

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**NODAK MUTUAL INSURANCE COMPANY
FARGO, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2011**

STATE OF NORTH DAKOTA
INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota, do hereby certify that I have compared the annexed copy of the Report of Examination of the

Nodak Mutual Insurance Company
Fargo, North Dakota

as of December 31, 2011, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 20th day of
February, 2013.



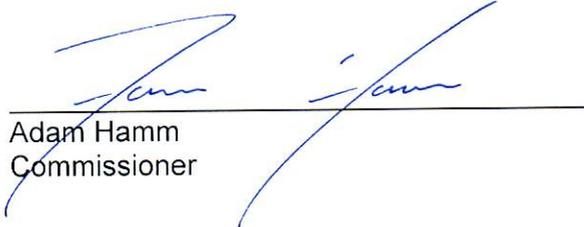

Adam Hamm
Commissioner

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Fargo, North Dakota
November 30, 2012

Honorable Adam Hamm
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505-0320

Commissioner:

Pursuant to your instructions, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2011, of the financial condition and corporate affairs of:

Nodak Mutual Insurance Company
1101 First Avenue North
Fargo, ND 58102

Nodak Mutual Insurance Company, hereinafter referred to as the "Company," was last examined as of December 31, 2006, by the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2007, to and including December 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating 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.

Work papers provided by the Company's independent auditor, Meriwether, Wilson and Company, PLLC, were reviewed and, where deemed appropriate, certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

This examination was conducted by Examiners from the North Dakota Insurance Department, representing the Midwestern Zone.

STATUS OF PRIOR EXAMINATION FINDINGS

There were no examination findings in the preceding Report on Examination which covered the period from January 1, 2003, to December 31, 2006.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

On June 21, 2012, the policyholders of Farmers Mutual Home Insurance Company (FMHIC) voted to approve a reinsurance and assumption agreement with Battle Creek Mutual Insurance Company, an affiliate of the Company. FMHIC provides insurance for homes, farms and automobiles in the State of Nebraska.

HISTORY

General

The Company was incorporated on April 15, 1946, under the laws of the State of North Dakota as a mutual property and casualty company. The primary purpose for which the Company was formed was to provide insurance coverage for all of the kinds of insurance specified in N.D.C.C § 26.1-12-11.

Pursuant to a directive, in 1943, from the delegate body of the North Dakota Farm Bureau Board of Directors, an agreement was made with the Farm Bureau Mutual Insurance Company of Iowa to make its insurance available to North Dakota Farm Bureau members. The agreement contained the provision that after a two-year period the North Dakota Farm Bureau could originate its own company and that any profits from the North Dakota business would be available for the North Dakota company. The Company was originally organized by the North Dakota Farm Bureau and the officers and directors were selected to serve in the same capacity for both companies. The Farm Bureau is a voluntary organization of individuals with the collective goal of improving the economic climate of agriculture in North Dakota. Pursuant to a Special Meeting of Policyholders held on March 21, 2003, proposed amendments to the Company's Bylaws were adopted to restructure the Board of Directors and a slate of proposed candidates to serve on the new Board of Directors was elected. Effective in 2003, 4 officers or

directors of the North Dakota Farm Bureau were serving on the 12-member Board of the Company.

Dividends

The Company paid dividends of \$261,548 to policyholders in 2011. No other policyholder dividends were paid during the examination period.

Capital Contributions

The Company had no capital contributions during the examination period.

Mergers and Acquisitions

The Company did not have any mergers or acquisitions during the examination period. On March 4, 2011, the Company entered into an affiliation agreement with Battle Creek Mutual Insurance Company.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no amendments to the Company's Articles of Incorporation during the examination period.

The 2010 Amended Bylaws were approved by the policyholders on November 19, 2010, and were filed with the Department on December 14, 2010. The 2010 Bylaw amendments included the following:

1. Changed the references in the Bylaws relating to "members" to "policyholders". Additional changes were made to clean up language to simplify the presentation.
2. Added that electronic notification of policyholder meetings is acceptable if the policyholder has consented to receive electronic notifications from the Company.
3. Prior Bylaws provided for two-year terms for the Farm Bureau Board positions other than the Farm Bureau President and Vice President. The terms were modified to be four years to coincide with all other Board position terms.
4. Section 10 and Section 11, Nominating Committee and Proxy Committee, respectively, were changed to state that the Board has the authority to establish committees.
5. Officers were further defined and clarified.

