiums to NCFBMIC.

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 2022 were reviewed and certified by the NCFBI Group's Appointed Actuary, Taylor Krebsbach Davis, FCAS, CERA, MAAA of FTI Consulting, Inc. Actuarial opinions regarding the NCFBI Group'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 opinion, the Company's reserves on the losses 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 unpaid loss and loss expense obligations of the NCFBI Group.

REINSURANCE PROGRAM OVERVIEW

The NCFBI Group has various reinsurance contracts, which provide coverages for 1) large individual policies between \$1,000,000 and \$6,000,000; 2) catastrophe excess of loss for property with a limit of \$1,515,000; 3) workers' compensation excess of loss; 4) excess liability; 5) terrorism catastrophe excess of loss; 6) umbrella quota share; and 7) includes the NCFBI Group's participation in various reinsurance pools.

The following provides a summarized overview of the most significant reinsurance contracts in effect as of December 31, 2022:

REINSURANCE CEDED

Quota Share and Aggregate Catastrophe

NCFBMIC has various reinsurance contracts with AAIC, to cede insurance risk to authorized and unauthorized reinsurers as follows:

NCFBMIC has a surplus quota share reinsurance contract with AAIC, effective January 1, 2022, this contract covers large individual policies. The lines of business covered under the contract include fire, allied lines, farm owners' multiple peril, homeowners' multiple peril, commercial multiple peril, inland marine, and auto physical damage. Under this contract, for any occurrence, AAIC's share of loss is calculated for each individual risk that has sustained loss from the occurrence. The amount of coverage provided and limitations for each layer of coverage is as follows:

| Layer | Reinsurance Coverage Per Occurrence | Maximum Occurrence Limit |
|---------|--|--------------------------|
| Primary | Losses up to first \$3,000,000 | \$6,000,000 |
| First | Up to \$7,000,000 of the losses in excess of \$3,000,000 | \$14,000,000 |
| Second | Up to \$10,000,000 of the losses in excess of \$10,000,000 | \$15,000,000 |
| Third | Up to \$19,000,000 of the losses in excess of \$20,000,000 | \$19,000,000 |

NCFBMIC has an umbrella quota share contract with AAIC, whereby all umbrella policies are 100% ceded to AAIC excluding layer 1, which has Treaty Capacity of \$1,000,000 and an 80% cession rate.

NCFBMIC has a property and auto catastrophe aggregate reinsurance contact with AAIC, effective January 1, 2022, under which NCFBMIC fully participates in the first \$60,000,000 of the ultimate losses net of 16.5% external placement under their property quota share contract described below. NCFBMIC's share of ultimate losses retained over \$60,000,000 is calculated based on varying percentages and loss thresholds as follows:

| Loss Retention Layers | Participation | Retained Losses | Cumulative Retained Losses |
|--|----------------------|------------------------|-----------------------------------|
| Over \$0 up to \$60,000,000 | 100.00% | \$50,100,000 | \$50,100,000 |
| Over \$60,000,000 up to \$90,000,000 | 7.18% | \$2,152,500 | \$52,252,500 |
| Over \$90,000,000 up to \$150,000,000 | 5.66% | \$3,398,400 | \$55,650,900 |
| Over \$150,000,000 up to \$290,000,000 | 5.00% | \$5,845,000 | \$61,495,900 |
| Over \$290,000,000 up to \$530,000,000 | 5.00% | \$10,020,000 | \$71,515,900 |
| Over \$530,000,000 up to \$930,000,000 | 5.00% | \$17,566,250 | \$89,082,150 |
| Over \$930,000,000 up to \$1,205,000,000 | 14.94% | \$41,071,525 | \$130,153,675 |
| Over \$1,205,000,000 up to \$1,305,000,000 | 0.00% | \$25,900,000 | \$156,053,675 |

NCFBMIC ceded premiums totaling \$127,075,631 and \$105,606,359 in 2022 and 2021, respectively, under its contracts with AAIC.

Property Quota Share

NCFBMIC has a property quota share contact with multiple participating reinsurers under which NCFBMIC is allowed to cede losses on business reinsured for the following lines of business: personal, farm and commercial fire, inland marine, the property sections of all homeowners, farm owners, churches, businessowners, commercial package, mobile homeowners, and earthquake coverage. The reinsurers pay NCFBMIC its quota share of the losses under the policies including an allowance for loss adjustment expense (fixed at 1.1% of the paid losses), 95% of any extra contractual obligations, and 95% of any loss in excess of policy limits covered under the contract and any one loss occurrence with a maximum reinsurer limit not to exceed \$825,000,000. At December 31, 2022, the total external placement under this contract resulted in a 16.5% quota share arrangement. NCFBMIC ceded premiums totaling \$56,061,751 and \$123,662,895 in 2022 and 2021, respectively.

Flood Insurance Coverage

NCFBMIC has flood insurance in collaboration with SFB, which is authorized to write flood insurance. SFB then cedes, on behalf of NCFBMIC, flood insurance to the National Flood Insurance Program. NCFBMIC ceded premiums totaling \$11,857,855 and \$12,104,952 in 2022 and 2021, respectively, under this contract.

North Carolina Reinsurance Facility ("NCRF")

NCFBMIC cedes a portion of its automobile liability coverage to NCRF under North Carolina law, which requires licensed insurers to accept and write policies for any eligible applicant for automobile liability coverage, which may then be ceded to NCRF, and the member companies then share the premiums, losses, and expenses in proportion to their insurance premiums written and ceded to NCRF. NCFBMIC ceded premiums totaling \$36,220,650 and \$36,151,420 in 2022 and 2021, respectively, to the NCRF.

Home and Farm Insurance Pool

NCFBMIC participates in a home and farm insurance pooling contract with AAIC, effective January 1, 2022, to diversify its property risk exposure. NCFBMIC ceded premiums totaling \$11,250,000 in 2022 under this contract.

REINSURANCE ASSUMED

NCFBMIC assumes 100% of the ultimate net losses from FBINC, AAIC, and other insurers under various reinsurance contracts covering homeowners, mobile homeowners, farm owners, and automobile lines of business. NCFBMIC assumed premiums totaling \$18,001,737 and \$5,695,083 in 2022 and 2021, respectively, under these contracts.

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 NCFBI Group for the period ending December 31, 2022. The supporting tables and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department.

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 NCFBI Group are as follows:

Bonds: Carried at amortized cost using the interest 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 interest 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.

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

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 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 premiums over 90 days past due, excess of book value over market value for securities, prepaid expenses, furniture, equipment, electronic data processing equipment and software, and deferred tax assets, are “non-admitted” and are charged against surplus.

Unpaid loss & loss adjustment expenses: Liabilities for estimated losses determined from case estimates based on the number of reported loan defaults 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 net admitted assets at December 31, 2022:

| NCFBMIC | Assets | Assets not Admitted | Net Admitted Assets |
|---|------------------------|----------------------------|----------------------------|
| Bonds | \$1,601,193,201 | \$- | \$1,601,193,201 |
| Common stocks | 459,451,056 | - | 459,451,056 |
| Properties occupied by the company | 905,000 | - | 905,000 |
| Cash and short-term investments | 99,023,943 | - | 99,023,943 |
| Other invested assets | 1,705,030 | - | 1,705,030 |
| Total cash and invested assets | 2,162,278,231 | - | 2,162,278,231 |
| Investment income due and accrued | 15,625,206 | - | 15,625,206 |
| Premiums and agents' balances in course of collection | 4,534,607 | 1,510,509 | 3,024,098 |
| Premiums and agents' balances booked but not yet due | 147,277,425 | 605,227 | 146,672,198 |
| Reinsurance recoverable | 24,286,257 | - | 24,286,257 |
| Income tax recoverable | 23,096,381 | - | 23,096,381 |
| Net deferred tax assets | 4,244,678 | - | 4,244,678 |
| Electronic data processing equipment and software | 5,204,619 | 5,023,092 | 181,527 |
| Furniture and equipment | 7,422,458 | 7,422,458 | - |
| Healthcare and other amounts receivable | 1,078,833 | 210,907 | 867,926 |
| Aggregate write-ins for other-than-invested assets | 1,577,997 | 17,938 | 1,560,059 |
| Notes receivable | - | - | - |
| Total admitted assets | \$2,396,626,692 | \$14,790,131 | \$2,381,836,561 |

| FBINC | Assets | Assets not Admitted | Net Admitted Assets |
|---|---------------------|----------------------------|----------------------------|
| Bonds | \$8,640,323 | \$- | \$8,640,323 |
| Cash and short-term investments | 2,227,832 | - | 2,227,832 |
| Total cash and invested assets | 10,868,155 | - | 10,868,155 |
| Investment income due and accrued | 43,202 | - | 43,202 |
| Premiums and agents' balances in course of collection | 1,017 | 1 | 1,016 |
| Premiums and agents' balances booked but not yet due | 51,004 | - | 51,004 |
| Receivable from parent, subsidiaries, and affiliates | 3,075 | - | 3,075 |
| Total admitted assets | \$10,966,453 | \$1 | \$10,966,452 |

Reinsurance Activity

The companies in the NCFBI Group have various types of contracts to minimize their exposure to losses. Reinsurance contracts do not relieve the companies of their primary obligation to policyholders, and failure of the reinsurers to discharge their obligations could result in losses to the companies. The NCFBI Group utilizes AAIC, Guy Carpenter, and Lockton as reinsurance intermediaries to negotiate and obtain reinsurance contracts on its behalf.

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

| NCFBMIC | 2022 | 2021 |
|----------------------------|------------------------|------------------------|
| Direct and assumed written | \$1,423,303,305 | \$1,313,175,163 |
| Ceded written | (242,465,887) | (277,525,625) |
| Net written | 1,180,837,418 | 1,035,649,538 |
| Direct and assumed earned | 1,374,564,947 | 1,292,818,430 |
| Ceded earned | (264,824,757) | (279,315,057) |
| Net earned | \$1,109,740,190 | \$1,013,503,373 |

| FBINC | 2022 | 2021 |
|--------------------|-------------|-------------|
| Direct written | \$356,707 | \$403,291 |
| Ceded written | 356,707 | 403,291 |
| Net written | - | - |
| Direct earned | 371,214 | 410,568 |
| Ceded earned | 371,214 | 410,568 |
| Net earned | \$- | \$- |

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 | 2022 | 2021 |
|---|-----------------------|----------------------|
| Reserve for losses and loss adjustment expenses, beginning of year | \$ 395,022,427 | \$367,148,810 |
| Add: | | |
| Provision for losses and loss adjustment expenses, current year | 1,040,739,000 | 788,651,000 |
| Change in estimated losses and loss adjustment expenses, prior years | (41,182,999) | (41,728,717) |
| Total incurred | 999,556,001 | 746,922,283 |
| Deduct: | | |
| Losses and loss adjustment expenses paid, current year | 720,368,000 | 531,423,000 |
| Losses and loss adjustment expenses paid, prior year | 211,596,565 | 187,625,666 |
| Total paid | 931,964,565 | 719,048,666 |
| Reserve for losses and loss adjustment expenses, end of year | 462,613,863 | 395,022,427 |
| Increase in reserve for losses and loss adjustment expenses | \$67,591,436 | \$27,873,617 |

Reserves for losses and loss adjustment expenses are not reduced for anticipated salvage and subrogation recoveries as such recoveries are reported as a reduction of losses incurred when the cash is received for such recoveries. In 2022 and 2021, salvage and subrogation recoveries for NCFBMIC totaled \$57,182,393 and \$53,000,647, respectively.

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under NCFBMIC's reinsurance contracts. At December 31, 2022, and 2021, the liability for losses and loss adjustment expenses was reduced by approximately \$98,718,380 and \$85,767,161 for amounts to be recovered from reinsurers. NCFBMIC did not record a valuation allowance for reinsurance recoverable as of December 31, 2022, and 2021.

FBINC

At December 31, 2022, FBINC reported no reserves for losses and loss adjustment expenses due to its 100% quota share reinsurance contract with NCFBMIC. FBINC ceded reserves for losses and loss adjustment expenses totaling \$149,370 and \$153,540 at December 31, 2022 and 2021, respectively.

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under NCFBI Group's reinsurance contracts.

Capital and Surplus

The changes in capital and surplus for the 5-year period since the Department's last examination of the NCFBMIC Group are reflected in Appendix B.

SURPLUS NOTES

In 2006, NCFBMIC issued various surplus notes totaling \$200,000,000 in exchange for cash pursuant to rule 144A under the Securities Act of 1933. The surplus notes were underwritten by First Tennessee Financial and are administered by Wilmington Trust Company. Payments of principal and interest may be made only with prior approval from the Department and only to the extent that NCFBMIC has sufficient policyholders' surplus to make the payment.

On September 15, 2020, and March 15, 2022, with the Department's approval, NCFBMIC repaid \$20,000,000 and \$30,000,000, respectively, of principal on the original December 7, 2006, issuance of a \$50,000,000 surplus note, leaving a zero balance. At December 31, 2022, and 2021, NCFBMIC had surplus notes outstanding totaling \$150,085,800 and \$180,085,800, respectively. NCFBMIC paid interest on its surplus notes totaling \$6,346,950 and \$4,851,974, for the years ended December 31, 2022, and 2021, respectively.

SUBSEQUENT EVENTS

On April 3, 2023, NCFBMIC won its appeal on a Notice of Final Determination received on November 19, 2018, from the North Carolina Department of Revenue ("NCDOR"), regarding renewable energy tax credits taken from 2014 through 2016. The NCDOR withdrew its appeal to the North Carolina Supreme Court on March 21, 2024, and NCFBMIC is eligible to take the previously disputed renewable tax credits.

On March 14, 2024, the Department approved NCFBMIC's request to repay \$3,088,783 in interest, due and payable on March 15, 2024, on its \$150,000,000 fixed/floating rate surplus note issued in December 2006.

North Carolina Farm Bureau Insurance Group
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2022

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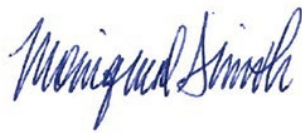
CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the NCFBI Group complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the NCFBI 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,

A handwritten signature in blue ink that reads "Monique Smith". The signature is written in a cursive, flowing style.

Monique Smith, CPA, CFE, CIA
Deputy Commissioner
North Carolina Department of Insurance

May 7, 2024

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Tonneta Drummond, 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:

Tonneta Drummond Date: 5/7/24

Sworn and subscribed before me this 7 day of May, 2024.

Notary Public Signature:

Jessica N Vaughan

Notary Public Seal:

JESSICA N VAUGHAN
Notary Public, North Carolina
Wake County
My Commission Expires
December 08, 2026

North Carolina Farm Bureau Insurance Group
Appendix A
December 31, 2022

2022 Statutory Statement of Admitted Assets

| | NCFBMIC | FBINC |
|--|------------------------|---------------------|
| Bonds | \$1,601,193,201 | \$8,640,323 |
| Common stocks | 459,451,056 | - |
| Properties occupied by the company | 905,000 | - |
| Cash, cash equivalents, and short-term investments | 99,023,943 | 2,227,832 |
| Other invested assets | 1,705,030 | - |
| Total cash and invested assets | 2,162,278,231 | 10,868,155 |
| Investment income due and accrued | 15,625,206 | 43,202 |
| Uncollected premiums and agents' balances in course of collection | 3,024,098 | 1,016 |
| Deferred premiums and agents' balances booked but deferred and not yet due | 146,672,198 | 51,004 |
| Reinsurance recoverable | 24,286,257 | - |
| Federal income tax recoverable | 23,096,381 | - |
| Net deferred tax asset | 4,244,678 | - |
| Electronic data processing equipment | 181,527 | - |
| Healthcare and other amounts receivable | 867,926 | - |
| Receivable from parent, subsidiaries, and affiliates | - | 3,075 |
| Accounts receivable | 1,216,856 | - |
| Equities and deposits in pools and associations | 343,203 | - |
| Total admitted assets | \$2,381,836,561 | \$10,966,452 |

2022 Statement of Liabilities, Surplus and Other Funds

| | NCFBMIC | FBINC |
|---|------------------------|---------------------|
| Losses | \$407,625,905 | \$- |
| Loss adjustment expenses | 54,987,958 | - |
| Commissions payable, contingent commissions and other similar charges | 19,686,541 | - |
| Other expenses | 6,618,687 | - |
| Taxes, licenses, and fees | 1,904,579 | - |
| Current Federal and foreign income taxes | - | 44,572 |
| Unearned premiums | 446,627,705 | - |
| Advance premium | 24,218,384 | 3,075 |
| Ceded reinsurance premiums payable | 25,184,393 | 52,021 |
| Remittances and items not allocated | 4,148,227 | - |
| Payable to parent, subsidiaries, and affiliates | 3,075 | - |
| Retiree health insurance | 5,979,000 | - |
| Clean risk allocations | 7,489,915 | - |
| Accrued vacation payable | 5,429,782 | - |
| Agents' termination commission payable | 70,153,895 | - |
| Pension benefit obligation | 2,784,935 | - |
| Total liabilities | 1,082,842,981 | 99,668 |
| Common capital stock | - | 1,800,000 |
| Gross paid in and contributed surplus | - | 2,700,000 |
| Surplus notes | \$150,085,800 | - |
| Unassigned funds | \$1,148,907,780 | 6,366,784 |
| Total capital and surplus or surplus as regards policyholders | \$1,298,993,580 | 10,866,784 |
| Total liabilities, capital, and surplus | \$2,381,836,561 | \$10,966,452 |

2022 Statutory Statement of Income

| | NFCBMIC | FBINC |
|---|-----------------------|------------------|
| Underwriting Income (Loss) | | |
| Premiums earned | \$1,109,740,190 | \$- |
| Deductions | | |
| Losses incurred | 921,348,243 | - |
| Loss adjustment expenses incurred | 78,207,758 | - |
| Other underwriting expenses incurred | 266,423,645 | - |
| Total underwriting deductions | 1,265,979,646 | - |
| Net underwriting gain (loss) | (156,239,456) | - |
| Investment Income | | |
| Net investment income earned | 52,327,655 | 212,250 |
| Net realized capital gains | 264,872 | - |
| Net investment gain | 52,592,527 | 212,250 |
| Other Income | | |
| Net loss from agents' or premium balances charged off | (1,511,786) | - |
| Finance and service charges not included in premiums | 9,507,387 | - |
| Other income | 11,257 | - |
| Total other income | 8,006,858 | - |
| Net income before dividends to policyholders | (95,640,071) | 212,250 |
| Federal income taxes incurred | (22,506,888) | 44,572 |
| Net Income (loss) | (\$73,133,183) | \$167,678 |

2022 Statutory Statement of Capital and Surplus

| | NCFBMIC | FBINC |
|---|------------------------|---------------------|
| Capital and surplus, beginning of year | \$1,367,614,272 | \$10,698,942 |
| Capital and surplus increases (decreases): | | |
| Net Income | (73,133,183) | 167,678 |
| Change in net unrealized capital gains (losses) | (30,673,215) | - |
| Change in net deferred income tax | (12,798,746) | - |
| Change in non-admitted assets | (1,976,581) | 164 |
| Change in surplus notes | (30,000,000) | - |
| Aggregate write-ins for gains and losses in surplus | 79,961,033 | - |
| Change in capital and surplus as regards policyholders for the year | (68,620,692) | 167,842 |
| Capital and surplus, end of year | \$1,298,993,580 | \$10,866,784 |

2022 Statutory Statement of Cash Flow

| | NCFBMIC | FBINC |
|--|----------------------|--------------------|
| Cash From Operations | | |
| Premiums collected net of reinsurance | \$1,162,407,159 | (\$2,273) |
| Net investment income | 64,628,357 | 269,374 |
| Miscellaneous income | 8,006,858 | - |
| Total | 1,235,042,374 | 267,101 |
| Benefit and loss related payments | 860,632,122 | - |
| Commissions, expenses paid and aggregate write-ins | 341,008,191 | - |
| Federal income taxes paid | 153,125 | 46,877 |
| Total | 1,201,793,438 | 46,877 |
| Net cash from operations | 33,248,936 | 220,224 |
| Cash Used by Investments | | |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | 115,958,247 | - |
| Stocks | 618,043 | - |
| Total Investment Proceeds | 116,576,290 | - |
| Cost of investments acquired | | |
| Bonds | 96,098,825 | - |
| Stocks | 11,218,706 | - |
| Total Investments Acquired | 107,317,532 | - |
| Net cash used by investments | 9,258,759 | - |
| Cash (Used By) From Financing and Miscellaneous Sources | | |
| Surplus notes, capital notes | (30,000,000) | - |
| Other cash (applied) provided | (5,138,258) | 2,273 |
| Net cash (used by) from financing and miscellaneous sources | (35,138,258) | 2,273 |
| Reconciliation of Cash and Short-Term Investments | | |
| Net change in cash and short-term investments | 7,369,436 | 222,497 |
| Cash and short-term investments, beginning of year | 91,654,507 | 2,005,335 |
| Cash and short-term investments, end of year | \$99,023,943 | \$2,227,832 |

North Carolina Farm Bureau Insurance Group
Appendix B
December 31, 2022

Changes in Capital and Surplus

The following represents the changes in capital and surplus since the last examination as of December 31, 2017, for the five-year period ended December 31, 2022:

NCFBMIC

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Capital and surplus, beginning of year | \$1,367,614,272 | \$1,239,080,613 | \$1,262,511,975 | \$1,216,237,274 | \$1,180,320,547 |
| Capital and surplus increases (decreases): | | | | | |
| Net income (loss) | (73,133,183) | 64,122,022 | 22,888,018 | 38,849,630 | 49,801,173 |
| Change in net unrealized capital gain (loss) | (30,673,215) | 46,417,336 | 5,812,033 | 40,102,442 | (13,866,092) |
| Change in net deferred income tax | (12,798,746) | (2,133,910) | 13,222,210 | 2,891,141 | (12,351,791) |
| Change in non-admitted assets | (1,976,581) | 450,129 | 272,510 | (367,412) | (895,248) |
| Change in provision for reinsurance | - | 232,116 | (232,116) | - | 95,234 |
| Change in surplus notes | (30,000,000) | - | (20,000,000) | - | - |
| Aggregate write-ins for gains and losses in surplus | 79,961,033 | 19,445,967 | (45,394,017) | (36,201,100) | 13,133,451 |
| Change in surplus as regards policyholders for the year | (68,620,692) | 128,533,660 | (23,431,362) | 46,274,701 | 35,916,727 |
| Capital and surplus, end of year | \$1,298,993,580 | \$1,367,614,272 | \$1,239,080,613 | \$1,262,511,975 | \$1,216,237,274 |

FBINC

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Capital and surplus, beginning of year | \$10,698,942 | \$10,522,588 | \$10,276,402 | \$10,011,417 | \$9,747,509 |
| Capital and surplus increases(decreases): | | | | | |
| Net income | 167,678 | 176,349 | 246,320 | 263,309 | 258,623 |
| Change in non-admitted assets | 164 | 5 | (134) | 1,676 | 5,285 |
| Change in surplus as regards policyholders for the year | 167,842 | 176,354 | 246,186 | 264,985 | 263,908 |
| Capital and surplus, end of year | \$10,866,784 | \$10,698,942 | \$10,522,588 | \$10,276,402 | \$10,011,417 |