

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

REPORT OF EXAMINATION

OF

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

**AS OF
DECEMBER 31, 2016**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

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, 2016, 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 6th day of
March, 2018.



Jon Godfread
Insurance Commissioner

TABLE OF CONTENTS

SCOPE OF EXAMINATION	4
STATUS OF PRIOR EXAMINATION FINDINGS	5
SUMMARY OF SIGNIFICANT FINDINGS	5
SUBSEQUENT EVENTS	5
HISTORY	5
General	5
Dividends	6
Capital Contributions	6
MANAGEMENT AND CONTROL	7
Membership	7
Board of Directors	7
Officers	8
Committees	8
CORPORATE RECORDS	9
Articles of Incorporation and Bylaws	9
Board of Directors, Policyholders, and Committee Minutes	9
Conflict of Interest	9
FIDELITY BOND AND OTHER INSURANCE	9
AFFILIATED SERVICE AGREEMENTS	11
Trademark License Agreement	11
Lease Agreement	11
Tax Allocation Agreement	11
Management Agreement with American West Insurance Company	11
Battle Creek Mutual Reinsurance Agreement	12
Other Affiliated Agreements	12
PENSION AND INSURANCE PLANS	12
Employee Benefit Plan	12
Employee Pension Plan	13
401(k) Plan	13
TERRITORY AND PLAN OF OPERATION	13
GROWTH OF COMPANY	14
LOSS EXPERIENCE	14
REINSURANCE	14
Assumed	14
Ceded	15
ACCOUNTS AND RECORDS	17
Safekeeping Agreement	17
FINANCIAL STATEMENTS	17
CONCLUSION	22
COMMENTS AND RECOMMENDATIONS	23

Fargo, North Dakota
November 3, 2016

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

Dear Commissioner:

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

Nodak Mutual Insurance Company

Fargo, North Dakota

Nodak Mutual Insurance Company, hereinafter referred to as the Company, was last examined as of December 31, 2011, by the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a multi-state, 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. The last examination covered the period of January 1, 2007 through December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2016, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The 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*, the examination was planned and performed 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. The examination also included 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. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination

does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment was documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the N.D.C.C. § 26.1-03-19.3, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but are separately communicated to other regulators and/or the Company.

Concurrent examinations were made of the following Nodak affiliated companies:

<u>Affiliate</u>	<u>Domicile</u>
American West Insurance Company	North Dakota
Battle Creek Mutual Insurance Company	Nebraska
Primero Insurance Company	Nevada

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the one exception commented upon in our preceding Report on Examination which covered the period from January 1, 2007, to December 31, 2011. We determined that the Company had satisfactorily addressed this finding.

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

Effective March 7, 2017, the Company formed a mutual holding company, Nodak Mutual Group, Inc. (MHC) and an intermediate holding company, NI Holdings, Inc (NIH). The Company was contributed to NIH and was subsequently renamed Nodak Insurance Company (NIC). Forty-five percent of NIH common stock was sold in a public offering with the remaining 55 percent being retained by MHC.

HISTORY

General

The Company was incorporated on April 16, 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 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 (NDFB)

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 NDFB 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 NDFB and the officers and directors were selected to serve in the same capacity for both companies. The NDFB 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. With these amendments, a fourth of the Company's Board must be composed of officers or directors of the NDFB.

On March 31, 2001, the Company purchased all issued and outstanding common shares of American West Insurance Company (AWIC), a North Dakota domiciled property and Casualty insurer. AWIC is currently licensed to write business in Idaho, Minnesota, Montana, North Dakota, Oregon, South Dakota, Washington, and Wisconsin, but only produces business in Minnesota, North Dakota and South Dakota. AWIC primarily produces farm, home and auto business.

On March 4, 2011, the Company entered into an affiliation agreement establishing Board control over Battle Creek Mutual Insurance Company (BCMI), a Nebraska domiciled property and casualty insurer. BCMI is licensed to produce business in Nebraska only. BCMI primarily produces farm, home and auto business.

On December 8, 2014, the Nevada Insurance Commissioner approved the Company's acquisition of Tri-State Limited, a South Dakota corporation and 100 percent owner of Primero Insurance Company (PIC), a Nevada domiciled non-standard auto insurance writer. PIC is licensed in Arizona, Nevada, North Dakota and South Dakota, and produces over 65 percent of its business in Nevada, primarily in and around Las Vegas.

Dividends

In 2013 and 2015, the Company paid dividends to its crop hail policyholders, based on loss experience. In 2013, the Company paid \$552,108 and in 2015, it paid \$552,612.

The Company paid no other dividends to policyholders during the exam period.

Capital Contributions

The Company had no capital contributions during the examination period.

MANAGEMENT AND CONTROL

Membership

Membership consists of policyholders of the Company who are members in good standing in with NDFB. All of the Company's policyholders are required to pay membership dues to NDFB.

Board of Directors

The Company's business is managed by the Board of Directors consisting of 12 members elected by the policyholders. Four of these members must also be North Dakota Farm Bureau (NDFB) Directors. Each director is elected for a one-year term.

There were two Director vacancies at December 31, 2016, due to the mid-term resignations of Daryl Lies and Mark Andrews. Directors duly elected and serving at December 31, 2016, together with their addresses and business affiliations are as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Eric Aasmundstad Devils Lake, ND	Farmer
Christopher Brossart Wolford, ND	Farmer
Robert Christman Bismarck, ND	Chief of Staff, ND Department of Public Instruction
William Devlin Finley, ND	Retired newspaper publisher
Duaine Espesgard Grand Forks, ND	Retired Bank CEO
Francis Keogh Williston, ND	Retired Bank President & CEO
Dennis Renner Mandan, ND	Farmer/Rancher
Terry Wanzek Jamestown, ND	Farmer
Thomas Christensen Verona, ND	Farmer
Wesley Klein Hazen, ND	Rancher/ Scrubber Operator Basin Electric

On March 13, 2017, the Company voted to change its name to NIC. All of the directors above were appointed to the NIC Board except Director Wesley Klein. Nathan Green and Dana Kaldor, both from the NDFB delegation, and Michael (Jim) Alexander, CEO were appointed to the three remaining Board positions.

Officers

Elected officers serving with their respective duties as of December 31, 2016, were:

<u>Officer</u>	<u>Title</u>
Eric Aasmundstad	President
Michael Alexander	Chief Executive Officer
Brian Doom	Secretary and Treasurer

After the demutualization, Alexander became the President and CEO and Aasmundstad no longer serves as an officer of the Company.

Committees

At December 31, 2016, the Board of Directors had three standing committees to assist the directors in various aspects of Company operations:

- Management Committee
- Audit Committee
- Governance and Nominations Committee

The primary Committees for the purposes of this exam are the Management Committee and Audit Committee. At December 31, 2016, their membership was:

<u>Management Committee</u>	<u>Audit Committee</u>
Eric Aasmundstad	Eric Aasmundstad
Duaine Espesgard	Duaine Espesgard
Bill Devlin	Terry Wanzek
Brian Doom*	Frank Keogh
Jim Alexander*	Jim Alexander*
	Brian Doom*

*Non-member ex officio.

The Company restructured and consolidated its committees during its demutualization, subsequent to the exam period. Now, all chartered committees are at the NIH entity level and consist of the Audit Committee, Executive Committee, Nominating and Governance Committee, and the Compensation Committee.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no articles or bylaws changes during the examination period. Due to the demutualization subsequent to the examination period, the Company revised its Articles of Incorporation and its By-Laws. Revisions included updates to the name of the Company from "Nodak Mutual Insurance Company" to "Nodak Insurance Company," the change from a mutual company to a stock company and "policyholder" to "shareholder." Other significant changes noted include the following:

Articles of Incorporation

Article 2: changed the registered agent from Bruce Trost to Michael Alexander

Article 9: listed the required number of Directors, rather than deferring to the By-laws

By-Laws

Article IV Section 1: changed the number of Directors from 12 to between 3 and 15.

Article IV Section 2: removed term-limits for directors

Article IV Section 11: changed the minimum number of committee members from one to two

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.

Conflict of Interest

The Company has adopted a policy requiring annual disclosure of conflicts of interest in accordance with the guidelines of the NAIC Financial Condition Examiners Handbook. Signed statements are reviewed annually by the Board of Directors. The conflict of interest statements for the years 2012 through 2016 were reviewed and no material undisclosed conflicts were noted.

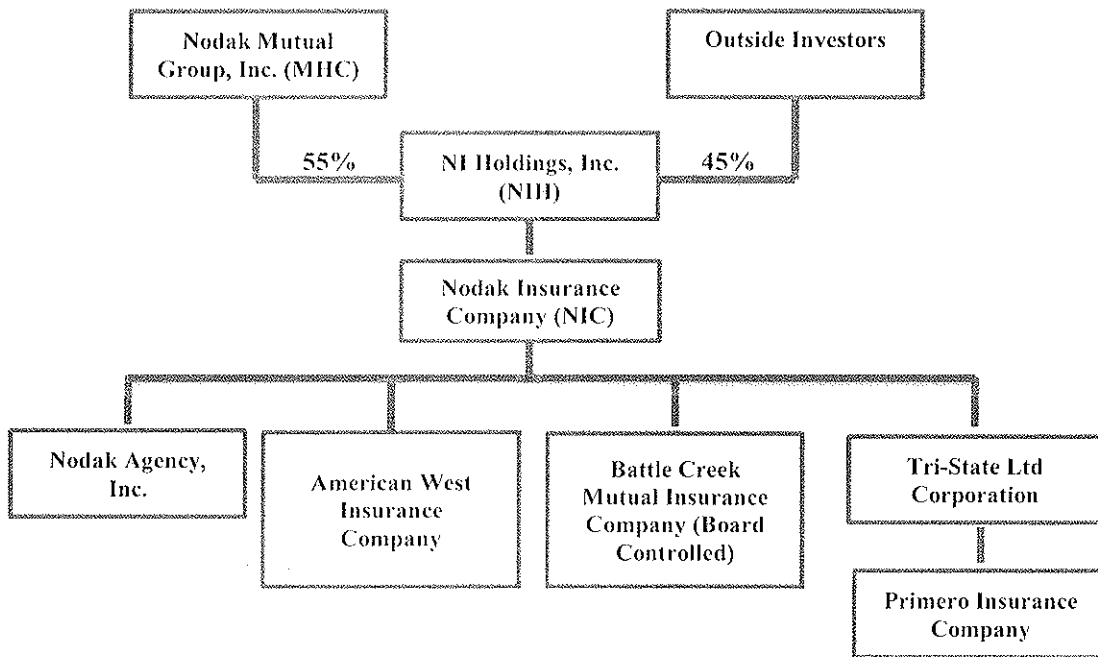
FIDELITY BOND AND OTHER INSURANCE

At December 31, 2016, the Company was protected against fraudulent or dishonest acts of its employees by a financial institution bond. The bond insures the Company and affiliates up to \$2,000,000, which is above the NAIC suggested minimum amount of fidelity insurance.

The Company has other types of coverage including: Cyber Liability, Professional Liability, Directors and Officers Liability, Employment Practices Liability and coverage for Errors and Omissions. The Company's subsidiaries (AWIC, BCMI, and PIC) are also named insureds on all policies.

AFFILIATED COMPANIES

As previously noted, the Company demutualized and changed names subsequent to the examination period. The following organizational chart depicts the holding company structure as of March 7, 2017:



Nodak Mutual Group, Inc. (MHC) – Effective March 7, 2017, the Company now known as Nodak Insurance Company (NIC) formed a mutual holding company, Nodak Mutual Group, Inc. MHC owns 55 percent of the Company’s immediate parent NI Holdings, Inc.

NI Holdings, Inc (NIH) – Effective March 7, 2017, this company was formed as an intermediate holding company. NIH is 55 percent owned by MHC and 45 percent owned by outside investors. These shares trade on the NASDAQ under the symbol NODK.

American West Insurance Company (AWIC) - On March 31, 2001, the Company purchased all issued and outstanding common shares of American West Insurance Company (AWIC), a North Dakota domiciled property and Casualty insurer. AWIC is currently licensed to write business in Idaho, Minnesota, Montana, North Dakota, Oregon, South Dakota, Washington, and Wisconsin, but only produces business in Minnesota, North Dakota and South Dakota. AWIC primarily produces farm, home and auto business.

Battle Creek Mutual Insurance Company (BCMIC) – On March 4, 2011, NMIC entered into an affiliation agreement with BCMIC, a Nebraska domestic insurance company. As a part of the affiliation, BMIC entered into a quota share agreement with NMIC. Effective April 1, 2011, 100 percent of all premiums, losses, adjusting expenses and underwriting expenses are ceded to NMIC. Through the affiliation agreement, NMIC appoints two-thirds of the directors to serve on the BMIC Board of Directors

Tri-State Limited Corporation – On December 8, 2014, the Nevada Insurance Commissioner approved the Company's acquisition of Tri-State Limited, a South Dakota corporation and 100 percent owner of Primero Insurance Company.

Primero Insurance Company (PIC) – PIC is a Nevada domiciled non-standard auto insurance writer. PIC is licensed in Arizona, Nevada, North Dakota and South Dakota, and produces over 65 percent of its business in and around Las Vegas, Nevada.

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

AFFILIATED AGREEMENTS

Trademark License Agreement

Effective October 1, 2011, the Company entered into an agreement with NDFB to use the name "Farm Bureau" and related "FB" logo. Pursuant to the agreement, the Company obtained the nonexclusive right to market its insurance products using the name NDFB and any trademarks associated with this name. In consideration, the Company pays NDFB an annual royalty of 1.3 percent of written premium, reduced by Multiple Peril Crop Insurance (MPCI), subject to a maximum royalty payment of \$1,282,425. Royalty payments to NDFB in 2016 totaled \$1,224,614.

Lease Agreement

The Company entered into a lease agreement to rent space to NDFB effective January 1, 2005. The Lease Agreement may be terminated by either party by giving written notice 30 days prior to the end of the lease period. The lease requires monthly payments of \$3,027. Payments to the Company in 2016 totaled \$36,324 under this agreement. Immediately subsequent to the exam period, the lease was renewed for two years at a new monthly rate of \$3,125.

Tax Allocation Agreement

The Company files a consolidated federal income tax return with AWIC and PIC (Members), pursuant to a written tax allocation agreement executed on December 3, 2014. The Company elects to allocate the consolidated tax liability of the Group among the Members in accordance with the ratio which that portion of the consolidated taxable income attributable to each Member having taxable income bears to the consolidated taxable income. This calculation shall be made pursuant to Internal Revenue Code Section 1.1552-1(a)(1). Each Member shall pay such amount(s) to the Parent on the applicable due date or dates that said amount(s) would have been payable by the Member had it not been included in the Group's consolidated return, or as soon after that date as possible. In lieu of actual payments, adjustments to intercompany payables and receivables will be made.

Management Agreement with American West Insurance Company

Effective January 1, 2005, the Company entered into an agreement with its subsidiary, AWIC, to provide complete management services for all lines of business engaged in by AWIC. The agreement states that all expenses incurred by the Company will be charged to AWIC proportionately based on premium, policy counts, claim counts, claim payment amounts or time studies. Indirect expenses allocated to AWIC in 2016 included salaries, employee relations,

payroll taxes, director fees, travel, telephone, postage, advertising, equipment, printing and supplies, allowance to agents, rent, audit fees and actuarial services. The allocation base for each of these items, except printing and supplies, should have been net premiums written or 7.8 percent of the two Companies' total expense for each of these items. Printing and supplies should have been allocated based on policy count or 7.6 percent of the Company's total printing and supplies expense. The Company allocated between 1.0 percent and 3.5 percent of these expense items to AWIC. This divergence from the agreement caused an under allocation of expenses to AWIC and an overstatement of expenses to the Company in the amount of \$712,136.22. No exam adjustment was made as this amount was less than the Company's materiality threshold.

It is recommended that the Company comply with the provisions of its inter-company agreements.

Battle Creek Mutual Reinsurance Agreement

The Company entered into a quota share (QS) reinsurance agreement with affiliate BCMI on April 1, 2011. All losses and premiums written by BCMI are ceded 100 percent to the Company. In return for producing this business, the Company pays BCMI a 33% ceding commission, subject to a variable commission schedule which is tied to BCMI's expense ratio.

Per this QS agreement, BCMI is required to "provide all administrative, accounting and claims administration, and payment and processing duties required to service the business reinsured," however, during the exam period, policy administration and processing was completed by the Company.

It is recommended that the Company comply with the provisions of its inter-company agreements.

Other Affiliated Agreements

The Company provides accounting and Annual Statement preparation and filing services for its affiliate, PIC. At December, 31, 2016, the Company did not have an agreement in place outlining the terms of the services being performed by the Company on behalf of PIC.

It is recommended that the Company document the services performed for PIC, along with settlement provisions for those services, in accordance with N.D.C.C. § 26.1-10-05-02(d) and SSAP 25 paragraph 7.

PENSION AND INSURANCE PLANS

Employee Benefit Plans

All qualified full-time employees were offered group life insurance, accidental death and dismemberment, comprehensive health plans, long-term disability and an short-term disability.

Employee Pension Plan

The Company maintained a defined contribution pension plan for substantially all employees with 12 months of service who work at least 1,000 hours per year. Details of the Plan include:

- Five year vesting schedule.
- Company contribution of 10 percent of salary and bonus (decreased to seven percent effective January 1, 2017).
- Company contribution of up to an additional three percent profit share.
- Normal Retirement age is 65.

The Company contributed \$678,532 to the Plan in 2016.

401(k) Plan

The Company also sponsors a 401(k) Plan for substantially all employees with 12 months of service, with the following details:

- Automatic contribution to all eligible employees.
- Fifty percent matching contribution up to three percent.
- Five year vesting schedule.

TERRITORY AND PLAN OF OPERATION

At December 31, 2016, the Company was licensed to transact the business of insurance in North Dakota and Minnesota. The Company currently writes business in both North Dakota and Minnesota.

The primary lines of business written by the Company, include MPCI, Crop Hail, private passenger auto, farm owners and home owners.

GROWTH OF COMPANY

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

	Premiums Written (in thousands)				
	2016	2015	2014	2013	2012
Direct	\$132,569	\$132,138	\$131,329	\$139,880	\$135,434
Assumed	34,229	24,414	20,261	17,748	16,626
Ceded	30,557	31,628	24,943	21,314	39,009
Net Written Premiums	\$136,241	\$124,924	\$126,648	\$136,314	\$113,051
Surplus	139,140	135,771	121,580	106,433	92,846
Premium-to-Surplus Ratio	97.9%	92.0%	104.2%	128.1%	121.8%

The Company's premium to surplus ratio declined during the exam period as surplus growth exceeded premium growth. Direct written premiums have remained stable during the exam period, but assumed premiums have doubled due primarily to the growth in BCMI. Surplus consistently grew during the exam period, up almost 50 percent between 2012 and 2016.

LOSS EXPERIENCE

(in thousands)

	2016	2015	2014	2013	2012
Loss reserves	\$39,027	\$28,360	\$33,355	\$35,591	\$20,207
LAE reserves	5,889	5,198	5,271	5,599	5,174
Total Reserves	\$44,916	\$33,558	\$38,626	\$41,190	\$25,381
Losses and LAE Incurred	\$102,742	\$69,600	\$83,406	\$99,233	\$62,960

The Company experienced higher than normal losses in 2013 and 2016 due to severe weather.

REINSURANCE

Assumed

The Company assumed \$26.3 million in premiums through a 100 percent quota share with BCMIC. The Company, AWIC, and Rural Mutual Insurance Company, a Wisconsin domestic,

participate in a proportional crop hail pool. The Company also participates in several small reinsurance pools through American Agricultural Insurance Company (AAIC) and a regional CAT reciprocal with Mutual Reinsurance Bureau (MRB).

Ceded

The Company ceded reinsurance premiums totaling \$30.6 million in 2016 and as of December 31, 2016, reported loss and loss adjustment expense reserve credits totaled \$6.6 million.

The following is a summary of the significant reinsurance ceded contracts in force at December 31, 2016:

1. Type: Multi-Line Excess of Loss

	<u>1st</u>	<u>2nd</u>	<u>3rd</u>
Reinsurers: Aspen Re America	12.0%	12.0%	12.0%
Maiden Re Insurance Services, LLC	28.0%	28.0%	28.0%
SCOR Reinsurance Company	5.0%	5.0%	5.0%
QBE Reinsurance Corporation	20.0%	20.0%	20.0%
Partner Reinsurance Company of the U.S.	15.0%	15.0%	15.0%
Hannover Rück SE	20.0%	20.0%	20.0%

Scope: Casualty and Property business, including Umbrella

Coverage: 1st Layer - \$1,500,000 (Property), \$1,400,000 (Casualty), 2nd Layer - \$3,000,000, 3rd Layer (Casualty only) - \$7,000,000 excess of \$500,000 retention

Commissions: None

Termination: Either party with 30 day prior written notice.

2. Type: Property & 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 - \$7,000,000, 2nd Layer - \$12,000,000, 3rd Layer - \$12,000,000 excess \$5,000,000 retention

Commissions: None

Termination: Either party at any calendar year end by providing not less than 90 days written notice

3. Type: Over Other Protection (OOPS)

Reinsurers: 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: \$18,600,000 Occurrence, \$36,000,000 Annually excess \$5,000,000 CAT retention (see number 2 above)

Commissions: None

Termination: Either party at any calendar year end by providing not less than 90 days written notice

4. Type: 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 (subject to paragraph J. of the Exclusions Article), and Auto Physical Damage (other than collision).
- Coverage: \$25,000,000 excess \$5,000,000 (see numbers 2 and 3 above)
- Commissions: None
- Termination: Either party at any time by giving 90 days notice

All treaties contained an insolvency clause and entire agreement clause as required by N.D.C.C. § 26.1-02-21.

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, 2016, was traced to the appropriate schedules of the Company's 2016 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

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

Safekeeping Agreement

During the period under examination, the Company's securities were held by Wells Fargo Bank, N.A. The safekeeping agreement contained all of the provisions required by N.D. Admin. Code § 45-03-23-02.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2016. This statement is followed by supporting statements and reconciliations presented in the following order:

- Statement of Assets, Liabilities, Surplus, and Other Funds, December 31, 2016
- Summary of Income, Year 2016
- Reconciliation of Capital and Surplus, January 1, 2012, through December 31, 2016

These financial statements are based on the statutory financial statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered and integral part of the financial statements.

**Nodak Mutual Insurance Company
Statement of Assets
December 31, 2016**

	Ledger & Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$132,446,872		\$132,446,872
Stocks:			
Common	48,109,038		48,109,038
Real Estate			
Properties Occupied by Company	3,600,139		3,600,139
Cash	15,124,403		15,124,403
Other Invested Assets	3,658,141	3,000,000	658,141
Investment Income Due and Accrued	1,253,520		1,253,520
Deferred Premiums	17,230,830		17,230,830
Reinsurance			
Other Amounts Receivable	991,759		991,759
Income Tax Recoverable	2,405,243		2,405,243
EDP Equipment & Software	302,782		302,782
Furniture and Equipment	7,493	7,493	0
Receivable from Parent, Subsidiaries and Affiliates	300,871		300,871
Other-Than-Invested Assets	21,593,929	1,176,809	20,417,120
Totals	\$247,025,021	\$4,184,302	\$242,840,719

Nodak Mutual Insurance Company
Liabilities, Surplus, and Other Funds
December 31, 2016

Losses	\$39,026,722
Loss Adjustment Expenses	5,889,000
Commissions Payable	1,161,305
Other Expenses	1,001,714
Taxes, Licenses, and Fees	735,769
Net Deferred Tax Liability	1,136,337
Unearned Premiums	54,035,145
Ceded Reinsurance Premiums Payable	(76,857)
Funds Held Under Reinsurance Treaties	12,438
Remittances and Items Not Allocated	<u>778,747</u>
Total Liabilities	\$103,700,320
Surplus as Regards Policyholders	<u>139,140,399</u>
Total	<u><u>\$242,840,719</u></u>

Nodak Mutual Insurance Company
Statement of Income
December 31, 2016

Underwriting Income

Premiums Earned		\$132,947,588
Deductions:		
Losses Incurred	\$94,754,669	
Loss Adjustment Expenses Incurred	7,987,062	
Other Underwriting Expenses Incurred	34,862,196	
		<u>137,603,927</u>
Total Underwriting Deductions		
		<u>137,603,927</u>
Net Underwriting Gain or (Loss)		<u>(\$4,656,338)</u>

Investment Income

Net Investment Income Earned	\$3,561,913	
Net Realized Capital Gains or (Losses)	3,597,717	
		<u>7,159,629</u>
Net Investment Gain or (Loss)		<u>\$7,159,629</u>

Other Income

Net Gain (Loss) from Agents' Balances Charged Off	(\$49,786)	
Finance and Service Charges Not Included in Premiums	388,505	
Miscellaneous Income	137,222	
		<u>475,941</u>
Total Other Income		<u>\$475,941</u>
Net Income Before Federal Income Taxes		\$2,979,232
Federal Income Taxes Incurred		<u>(686,030)</u>
Net Income		<u>\$3,665,262</u>

**Nodak Mutual Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 2012, Through December 31, 2016**

	2016	2015	2014	2013	2012
Surplus as Regards Policyholders, December 31, Prior Year	\$135,770,881	\$121,580,113	\$106,443,384	\$92,846,404	\$75,524,900
Net Income	3,665,262	16,220,798	12,131,396	8,566,829	15,115,504
Change in Net Unrealized Capital Gains or (Losses)	(378,522)	(2,004,037)	2,911,510	4,988,880	1,525,739
Change in Net Deferred Income Tax	435,196	(45,069)	16,289	270,288	392,688
Change in Nonadmitted Assets	(352,417)	19,075	87,535	(239,017)	287,573
Change in Surplus for the Year	3,369,518	14,190,768	15,146,729	13,586,980	17,321,504
Surplus as Regards Policyholders, December 31, Current Year	\$139,140,399	\$135,770,881	\$121,580,113	\$106,433,384	\$92,846,404

CONCLUSION

The financial condition of the Company, as of December 31, 2016, as determined by this examination is summarized as follows:

ADMITTED ASSETS		<u>\$242,840,719</u>
Total Liabilities	\$103,700,320	
Surplus as Regards Policyholders	<u>139,140,399</u>	
LIABILITIES, SURPLUS, AND OTHER FUNDS		<u>\$242,840,719</u>

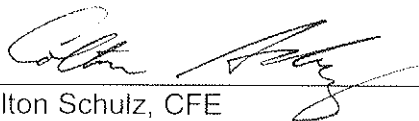
No adjustment of the balance sheet amounts reported by the Company in its 2016 Annual Statement was made by this examination.

Since the last examination conducted as of December 31, 2011, the Company's admitted assets have increased \$96,060,455, its total liabilities have increased \$32,444,956, and its surplus as regards policyholders has increased \$63,615,500.

In addition to the undersigned, Joseph Detrick, CPA, CISA, CFE, AES and Jenny Jeffers, CISA, AES of Jennan Enterprises and North Dakota Insurance Department Staff including Ed Moody, CFE, CPA, Andrea Rebsom, Examiner, and Mike Andring, FCAS, MAAA participated in this examination.

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

Respectfully submitted,



Colton Schulz, CFE
Examiner In Charge
North Dakota Insurance Department

COMMENTS & RECOMMENDATIONS

It is recommended that the Company comply with the provisions of its inter-company agreements.

It is recommended that the Company document the services performed for PIC, along with settlement provisions for those services, in accordance with N.D.C.C. § 26.1-10-05-02(d) and SSAP 25 paragraph 7.