6. Article V, Insurance, changed the Board's authority to establishing the type of insurance written and removed references to premiums, fees, cancellation and notice.
7. Article VI, Standing Committees, was expanded upon further defining the duties and authority of the Governance and Nominating Committee.

The 2011 Amended Bylaws were approved by the policyholders on April 28, 2011, and were filed with the Department on May 5, 2011. A summary of the changes made to the 2011 Amended Bylaws is shown below:

1. The prior Bylaws provided for term limits for the Board. The term limits were stated such that the entire board could possibly turn over in a three-year period. It was thought to be detrimental to the Company and the Bylaws were changed to reflect single individuals terming off a year at a time, thereby allowing for an eight-year time frame for the process to be completed. This provides more consistency and stability to the Board.

Board of Directors, Policyholders, and Committee Minutes

The recorded minutes of the Board of Directors for the Company and the annual policyholder meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments in accordance with its Bylaws, N.D.C.C. § 26.1-05-18 and N.D. Admin. Code § 45-03-12-05.

The Company's directors reviewed the previous examination report.

Conflict of Interest Procedure

The Company has adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the guidelines of the NAIC Financial Condition Examiners Handbook. No exceptions were noted during the examination period.

MANAGEMENT AND CONTROL

Management

As of December 31, 2011, the directors elected to serve at the annual policyholder meeting were as follows:

| <u>Name and Location</u> | <u>Principal Occupation</u> |
|--|---|
| Mark Andrews Mapleton, ND | Owner Andrews Consulting Firm |
| John Alan Bollingberg Bremen, ND | Farmer/Rancher Voting member of ND Farm Bureau |
| Christopher Eric Brossart Wolford, ND | Farmer/Rancher VP of the ND Farm Bureau |
| Robert John Christman Bismarck, ND | Deputy Agriculture Commissioner |
| William Russell Devlin Finley, ND | Owner Devlin Publications, Inc |
| Duaine Carl Espegard Grand Forks, ND | Retired Bank CEO |
| Doyle Wayne Johannes Underwood, ND | Farmer/Rancher VP of the ND Farm Bureau |
| Francis Patrick Keogh Williston, ND | President & CEO, American State Bank & Trust Voting member of ND Farm Bureau |
| John Robert McConnell Casselton, ND | Farmer/Rancher |
| Dennis Jerome Renner Mandan, ND | Farmer/Rancher |
| Terry Marvin Wanzek Jamestown, ND | Farmer Voting member of ND Farm Bureau |

The Board of Directors had one vacancy as of December 31, 2011, which was subsequently filled on April 26, 2012.

The Bylaws provide that the elected officers of the Company shall be a President, a Vice President, an Executive Vice President, if needed, a Treasurer and one or more Assistant Treasurers, if needed, a Secretary and one or more Assistant Secretaries, if needed.

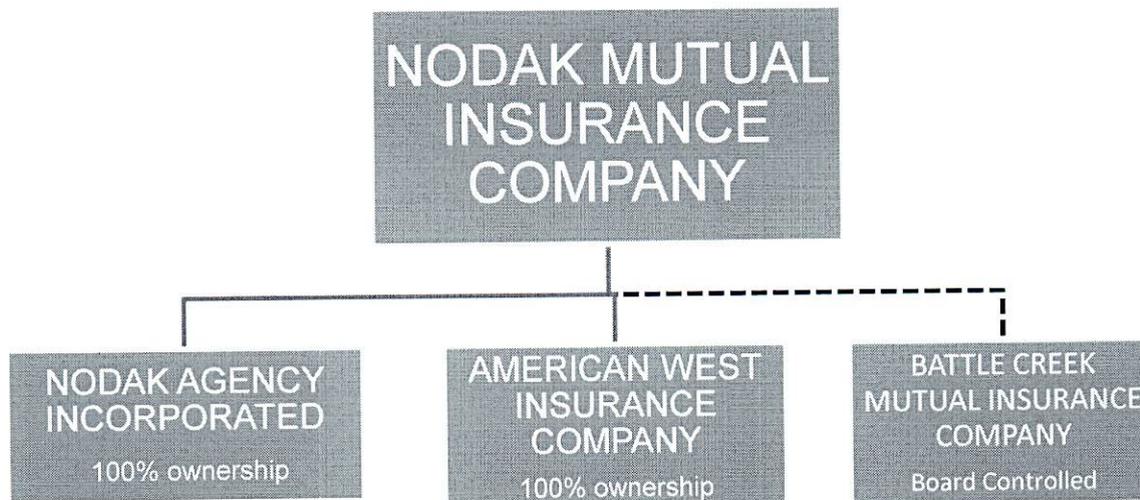
As of December 31, 2011, the senior officers elected were as follows:

| <u>Officer</u> | <u>Title</u> |
|-------------------------|--------------------------------|
| Michael James Alexander | Executive Vice President & CEO |
| Brian Robert Doom | Secretary/Treasurer |

The President position was vacant at December 31, 2011, but was subsequently filled on April 26, 2012, by Eric K. Aasmundstad.

AFFILIATED COMPANIES

The Company is a mutual insurance company, owned by its policyholders, who also are members of the North Dakota Farm Bureau. The Company is a member of an insurance holding company system. The organizational chart as of December 31, 2011, reflecting the holding company system, is shown below:



Nodak Agency Incorporated (NAI) – Effective January 1, 2008, NAI no longer transacts business but is being retained by the parent with minimal surplus for possible future use.

American West Insurance Company (AWIC) – AWIC is a North Dakota domiciled insurance company licensed to do business in eight states. Dakota Companies LLC acquired AWIC on March 31, 2001, from Tri-State Insurance Company, a wholly owned subsidiary within the Berkley Group. On November 9, 2004, Dakota Companies LLC was dissolved and all indebtedness was absorbed by Nodak Mutual Insurance Company. AWIC currently writes personal auto in North Dakota and commercial auto and property in Minnesota. AWIC wrote \$10.7 million of direct business in 2011 and \$7.5 million in 2010. AWIC's surplus as regards policyholders was \$9,845,866 at December 31, 2011.

Battle Creek Mutual Insurance Company (BMIC) – On March 4, 2011, Nodak Mutual Insurance Company (NMIC) entered into an affiliation agreement with BMIC. As a part of the affiliation, BMIC entered into a quota share agreement with NMIC. Effective April 1, 2011, 100% of all premiums, losses, adjusting expenses and underwriting expense is ceded to NMIC. At December 31, 2011, BMIC owed NMIC \$158,855. In addition, the NMIC has provided a \$3,000,000 surplus note that bears a 1% interest rate and is due December 30, 2040.

North Dakota Farm Bureau (NDFB) – The Company's Board of Directors have four members in common with the Board of Directors of the NDFB. The Company's Board of Directors also must include three voting members of the NDFB. All policyholders of the Company, to whom insurance coverage is provided, must also be members of the NDFB.

AFFILIATED AGREEMENTS

Management Agreement

Effective January 1, 2005, the Company entered into a management agreement with its subsidiary, AWIC, to provide complete management services for all lines of business engaged in by AWIC. Management fees include all direct incurred expenses, in addition to the allocated proportionate share of all general and overhead expenses incurred. Payments to the Company in 2011 totaled \$274,200 under this agreement.

Tax Allocation Agreement

The Company files a consolidated federal income tax return with its affiliates, pursuant to a written tax allocation agreement executed on March 7, 2002. Taxes incurred are allocated between the companies based upon separate return calculations, with current credit for net losses. The intercompany tax balances are to be settled annually in the first quarter of the year following the tax year

Lease Agreement

The Company entered into a lease agreement to rent space to the NDFB effective January 1, 2008. The Lease Agreement may be terminated by either party by giving written notice 30 days prior to the end of lease period. If neither party gives notice, the lease will convert to a month-to-month tenancy. The lease requires monthly payments of \$2,709. Payments to the Company in 2011 totaled \$32,511 under this agreement.

Trademark License Agreement

Effective October 1, 2011, the Company entered into an agreement with the North Dakota Farm Bureau, a nonprofit corporation, to use the name Farm Bureau and related logo FB. Pursuant to the agreement, the Company obtained the nonexclusive right to market its insurance products using the name North Dakota Farm Bureau and any trademarks associated with this name. In consideration, the Company pays NDFB an annual royalty of 1.3% of written premium, reduced by MPCl, subject to a maximum royalty payment of \$1,200,000. The agreement is renewable annually. Payments to the NDFB in 2011 totaled \$1,021,702 under this agreement.

