# EXAMINATION REPORT
## on
## VIRGINIA FARM BUREAU MUTUAL INSURANCE COMPANY
## Richmond, Virginia
## as of
## December 31, 2014

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
http://www.scc.virginia.gov/division/boi

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Virginia Farm Bureau Mutual Insurance Company as of December 31, 2014, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed to the original the seal of the Bureau at the City of Richmond, Virginia this 11th day of February, 2016

Jacqueline K. Cunningham

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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November 9, 2015
Richmond, Virginia

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and in accordance with the requirements of § 38.2-1317 of the Code of Virginia, an examination of the affairs and financial condition of the

**VIRGINIA FARM BUREAU MUTUAL INSURANCE COMPANY**

Richmond, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

## DESCRIPTION

The Company is a mutual property and casualty insurer and was last examined by representatives of the Virginia State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2011. The current examination covers the three-year period from that date through December 31, 2014.

## HISTORY

The Company was granted a charter by the Virginia State Corporation Commission (Commission) on November 28, 1949, and commenced business on September 15, 1950. The Company was organized without capital stock and is not for profit. According to the charter, the purpose for which the Company was formed, in part, is as follows:

> To engage in and conduct the business of a mutual insurance company, and to that end to issue insurance policies as may be permitted by the laws of Virginia...

On August 10, 1994, the Company transferred $4,500,000 in cash to Virginia Farm Bureau Town and Country Insurance Company (VFBTCIC) in exchange for all outstanding shares of common capital stock of VFBTCIC. On October 31, 1994, the

Company transferred $953,620 in cash, 100% of the common capital stock of VFBTCIC and 100% of the common capital stock of Virginia Farm Bureau Fire and Casualty Insurance Company (VFBFCIC) to Farm Bureau Holdings of Virginia, Inc. (Holdings) in exchange for 100% of the common capital stock of Holdings.

On May 29, 2002, the Company entered into an Affiliation Agreement with Smyth County Mutual Insurance Company (Smyth County). On May 30, 2002, the Bureau approved the Company's application to assume control of Smyth County. Effective January 1, 2014, Smyth County was merged into Loudoun Mutual Insurance Company.

On May 11, 2011, the Company purchased 100% of the outstanding stock of Countryway Insurance Company (Countryway), a New York domestic, from United Farm Family Mutual Insurance Company, an Indiana insurer. Countryway is licensed in 17 states and sells both personal and commercial products. The transaction was accounted for as a statutory purchase. The cost of the acquisition was $25,433,106, resulting in goodwill of $5,805,106, to be amortized over ten years. Per terms of the stock purchase agreement, the cost of the acquisition was reduced to $23,722,593 in 2012 and the resulting goodwill was reduced to $4,634,593. Goodwill amortization for 2014 was $463,459.

On December 27, 2011, the Company issued a surplus note in the amount of $30,000,000 to SFBLIC in exchange for cash. The Company may only pay principal and interest with the prior approval of the Bureau and only to the extent that the Company has sufficient policyholders' surplus to make such payment.

## MANAGEMENT AND CONTROL

The bylaws of the Company provide for its affairs to be managed by a Board of Directors consisting of one or more individuals, but the number of directors shall be the same as the number of elected directors of Virginia Farm Bureau Federation (Federation). None of the members of the Board of Directors need be a member or policyholder of the Company, but all must be members of the Board of Directors of the Federation. A majority of the members of the board shall constitute a quorum for the transaction of business.

The bylaws also provide that the Company's officers shall be a president, first vice president, executive vice president, secretary and a treasurer, and may include one or more vice presidents and such other officers as the board may deem necessary. Any two or more offices may be held by the same person except the offices of president and secretary.

