STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

CENTER MUTUAL INSURANCE COMPANY
RUGBY, NORTH DAKOTA

AS OF
DECEMBER 31, 2012

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

Center Mutual Insurance Company

Rugby, North Dakota

as of December 31, 2012, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

COMMISSIONER OF INSURANCE SEAL STATE OF NORTH DAKOTA

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 November, 2013.

Adam Hamm
Commissioner

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Rugby, North Dakota
August 16, 2013

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

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

Center Mutual Insurance Company
Rugby, North Dakota

Center Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2007, by the North Dakota Insurance Department (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 its corporate affairs and insurance operations. This statutory examination covers the five-year period from January 1, 2008, to and including December 31, 2012, 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. Our examination also included assessment of the accounting principles used and significant estimates made by management as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles, annual statement instructions, and when applicable, to domestic state regulations.

Work papers provided by the Company's independent auditor, Brady Martz & Associates, P.C., 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

Our examination included a review to determine the current status of the two exceptions commented upon in our previous Report on Examination which covered the period from January 1, 2003, to December 31, 2007. We determined that the Company had satisfactorily addressed both of these items.

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

There were no significant subsequent events noted through the date of this report.

HISTORY

General

The Company was incorporated on August 29, 1917, as Publishers Mutual Fire Insurance Company of North Dakota. On December 9, 1968, Farmers Mutual Insurance Company of Rugby merged into the Company. At the same time, the name of the Company was changed to Center Mutual Insurance Company. On April 23, 1970, the Company entered into a reinsurance agreement with Farmers Mutual Insurance Company, Harvey, North Dakota, and assumed all of the business, assets, and liabilities of the Harvey Company which was then dissolved.

The Company was formed to insure and make contracts of insurance in all forms now authorized or which may be authorized under the laws of the State of North Dakota relating to incorporated mutual insurance companies.

Board of Directors

The Bylaws provide that the number of directors shall be nine, a majority of whom shall constitute a quorum to do business. Nominations for directors must be submitted to the Secretary-Treasurer of the Company by September 1 to be considered by the members at their annual meeting and from these nominations the appropriate number of directors shall be elected by the members at the annual meeting for a period of three years. One-third of the directorate shall be elected at each annual meeting.

The Bylaws provide that the Board of Directors shall meet annually on the fourth Thursday in October in each year immediately following the annual meeting of members. The minutes show that the annual meetings of the Board were held as required by the Bylaws. In addition to the annual meetings, the Board held one additional meeting for each year under examination.

Directors serving at December 31, 2012, were as follows:

Name and Address	Business Affiliations
James C. Blessum Rugby, North Dakota	Farmer
Jeffrey W. Campbell Bottineau, North Dakota	Bank Officer
Robert J. Hovland Rugby, North Dakota	President Center Mutual Insurance Company
Robert L. Jaeger Rugby, North Dakota	Claims Supervisor Center Mutual Insurance Company
Chris T. Lamoureux Minot, North Dakota	Bank Trust Officer
Robert B. St. Michel Rugby, North Dakota	Furniture Store Owner
Rose M. Schneibel Rugby, North Dakota	Chief Financial Officer Center Mutual Insurance Company
Steven H. Steinborn Jamestown, North Dakota	Bank Officer
Rodger S. Zurcher Glenburn, North Dakota	Farmer

Officers

The Bylaws provide that the directors shall elect from their number a Chairman of the Board, Vice Chairman, President, and Vice President and Secretary and Treasurer all of whom shall hold their office for one year and until their successors are elected and qualified.

The officers duly elected by the Board of Directors and holding office at December 31, 2012, were as follows:

Officer	Title
Robert B. St Michel	Chairman of the Board
Chris T. Lamoureux	Vice Chairman
Robert J. Hovland	President
Rose M. Schneibel	Vice-President/Chief Financial Officer
Robert L. Jaeger	Secretary/Treasurer

Committees

During each of the years under review, the Board of Directors designated two committees to assist the directors in various aspects of Company operations. Through a review of the board minutes, the Investment and Executive Committees have met a total of only five times during the exam period. The committees and their respective members at December 31, 2012, were as follows:

Executive Committee	Investment Committee
Robert St. Michel	Robert St. Michel
Robert Hovland	Robert Hovland
Robert Jaeger	Rose Schneibel
Chris Lamoureux	Chris Lamoureux
Rodger Zurcher	Jeffrey Campbell

Investments made during the period covered by the examination were approved by the full Board membership.