Royalty payments to the North Dakota Farm Bureau during 2007-2011 were as follows:

| | |
|------|-------------|
| 2007 | \$858,679 |
| 2008 | \$836,744 |
| 2009 | \$893,928 |
| 2010 | \$954,769 |
| 2011 | \$1,021,702 |

FIDELITY BOND AND OTHER INSURANCE

The Company, along with its subsidiaries, was a covered participant in Financial Institution Bond coverage with single loss limit of liability up to \$1,000,000, with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company maintained other insurance coverage, which included Commercial Property, Commercial General Liability, Commercial Auto, Commercial Umbrella, Catastrophe Liability, Directors and Officers Coverage, Errors & Omission Coverage and Fiduciary Coverage. The two subsidiaries of the Company were also named insured on all policies.

PENSION AND INSURANCE PLANS

Employee Benefit Plan

All qualified full-time employees were provided with group life insurance, accidental death and dismemberment, and comprehensive medical expense.

Employee Retirement Plan

The Company maintained a defined contribution pension plan covering substantially all employees with 12 months of service. A summary of the retirement plan follows:

- The Company is the retirement plan administrator.
- The retirement plan is available to full-time employees on the January 1 or July 1 entry date immediately following the later of the date on which an employee has completed one year of service or attained the age of 21. The employee becomes fully vested after five years.
- The Company is allowed to contribute 10% plus an additional 3% of each participant's compensation to the retirement plan.
- Normal retirement age under the retirement plan is age 65.
- Plan costs are fully funded as they accrue. The Company's total contribution for the defined contribution plan was \$595,931 for 2011 and \$560,303 for 2010.

401(k) Plan

The Company also sponsors a 401(k) plan with an automatic contribution to all eligible employees and a matching contribution for eligible employees with a 50% match up to 3%. The Company's total contribution for the 401(k) plan totaled \$332,658 for 2011 and \$312,927 for 2010.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact the following insurance coverage in North Dakota as of December 31, 2011:

Accident & Health
Casualty
Property

At December 31, 2011, the Company was authorized to transact the business of insurance in Minnesota and North Dakota.

The Company is a multi-line property and casualty insurance company providing coverage to the North Dakota Farm Bureau members through approximately 92 exclusive agents. The Company's focus is on the multi-line, multi-car, urban clients and the rural farm and ranch owners who are in search of one company to meet their insurance needs. The primary markets for the Company are personal auto, home, farm and crop lines of business.

GROWTH OF COMPANY

The following represents the Company's net written premium activity as it relates to surplus over the examination period:

| | Premiums Written | | | | |
|------------------------------|------------------|---------------|---------------|---------------|--------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Direct | \$133,987,993 | \$108,493,242 | \$107,605,138 | \$123,177,215 | \$93,432,316 |
| Assumed | 14,478,413 | 3,890,661 | 3,050,024 | 3,476,519 | 5,483,631 |
| Ceded | 27,081,707 | 23,517,419 | 30,499,973 | 49,265,385 | 29,464,768 |
| Net Written Premiums | \$121,384,699 | \$ 88,866,484 | \$ 80,155,189 | \$ 77,388,349 | \$69,451,179 |
| Surplus | \$ 75,524,899 | \$ 86,929,548 | \$ 74,479,907 | \$ 63,103,535 | \$60,789,072 |
| Premium-to- Surplus Ratio | 160.7% | 102.2% | 107.6% | 122.6% | 114.2% |

The Company's premium-to-surplus ratio remained fairly constant over the examination period except for 2011 which had increased writings due to an increase in commodity prices in the Multi Peril Crop Insurance (MPCI) and Crop Insurance lines of business and high losses due to severe weather which reduced surplus. Policy count growth has been modestly positive over the examination period.

LOSS EXPERIENCE

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|----------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|
| Loss Reserves | \$ 17,310,884 | \$21,508,284 | \$24,012,765 | \$23,414,072 | \$24,348,087 |
| LAE Reserves | 5,799,000 | 5,313,000 | 5,200,000 | 4,903,000 | 4,428,000 |
| Total Reserves | \$ 23,109,884 | \$26,821,284 | \$29,212,765 | \$28,317,072 | \$28,776,087 |
| Losses and LAE Incurred | \$109,195,709 | \$61,079,221 | \$55,774,417 | \$58,421,642 | \$45,701,601 |

The Company's loss reserves have remained fairly constant over the examination period except for 2011 which had high losses due to severe weather.

STATUTORY DEPOSITS

The following securities were reported as special deposits in the 2011 annual statement:

| Location | Type of Asset | Statement Value | Fair Value |
|--------------|---------------|-----------------|------------|
| North Dakota | Bonds | \$ 497,681 | \$ 585,635 |

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Ceded

The Company ceded reinsurance premiums totaling \$27,081,707 in 2011 and as of December 31, 2011, reported loss and loss adjustment expense reserve credits for ceded business totaling \$12,699,914. Of the reinsurance premiums ceded, \$12,098,798 represented reinsurance premiums for Multi Peril Crop Insurance (MPCI) business ceded to the Federal Crop Insurance Corporation (FCIC). The remaining reinsurance premiums represented business ceded to American Agricultural Insurance Company.

The following represents a summary of the significant ceding agreements in effect at December 31, 2011:

1. Title: Multi-Line Excess of Loss
 Reinsurer: American Agricultural Insurance Company
 Scope: Fire, allied lines, multi-peril policies, inland marine, and auto
 Coverage: Property \$1,200,000 excess of \$300,000
 Liability \$12,000,000 excess of \$600,000
 Liability: Scheduled rates per layer ranged from 3.446% to .028%

- Commissions: None
Termination: Either party at any calendar year end by providing not less than 90 days written notice.
2. Title: Occurrence Property and Auto Catastrophe
Reinsurer: American Agricultural Insurance Company
Scope: Fire, Allied Lines, Farmowners (property perils), Homeowners (property perils), Commercial Multiple Peril (property perils), Inland Marine, Auto Physical Damage, Earthquake
Coverage: 1st Layer - \$10,000,000, 2nd Layer - \$11,300,000 excess \$2,500,000 retention
Commissions: None
Termination: Either party at any calendar year end by providing not less than 90 days written notice.
3. Title: Occurrence Property Catastrophe (Terrorism)
Reinsurer: American Agricultural Insurance Company
Scope: Fire, Allied Lines, Farmowners (property perils), Homeowners (property perils), Commercial Multiple Peril (property perils), Inland Marine, Earthquake
Coverage: \$2,511,100 excess of \$1,255,550
Commissions: None
Termination: Either party at any calendar year end by providing not less than 30 days written notice.
4. Title: Over Other Protection (OOPS)
Reinsurer: American Agricultural Insurance Company
Scope: Fire, Allied Lines, Farmowners (property perils), Homeowners (property perils), Commercial Multiple Peril (property perils, Inland Marine, Auto Physical Damage, Earthquake
Coverage: \$12,000,000 Each Occurrence and \$24,000,000 Annually excess of \$23,800,000 retention
Commissions: None
Termination: Either party at any calendar year end by providing not less than 90 days written notice.
5. Title: Farm Pollution Liability
Reinsurer: American Agricultural Insurance Company
Scope: Other Liability
Coverage: \$999,500 excess \$500
Commissions: 30%
Termination: Either party at any calendar year end by providing not less than 90 days written notice.

6. Title: All Lines Aggregate
 Reinsurer: American Agricultural Insurance Company
 Scope: All lines of property and casualty business except those lines in A) Schedule P of the Annual Statement, Parts N and O – Reinsurance Assumed and B) all Schedule P parts of Company's 2009 Annual Statement for which the Company showed zero business.
 Coverage: \$17,500,000 excess of 71.5% of Net Earned Premium
 Commissions: None
 Termination: Either party at any calendar year end by providing not less than 30 days written notice.
7. Title: Crop Hail Insurance Aggregate Excess of Loss
 Reinsurer: American Agricultural Insurance Company
 Scope: Crop hail insurance
 Coverage: First Layer - Lesser of 10% of gross net premium or \$1,284,000 excess of 100% of Gross Net Premium Income
 Second Layer – Lesser of 15% of Gross Net Premium Income or \$1,926,000 excess of 100% of Gross Net Premium Income plus the lesser of 10% of gross net premium or \$1,284,000
 Commissions: None
 Termination: Either party at any calendar year end by providing not less than 30 days written notice.
8. Title: Multiple Peril Crop Insurance (MPCI) Aggregate Excess of Loss
 Reinsurer: American Agricultural Insurance Company
 Scope: Policies classified by the Company as Multiple Peril Crop Insurance (MPCI) as approved and reinsured by the Federal Crop Insurance Corporation (FCIC) under the Standard Reinsurance Agreement (SRA) for the 2011 crop season.
 Coverage: First Layer - Lesser of 15% of Subject Premium or \$7,196,427 excess of 110% of Subject Premium
 Second Layer – Lesser of 30% of Subject Premium or \$14,392,854 excess of 110% of Subject Premium plus the lesser of 15% of Subject Premium or \$7,196,427
 Commissions: None
 Termination: Either party at any calendar year end by providing not less than 30 days written notice.

9. Title: Catastrophe Excess of Loss
 Reinsurer: Mutual Reinsurance Bureau (Various member companies)
 Scope: Fire, property sections of the following multiple peril policies: Homeowners, Farmowners (including Blanket Personal Property), and Commercial; and Allied Lines (including Extended Coverage), Inland Marine, Earthquake, and Auto Physical Damage (other than collision)
 Coverage: \$10,000,000 Per Occurrence and \$20,000,000 Annually excess of \$21,000,000 plus amount recoverable under Over Other Protection Agreement
 Commissions: None
 Termination: Either party at any calendar year end by providing not less than 90 days written notice.

Assumed

The Company assumed reinsurance premiums totaling \$14,478,414 in 2011 and as of December 31, 2011, reported loss and loss adjustment expense reserves for assumed business totaling \$4,760,991. Of the reinsurance premiums assumed, \$5,657,753 represented reinsurance premiums assumed from American Agricultural Insurance Company and \$8,820,661 was assumed from the Company's subsidiary and affiliated company. Most of the business assumed from American Agricultural Insurance Company represented assumptions from pooling arrangements. A summary of the significant assumption treaties follows:

1. Type: Occurrence Property Catastrophe (Terrorism) Pool Retrocession Agreement
 Reinsured: American Agricultural Insurance Company
 Scope: Business assumed by American Agricultural Insurance Company from Farm Bureau Insurance Companies under Occurrence Property Catastrophe (Terrorism) Reinsurance Agreements.
 Coverage: \$2,511,100 excess of \$1,255,550
 Commissions: None
 Termination: Either party at any calendar year end by providing not less than 30 days written notice.
2. Type: Domestic Broker Assumed Pool
 Reinsured: American Agricultural Insurance Company
 Scope: Property reinsurance assumed by American Agricultural through its Columbus, Ohio office, on business other than from Farm Bureau Companies, for policies that are effective during the Pool Year that cover exposures primarily within the United States.
 Coverage: 5% Retrocession Service Fee 2.8%
 Termination: Either party at any calendar year end by providing not less than 60 days written notice.

3. Type: International Broker Assumed Pool
 Reinsured: American Agricultural Insurance Company
 Scope: Property reinsurance assumed by American Agricultural through its Columbus, Ohio office, on business other than from Farm Bureau Companies, for policies that are effective during the Pool Year that cover exposures primarily outside the United States.
 Coverage: 5% Retrocession Service Fee 2.8%
 Termination: Either party at any calendar year end by providing not less than 60 days written notice.

4. Type: Quota Share
 Reinsured: American West Insurance Company
 Scope: Multi-line
 Coverage: 100% of losses
 Commissions: 25%
 Termination: Either party at any December 31, by giving one (1) year's prior written notice.

5. Type: Quota Share
 Reinsured: Battle Creek Mutual Insurance Company
 Scope: Multi-line
 Coverage: 100% of losses
 Commissions: 33%
 Termination: Either party at any December 31, by giving twelve (12) months prior written notice.