At December 31, 2014, the directors and officers of the Company were as follows:

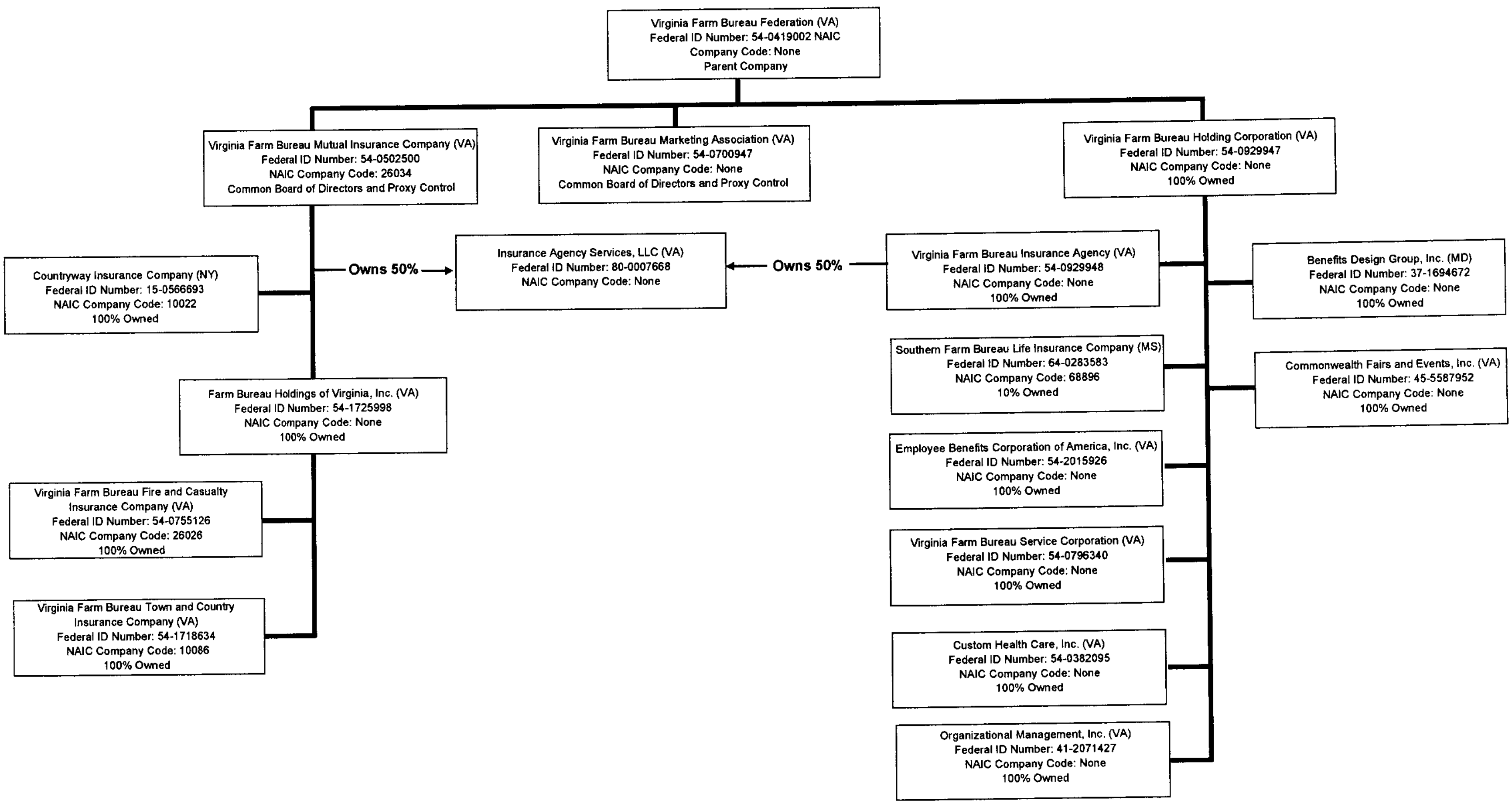
| Directors | Business or Affiliation | County of Residence |
|---|---|---|
| Wayne F. Pryor | Farmer/President of the Company | Goochland |
| Janice R. Burton | Farmer | Halifax |
| Grant A. Coffee | Farmer | Lunenburg |
| Emily F. Edmondson | Farmer | Tazewell |
| Marvin L. Everett | Farmer | Southampton |
| Thomas E. Graves, Jr. | Farmer | Orange |
| David L. Hickman | Farmer | Accomack |
| Evelyn H. Janney | Farmer | Montgomery |
| Jordan M. Jenkins, Jr. | Farmer | Lunenburg |
| Gordon R. Metz, Jr. | Farmer | Henry |
| Robert J. Mills, Jr. | Farmer | Pittsylvania |
| William F. Osl, Jr. | Farmer | Cumberland |
| Chapman L. H. Pemberton | Farmer | Hanover |
| Stephen L. Saufley | Farmer | Rockingham |
| Scott E. Sink | Farmer | Franklin |
| Richard L. Sutherland | Farmer | Grayson |
| Peter A. Truban | Farmer | Shenandoah |
| William E. Walton | Farmer | Middlesex |