Audit Committee

Under N.D. Admin. Code § 45-03-20-02(3), if an audit committee is not designated by the insurer, the insurer's entire board of directors shall constitute the audit committee. Since the Company did not designate an Audit Committee, the Company's full Board of Directors serves as its Audit Committee. During the period under examination, the Company's independent auditor, Brady Martz & Associates, P.C. (BMA), conducted annual audits of the Company's books and records. During those audits, BMA's main contact was Rose Schneibel, the Company's Chief Financial Officer. During the entire examination period, BMA did not present its annual audit report findings and recommendations to the Board of Directors or to an Audit Committee as required by N.D. Admin. Code § 45-03-20-12.1(1) which states:

> The audit committee shall be directly responsible for the appointment, compensation, and oversight of the work of any accountant, including resolution of disagreements between management and the accountant regarding financial reporting, for the purpose of preparing or issuing the audited financial report or related work pursuant to this chapter. Each accountant shall report directly to the audit committee.

The Company stated that BMA presents its findings and recommendations to Rob Hovland, President, and Rose Schneibel, CFO, who are both members of the Board, at the completion of field work. Mr. Hovland and Ms. Schneibel then subsequently present BMA's findings and recommendations to the full board at its semi-annual October meeting for approval.

It is recommended that the Company's external auditors present their annual audit report findings and recommendations to the entire Board of Directors or the designated audit committee thereof as required by N.D. Admin. Code § 45-03-20-12.1(1).

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no changes to the Articles of Incorporation during the period covered by this examination.

The Bylaws were amended effective October 22, 2009, to include the annual meeting agenda and to fix the number of directors at 9 from a minimum of 5 and maximum of 15.

Board of Directors, Policyholders, and Committee Minutes

The minutes of the Board of Directors, policyholders, and committee meetings for the period under examination were read.

The minutes of the various meetings indicate that full board meetings were well attended and were held in compliance with the Bylaws, Articles of Incorporation and statutory requirements. The deliberations of the board were adequately documented and supported the Company's transactions and events. The full board meets semi-annually. Investment transactions are ratified by the full board by mail on non-meeting quarters in compliance with N.D. Admin. Code § 45-03-12-05(4)(a). The Executive Committee only met once during the exam period.

Conflict of Interest

The Company's procedure for disclosure of any conflict requires that every director, officer, or responsible employee of the Company annually sign a conflict of interest form. The signed statements are then reviewed by the Board of Directors. It was noted in our review of the 2012 conflict of interest statements that conflicts were disclosed, but there was no documentation supporting how the conflicts were handled.

It is recommended that the Company document how the Board of Directors handles each conflict of interest, including assigning the responsibility of reviewing the conflicts and proposed resolutions to a specific person or committee of the board.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Company was protected against fraudulent or dishonest acts of its employees by a financial institution bond. The bond insures the Company up to $500,000, which is in compliance with the NAIC suggested minimum amount of fidelity insurance.

The Company has other types of coverage including Professional Liability, Directors and Officers Liability, Automobile, Inland Marine (EDP), Data Compromise and Commercial Umbrella Liability which were considered adequate.

AFFILIATED COMPANIES

Rugby Insurance Agency

Until year end 2010, the Company's President owned 50 percent of Rugby Insurance Agency (RIA), an independent insurance agency, which represents the Company as an agent. Mr. Hovland sold his interest in RIA effective December 31, 2010. Rugby Insurance Agency also occupies space in the Company's home office building for which it paid an annual rent and reimbursed the Company for other office-related expenses. The Company has a rental agreement with RIA that became effective May 1, 2007, where RIA agreed to pay $500 per month rent for the office space (this includes the cost of utilities), and $100 per month for phone services. Commissions paid to RIA during the period under review along with expense reimbursements paid by RIA were as follows:

		Expense Reimbursement	
Year	Commissions Paid	Rent	Telephone
2008	$146,786	$6,000	$1,200
2009	150,387	6,000	1,200
2010	148,602	6,000	1,200
2011	166,795	6,000	1,200
2012	187,823	6,000	1,200

PENSION AND INSURANCE PLANS

Employee Benefit Plan

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

Employee Retirement Plan

The Company offers a retirement plan where the Company makes matching contributions equal to 50 percent of up to 3 percent of the employee's wages and the Company may contribute up to 10 percent of the employee's compensation based on Company profits.

The Company's contributions to the Money Purchase Plan and its 401(k) Plan during the period under examination were as follows:

Year	Money Purchase Plan	401(k) Plan
2008	$124,500	$33,412
2009	132,718	37,226
2010	134,583	37,384
2011	143,327	41,615
2012	146,784	43,007

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2012:

Location	Type of Asset	Statement Value	Fair Value
North Dakota	FNMA Bond	$250,000	$257,740

The deposit is held for the protection of policyholders from the State of South Dakota.

TERRITORY AND PLAN OF OPERATION

At December 31, 2012, the Company was licensed and qualified to write property and casualty insurance in North Dakota and South Dakota. The Certificates of Authority issued by these states were reviewed and found to be in proper order and effect.

The Company writes primarily personal automobile, homeowners, and farmowners coverages in the North Dakota and South Dakota. The auto business comprised over 65 percent of direct business written in 2012.

GROWTH OF COMPANY

The table below shows the Company's written premium activity compared to its surplus over the examination period:

	Premiums Written				
	2012	2011	2010	2009	2008
Direct	$23,906,865	$21,924,163	$21,341,376	$21,253,673	$21,834,939
Assumed	208,925	178,336	196,942	169,192	176,987
Ceded	1,872,219	1,654,211	2,084,340	1,663,425	1,592,554
Net Written Premiums	$22,243,571	$20,448,288	$19,453,978	$19,759,440	$20,419,372
Surplus	21,995,270	20,053,493	20,475,250	19,398,214	17,129,007
Premium-to-Surplus Ratio	101%	102%	95%	102%	119%

The Company's net premium written has grown modestly over the exam period while the premium to surplus ratio has declined due to increased surplus.

LOSS EXPERIENCE

The table below shows the Company's loss reserves and losses incurred over the exam period:

	2012	2011	2010	2009	2008
Loss reserves	$6,597,395	$6,269,167	$5,754,649	$6,778,345	$7,600,436
LAE reserves	607,102	596,914	552,621	671,229	766,128
Total Reserves	$7,204,497	$6,866,081	$6,307,270	$7,449,574	$8,366,564
Losses and LAE Incurred	$13,508,337	$15,827,797	$14,023,422	$12,894,406	$13,493,811

The Company's loss reserves have stayed in a fairly tight range over the exam period. The Company's one- and two-year reserve developments have been redundant.

REINSURANCE

The following is a summary of the significant reinsurance treaties in force at December 31, 2012:

Reinsurance Ceded

The Company ceded reinsurance premiums totaling $1,872,219 during 2012 and as of December 31, 2012, had known case loss reserves of $1,237,368.

A summary of the ceding agreements in effect at December 31, 2012, are as follows:

1. Type: **Multiple Line Excess**

    Reinsurers: Platinum Underwriters Reinsurance, Inc. 50%
    Scor Reinsurance Company 50%

    Scope: Homeowners MP, Farmowners MP, Residential and Farm Fire & Allied Lines, Inland Marine, Auto and Farm Truck Physical Damage, Auto and Farm Truck Liability, Owners, Landlords, and Tenants Liability, Comp Personal Liability and Farmowners Comp Personal Liability

    Coverage: $840,000 excess of $160,000 each risk. The maximum limit of liability for the reinsurer shall not exceed $1,680,000 any one loss occurrence.

    Premium: 3.01% of subject earned premium.

    Effective Date: January 1, 2012

Termination:	Either party any January 1, by giving 90 days written notice.

2.	Type:	**Property Excess Per Risk**	
	Reinsurers:	Advent #780	10.00%
		Allied World Assurance Co US Inc.	7.50%
		Amlin Reinsurance #2001	21.25%
		Cathedral MMX #2010	21.25%
		R+V Versicherung A.G.	30.00%
		SJC #2003	10.00%
	Scope:	Property - Homeowners, Farmowners, Residential and Farm Fire & Allied Lines, Automobile and Farm Truck Physical Damage (except Collision) and Inland Marine	
	Coverage:	$2,000,000 excess of $1,000,000 each risk. The maximum limit of liability for the reinsurer shall not exceed $4,000,000 any one loss occurrence.	
	Premium:	0.467% of subject earned premium (minimum of $50,000).	
	Effective Date:	January 1, 2012	
	Termination:	Either party any January 1 by giving 90 days written notice.	
3.	Type:	**Excess Casualty Clash**	
	Reinsurers:	Platinum Underwriters Reinsurance, Inc.	50%
		Scor Reinsurance Company	50%
	Scope:	Casualty business: Homeowners and Farmowners Multi-Peril, Auto and Farm Truck Liability, Owners, Landlords & Tenants Liability, Comprehensive Personal Liability and Farmowners Comprehensive Personal Liability	
	Coverage:	$1,000,000 excess of $1,000,000 each occurrence. The maximum limit of liability for the reinsurer shall not exceed $2,000,000 during any one contract year.	
	Premium:	$50,000 flat premium.	
	Effective Date:	January 1, 2012	
	Termination:	Either party any January 1 by giving 90 days written notice.	

