



NC DEPARTMENT
of INSURANCE
MIKE CAUSEY, COMMISSIONER

COMPANY SERVICES GROUP
FINANCIAL EXAMINATION DIVISION

Tel 919.807.6602 Fax 919.807.6635

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina, do hereby certify that: I have caused to First Mutual Insurance Company, as of December 31, 2019, with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 18th day June 2021.



Mike Causey
Commissioner of Insurance

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

First Mutual Insurance Company

Smithfield, North Carolina

Report on Examination

As of December 31, 2019

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May 25, 2021

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

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

First Mutual Insurance Company

(hereinafter referred to as the “Company”), at its main administrative statutory home office located at 614 East Market Street, Smithfield, North Carolina 27577. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2015 to December 31, 2019, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2014.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Investments
Premiums and Underwriting
Claims and Reserving
Reinsurance
Related Parties
Capital and Surplus

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with statutory accounting principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Rives & Associates, LLP of Lexington, North Carolina, the designated independent public accountant of the Company, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2019.

REPORT ACRONYMS

Board of Directors	“Board”
Financial Condition Examiners Handbook	“Handbook”
First Mutual Insurance Company	“Company”
First Mutual Insurance Services, Inc.	“Agency”
General Statutes of North Carolina	“GS”
Munich Reinsurance America, Inc.	“Munich Re”
National Association of Insurance Commissioners	“NAIC”
North Carolina Department of Insurance	“Department”
Pitt Farmers Mutual Insurance Company	“PFMIC”
Subscribing Reinsurers	“Reinsurers”

COMPANY HISTORY

The Company was incorporated as a county farm mutual insurer on February 16, 1961, as Farmers County Mutual Fire Insurance Company of Johnston, Franklin, and Harnett Counties and was subject to the surplus requirements of GS § 58-7-75(5)d.

The Company’s charter was amended in June of 1969, to change its name to Farmers County Mutual Fire Insurance Company, Inc. The Company became one of several investor county mutual insurance companies in Alliance Mutual Insurance Company in 1976, which allowed the Company to write homeowners, farm-owners and inland marine policies for its policyholders with Alliance Mutual Insurance Company writing perils coverage (other than fire), extended coverage and additional extended perils coverage.

On September 15, 1986, the Company’s charter was amended to change its name to First Mutual Insurance Company and to extend its operating territory to include Sampson, Wake, and Wayne counties. On October 2, 1987, the Company was authorized to operate as a statewide property and casualty insurer in North Carolina. The Company became an assessable mutual insurance company effective October 19, 1997, subject to the surplus requirements of GS § 58-7-75(5)b. The Company’s charter was amended again in 1998, to permit the writing of liability coverage under the homeowners, farm-owners, mobile homeowners, and church protector package policies.

Effective January 1, 2010, the Company assumed the book of business from Pitt Farmers Mutual Insurance Company (“PFMIC”), a county farm mutual insurance company. The transaction included the Company assuming all PFMIC’s policies for a three-year period. In return, the Company received \$414,000 in premiums to provide coverage and a \$40,000 cash deposit to cover incurred but not reported claims related to the PFMIC policyholders at December 31, 2009. On July 1, 2010, the Company refunded the \$40,000 cash deposit for incurred but not reported claims as no subsequent claims were reported for policyholders as of December 31, 2009.

On February 28, 2011, the Company’s charter was amended to re-organize from a mutual insurance company pursuant to GS § 58-7-75(5)(b) and 58-7-75(7)(b) to a mutual insurance company pursuant to GS § 58-7-75(8)(a).

In 2013, the Company consolidated the business of Farmers Mutual Fire Insurance Company of Wilkes, Watauga, Ashe, Surry and Yadkin Counties, a County Farm Mutual Insurance Company, with its business.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Directors

The business of the Company is conducted by its management team and subject to review by the Board of Directors (“Board”). The bylaws specify that the number of directors shall be not less than seven and not more than nine, each with three-year terms. Members of the Board may be elected at the Company policyholders’ annual meeting, or if in the interim, by appointment of the President and/or Secretary.

The following individuals served as directors as of December 31, 2019:

Name	Location	Principal Occupation
Davidson V. Neville	Four Oaks, NC	President
Graham R. Neville	Smithfield, NC	Executive Vice President/Secretary
Thurston A. Dickerson	Fuquay Varina, NC	Manager, Total Agribiz Insurance Group, Inc.
David F. Mills	Smithfield, NC	Attorney, Narron Wenzel, PA
David L. Jackson	Smithfield, NC	Principal, Dees, Jackson, Jackson & Associates, PA
Grace E. Reaves	Kenly, NC	Treasurer
Dennie K. Parrish	Benson, NC	Vice President

The Board has the authority to establish committees including, but not limited to, an Audit Committee and Investment Committee to act on behalf of the Company.