Officers

| | |
|---|---|
| Wayne F. Pryor | President, Administrative Officer and Chief Executive Officer |
| Darlene P. Wells | Executive Vice President and General Manager |
| Scott E. Sink | First Vice President |
| Jeffrey W. Dillon | Treasurer |
| Jonathan S. Shouse | Secretary |
| G. Christopher Kern | Assistant Treasurer |
| David A. Priddy | Assistant Treasurer |

The Company is a member of a holding company system as defined by the Code of Virginia. The Company is controlled by the Federation by means of a common board of directors and through proxy control. The Company owns 100% of the outstanding shares of Holdings, which owns all of the outstanding shares of VFBFCIC and VFBTCIC. The Company also owns 100% of the outstanding shares of Countryway. Virginia Farm Bureau Holding Corporation owns 10% of SFBLIC, thereby making SFBLIC a member of the holding company.

The following organizational chart illustrates this relationship at December 31, 2014:


Virginia Farm Bureau Federation (VA)
Federal ID Number: 54-0419002 NAIC
Company Code: None
Parent Company
Virginia Farm Bureau Mutual Insurance Company (VA)
Federal ID Number: 54-0502500
NAIC Company Code: 26034
Common Board of Directors and Proxy Control
Virginia Farm Bureau Marketing Association (VA)
Federal ID Number: 54-0700947
NAIC Company Code: None
Common Board of Directors and Proxy Control
Virginia Farm Bureau Holding Corporation (VA)
Federal ID Number: 54-0929947
NAIC Company Code: None
100% Owned
Owns 50%
Insurance Agency Services, LLC (VA)
Federal ID Number: 80-0007668
NAIC Company Code: None
Owns 50%
Countryway Insurance Company (NY)
Federal ID Number: 15-0566693
NAIC Company Code: 10022
100% Owned
Farm Bureau Holdings of Virginia, Inc. (VA)
Federal ID Number: 54-1725998
NAIC Company Code: None
100% Owned
Virginia Farm Bureau Fire and Casualty
Insurance Company (VA)
Federal ID Number: 54-0755126
NAIC Company Code: 26026
100% Owned
Virginia Farm Bureau Town and Country
Insurance Company (VA)
Federal ID Number: 54-1718634
NAIC Company Code: 10086
100% Owned
Virginia Farm Bureau Insurance Agency (VA)
Federal ID Number: 54-0929948
NAIC Company Code: None
100% Owned
Southern Farm Bureau Life Insurance Company (MS)
Federal ID Number: 64-0283583
NAIC Company Code: 68896
10% Owned
Employee Benefits Corporation of America, Inc. (VA)
Federal ID Number: 54-2015926
NAIC Company Code: None
100% Owned
Virginia Farm Bureau Service Corporation (VA)
Federal ID Number: 54-0796340
NAIC Company Code: None
100% Owned
Custom Health Care, Inc. (VA)
Federal ID Number: 54-0382095
NAIC Company Code: None
100% Owned
Organizational Management, Inc. (VA)
Federal ID Number: 41-2071427
NAIC Company Code: None
100% Owned
Benefits Design Group, Inc. (MD)
Federal ID Number: 37-1694672
NAIC Company Code: None
100% Owned
Commonwealth Fairs and Events, Inc. (VA)
Federal ID Number: 45-5587952
NAIC Company Code: None
100% Owned

## RELATED PARTY TRANSACTIONS

The Company has separate administrative services agreements with VFBFCIC and VFBTCIC. Pursuant to the agreements, the Company provides accounting, financial, investment, actuarial, underwriting, claims and computer services to each entity. In consideration of the services rendered, the entities shall pay the Company a monthly service fee equal to the actual costs incurred by the Company in providing such services. The service fee shall be paid within 10 days of the receipt of the Company's accounting of the incurred expenses. VFBFCIC incurred expenses of $7,801,967, $7,680,224 and $7,984,482 for 2012, 2013 and 2014, respectively. VFBTCIC incurred expenses of $19,751,102, $20,426,251 and $20,440,283 for 2012, 2013 and 2014, respectively.

In 1994, the Company entered into a sale/leaseback agreement with the Federation for the Company's home office building. The Company sold the building to the Federation for $16,250,000, and contemporaneously entered into a lease agreement with the Federation for the same amount. The term of this lease was for 30 years and was accounted for as a capital lease. As a result of the adoption of the NAIC Accounting Practices and Procedures Manual, the lease was converted to an operating lease in 2002 in order to comply with Statutory Accounting Principles. The conversion resulted in an increase to surplus of approximately $4.3 million. The Company's lease payments for 2012 and 2013 were $1,488,316 each year and $1,525,523 for 2014.

The Company paid $829,414, $1,022,629 and $1,020,827 in 2012, 2013 and 2014 respectively, to the Federation to be transmitted to certain county Farm Bureaus as compensation for providing office space and insurance-related services in their respective counties. This compensation is based on a percentage of premiums written by the Company in each county.

During 2002, the Company contributed $1,000,000 toward the formation of a limited liability company, Insurance Agency Services, LLC, representing a 50% interest in the membership of the limited liability company. The remaining 50% is owned by Virginia Farm Bureau Insurance Agency.

The Company has management and office services agreements with certain affiliated Virginia Farm Bureau companies. Pursuant to these agreements, the Company either provides services to or receives services in the normal course of its business. The companies are listed below, along with their respective fees for 2014:

| | |
|---|---|
| Virginia Farm Bureau Federation | $1,436,428 |
| Virginia Farm Bureau Marketing Association | 787 |
| Virginia Farm Bureau Holding Corp. | 6,560 |
| Farm Bureau Holdings of Virginia, Inc. | 1,312 |
| Virginia Farm Bureau Service Corporation | 406,913 |
| Insurance Agency Services, LLC | 96,600 |
| Custom HealthCare, Inc. | 122,633 |
| Employee Benefits Corporation of America | 331,802 |
| Organizational Management, Inc. | 1,595 |
| Virginia Farm Bureau Insurance Agency | 1,260 |
| Countryway Insurance Company | 659,884 |
| Benefit Design Group | 214,075 |
| Commonwealth Fairs & Events | 184,907 |
| Total | $3,464,756 |

Effective January 1, 2007, the Company entered into a federal income tax allocation agreement with VFBFCIC and VFBTCIC. This agreement was amended in 2011 to include Countryway. The purpose of this agreement is to provide for the filing of consolidated federal income tax returns for the allocation of federal income tax liability and savings among the companies. The method of allocation between the companies is made primarily on a separate return basis. The intercompany tax balances are settled quarterly. The final settlement shall be made within 30 days after the filing of the consolidated income tax return.

## FIDELITY BOND AND OTHER INSURANCE

At December 31, 2014, the Company had a fidelity bond in force with a $3,000,000 policy limit and a $30,000 deductible. In addition, the Company had the following insurance policies in force at December 31, 2014: Fleet Automobile, Workers' Compensation and Employers' Liability, Directors' and Officers' Liability, Professional Liability, Blanket Building and Business Personal Property, Commercial Umbrella Liability and Cyber Liability.

## TERRITORY AND PLAN OF OPERATION

The Company confines its operations to Virginia where it is licensed to transact the business of accident and sickness, fire, miscellaneous property, farmowners' multiple peril, homeowners' multiple peril, commercial multiple peril, ocean marine, inland marine, workers' compensation and employers' liability, liability other than automobile, automobile liability, automobile physical damage, aircraft liability, aircraft physical damage, fidelity, surety, glass, burglary and theft, boiler and machinery, animal and water damage insurance.

Business is produced by 193 agents, who are compensated based on the amount of premiums written plus bonuses which are dependent upon a combination of the growth and profitability of the agent's book of business plus the Company's net income before taxes. Office space and clerical help are furnished to the agents in their territories by county Farm Bureaus under a Memorandum of Agreement with the Federation, which are compensated by the Company based upon a percentage of premium income, or under a Joint Operations Agreement.

Beginning in 2004, the Company offered to all 88 county Farm Bureaus (104 offices) the option to enter into a Joint Operations Agreement. Under that agreement, the Company would incur all operational costs of the office, including the employment of the office staff, in lieu of compensation based on written premium. As of December 31, 2014, 73 of the 88 counties had entered into this agreement.

Risks are bound by the agents when applications are accepted in the field from qualified applicants, after which policies are issued from the Richmond office. If an insured is subsequently found not to meet the Company's underwriting requirements, the policyholder may be notified that his coverage will be canceled.

Losses are reported to the county Farm Bureau through which the application was taken. Claims are confirmed and adjusted by the Company's salaried personnel where practicable, otherwise independent professional adjusters or Farm Bureau insurance companies in other states are used.

## GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau and from this and previous examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2014:

| Year | Admitted Assets | Liabilities | Surplus Note | Unassigned Surplus |
|---|---|---|---|---|
| 2005 | $229,490,400 | $133,976,847 | | $95,513,553 |
| 2006 | 256,736,841 | 147,292,785 | | 109,444,056 |
| 2007 | 269,462,629 | 148,189,031 | | 121,273,598 |
| 2008 | 266,575,832 | 145,336,214 | | 121,239,618 |
| 2009 | 278,198,055 | 142,800,775 | | 135,397,280 |
| 2010 | 279,135,204 | 136,905,940 | | 142,229,264 |
| 2011 | 330,653,708 | 194,175,057 | 30,000,000 | 106,478,651 |
| 2012 | 311,509,539 | 212,578,837 | 30,000,000 | 68,930,702 |
| 2013 | 338,929,679 | 214,241,968 | 30,000,000 | 94,687,711 |
| 2014 | 364,214,410 | 210,294,085 | 30,000,000 | 123,920,325 |

| Year | Premiums Earned | Loss and Loss Adjustment Expenses Incurred | Other Underwriting Expenses | Net Underwriting Gain or (Loss) |
|---|---|---|---|---|
| 2005 | $106,987,973 | $61,841,446 | $29,229,280 | $15,917,247 |
| 2006 | 134,840,138 | 84,043,107 | 41,327,523 | 9,469,508 |
| 2007 | 135,225,957 | 82,469,084 | 45,044,005 | 7,712,868 |
| 2008 | 135,660,212 | 86,712,210 | 45,279,718 | 3,668,284 |
| 2009 | 133,298,862 | 87,143,801 | 49,026,443 | (2,871,382) |
| 2010 | 132,873,994 | 85,194,884 | 57,511,503 | (9,832,393) |
| 2011 | 169,355,279 | 157,679,523 | 55,342,586 | (43,666,830) |
| 2012 | 172,128,791 | 131,945,696 | 64,281,998 | (24,098,903) |
| 2013 | 192,350,782 | 113,901,337 | 66,212,239 | 12,237,206 |
| 2014 | 190,799,165 | 104,658,779 | 64,426,853 | 21,713,533 |

# REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2014:

Ceded:

| Type of Agreement | Class of Business | Company Retention | Reinsurers' Limits |
|---|---|---|---|
| Property per Risk Excess of Loss | Property (except auto physical damage) | $300,000 each risk | $4,700,000 |
| Facultative | Property | $5,000,000 | $10,000,000 |
| Excess of Loss | Property (Catastrophe) | $5,000,000 | $215,000,000 per occurrence; $430,000,000 all occurrences |
| Excess of Loss | Property (Catastrophe -Terrorism) | $4,978,233 | $9,956,466 |
| Aggregate | Catastrophe and Auto Physical Damage | 67.5% loss and loss adjustment expense ratio-10% co-participation | 6% of SMP or $8,100,000, not to exceed $9,900,000 |
| Excess of Loss | Liability | $600,000 | $30,000,000; occurrence cap of $1,200,000 |
| | Workers' Compensation | $500,000 | $30,000,000 ($1,200,000 maximum employers' liability limit) |
| Quota Share | Casualty (Umbrella Liability) | 15% of first $1,000,000 | 85% of first $1,000,000; 100% up to $15,000,000 |

| Type of Agreement | Class of Business | Company Retention | Reinsurers' Limits |
|---|---|---|---|
| Excess of Loss | Farm Pollution Liability (Claims Made) | $500 each incident | $1,000,000 |
| Quota Share | Flood | None | 100% of loss |

All of the above agreements contain an insolvency clause.

Assumed:

On March 24, 1966, the Company's Board of Directors approved a Net Premiums Reinsurance Agreement with VFBFCIC (then Early Settlers Insurance Company). The agreement, as amended, provides for reinsurance of 100% of VFBFCIC's net losses and underwriting expenses incurred for which the Company receives 100% of earned premiums, less a commission of one half of one percent of premiums ceded. The Bureau approved the original agreement and subsequent amendments. On December 13, 1995, the Company entered into a Net Premiums Reinsurance Agreement with VFBFCIC, to be effective January 1, 1995. The agreement provides for reinsurance of 95% of VFBFCIC's net losses and underwriting expenses incurred, for which the Company receives 95% of earned premiums less a commission of one half of one percent of premiums ceded. The Bureau approved this agreement. The Net Premiums Reinsurance Agreement dated March 24, 1966 between the parties shall remain in full force and effect for all net premium earned, net losses incurred, and net underwriting expenses incurred for accident years 1994 and prior.

On September 20, 1994, the Company entered into a Net Premiums Reinsurance Agreement with VFBTCIC, to be effective September 1, 1994. The agreement provides for reinsurance of 95% of VFBTCIC's net losses and underwriting expenses incurred, for which the Company receives 95% of earned premiums less a commission of one half of one percent of premiums ceded. The Bureau approved this agreement.

On December 19, 1997, the Company entered into a separate Net Premiums Reinsurance Agreement with VFBFCIC and with VFBTCIC. These agreements amend the Net Premiums Reinsurance Agreements as discussed above to provide for the reinsurance by the Company of 100% of the business, excluding any automobile business, written by VFBFCIC and VFBTCIC, effective beginning with accident year 1998. The Bureau approved the agreements.

On May 29, 2002, the Company entered into a Net Premiums Reinsurance Agreement with Smyth County. Under the terms of this agreement, Smyth County agrees to cede to the Company, and the Company agrees to assume, 95% of Smyth County's net premiums earned during the term of this agreement. The Company will assume 95% of the net losses incurred and will reimburse Smyth County for 95% of the net underwriting expenses incurred during the term of this agreement. For 2009, the agreement was amended to 75% and returned to 95% in 2010. The Company paid Smyth County a ceding commission of one half percent of the net premiums ceded by Smyth County. Smyth County was merged into Loudoun Mutual Insurance Company in December 2013.

Effective March 1, 2000, the Company entered into a Non-Standard Automobile Reinsurance Pool Contract. Western Agricultural Insurance Company (Western), an Iowa domiciled insurance company, writes non-standard automobile insurance business in various states on behalf of the Farm Bureau Insurance companies that write preferred automobile business in those states. All such non-standard automobile insurance premiums written or assumed by Western are combined and placed into a series of pools. Each Farm Bureau Insurance company participating in the pool shall reinsure a share of the pool. The pool share percentage is calculated as the amount of direct written premium in the Farm Bureau Insurance company's state of operation divided by the pool's total written premium for the calendar year. A separate pool is formed for each calendar year. The Company pays Western a service fee equal to 1% of the net written premium ceded under this agreement. This contract was cancelled January 1, 2012.

As part of the purchase of Countryway, the Company entered into a quota share reinsurance agreement with Countryway pursuant to which the Company will assume from Countryway 100% of the losses, liabilities and expenses included within the definition of ultimate net loss and allocated loss adjustment expenses, in respect of policies issued on or after May 1, 2011.

The Company and Countryway contemporaneously entered into a loss portfolio transfer agreement effective May 1, 2011. Pursuant to this agreement, Countryway will cede to the Company 100% of Countryway's reserves for ultimate net loss and allocated loss adjustment expenses with respect to policies issued and losses occurring prior to May 1, 2011.

Reinsurance Pooling Agreement:

Effective January 1, 1998, the Company entered into a Reinsurance Pooling Agreement with VFBFCIC and VFBTCIC for automobile policies. Each of the companies is an insured as well as a participant in the agreement. Pursuant to this agreement, each of the companies will cede 100% of their direct automobile business earned and assumed, after deduction for any reinsurance that is ceded to all other companies, after the effective date of this agreement. For the 1998 accident year, each

Participant will assume an initial retrocession from the Pool in the percentage as indicated below:

| | |
|---|---|
| Virginia Farm Bureau Mutual Insurance Company | 60% |
| Virginia Farm Bureau Fire and Casualty Insurance Company | 20% |
| Virginia Farm Bureau Town and Country Insurance Company | 20% |

Each participant will assume their proportionate share of the net premiums earned, net losses and loss adjustment expenses incurred, and underwriting expenses incurred that are ceded to the Pool, but shall not be liable for any amounts beyond said proportionate share, irrespective of the inability of other participants or reinsureds to meet their respective obligations.

For the 1999 accident year and each subsequent accident year, each participant will assume a retrocession from the Pool in a percentage that will be determined by the Board of Directors of the participating companies in January of the applicable year. For the accident years 2012 through 2014, the Board elected to retain the percentages indicated above.

## PREMIUM ESCROW SECURITY FUND AGREEMENT

The Company is a party to an Escrow Agreement effective September 26, 1988, with AAIC (its reinsurer) and a bank to secure premium amounts due AAIC for IBNR claim reserves. According to the Agreement, the purpose of the escrow is to provide a fund in lieu of cash, the principal of which is owned by the reinsurer while the earnings are payable to the Company.

The bank was holding bonds and money market funds with a par value of $1,000,011 under the escrow agreement at December 31, 2014. The Company reported a liability of $643,813 in its balance sheet for reinsurance funds held under the agreement at December 31, 2014.

## SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2012 through December 31, 2014. Assets were verified and liabilities were established at December 31, 2014.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

The services of Merlinos & Associates, Inc. were employed pursuant to the provisions of Code of Virginia § 38.2-1318.E. This engagement was made to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2014.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2014, a statement of income for the period ending December 31, 2014, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2014. The financial statements are presented in accordance with Statutory Accounting Principles.

## ASSETS

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $198,902,469 | | $198,902,469 |
| Preferred stocks | 1,566,207 | | 1,566,207 |
| Common stocks | 88,228,009 | | 88,228,009 |
| Real estate | 3,997,454 | | 3,997,454 |
| Cash, cash equivalents and short-term investments | 28,426,545 | | 28,426,545 |
| Other invested assets | 2,585,844 | | 2,585,844 |
| Investment income due and accrued | 1,818,334 | | 1,818,334 |
| Uncollected premiums and agents' balances in course of collection | 7,484,270 | 120,215 | 7,364,055 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 14,096,319 | 57,719 | 14,038,600 |
| Amounts recoverable from reinsurers | 3,674,126 | | 3,674,126 |
| Current federal income tax recoverable and interest thereon | 2,303,107 | | 2,303,107 |
| Net deferred tax asset | 15,667,613 | 7,584,200 | 8,083,413 |
| Guaranty funds receivable or on deposit | 8,737 | | 8,737 |
| Electronic data processing equipment | 3,858,508 | 3,858,508 | |
| Furniture and equipment | 3,630 | 3,630 | |
| Receivables from parent, subsidiaries and affiliates | 2,164,621 | | 2,164,621 |
| Aggregate write-ins for other than invested assets | 3,464,848 | 2,411,959 | 1,052,889 |
| Totals | $378,250,641 | $14,036,231 | $364,214,410 |

## LIABILITIES, SURPLUS AND OTHER FUNDS

| | | |
|---|---|---|
| Losses | | $69,539,021 |
| Reinsurance payable on paid losses and loss adjustment expenses | | 6,975,934 |
| Loss adjustment expenses | | 9,577,161 |
| Commissions payable, contingent commissions and other similar charges | | 2,347,041 |
| Other expenses | | 27,966,359 |
| Taxes, licenses and fees | | 1,460,797 |
| Unearned premiums | | 82,973,796 |
| Advance premium | | 2,982,852 |
| Ceded reinsurance premiums payable | | 4,127,976 |
| Funds held by company under reinsurance treaties | | 643,813 |
| Amounts withheld or retained by company for account of others | | 461,017 |
| Remittances and items not allocated | | 143,523 |
| Payable to parent, subsidiaries and affiliates | | 118,394 |
| Aggregate write-ins for liabilities | | 976,401 |
| Total liabilities | | $210,294,085 |
| Surplus notes | $30,000,000 | |
| Unassigned funds | 123,920,325 | |
| Surplus as regards policyholders | | 153,920,325 |
| Totals | | $364,214,410 |