4. Type: **Property Catastrophe Excess of Loss**

Reinsurers:

	First Layer	Second Layer
Advent #780	6.00%	6.00%
Allied World Assurance Co Us Inc.	10.00%	15.00%
Amlin Bermuda	5.00%	4.92%
Amlin Reinsurance #2001	5.00%	4.92%
Arch Reinsurance Company	15.00%	7.50%
Cathedral MMX #2010	11.00%	11.00%
Employers Mutual Casualty Company	2.50%	2.50%
Markel #3000	5.00%	-
QBE Reinsurance #566	5.00%	4.92%
R+V Versicherung A.G.	22.50%	22.50%
Shelter Reinsurance Company	2.50%	7.50%
SJC #2003	8.00%	9.96%
Torus #1301	2.50%	3.28%
Total	100.00%	100.00%

Mutual Reinsurance Bureau (Third Excess) 100.0%

Scope: Policies classified as property including Homeowners, Farmowners, Residential and Farm Fire & Allied Lines, Automobile and Farm Truck Physical Damage (except collision) and Inland Marine.

Coverage:

First Excess:	$1,400,000 xs of $ 600,000
Second Excess:	$7,000,000 xs of $ 2,000,000
Third Excess:	$9,000,000 xs of $ 9,000,000

Each layer allows for an all loss occurrence of two times the limit, i.e., $2,800,000 for the first layer, $14,000,000 for the second layer, $18,000,000 for the third layer.

Premium:

First Excess:	4.450% - $380,800 annual minimum premium
Second Excess:	2.160% - $184,800 annual minimum premium
Third Excess:	0.876% - $ 90,000 annual minimum premium

Commissions: None

Effective Date: January 1, 2012

Termination: January 1, 2013 (90 written notice for Third Excess Pool).

5. Type: **Excess Liability (Umbrella)**

Reinsurers:

Platinum Underwriters Reinsurance, Inc.	50%
Scor Reinsurance Company	50%

Scope: Business classified by the Company as Personal and Farm Umbrella Excess Liability.

	Coverage:	95% quota share of losses applicable to the $1,000,000 umbrella liability policies and 100% quota share of the next $1,000,000 umbrella liability limits.
	Premium:	95% of premiums of the first $1,000,000 limit and 100% of premium for the next $1,000,000.
	Commissions:	30% of reinsurance premiums.
	Effective Date:	January 1, 2012
	Termination:	January 1, 2013

Reinsurance Assumed

1.	Type:	**NAMICO Reinsurance Facility**
	Cedent:	NAMIC Insurance Company
	Scope:	Mandatory pool participation for qualified companies insured under the NAMIC Insurance Company program.
	Coverage:	The pooling percentage is based on the Company's capacity to the total pool capacity. The pool limits its exposure to the first five million dollars of liability per loss with a fifty percent limit on the first million and eighty-five percent thereafter for a $3,900,000 loss limit per loss. The ceding commission is 35%. Lines covered under the reinsurance facility are Directors and Officers Liability, Insurance Company Professional Liability, Insurance Agents and Brokers Error and Omissions Liability, Insurance Company Trustees and Fiduciaries Liability and Professional Liability for Insurance Related Organizations.
	Premium:	0.71787 percent of subject net premium
	Effective Date:	January 1, 2012
	Termination:	January 1, 2013
2.	Type:	**MRB Regional Reciprocal Catastrophe Pool**
	Cedent:	Mutual Reinsurance Bureau (MRB)
	Scope:	Aggregate and catastrophe excess contracts, or similar covers
	Coverage:	1.05% of losses not to exceed $40,000,000 ($420,000)
	Premium:	1.05% of subject premium

Effective Date:	January 1, 2012
Termination:	January 1, 2013

The reinsurance agreements contain the insolvency clause required by N.D.C.C. § 26.1-02-21 and all of the required clauses set forth in the NAIC's *Accounting Practices and Procedures Manual.*

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2012, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2012 Annual Statement. However, the Company's trial balance could not be fully reconciled to the 2012 Annual Statement, because the Company does not maintain a listing of non-ledger entries made. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is audited annually by BMA, an outside firm of independent certified public accountants. BMA's work papers were made available to the Examiners and were used to extent deemed appropriate for this examination.

Information Systems Operations

In 2005, the Company selected a vendor to modify the vendor's proprietary policy administration system which includes a web-based agency platform that allows agents to take and price applications online and which interfaces directly with underwriting. This system was supposed to replace the Company's legacy policy administration and claims administration systems. The selected vendor stated that system modifications would be completed within six months after the Company provided the necessary documents to the vendor. The Company has not yet completed those documents but plans to do so by November 30, 2013. To date, the vendor modifications to its proprietary software have not been completed. The Company has stated that it has a hard deadline of December 31, 2013, for the completion of the software modifications by the vendor. At the request of the Department, the Company provided the Department with its plan on how the Company will move to an alternate processing platform if the vendor cannot make the required modifications to its software by December 31, 2013.

Internal Complaints

The 2005 Market Conduct exam recommended that the Company adopt formal written complaint handling procedures that included a method of distribution of the complaint and obtaining and recording responses to complaints. The 2007 examination noted that the Company was still not complying with this recommendation. Only complaints which were first submitted to the Department were tracked by the Company. The Company does not have or maintain an internal complaints log that records all grievances received by the Company regardless of whether they were sent to the Insurance Department or not in order to meet the requirements of N.D.C.C. § 26.1-04-03(10) which states that:

> Failing to adopt and implement reasonable standards for the prompt handling of written communications, primarily expressing grievances, received by the insurance company from insureds or claimants. (is a prohibited practice.)

It is recommended that the Company establish and maintain an internal complaints log that meets the requirements of N.D.C.C. § 26.1-04-03(10) for any complaints that are reported directly to the Company.

Per Risk Limitation

The Company has multiple policies that contain risks that exceed the 10 percent of surplus limitation net of reinsurance which is a violation of N.D.C.C. § 26.1-03-01 which states:

> An insurance company transacting an insurance business in this state may not expose itself to loss on any one risk or hazard to an amount exceeding ten percent of its paid-up capital and surplus if a stock company, or ten percent of its surplus if a mutual company, unless the excess is reinsured.

It is recommended that the Company limit its exposure to a single risk to an amount not exceeding 10 percent of its surplus or obtain facultative reinsurance on all risks exceeding 10 percent of surplus, net of all individual excess of loss reinsurance contracts so that the net risk retained is less than 10 percent of its surplus.

FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2012
Statement of Income, Year Ended December 31, 2012
Reconciliation of Capital and Surplus, January 1, 2008 through December 31, 2012

Center Mutual Insurance Company
Statement of Assets
December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$23,678,518		$23,678,518
Stocks:			
Preferred stocks	732,575		732,575
Common stocks	4,951,022		4,951,022
Real estate:			
Properties occupied by the company	554,991		554,991
Cash	51,853		51,853
Short-term investments	5,384,933		5,384,933
Other invested assets	10,224		10,224
Investment income due and accrued	270,728		270,728
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	570,530	$ 4,904	565,626
Deferred premiums, agent's balances and installments booked but deferred and not yet due	2,038,161		2,038,161
Amounts recoverable from reinsurers	190,737		190,737
Federal Income Tax Recoverable	44,621		44,621
Net deferred tax asset	877,864		877,864
Electronic data processing equipment and software	55,642	18,713	36,929
Furniture and equipment	17,657	17,657	
Company owned vehicles	73,143	73,143	
Total Assets	$39,503,199	$114,417	$39,388,782

Center Mutual Insurance Company
Liabilities, Surplus, and Other Funds
December 31, 2012

Losses	$ 6,597,395
Loss adjustment expenses	607,102
Commissions payable, contingent commissions and other similar charges	452,127
Other expenses	165,573
Taxes, licenses and fees	167,216
Unearned premiums	8,929,505
Advance premium	418,997
Ceded reinsurance premiums payable	30,422
Amounts withheld or retained by Company for account of others	12,314
Provision for reinsurance	12,861
Total Liabilities	$17,393,512
Surplus as regards policyholders	21,995,270
Total Liabilities, Surplus, and Other Funds	$39,388,782

Center Mutual Insurance Company
Statement of Income
December 31, 2012

Underwriting Income		
Premiums earned		$21,360,405
Deductions:		
Losses incurred	$12,262,722	
Loss expenses incurred	1,245,615	
Other underwriting expenses incurred	6,630,136	
Total underwriting deductions		20,138,473
Net underwriting gain or (loss)		$ 1,221,932
Investment Income		
Net investment income earned	$ 583,273	
Net realized capital gains (losses) less capital gains tax of $0	(14,840)	
Net investment gain or (loss)		568,433
Other Income		
Finance and service charges not included in premiums	$ 19,797	
Aggregate write-ins for miscellaneous income	1,185	
Total other income		20,982
Net income, before federal and foreign income taxes		$ 1,811,347
Federal income taxes incurred		211,598
Net Income		$ 1,599,749

Center Mutual Insurance Company
Reconciliation of Capital and Surplus Accounts
January 1, 2008, Through December 31, 2012

	2008	2009	2010	2011	2012
Capital and surplus, December 31, previous year	$17,818,247	$17,129,007	$19,398,214	$20,475,250	$20,053,493
Net income or (loss)	$ 1,658,999	$ 1,175,066	$ 228,689	$ (875,720)	$ 1,599,749
Change in net unrealized capital gains or (losses)	(1,641,547)	915,576	108,392	355,042	397,304
Change in net deferred income taxes	56,690	(33,319)	444,895	(69,159)	(253,961)
Change in nonadmitted assets	(828,730)	259,015	256,203	162,052	113,339
Change in provision for reinsurance	65,348	(47,131)	38,857	6,028	1,982
Cumulative effect of changes in accounting principles					83,364
Net change in capital and surplus	$ (689,240)	$ 2,269,207	$ 1,077,036	$ (421,757)	$ 1,941,777
Capital and surplus end of December 31, current year	$17,129,007	$19,398,214	$20,475,250	$20,053,493	$21,995,270

COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2012, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Short-term Investments

The Company invests some of its cash balances in repurchase agreements with Bremer Bank. The repurchases were found to exceed the limitations imposed by N.D. Admin. Code § 45-03-12-04(5)(a) which limit the Company's repurchase exposure to five percent of admitted assets. The repurchases were also in violation of N.D. Admin. Code § 45-03-12-04(7) which mandates that repurchase agreement collateral be 102 percent of the fair value. In addition, the Company's investment guidelines do not specifically address the Company's operational procedures when engaging in repurchase transactions as required by N.D. Admin. Code § 45-03-12-04(1)(b).

It is recommended that the Company comply with the requirements of N.D. Admin. Code § 45-03-12-04(1)(b), (5)(a), and (7).

CONCLUSION

The financial condition of the Company, as of December 31, 2012, as determined by this examination is summarized as follows:

Admitted Assets		$39,388,782
Total Liabilities	$17,393,512	
Surplus as Regards Policyholders	21,995,270	
Liabilities, Surplus, and Other Funds		$39,388,782

No changes were made to the balance sheet amounts reported by the Company in its 2012 annual statement.

Since the last examination conducted as of December 31, 2007, the Company's admitted assets have increased $4,098,512, its total liabilities have decreased $78,511, and its surplus as regards policyholders has increased $4,177,023.

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, Mary Raps, and Mike Andring, FCAS, MAAA, of the North Dakota Insurance Department, participated in this examination.

Respectfully submitted,

Edward J. Moody, CFE
Chief Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company's external auditors present their annual audit report findings and recommendations to the entire Board of Directors or the designated audit committee thereof as required by N.D. Admin. Code § 45-03-20-12.1(1).

It is recommended that the Company document how the Board of Directors handles each conflict of interest, including assigning the responsibility of reviewing the conflicts and proposed resolutions to a specific person or committee of the board.

It is recommended that the Company establish and maintain an internal complaints log that meets the requirements of N.D.C.C. § 26.1-04-03(10) for any complaints that are reported directly to the Company.

It is recommended that the Company limit its exposure to a single risk to an amount not exceeding 10 percent of its surplus or obtain facultative reinsurance on all risks exceeding 10 percent of surplus, net of all individual excess of loss reinsurance contracts so that the net risk retained is less than 10 percent of its surplus.

It is recommended that the Company comply with the requirements of N.D. Admin. Code § 45-03-12-04(1)(b), (5)(a), and (7).