6. Type: Regional Reciprocal Catastrophe Pool
 Reinsured: Mutual Reinsurance Bureau
 Scope: Fire, property sections of the following multiple peril policies: Homeowners, Farmowners (including Blanket Personal Property), and Commercial; and Allied Lines (including Extended Coverage), Inland Marine, Earthquake, and Auto Physical Damage (other than collision)
 Coverage: 1.05% of all losses
 Commissions: 10% Management Fee
 Termination: Either party at any December 31, by giving 120 days prior written notice.

During the period under examination the Company had a reinsurance agreement that did not include a clause that stated the agreement shall constitute the entire contract between the parties and must provide no guarantee of profit, directly or indirectly, from the reinsurer to the ceding entity from the ceding entity to the reinsurer as required by SSAP No 62R 8(c) — Property and Casualty Reinsurance.

It is recommended that the Company amend the Crop Hail Insurance Aggregate Excess of Loss Agreement to include language as required by SSAP No 62R 8(c) — Property and Casualty Reinsurance.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls and transaction cycles were reviewed during the course of the examination. A trial balance as of December 31, 2011, was extracted from the general ledger and traced to the balance sheet and appropriate schedules of the Company's 2011 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary. At December 31, 2011, the Company used Freedom software for general ledger and accounts payable processing, and used a FiServ program to process its policy administration transactions.

The Company was audited annually by an outside firm of independent certified public accountants. The CPA work papers were made available to the examiners and were used to the extent deemed appropriate for this examination.

FINANCIAL STATEMENTS

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, and the results of its operations for the year then ended as determined by this examination.

Nodak Mutual Insurance Company
Assets
December 31, 2011

| | <u>Assets</u> | <u>Nonadmitted Assets</u> | <u>Net Admitted Assets</u> |
|---|----------------------|-------------------------------|--------------------------------|
| Bonds | \$ 91,559,109 | | \$ 91,559,109 |
| Common Stocks | 26,568,650 | | 26,568,650 |
| Real Estate: Properties Occupied by Company | 3,239,650 | | 3,239,650 |
| Cash | 913,793 | | 913,793 |
| Other Invested Assets | 3,775,001 | \$3,000,000 | 775,001 |
| Investment Income Due and Accrued | 873,551 | | 873,551 |
| Premiums and Considerations: Premiums Booked but Deferred and Not Yet Due | 14,666,314 | | 14,666,314 |
| Reinsurance: Amounts Recoverable From Reinsurers | 1,627,405 | | 1,617,405 |
| Federal Income Tax Recoverable | 4,975,566 | | 4,975,566 |
| Net Deferred Tax Asset | 1,006,090 | | 1,006,090 |
| Electronic Data Processing Equipment | 263,997 | | 263,997 |
| Furniture and Equipment | 45,954 | 45,954 | 0 |
| Receivables From Parent, Subsidiaries and Affiliates | 311,137 | | 311,137 |
| Crop Insurance Notes | 401,646 | 401,646 | 0 |
| Nonsufficient Funds/Leasehold Improvement | 41,821 | 41,821 | 0 |
| Company Vehicles | 497,632 | 497,632 | 0 |
| Totals | <u>\$150,767,317</u> | <u>\$3,987,053</u> | <u>\$146,780,264</u> |

**Nodak Mutual Insurance Company
Liabilities, Surplus & Other Funds
December 31, 2011**

| | <u>Liabilities</u> |
|--|---------------------------------|
| Losses | \$ 17,310,884 |
| Loss Adjustment Expenses | 5,799,000 |
| Commissions Payable | 1,050,490 |
| Other Expenses | 195,437 |
| Taxes, Licenses and Fees | 594,634 |
| Current Federal Income Tax | 0 |
| Net Deferred Tax Liability | 0 |
| Unearned Premiums | 38,200,356 |
| Ceded Reinsurance Premiums Payable | 3,931,282 |
| Funds Held by Company Under Reinsurance | 3,284,391 |
| Remittances and Items Not Allocated | 888,890 |
| Payable to Parent, Subsidiaries and Affiliates | <u>0</u> |
| Total Liabilities | \$ 71,255,364 |
| Surplus as Regards Policyholders | <u>75,524,899</u> |
| Total Liabilities and Surplus | <u><u>\$146,780,264</u></u> |

Nodak Mutual Insurance Company
Statement of Income
For the Year Ending December 31, 2011

Underwriting Income

| | | |
|--------------------------------------|-------------------|--------------------|
| Premiums earned | | \$114,194,909 |
| Less: | | |
| Losses Incurred | \$101,489,234 | |
| Loss Expenses Incurred | 7,706,475 | |
| Other Underwriting Expenses Incurred | <u>22,524,808</u> | |
| Total Underwriting Deductions | | <u>131,720,517</u> |
| Net Underwriting Gain (Loss) | | \$(17,525,609) |

Investment Income

| | | |
|----------------------------------|----------------|-----------|
| Net Investment Income Earned | \$3,267,488 | |
| Net Realized Capital Gain (Loss) | <u>102,221</u> | |
| Net Investment Gain (Loss) | | 3,369,709 |

Other income

| | | |
|--|----------------|------------------------------|
| Premium Balances Charged Off | \$(53,944) | |
| Finance and Service Charges | 311,923 | |
| Miscellaneous Income | <u>386,160</u> | |
| Other Income | | <u>644,139</u> |
| Net Income Before Dividends to Policyholders and Federal Taxes | | \$(13,511,761) |
| Dividends to Policyholders | | 261,548 |
| Federal Income Tax Incurred | | <u>(4,932,170)</u> |
| Net Income (Loss) | | <u><u>\$ (8,841,139)</u></u> |

Nodak Mutual Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 2007, through December 31, 2011

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|----------------|--------------|--------------|--------------|--------------|
| Capital and Surplus December 31, Previous Year | \$86,929,549 | \$74,479,907 | \$63,103,535 | \$60,789,072 | \$52,249,627 |
| Net Income | (8,841,139) | 10,307,043 | 7,248,618 | 5,473,050 | 9,890,914 |
| Change in Net Unrealized Capital Gains or Losses | (109,745) | 1,648,085 | 3,735,595 | (2,942,707) | (1,275,819) |
| Change in Net Deferred Income Tax | 570,498 | 139,545 | 163,485 | 61,345 | 141,345 |
| Change in Non-Admitted Assets | (3,024,263) | 354,968 | 228,674 | (277,225) | (216,996) |
| Net Change in Capital and Surplus for the Year | \$(11,404,649) | \$12,449,641 | \$11,376,372 | \$2,314,463 | \$8,539,445 |
| Capital and Surplus December 31, Current Year | \$75,524,899 | \$86,929,549 | \$74,479,907 | \$63,103,535 | \$60,789,072 |

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2011, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Other Invested Assets

Other Invested Assets consists of \$3,775,001 invested in three surplus notes including a surplus noted issued to Battle Creek Mutual Insurance Company for \$3,000,000. The Battle Creek surplus note is non-admitted pursuant to SSAP No. 41 paragraph 10 resulting in a net admitted value of \$775,001 which is unchanged from that reported by the Company.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Nodak Mutual Insurance Company as of December 31, 2011, as determined by this examination as follows:

| | | |
|--------------------------------------|-------------------|----------------------|
| Admitted Assets | | <u>\$146,780,264</u> |
| Total Liabilities | \$ 71,255,364 | |
| Surplus as Regards Policyholders | <u>75,524,899</u> | |
| Liabilities, Surplus and Other Funds | | <u>\$146,780,264</u> |

No adjustments were made by this examination to the amounts reported by the Company in its 2011 annual statement.

Since the last examination conducted as of December 31, 2006, the Company's admitted assets have increased \$35,723,005, its total liabilities have increased \$12,447,732, and its surplus as regards policyholders has increased \$23,275,272.

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

In addition to the undersigned, Colton Schulz and Mary Raps, North Dakota Insurance Department Staff Examiners, Lisa Chanzit, FCAS, MAAA, ARM, Senior Consulting Actuary, Deborah M. Rosenberg, FCAS, MAAA, Consulting Actuary, and Jared Rubinstein, ACAS, Senior Actuarial Analyst of Risk & Regulatory Consulting, LLC, and Joseph W. Detrick, CPA, CISA, CFE, AES, Information Systems Auditor, of Jennan Enterprises, LLC participated in this examination.

Respectfully submitted,



Don Gaskill, CFE
Contract Examiner representing the
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company amend the Crop Hail Insurance Aggregate Excess of Loss agreement to include language as required by SSAP No 62R 8(c) — Property and Casualty Reinsurance.