



**NC** DEPARTMENT  
*of* INSURANCE  
MIKE CAUSEY, COMMISSIONER

COMPANY SERVICES GROUP  
FINANCIAL EXAMINATION DIVISION

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I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina, do hereby certify that: I have caused to Piedmont Mutual Insurance Company, as of December 31, 2020, 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 20<sup>th</sup> day of January 2022.



Mike Causey  
Commissioner of Insurance

Ke Xu, CPA, CFE  
Chief Financial Examiner  
Financial Examination Division

**Piedmont Mutual Insurance Company**

Statesville, North Carolina

**Report on Examination**

As of December 31, 2020

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November 17, 2021

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

### **Piedmont Mutual Insurance Company**

(hereinafter referred to as the “Company”), at its main administrative office and statutory home office located at 1705 Davie Avenue, Statesville, North Carolina. 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, 2016, to December 31, 2020, 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, 2015.

The purpose of this examination is 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 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 an insurer’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:

Claims Handling and Reserves  
Investments  
Premiums and Underwriting  
Reinsurance Ceding  
Related Parties  
Surplus Management

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 insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but 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(a). Strickland Hardee PLLC of Lexington, North Carolina, the designated independent public accountant of the Company, issued an unmodified opinion for year ended December 31, 2020. Rives & Associates, LLP of Lexington, North Carolina, the former designated independent public accountant of the Company, issued an unmodified opinion each year subsequent to the Department's prior examination through the year ended December 31, 2019.

# SUMMARY OF SIGNIFICANT FINDINGS

## COMMENTS, RECOMMENDATIONS AND DIRECTIVES

- a. The Company improperly excluded policy fees from gross premiums reported in column 2 of its Annual Statement Schedule T – Exhibit of Premiums Written and from direct business written reported in column 1 of its Underwriting and Investment Exhibit Part 1B – Premiums Written for the years 2016 through 2020. The exclusion of policy fees from gross premiums does not comply with the Annual Statement Instructions and the Statement of Statutory Accounting Principles (“SSAP”) No. 53 — Property Casualty Contracts—Premiums. There were no reporting issues with the Company’s premium tax calculations or remittances. The Company’s gross premiums reported excluded the following amounts for policy fees:

2016	\$19,148
2017	\$17,781
2018	\$15,871
2019	\$12,300
2020	\$10,718

The Company is directed to comply with the Annual Statement Instructions, SSAP 53, and GS § 58-2-165(c).

- b. The Company has an Amended and Restated Administrative and Management Services Agreement, effective as of July 16, 2016, in which the Company shall provide managerial services to LMI Agency, Inc. (“Agency”) and provide a quarterly invoice to the Agency for services rendered and expenses incurred by the Company. The Company did not properly invoice the Agency for services rendered in accordance with the terms of the agreement. The Company is directed to comply with the terms of the agreement.
- c. The Company reported inaccurate information in the Note 12 to the Financial Statements in its 2020 Annual Statement filed with the Department. According to GS § 58-2-165(c), “...all statements filed under this section must be prepared in accordance with the appropriate NAIC Annual Statement Instructions Handbook and pursuant to the NAIC Accounting Practices and Procedures Manual and on the NAIC Model Financial Statement Blank...” The Company is directed to provide accurate information in all future filings to the Department pursuant to GS § 58-2-165(c).

## **ORGANIZATIONAL STRUCTURE**

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company has a wholly owned subsidiary, the Agency, which serves as the marketing agent for the Company.

## **COMPANY HISTORY**

The Company was incorporated in December 1992 and commenced business in 1993 as a non-assessable mutual insurance company operating in North Carolina. In 1994, the Iredell Mutual Insurance Company merged with the Company. Effective January 1, 2006, the Company amended its charter and became a limited-assessable mutual insurance company. On May 1, 2013, the Company merged operations with Lincoln Mutual Insurance Company (“Lincoln”). As a result, Lincoln’s, LMI Agency, Inc. (“Agency”) became a wholly owned subsidiary of the Company.

In 2015, the Company discontinued the Agency’s operations and sold a portion of the Agency’s in-force and renewal policies to a third party, along with its office building, furniture, and fixtures. The Company retained the Agency’s name.

## **DIVIDENDS TO POLICYHOLDERS**

Dividends are paid as declared by the Board of the Company. Under the insurance regulations of North Carolina, the maximum number of dividends which the Company may pay to policyholders 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. The Company paid no dividends during the years 2016 through 2020.

## **MANAGEMENT AND CONTROL**

### **CORPORATE GOVERNANCE**

#### **Members**

The bylaws of the Company provide that any person or entity that is a policyholder of the Company shall be a member of the Company and that an annual meeting of the members shall be held at such time and place as the Board may appoint. Special meetings of the shareholders may be called at any time by a majority of directors, the chairperson of the Board, the president or by one fifth of the members.

#### **Board of Directors**

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws specify that the number of directors shall be no less than seven and no more than thirteen. Directors are elected annually, at the annual meeting of the policyholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors as of December 31, 2020:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
James A. Eaton	Mocksville, North Carolina	Owner, Eaton Farms LLC, and Board Chairman
Andrew H. Crawford	Statesville, North Carolina	Farmer
James L. Carter	Knoxville, Tennessee	Retired
James W. Latham	Mocksville, North Carolina	Retired
Stacey L. Manning	Rural Hall, North Carolina	Owner, Buffalo Creek Dairy Inc.
Lyle D. Bishop III	Show Low, Arizona	Retired
Newton S. Gaither III	Harmony, North Carolina	Salesman, Harmony Milling Company
Donald G. Bowles	Mocksville, North Carolina	Owner, Donald G. Bowles, CPA
Deree E. Bivins	Statesville, North Carolina	District Sales Manager, Doosan Bobcat

The Board has the authority to establish committees to manage the business of the Company. The Board established an Audit Committee and an Executive Committee to act on behalf of the Company.

The following individuals served on committees as of December 31, 2020:

**Executive Committee**

James A. Eaton, Chair  
 Andrew H. Crawford  
 Robert A. Piper, II, President

**Audit Committee**

James A. Eaton, Chair  
 Lyle D. Bishop III  
 Deree E. Bivins  
 Donald G. Bowles  
 James L. Carter  
 Andrew H. Crawford  
 Newton S. Gaither III  
 James W. Latham  
 Stacey L. Manning

**Officers**

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer, a chairman of the board and any other officers deemed necessary by the Board. All officers shall hold office, 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 except the offices of president and secretary.

The following individuals served as officers of the Company as of December 31, 2020:

<b>Name</b>	<b>Title</b>
James A. Eaton	Chairman of the Board
Robert A. Piper II	President
Eugene N. Haigh	Vice President, Assistant Treasurer
Carol M. Jordan	Secretary
Andrew H. Crawford	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 the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

## **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. No changes were made during the examination period.

## **STATUTORY DEPOSITS**

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2020 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state. The Company only maintains a North Carolina statutory deposit.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company has fidelity bond coverage totaling \$100,000 in aggregate, which meets the minimum amount of fidelity bond coverage recommended by the Handbook.

In addition, the Company is a named insured on various corporate property and liability policies, issued to the Company, which appeared to be adequate to cover risks in the normal course of business.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

All eligible employees of the Company may participate in the SIMPLE IRA Plan which is a defined contribution plan. The Company may match up to 3% of the employee's salary. In 2020 and 2019, the Company incurred expenses totaling \$11,876 and \$11,984, respectively, as result of its contribution obligation. (Refer to the Summary of Significant Findings)

## **RELATED PARTY AGREEMENTS**

### **Management Agreement**

The Company has an administrative and management service agreement with its wholly owned subsidiary, the Agency, effective July 1, 2016, whereby the Company provides administrative and accounting services. The Agency's business is conducted by employees of the Company. The Agency provides agency services for the Company's customers on policies that are written directly with the Company. The Agency acts as a resource for automobile and property casualty policies offered through other carriers as an accommodation for current Company customers and other customers seeking additional coverage which

the Company does not provide. This allows the Company to provide its customers with supporting business and to retain seasoned renewal business. No expenses were incurred by the Company in 2020 or 2019, respectively. (Refer to the Summary of Significant Findings)

### **Tax Allocation Agreement**

The Company has a tax sharing agreement with its subsidiary, the Agency, effective September 10, 2014, whereby the Company files a consolidated income tax return and allocates the tax liability between the two entities. The provisions for federal income tax are computed as if the entities were filing separate income tax returns. Tax expenses are to be submitted within one year of filing the consolidated income tax returns.

### **Loan Agreement**

The Board approved a \$5,000 loan to its subsidiary, the Agency, effective October 5, 2020. The term of the loan is for three years and is to be paid in full within 15 days of maturity. Simple interest will be paid on a quarterly basis at an interest rate of 5%.

## **TERRITORY AND PLAN OF OPERATION**

At December 31, 2020, the Company is authorized to provide insurance coverage to residents of the State of North Carolina only.

The Company writes property and casualty insurance with a primary focus on homeowners', farm owners', and commercial multi-peril lines of business. The Company utilizes independent agents and its subsidiary, the Agency, for the distribution of its product and solicitation of business.

### **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 2020:

<b>Year</b>	<b>Net Admitted Assets</b>	<b>Surplus</b>	<b>Gross Premiums Written</b>	<b>Net Earned Premiums</b>	<b>Net Income</b>
2020	\$5,822,057	\$4,412,676	\$2,691,572	\$1,825,078	\$334,433
2019	\$5,518,251	\$4,082,040	\$2,699,777	\$1,890,087	\$510,961
2018	\$5,037,580	\$3,571,366	\$2,794,665	\$1,905,462	\$164,730
2017	\$4,943,952	\$3,414,088	\$2,751,111	\$1,834,252	\$265,520
2016	\$4,630,768	\$3,154,156	\$2,675,900	\$1,796,414	\$299,614

### **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 2020 were reviewed and certified by the Company's Appointed

Actuary, Robert W. Van Epps, FCAS, MAAA of The Actuarial Advantage, Inc. Actuarial opinions regarding the Company's reserves for losses 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 losses and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserve 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 losses and loss expense obligations of the Company.

## REINSURANCE PROGRAM OVERVIEW

### REINSURANCE CEDED

#### Multiline Excess of Loss

The Company has an excess of loss contract with various reinsurers ("Reinsurers"), effective January 1, 2020, whereby Reinsurers provide coverage up to the Company's policy limits. The Company recovers 100% of each loss that exceeds \$35,000 and up to \$400,000 for property and casualty losses, subject to an occurrence limit.

<b>Multiline Excess of Loss</b>			
<b>Layer</b>	<b>Retention</b>	<b>Reinsurance Coverage</b>	<b>Maximum Occurrence Limit</b>
First	\$35,000	losses in excess of \$35,000 and up to \$65,000	\$195,000 for property business only
Second	\$100,000	losses in excess of \$100,000 and up to \$400,000	\$1,200,000 for property business only

In 2020 and 2019, the Company ceded premiums totaling \$697,117 and \$699,242, respectively, under this contract.

#### Property Catastrophe Excess of Loss

The Company has a four-layer property catastrophe excess of loss reinsurance contract with Reinsurers, effective January 1, 2020, whereby the Reinsurers indemnify the Company for any loss or losses occurring under policies classified by the Company as fire, allied lines, inland marine and the property sections of commercial, homeowners' multiple peril, and farm owners' multiple peril.

<b>Property Catastrophe Excess of Loss</b>			
<b>Layer</b>	<b>Company Retention</b>	<b>Reinsurance Coverage per occurrence</b>	<b>Maximum Occurrence Limit</b>
First	\$200,000	net loss in excess of \$200,000	\$300,000
Second	\$500,000	net loss in excess of \$500,000	\$1,000,000
Third	\$1,500,000	net loss in excess of \$1,500,000	\$1,500,000
Fourth	\$3,500,000	net loss in excess of \$3,000,000	\$1,000,000

The Company ceded written premiums totaling \$166,812 and \$148,184 in 2020 and 2019, respectively, under this contract.

## **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, 2020. 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, 2019, are unexamined and are presented for comparative purposes only.

**Piedmont Mutual Insurance Company**  
**Statutory Statement of Admitted Assets**  
**December 31, 2020**

	<b>2020</b>	<b>2019</b> <i>(unexamined)</i>
Bonds	\$4,568,249	\$3,886,754
Common stocks	24,233	24,418
Real estate	46,957	49,790
Cash and cash equivalents	843,252	1,201,900
<b>Total Cash and Invested Assets</b>	<b>5,482,691</b>	<b>5,162,862</b>
Investment income due and accrued	39,414	35,679
Premiums and agents' balances in course of collection	148,367	161,069
Premiums and agents' balances booked but deferred and not yet due	98,564	93,050
Reinsurance recoverable	3,815	5,368
Net deferred tax asset	49,206	50,249
Payroll deposit	-	9,974
<b>Total Admitted Assets</b>	<b>\$5,822,057</b>	<b>\$5,518,251</b>