The following individuals served on committees as of December 31, 2019:

Audit Committee

Davidson V. Neville, Chairman
Graham R. Neville
David L. Jackson

Investment Committee

Davidson V. Neville, Chairman
Graham R. Neville
David L. Jackson

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer, and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. The office of secretary and treasurer may be held by the same person.

The following individuals served as officers of the Company as of December 31, 2019:

Name	Title
Davidson V. Neville	President
Dennie K. Parrish	Vice President
Graham R. Neville	Executive Vice President/Secretary
Grace E. Reaves	Treasurer

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. No changes were made to the articles of incorporation or bylaws during the period under examination. (Refer to Subsequent Events)

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2019 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

FIDELITY BONDS AND OTHER INSURANCE

The Company has fidelity bond coverage totaling \$150,000 in aggregate, which exceeds the minimum amount of fidelity bond coverage recommended by the Handbook.

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

RELATED PARTY AGREEMENTS

The Company entered into an agency agreement with First Mutual Insurance Services, Inc. ("Agency"), effective on November 1, 2012, amended and restated on November 15, 2016. The Company's Executive Vice President and Secretary, Graham Neville, is a 50% stockholder of the Agency. Under the agreement,

the Agency has exclusive authority to solicit business for the Company. The Agency's functions, in addition to selling the Company's policies, include collecting premiums and fees, receiving and submitting claims, appointing additional agents for the Company, compensating such agents on a commissions basis, and providing office space, utilities, and equipment. The Company pays for these services through a commission based on policies written, which is paid directly to the Agency. During 2019 and 2018, the Company incurred commission expenses of \$1,595,181 and \$1,415,014, respectively, to the Agency, representing a commission rate of 24.1% and 23.7%, respectively, of direct written premiums.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed in three states: North Carolina, South Carolina, and Tennessee. The Company primarily writes homeowners and farm-owners multiple peril, fire, inland marine and boiler and machinery policies. The Company utilizes independent agents for the distribution of its product and solicitation of business. All policies are issued annually. Policyholder's may elect to pay on an installment basis.

TRENDS OF THE COMPANY

The following data, obtained from Annual Statements filed with the Department, illustrates the trends of the Company for the five-year period ended 2019:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2019	\$7,018,434	\$5,233,270	\$6,595,965	\$1,579,298	\$62,782
2018	\$6,659,530	\$4,986,751	\$5,898,470	\$1,154,061	\$(156,592)
2017	\$6,675,371	\$5,308,283	\$5,566,827	\$1,381,439	\$292,505
2016	\$6,190,931	\$4,967,820	\$5,882,985	\$1,469,821	\$172,896
2015	\$6,236,321	\$4,811,808	\$6,304,745	\$1,538,605	\$328,561

ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2019 were reviewed and certified by the Company's Appointed Actuary, Robert W. Van Epps, FCAS, MAAA of Financial Risk Analysts, LLC. Actuarial opinions regarding the Company's reserves for losses and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the losses and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserve on the losses and loss adjustment expense met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid losses and loss expense obligations of the Company.

REINSURANCE PROGRAM OVERVIEW

REINSURANCE CEDED

Property and Casualty Quota Share

The Company has a quota share reinsurance contract with SCOR Reinsurance Company, effective January 1, 2019, which provides the following reinsurance coverage based on the Company's business classifications:

The Company cedes 50% of up to \$50,000 for each loss, on each and every risk, subject to an occurrence limitation of \$14,000,000, plus the proportionate share of loss expenses with respect to all business classified by the Company as fire, allied lines, inland marine and the property covered under commercial multiple peril, homeowner multiple peril, and farm-owners multiple peril.

The Company cedes a fixed 50% of the first \$50,000 of the net retained liability per policy or per location, and 50% of \$6,000,000 for an occurrence for the property business classified by the Company as hog and poultry buildings, hog and poultry loss of income, greenhouses, and equipment breakdown on hog and poultry business.

The Company cedes 100% of up to \$50,000 for each loss, on each and every insured, plus the proportionate share of loss expenses with respect to all business classified by the Company as other liability and the casualty coverage under commercial multiple peril and hog and poultry buildings. The business ceded to the above treaty will be limited to \$2,000,000 any one loss occurrence.