# UNDERWRITING AND INVESTMENT EXHIBIT
# STATEMENT OF INCOME

## UNDERWRITING INCOME

| | |
|---|---|
| Premiums earned | $190,799,165 |
| Deductions: | |
| Losses incurred | $92,528,506 |
| Loss adjustment expenses incurred | 12,130,273 |
| Other underwriting expenses incurred | 64,426,853 |
| Total underwriting deductions | $169,085,632 |
| Net underwriting gain | $21,713,533 |

## INVESTMENT INCOME

| | |
|---|---|
| Net investment income earned | $2,732,731 |
| Net realized capital gains | 181,966 |
| Net investment gain | $2,914,697 |

## OTHER INCOME

| | |
|---|---|
| Net loss from agents' or premium balances charged off | ($265,736) |
| Finance and service charges not included in premiums | 893,534 |
| Total other income | $627,798 |
| Net income before federal income taxes | $25,256,028 |
| Federal income taxes incurred | 4,099,460 |
| Net income | $21,156,568 |

# RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Surplus as regards policyholders, December 31, previous year | $136,478,651 | $98,930,702 | $124,687,711 |
| Net income | ($21,139,314) | $14,823,848 | $21,156,568 |
| Change in net unrealized capital gains or (losses) | (1,225,143) | 4,433,906 | 4,873,394 |
| Change in net deferred income tax | (352,582) | 79,331 | 16,181,750 |
| Change in nonadmitted assets | 6,606,516 | (627,803) | (6,854,306) |
| Change in provision for reinsurance | | (8,116) | 8,116 |
| Cumulative effect of changes in accounting principles | (21,426,926) | | |
| Aggregate write-ins for gains and losses in surplus | (10,500) | 7,055,843 | (6,132,908) |
| Change in surplus as regards policyholders for the year | ($37,547,949) | $25,757,009 | $29,232,614 |
| Surplus as regards policyholders, December 31, current year | $98,930,702 | $124,687,711 | $153,920,325 |

# CASH FLOW

## Cash From Operations

| | |
|---|---|
| Premiums collected net of reinsurance | $194,116,568 |
| Net investment income | 4,883,639 |
| Miscellaneous income | 627,798 |
| Total | $199,628,005 |
| Benefit and loss related payments | $96,873,296 |
| Commissions, expenses paid and aggregate write-ins for deductions | 76,052,178 |
| Federal income taxes paid (recovered) | 5,880,794 |
| Total | $178,806,268 |
| Net cash from operations | $20,821,737 |

## Cash From Investments

| | |
|---|---|
| Proceeds from investments sold, matured or repaid: | |
| Bonds | $15,316,886 |
| Other invested assets | 78,494 |
| Total investment proceeds | $15,395,380 |
| Cost of investments acquired (long-term only): | |
| Bonds | $15,899,338 |
| Stocks | 11,997,236 |
| Total investments acquired | $27,896,574 |
| Net cash from investments | ($12,501,194) |

## Cash From Financing and Miscellaneous Sources

| | |
|---|---|
| Cash provided (applied): | |
| Other cash provided | $2,618,483 |
| Net cash from financing and miscellaneous sources | $2,618,483 |
| Net change in cash and short-term investments | $10,939,026 |

## RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

| | |
|---|---|
| Cash and short-term investments: | |
| Beginning of year | $17,487,519 |
| End of year | 28,426,545 |
| Net change in cash and short-term investments | $10,939,026 |

## CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Blizzard, CFE, Allison L. Bohrer, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

T. Bradford Earley, Jr., CFE, CPCU, AIAF
Insurance Principal Financial Analyst

STATE CORP COMMISSION
BUREAU OF INSURANCE

16 JAN 21 AM 9:26

FARM BUREAU INSURANCE®

January 19, 2016

State Corporation Commission
Bureau of Insurance
Attention: David H. Smith, Chief Examiner
PO Box 1157
Richmond, VA 23218

To Whom It May Concern,

Virginia Farm Bureau Mutual Insurance Company received and acknowledges the draft examination report dated January 8, 2016 as of December 31, 2014.

Sincerely,

Wayne F. Pryor
President



h:\pryor\BOI SCC examination report acknowledgement