**Piedmont Mutual Insurance Company**  
**Statutory Statement of Liabilities and Surplus**  
**December 31, 2020**

	<b>2020</b>	<b>2019</b> <i>(unexamined)</i>
Losses	\$147,162	\$163,771
Loss adjustment expenses	32,051	41,746
Commissions payable, contingent commissions and other similar charges	95,066	100,702
Other expenses	17,331	14,827
Taxes, licenses and fees	(336)	(2,921)
Unearned premiums	1,014,790	1,012,226
Advance premium	45,560	65,076
Ceded reinsurance premiums payable	57,757	40,784
<b>Total Liabilities</b>	<b>1,409,381</b>	<b>1,436,211</b>
Unassigned funds	4,412,676	4,082,040
<b>Total Surplus</b>	<b>4,412,676</b>	<b>4,082,040</b>
<b>Total Liabilities and Surplus</b>	<b>\$5,822,057</b>	<b>\$5,518,251</b>

**Piedmont Mutual Insurance Company**  
**Statutory Statement of Operations**  
**December 31, 2020**

	<b>2020</b>	<b>2019</b> <i>(unexamined)</i>
<b>Underwriting Income</b>		
Premiums earned	\$1,825,078	\$1,890,087
<b>Deductions</b>		
Losses incurred	419,100	331,522
Loss adjustment expenses incurred	232,439	201,615
Other underwriting expenses incurred	974,321	978,801
Total underwriting deductions	1,625,860	1,511,938
Net underwriting gain	199,218	378,149
<b>Investment Income</b>		
Net investment income earned	89,350	94,250
Net realized capital gains	12,140	(449)
Net investment gain	101,490	93,801
<b>Other Income</b>		
Finance and service charges not included in premiums	33,725	39,011
Total other income	33,725	39,011
<b>Net Income</b>	<b>\$334,433</b>	<b>\$510,961</b>

**Piedmont Mutual Insurance Company**  
**Statutory Statement of Surplus**  
**December 31, 2020**

	<b>2020</b>	<b>2019</b> <i>(unexamined)</i>
Surplus as regards policyholders, beginning of year	\$4,082,040	\$3,571,366
Surplus increases (decreases):		
Net Income	334,433	510,961
Change in net unrealized capital gains or (losses)	(2)	3,516
Change in net deferred income tax	(236,950)	(107,358)
Change in non-admitted assets	233,155	103,555
Change in surplus as regards policyholders for the year	330,636	510,674
<b>Surplus, as regards policyholders, end of year</b>	<b>\$4,412,676</b>	<b>\$4,082,040</b>



**Piedmont Mutual Insurance Company**  
**Statutory Statement of Cash Flow**  
**December 31, 2020**

	<b>2020</b>	<b>2019</b> <i>(unexamined)</i>
<b>Cash From Operations</b>		
Premiums collected net of reinsurance	\$1,832,287	\$1,872,526
Net investment income	123,682	108,768
Miscellaneous income	33,725	39,011
Total	1,989,694	2,020,305
Benefit and loss related payments	434,156	225,297
Commissions, expenses paid and aggregate write-ins	1,217,002	1,168,945
Total	1,651,158	1,394,242
<b>Net cash from operations</b>	<b>338,536</b>	<b>626,063</b>
<b>Cash (Used By) Investments</b>		
Proceeds from investments sold, matured, or repaid	1,569,008	1,797,760
Cost of investments acquired	2,273,415	2,085,402
<b>Net cash (used by) investments</b>	<b>(704,407)</b>	<b>(287,642)</b>
<b>Cash From (Used By) Financing and Miscellaneous Sources</b>		
Other cash (applied) provided	7,223	(14,360)
<b>Net cash from (used by) financing and miscellaneous sources</b>	<b>7,223</b>	<b>(14,360)</b>
<b>Reconciliation of Cash and Short-Term Investment</b>		
Net change in cash and short-term investments	(358,648)	324,061
Cash and short-term investments, beginning of year	1,201,900	877,839
Cash and short-term investments, end of year	<b>\$843,252</b>	<b>\$1,201,900</b>

## COMMENTS ON FINANCIAL STATEMENTS

There were no proposed adjustments to the Company's financial statements filed with the Department as a result of this examination.

### **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:** Investment grade bonds are stated at amortized value using the interest method. Non-investment grade bonds are stated at the lower of amortized value or fair value.

**Common stocks:** Common stocks, other than investments in stocks of subsidiaries and affiliates, are stated at fair value.

**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:** Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. The reserves are computed by pro rata methods for direct and ceded business.

**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.

**Business acquisition costs:** Charged to income as incurred.

**Non-admitted assets:** Certain assets, such as premiums over 90 days past due and prepaid expenses, are "non-admitted" and are charges against surplus.