In 2019 and 2018, the Company ceded premiums totaling approximately \$2,660,000 and \$2,381,000, respectively, to SCOR Reinsurance Company under this contract.

Property and Casualty Excess of Loss

The Company has a three-layer property and casualty excess of loss reinsurance contract with Renaissance Reinsurance U.S. Inc., effective January 1, 2019, whereby the Company cedes all policies classified by the Company as property business including, but not limited to, fire and allied lines, inland marine (including hog and poultry), and property sections of homeowners' multiple peril, farm-owners multiple peril, commercial multiple peril, and hog and poultry equipment breakdown, and casualty business including, but not limited to, other liability (including hog and poultry), and the casualty sections of homeowner's multiple peril, farm-owner's multiple peril, and commercial multiple peril. The following table summarizes the Company's loss retention limits on each and every risk, the reinsurer's liability on each and every risk, and the occurrence limitations for each layer of coverage:

Property and Casualty Excess of Loss			
Layer	Retention	Reinsurance Coverage	Maximum Occurrence Limit
First	\$50,000	losses in excess of \$50,000 and up to \$150,000	\$150,000 for property business \$150,000 for casualty business
Second	\$100,000	losses in excess of \$100,000 and up to \$900,000	\$2,700,000 for property business \$900,000 for casualty business

Third	\$1,000,000	losses in excess of \$1,000,000 and up to \$1,000,000	\$3,000,000 for property business \$1,000,000 for casualty business
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In 2019 and 2018, the Company ceded premiums totaling approximately \$932,000 and \$1,439,000, respectively, to Renaissance Reinsurance U.S. Inc. under this contract.

Property Catastrophe Excess of Loss

The Company has a three-layer property catastrophe excess of loss reinsurance contract with various subscribing reinsurers (“Reinsurers”), effective January 1, 2019, whereby the Company cedes all policies classified by the Company as fire, allied lines, inland marine (including hog and poultry), and the property covered under commercial multiple peril, homeowners multiple peril, and farm-owners multiple peril.

The Company has a fourth layer property catastrophe excess of loss reinsurance contract with Lancaster Insurance Company Ltd., reinstated on May 1, 2019, which extends the property catastrophe coverage provided by the Company’s three-layer property catastrophe excess of loss reinsurance contract on the same policy classifications. The following table summarizes the Company’s loss retention limits on the ultimate net loss for any one loss occurrence, the reinsurer’s liability on the ultimate net loss for any one loss occurrence, and the occurrence limitations for each layer of coverage:

Property Catastrophe Excess of Loss			
Layer	Company Retention	Reinsurance Coverage	Maximum Occurrence Limit
First	\$250,000	net loss in excess of \$250,000	80% of \$250,000
Second	\$500,000	net loss in excess of \$500,000	100% of \$2,000,000
Third	\$2,500,000	net loss in excess of \$2,500,000	97.5% of \$13,500,000
Fourth	\$16,000,000	net loss in excess of \$16,000,000	80% of \$5,000,000

In 2019 and 2018, the Company ceded premiums totaling approximately \$640,000 and \$605,000, respectively, to the Reinsurers under these contracts.

Property Catastrophe Reinstatement Premium Protection

The Company has a property catastrophe reinstatement premium protection reinsurance contract with various reinsurers, effective January 1, 2019, whereby the reinsurers will indemnify the Company for 95% of any reinstatement premium which the Company is required to pay during the term of the agreement for reinsurance coverage for the second and third layers under the property catastrophe excess of loss contract described above.

Property Facultative Excess of Loss

The Company has an excess of loss reinsurance contract with Munich Reinsurance America, Inc. (“Munich Re”), effective January 1, 2019, which covers policies classified as poultry and swine buildings, including contents, associated pump houses, generators, loss of income, and other related building and contents. Under this contract, Munich Re covers 100% of the liability on an excess basis per policy and policies with values up to \$3,000,000 per policy in excess of \$2,000,000. Policies with limits in excess of \$5,000,000 can be submitted prior to binding for review and possible approval.

In addition, Munich Re will cover 100% of the liability on an excess basis per building and risks with values up to \$500,000 per building in excess of \$500,000 per building subject to a \$2,000,000 total insured value per policy. The maximum cession to Munich Re is \$2,000,000 per policy unless a greater amount receives prior approval from Munich Re.

Inland Flood and Inland Flood Water Back-up Property Quota Share

The Company has two quota share reinsurance contracts with Munich Re, effective January 1, 2019, whereby the Company cedes 100% of the inland flood coverage liability and the inland flood water back-up and sump discharge or overflow coverage liability. The liability of Munich Re shall not exceed \$50,000 of the net loss on any one policy or any one occurrence subject to a maximum limit of liability of \$150,000 any one policy.

In 2019 and 2018, the Company ceded premiums totaling approximately \$262,000 and \$69,000, respectively, to Munich Re under these contracts.

Home Field Advantage Quota Share

The Company has a 100% quota share reinsurance contract with The Hartford Steam Boiler Inspections and Insurance Company, effective February 1, 2014, which covers certain lines of business subject to the following limits:

Line of Business Covered	Reinsurer's Liability Limit
Business Equipment Breakdown	\$5,000,000 per accident per policy
Employment Practices Liability	\$50,000 per policy
Farm-owner's Equipment Breakdown	\$5,000,000 per accident per policy
Home Systems Protection	\$100,000 per accident per policy
Identity Recovery	\$25,000 annual per insured
Service Line Liability	\$10,000 per accident per policy

In 2019 and 2018, the Company ceded premiums totaling approximately \$82,000 and \$172,000, respectively, to The Hartford Steam Boiler Inspection and Insurance Company under this contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2018, are unexamined and are presented for comparative purposes only.

First Mutual Insurance Company
Statutory Statement of Admitted Assets
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Preferred stocks	\$349,795	\$255,220
Common stocks	515,993	723,930
Cash and short-term investments	4,685,743	4,285,618
Derivatives	34,750	-
Total cash and invested assets	5,586,281	5,264,768
Investment income due and accrued	6,588	3,773
Premiums and agents' balances in course of collection	1,162,865	957,303
Reinsurance recoverable	49,143	113,090
Federal income tax recoverable	104,869	203,638
Net deferred tax asset	35,687	44,620
Cash surrender value of office life insurance	73,001	72,338
Total admitted assets	\$7,018,434	\$6,659,530

First Mutual Insurance Company
Statutory Statement of Liabilities, Capital, and Surplus
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Losses	\$141,959	\$ 166,892
Loss adjustment expenses	27,241	28,852
Commissions payable, contingent commissions and other similar charges	(300,147)	50,209
Other expenses	34,716	8,478
Taxes, licenses and fees	24,956	12,566
Unearned premiums	1,386,560	945,456
Advance premium	87,701	80,005
Ceded reinsurance premiums payable	197,577	372,465
Amounts withheld or retained by Company for account of others	1,408	7,856
Payable to reinsurers for advanced recoverables	183,193	-
Total Liabilities	1,785,164	1,672,779
Gross paid in and contributed surplus	25,000	25,000
Unassigned funds	5,208,270	4,961,751
Total surplus	5,233,270	4,986,751
Total Liabilities, Capital, and Surplus	\$7,018,434	\$6,659,530

First Mutual Insurance Company
Statutory Statement of Operations
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Underwriting Income		
Premiums Earned	\$1,579,298	\$1,154,061
Deductions		
Losses incurred	509,496	604,563
Loss adjustment expenses incurred	245,507	271,406
Other underwriting expenses incurred	1,074,279	726,035
Total underwriting deductions	1,829,282	1,602,004
Net underwriting (loss)	(249,984)	(447,943)
Investment Income		
Net investment income earned	59,520	34,683
Net realized capital gains	63,371	(2,569)
Net investment gain	122,891	32,114
Other Income		
Finance and service charges not included in premiums	16,480	17,025
Policy/Catastrophe Income	181,374	177,725
Total other income	197,854	194,750
Total other income(loss)	70,761	(221,079)
Federal income taxes incurred	7,979	(64,487)
Net Income (Loss)	\$62,782	\$(156,592)

First Mutual Insurance Company
Statutory Statement of Capital and Surplus
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Surplus, beginning of year	\$ 4,986,751	\$5,308,283
Surplus increases(decreases):		
Net Income (Loss)	62,782	(156,592)
Change in net unrealized capital gains or (losses)	152,627	(110,446)
Change in net deferred income tax	18,791	3,355
Change in non-admitted assets	12,319	(57,849)
Change in surplus as regards policyholders for the year	246,519	(321,532)
Surplus, end of year	\$5,233,270	\$4,986,751

First Mutual Insurance Company
Statutory Statement of Cash Flow
December 31, 2019

	2019	2018 <i>(unexamined)</i>
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$1,647,648	\$1,222,424
Net investment income	56,705	34,702
Miscellaneous income	197,854	194,750
Total	1,902,207	1,451,876
Benefit and loss related payments	470,482	619,558
Commissions, expenses paid and aggregate write-ins	1,633,125	787,607
Federal income taxes paid	(73,945)	233,550
Total	2,029,662	1,640,715
Net cash used by operations	(127,455)	(188,839)
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	822,101	517,171
Cost of investments acquired	470,073	603,390
Net cash from (used by) investments	352,028	(86,219)
Cash From (Used By) Financing and Miscellaneous Sources		
Other cash (applied) provided	175,552	(52,782)
Net cash from (used by) financing and miscellaneous sources	175,552	(52,782)
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	400,125	(327,840)
Cash and short-term investments, beginning of year	4,285,618	4,613,458
Cash and short-term investments, end of year	\$4,685,743	\$4,285,618

COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Preferred stocks: Investment grade perpetual preferred stocks are stated at fair value. Investment grade redeemable preferred stocks are stated at cost. Preferred stock at non-investment grade is stated at the lower of cost or fair value.

Common stocks: Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under equity method.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Nonadmitted assets: Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses are "nonadmitted" and are charges against surplus.

Unpaid loss and loss adjustment expense: Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

Analysis of Assets:

The Company reported the following assets as nonadmitted at December 31, 2019: electronic data processing equipment and software totaling \$45,000, and prepaid expenses totaling \$530.

Reinsurance Activity:

The Company has various reinsurance contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilizes Beach Re Limited as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and ceded premiums written and earned are as follows:

	2019	2018
Direct written	\$6,595,965	\$5,720,745
Ceded written	(4,575,563)	(4,665,211)
Net written	2,020,402	1,055,534
Direct earned	6,154,861	5,679,829
Ceded earned	(4,575,563)	(4,525,768)
Net earned	\$1,579,298	\$1,154,061

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

Summary of Reserves:

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

	2019	2018
Reserve for losses and loss adjustment expenses, beginning of year	\$195,744	\$97,956
Add:		
Provision for losses and loss adjustment expenses, current year	853,293	906,126
Change in estimated losses and loss adjustment expenses, prior years	(98,290)	(30,157)
Total incurred	755,003	875,969
Deduct:		
Losses and loss adjustment expenses paid, current year	684,094	712,138
Losses and loss adjustment expenses paid, prior year	97,453	66,043
Total paid	781,547	778,181
Reserve for losses and loss adjustment expenses, end of year	169,200	195,744
Increase in reserve for losses and loss adjustment expenses	\$(26,544)	\$97,788

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. As of December 31, 2019, and 2018, the liability for losses and loss adjustment expenses was reduced by \$873,585 and \$916,973, respectively, for amounts to be recovered from reinsurers.

The Company does not consider anticipated subrogation recoveries in its reserves.

Capital and Surplus:

The following, in conjunction with the Statutory Statement of Capital and Surplus, represents the changes in the Company's capital and surplus since the Department's last examination:

	2017	2016	2015
Capital and surplus, beginning of year	\$4,967,820	\$4,811,808	\$4,277,785
Capital and surplus increases (decreases):			
Net income(loss)	292,505	172,896	328,561
Change in net unrealized capital gain (loss)	72,488	(32,371)	8,482
Change in net deferred income tax	(24,530)	(837)	(2,056)
Change in nonadmitted assets	-	16,324	199,036
Change in surplus as regards policyholders for the year	340,463	156,012	534,023
Capital and surplus, end of year	\$5,308,283	\$4,967,820	\$4,811,808

Contingencies and Commitments:

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. During the fieldwork stage of this examination, we inquired of the Company as to the estimated impact the COVID-19 pandemic would have on the Company's operations and financial results. Further, we obtained and reviewed the Company's response to the NAIC template COVID-19 Questionnaire and identified specific inherent risks in order to understand and determine the impact of the COVID-19 pandemic on the Company's business. The Company does not anticipate adverse effects to claim frequency or severity. The Company does not write business for which claims from exposure would impact its loss ratios. The Company does not anticipate solvency or liquidity concerns due to COVID-19. The Department will continue to monitor how the pandemic might impact the Company.

On May 14, 2020, the Company amended its bylaws to allow the Secretary and the Treasurer to be the same person.

First Mutual Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2019

Davidson Neville, President
614 East Market Street
Smithfield, North Carolina 27577

Graham Neville, Executive Vice President
614 East Market Street
Smithfield, North Carolina 27577

CONCLUSION

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

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

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

Respectfully submitted,



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

May 25, 2021

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Robert Armbruster, Examination Supervisor, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature:

Rob Armbruster
Rob Armbruster

Date:

5/25/2021

Sworn and subscribed before me this 25th day of May, 2021.

Notary Public Signature:

Jennifer Ishihara

Notary Public Seal:

