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Northwest Farmers Mutual Insurance Company

Winston-Salem, North Carolina

Report on Financial Examination

As of December 31, 2016

Northwest Farmers Mutual Insurance Company

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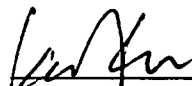
Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section 58-2-131 of the General Statutes of North Carolina (“G.S.”), the North Carolina Department of Insurance (“Department”) conducted a financial examination of Northwest Farmers Mutual Insurance Company (“Company”) as of December 31, 2016. The examination covered the period January 1, 2012, through December 31, 2016, and the period subsequent up to the date of this examination report. The Department’s last full-scope examination was as of December 31, 2011.

This examination was performed using the Department’s single-state, risk-focused examination approach. The primary purpose of a risk-focused examination is to review and to evaluate an insurer to assist in assessing and monitoring its financial condition. The scope of this examination, as specified on page 4, includes a review, in coordination with the financial analysis process, of the Company’s practices and procedures, its corporate and accounting records, details of certain transactions, which may include significant estimates made by the Company, and an evaluation of certain assets and liabilities reported in the Company’s Annual Statement as of December 31, 2016. This report is not intended to communicate all matters of importance for an understanding of the Company’s financial condition as of December 31, 2016. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific areas provided in the Summary of Examination Objectives and Findings on pages 5 and 6.

Respectfully submitted,




Ke Xu, CPA, CFE
Chief Financial Examiner
Agile Enterprise Section
Financial Evaluation Division
North Carolina Department of Insurance

May 1, 2017

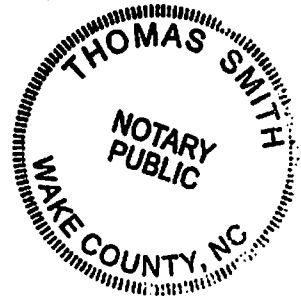
STATE OF NORTH CAROLINA
COUNTY OF WAKE

Ke Xu, Chief Financial Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature:  Date: 5/19/2017
Ke Xu

Sworn and subscribed before me this 19 day of May, 2017.

Notary Public Signature:  Notary Public Seal:



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1. Company Background

Northwest Farmers Mutual Insurance Company commenced business on January 1, 1895, and was formerly known as the Forsyth-Stokes Branch of the Farmers Mutual Fire Insurance Association of North Carolina. The Company was incorporated on January 1, 1994, and is authorized to provide fire and allied lines of property insurance.

Effective January 1, 2017, the Company became a statewide multiline limited assessable mutual insurance company with expanded authority to write liability coverage.

2. Appointed Actuary

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 G.S. 58-10-150 and G.S. 58-10-155. The Company was granted an exemption from filing a Statement of Actuarial Opinion for each of the years under examination.

3. Scope of the Examination

The scope of this examination includes a review the following areas relative to the 2016 Annual Statement:

- a) Cash and Investments
- b) Premiums and Underwriting
- c) Loss and Reserves
- d) Operations

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4. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Review and verification of supporting documentation for reported balances;
- 2) Substantive testing of underlying data and transactions;
- 3) Analytical procedures and recalculation of account balances;
- 4) Review of the Company's underwriting practices and procedures;
- 5) Review of the Company's contracts and agreements;
- 6) Actuarial review of the Company's reserves by the Department's Actuarial Services Division; and
- 7) Other examination procedures deemed necessary to meet the established objectives.

5. Summary of Examination Objectives and Findings

a) Cash and Investments

- 1) Examination Objective: To verify the accuracy and existence of cash and short-term investments, totaling \$1,031,552, as reported in the Company's Annual Statement as of December 31, 2016.

Findings: No adverse findings were noted.

- 2) Examination Objective: To verify the accuracy and existence of bonds, totaling \$2,640,080, as reported in the Company's Annual Statement as of December 31, 2016.

Findings: No adverse findings were noted.

- 3) Examination Objective: To verify the Company's investments are properly diversified, authorized, and approved by the Board of Directors ("Board") to ensure compliance with G.S. 58-7-170(d)(1) and G.S. 58-7-168, respectively.

Findings: No adverse findings noted.

- 4) Examination Objective: To verify the Board provides proper oversight of the Company's investments to ensure compliance with applicable laws and regulations.

Findings: No adverse findings were noted.

b) Premiums and Underwriting

- 1) Examination Objective: To verify the accuracy and completeness of direct written premiums, totaling \$1,240,044, as reported in the Company's Annual Statement as of December 31, 2016.

Findings: No adverse findings were noted.

- 2) Examination Objective: To verify the accuracy of unearned premiums, totaling \$585,962, as reported in the Company's Annual Statement as of December 31, 2016.

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Findings: No adverse findings were noted.

- 3) Examination Objective: To verify the accuracy and collectability of premiums receivable, totaling \$122,439, which includes uncollected premiums totaling \$26,048 and deferred premiums totaling \$96,391, as reported in the Company's Annual Statement as of December 31, 2016.**

Findings: No adverse findings were noted.

- 4) Examination Objective: To verify the accuracy of advance premiums, totaling \$109,225, as reported in the Company's Annual Statement as of December 31, 2016.**

Findings: No adverse findings were noted.

c) Loss and Reserves

- 1) Examination Objective: To verify the completeness and accuracy of claims paid, totaling \$445,560, as reported in the Company's Annual Statement as of December 31, 2016.**

Findings: No adverse findings were noted.

- 2) Examination Objective: To review the reasonableness and adequacy of unpaid losses and loss adjustment expenses, totaling \$38,714 and \$15,425, respectively, as reported in the Company's Annual Statement as of December 31, 2016.**

Findings: No adverse findings were noted.

- 3) Examination Objective: To verify that the Company's reserves for losses and loss adjustment expenses met the requirements of the insurance laws of North Carolina and were consistent with reserve computed in accordance with accepted actuarial standards and principles.**

Findings: No adverse findings were noted.

d) Operations

- 1) Examination Objective: To verify that the Company has sufficient personnel in place to adequately segregate duties that would support an effective internal control system and that the Board demonstrates proper oversight.**

Findings: No significant findings were noted.

- 2) Examination Objective: To verify that the Company has a succession plan in place to address the replacement of key staff positions.**

Findings: No significant findings were noted.

- 3) Examination Objective: To verify that the Company has a formal written Business Continuity and Disaster Recovery Plan.**

Findings: No significant findings were noted.

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Appendix A – Report Distribution

Jennifer L. Burton, President
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