**Unpaid loss & loss adjustment expense:** 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:

	<b>Assets</b>	<b>Assets not Admitted</b>	<b>Net Admitted Assets</b>
Bonds	\$4,568,249	\$-	\$4,568,249
Common stocks	24,233	-	24,233
Real estate	46,957	-	46,957
Cash and short-term investments	843,252	-	843,252
<b>Total Cash and Invested Assets</b>	<b>5,482,691</b>	<b>-</b>	<b>5,482,691</b>
Investment income due and accrued	39,414	-	39,414
Premiums and agents' balances in course of collection	148,367	-	148,367
Premiums and agents' balances booked but not yet due	98,564	-	98,564
Reinsurance recoverable	3,815	-	3,815
Net deferred tax asset	577,028	527,822	49,206
Furniture and equipment	4,524	4,524	-
Receivable from parent, subsidiaries and affiliates	5,000	5,000	-
Electronic check and credit cards clearing	8,192	8,192	-
Prepaid expense	50	50	-
<b>Total Admitted Assets</b>	<b>\$6,367,645</b>	<b>\$545,588</b>	<b>\$5,822,057</b>

## **Reinsurance Activity:**

The Company has excess of loss 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 Beach Re Limited as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and ceded premiums written and earned are as follows:

	<b>2020</b>	<b>2019</b>
Direct written	\$2,691,572	\$2,699,777
Ceded written	863,930	847,426
<b>Net written</b>	<b>1,827,642</b>	<b>1,852,351</b>
Direct earned	2,688,112	2,750,702
Ceded earned	863,034	860,615
<b>Net earned</b>	<b>\$1,825,078</b>	<b>\$1,890,087</b>

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

## Summary of Reserves:

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

	<b>Current Year</b>	<b>Prior Year</b>
Reserve for losses and loss adjustment expenses, beginning of year	\$ 205,517	\$187,454
<b>Add:</b>		
Provision for losses and loss adjustment expenses, current year	790,735	701,376
Change in estimated losses and loss adjustment expenses, prior years	(139,196)	(168,239)
<b>Total incurred</b>	<b>651,539</b>	<b>533,137</b>
<b>Deduct:</b>		
Losses and loss adjustment expenses paid, current year	611,522	477,302
Losses and loss adjustment expenses paid, prior year	66,321	37,772
<b>Total paid</b>	<b>677,843</b>	<b>515,074</b>
Reserve for losses and loss adjustment expenses, end of year	179,213	205,517
(Decrease) Increase in reserve for losses and loss adjustment expenses	\$(26,304)	\$18,063

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, 2020, and 2019, the liability for losses and loss adjustment expenses was reduced by \$186,900 and \$177,558, respectively, for amounts to be recovered from reinsurers. The Company did not reduce reserves for anticipated salvage and subrogation at December 31, 2020, and 2019.

## Surplus:

The following, in conjunction with the Statutory Statement of Surplus, represents the changes in the Company's surplus since the Department's last examination as of December 31, 2015:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Surplus, as regards policyholders, beginning of year	\$3,414,088	\$3,154,156	\$2,850,099
Surplus increases (decreases):			
Net income	164,730	265,520	299,614
Change in net unrealized capital gain (loss)	(1,058)	(8,312)	7,746
Change in net deferred income tax	(33,758)	(119,278)	(67,348)
Change in nonadmitted assets	27,364	122,002	64,045
Change in surplus as regards policyholders for the year	157,278	259,932	304,057
Surplus, as regards policyholders, end of year	\$3,571,366	\$3,414,088	\$3,154,156

### **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**

On March 6, 2021, Eugene N. Haigh, the Vice President and Assistant Treasurer, retired.

On March 13, 2021, Robert A. Piper II., the President, was named temporary Assistant Treasurer.

On June 28, 2021, Ashley Temos was named as the new Assistant Treasurer.

**Piedmont Mutual Insurance Company**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**December 31, 2020**

Robert A. Piper, II, President  
1705 Davie Street  
Statesville, North Carolina 28677

James A. Eaton, Chairman of the Board  
1705 Davie Street  
Statesville, North Carolina 28677

## CONCLUSION

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

We conclude that the Company complies with the minimum surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$700,000.

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

Respectfully submitted,



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

November 17, 2021

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Bill Keely, Insurance Company Manager, 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: Bill Keely Date: 11/17/21

Sworn and subscribed before me this 17<sup>th</sup> day of November, 2021.

Notary Public Signature: Jennifer Ishihara Notary Public Seal:

