REPORT ON EXAMINATION

OF

COUNTRYWAY INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT	FEBRUARY 1, 2019
EXAMINER	WAYNE LONGMORE

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NEW YORK STATE OF OPPORTUNITY | Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Acting Superintendent

February 27, 2019

Honorable Linda A. Lacewell
Acting Superintendent
Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31716 dated March 22, 2018, attached hereto, I have made an examination into the condition and affairs of Countryway Insurance Company as of December 31, 2017, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Countryway Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's home office located at 224 Harrison Street, Syracuse, NY 13202.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the three-year period from January 1, 2015, through December 31, 2017. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Virginia, which was the lead state of the Virginia Farm Bureau Group. The examination was performed concurrently with the examinations of the following insurers: Virginia Farm Bureau Mutual Insurance Company ("Mutual"), Virginia Farm Bureau Fire and Casualty Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify current and 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. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with New York laws, statutory accounting principles and annual statement instructions.

This examination report includes but is not limited to the following:

Company history
Management and control
Territory and plan of operation
Holding company description
Reinsurance
Financial statement presentation
Loss review and analysis
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Countryway Insurance Company was incorporated under the laws of the State of New York on June 11, 1954, as the Grange League Federation Insurance Company ("GLF") to write insurance on the properties and risks of its parent company, the Cooperative Grange League Federation Exchange, Inc. It became licensed on October 20, 1954 and commenced business on January 1, 1955.

In 1966, GLF changed its name to Agway Insurance Company. Effective August 28, 2002, Agway Insurance Company was acquired by United Farm Family Mutual Insurance Company and was renamed Countryway Insurance Company. Effective May 11, 2011, the Company was acquired by the Virginia Farm Bureau Mutual Insurance Company, its current immediate parent.

A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than thirty-five members. The board meets at least four times during each calendar year. At December 31, 2017, the board of directors was comprised of the following seven members:

Name and Residence	Principal Business Affiliation
William Anson Barclay Syracuse, New York	Partner, Barclay Damon, LLP
Emily Fisher Edmondson Tazewell, Virginia	Farmer
Gordon Ralph Metz, Jr. Martinsville, Virginia	Farmer
Robert Johnson Mills, Jr. Callands, Virginia	Farmer
Wayne Franklin Pryor Hadensville, Virginia	President and Chairman of the Board, Virginia Farm Bureau Federation

Name and Residence	Principal Business Affiliation
Scott Everett Sink Blacksburg, Virginia	First Vice President, Countryway Insurance Company
Peter Andrew Truban** Woodstock, Virginia	Farmer

**Peter Truban, who was elected to the board in November 2017, was not listed on the jurat page of the 2017 Annual Statement. A recommendation regarding this issue is not included in this report, since the observation was brought to the attention of the Company who assured the examination that controls have been instituted to help prevent this oversight from recurring. The jurat page of the June 30, 2018 quarterly filing lists Mr. Truban.

As of December 31, 2017, the principal officers of the Company were as follows:

Name	Title
Wayne Franklin Pryor	President and Chairman of the Board
Darlene Price Wells	Chief Executive Officer
David Allen Priddy	Senior Vice President of Accounting and Business Services and Treasurer
Scott Everett Sink	First Vice President
Jonathan Stewart Shouse	Secretary
Gerald Roy Seeber	Regional Vice President
George Christopher Kern	Assistant Treasurer
Robert Francis Brown	Senior Vice President of Product-Development and Actuarial

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in 17 states.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company was also authorized to write such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $2,200,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

Calendar Year	Direct Premiums	Assumed Premiums	Total Gross Premiums
2015	36,104,360	31,002	36,135,362
2016	36,433,570	31,434	36,465,004
2017	37,463,792	34,169	37,497,961

Most of the Company's direct written premium (approximately 96.3%) is written in New York (33.2%), Kentucky (30.6%), Pennsylvania (19.1%) and Maine (13.4%).

The Company primarily underwrites farmowners multi-peril, private passenger auto liabilities, auto physical damage, homeowners multi-peril and commercial auto liability, which accounted for 33.7%, 25.6%, 19.5%, 13.5% and 5.6%, respectively, of the direct premiums written in 2017. The business is produced through 266 independent agents located in nine (9) different states.

Due to the large reinsurance program (described in Section 2C of this report) the net exposure of the Company is significantly different than its direct and assumed exposure.

C. Reinsurance Ceded

Assumed reinsurance activity has been minimal during the examination period. The ceded reinsurance program was designed as follows:

Intercompany Quota Share Reinsurance Agreement

The Company has a quota share reinsurance agreement with its immediate parent, whereby it cedes 100% of its losses net of external reinsurance with respect to policies in effect on or issued on or after May 1, 2011 as well as certain operating expenses.

Intercompany Loss Portfolio Transfer

Effective May 1, 2011, the Company entered into a ceded loss portfolio transfer agreement with Mutual, whereby Mutual agreed to assume 100% of the Company's net loss and loss adjustment expense reserves outstanding as of April 30, 2011. As a result of the loss portfolio transfer and the prospective 100% quota share agreement, the Company has no net loss and loss adjustment expense reserves.

The Company's external ceded reinsurance program includes treaties that the Company participates in as a member of the Virginia Farm Bureau Group (see Item 2D, Holding Company System in this report) as well as treaties designed specifically for the Company. The following treaties cover the policies issued by the property and casualty companies in the Virginia Farm Bureau Group:

Type of Treaty	Cession
Property Facultative 100% certified	\$5,000,000 excess \$5,000,000 each loss, each risk, subject to a limit of liability to the Reinsurer of \$10,000,000 each loss, each risk and \$15,000,000 any one loss occurrence.

Type of Treaty	Cession
Property Catastrophe 5 Layers	$220,000,000 excess $5,000,000 ultimate net loss, each loss occurrence.
Property Aggregate Excess of Loss Treaty	$9,000,000 excess $11,000,000 aggregate catastrophic losses during the term of the contract.

The following treaties cover the policies issued only by the Company:

Type of Treaty	Cession
Liability Excess of Loss 6 layers 100% authorized accredited	$30,000,000 excess $600,000 ultimate net loss, each loss event, subject to a limit of liability to the Reinsurer of $30,000,000 each occurrence.
Farm Pollution Liability 100% authorized accredited	$850,000 excess of $150,000 ultimate net loss, each loss event, subject to the limit of liability to the Reinsurer of $850,000 in nine (9) states covered, except that the limit of liability is $1,350,000 in Vermont.
Equipment Breakdown 100% authorized	100% quota share coverage for farmowners policies which include an equipment breakdown coverage endorsement and equipment breakdown dwelling coverage endorsement, subject to a limit of liability to the Reinsurer of $25,000,000 any one accident, any one policy.
Umbrella Liability 5 layers of $1 million 100% authorized accredited	85% quota share on first layer, 100% quota share on layers 2 through 5. Coverage provided on umbrella policies for personal, farm and ranch, and commercial policies.

Most of the business was ceded to authorized/or authorized accredited reinsurers prior to 100% cession to Mutual. This is consistent with the last exam.

At December 31, 2017, the Company reported approximately $35.7 million in reinsurance recoverables from Mutual. These reinsurance recoverables are the Company's most significant financial item and ultimately the Company's most significant financial risk is its ultimate ability to collect on these reinsurance recoverables. At December 31, 2017, Mutual is an authorized, accredited reinsurer in New York.

It is noted that Virginia Farm Bureau Mutual Insurance Company, Virginia Farm Bureau Fire and Casualty Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company, all Virginia domestic insurance companies, were examined concurrently with the Company and there were no examination changes made to the balance sheet or income statement.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

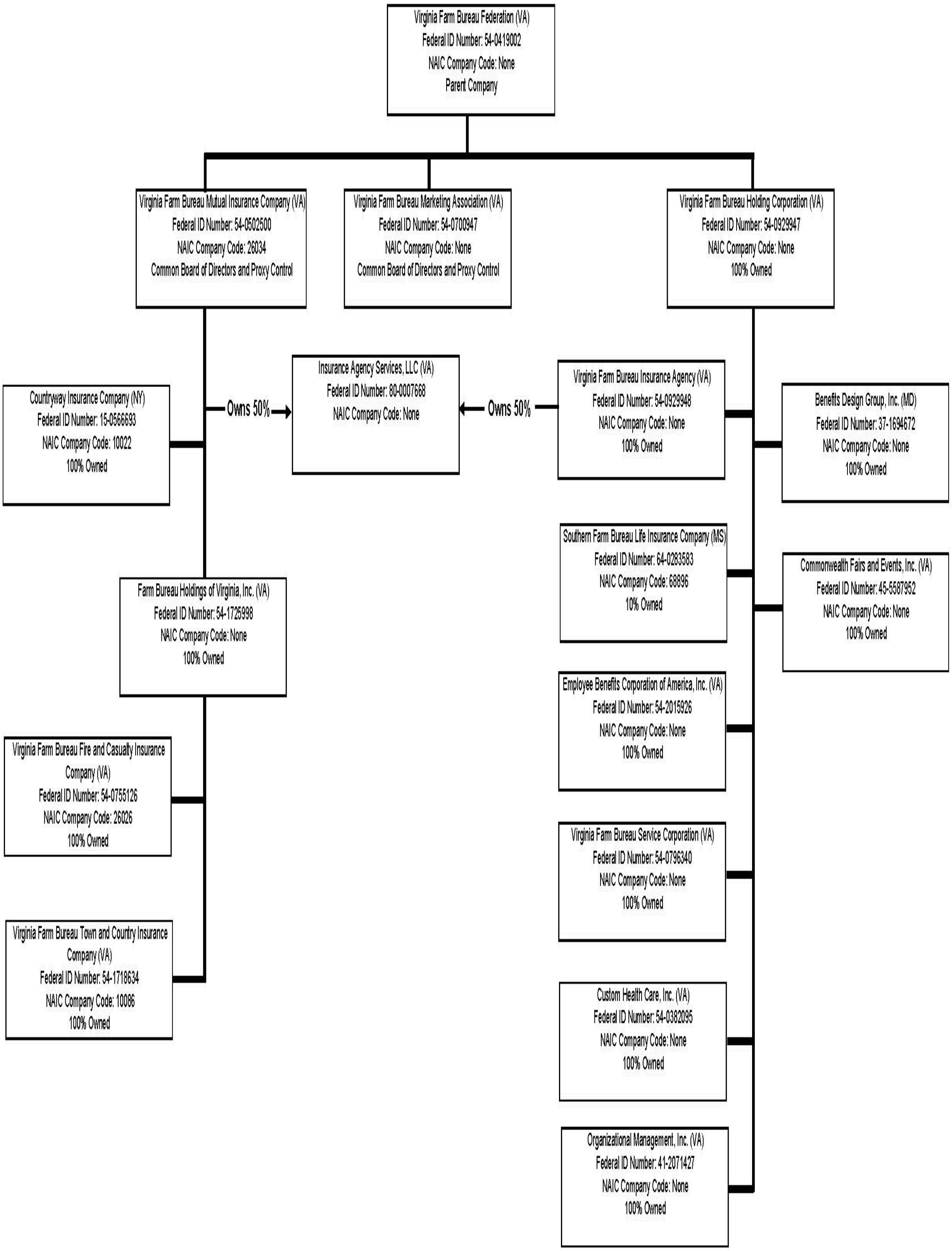
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a member of the Virginia Farm Bureau Group and is a wholly owned subsidiary of Virginia Farm Bureau Mutual Insurance Company, a Virginia corporation, which is ultimately controlled by Virginia Farm Bureau Federation ("Farm Bureau").

The Farm Bureau is a Farmers' Advocacy Group with approximately 128,000 members in 88 County Farm Bureaus. The Farm Bureau is a voluntary organization, wholly controlled by its members and financed by member dues. The Farm Bureau describes itself as a non-governmental, nonpartisan, voluntary organization committed to protecting Virginia's Farms and ensuring a safe, fresh and locally grown food supply. The Farm Bureau is an affiliate of the American Farm Bureau Federation.

The following is a chart of the holding company system at December 31, 2017:


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

At December 31, 2017, the Company was party to the following agreements with other members of its holding company system:

1. Service Agreement

The Company and Mutual entered into a service agreement, whereby Mutual provides the Company with access to various support services including, but not limited to actuarial, payroll and benefit administration, legal, accounting and financial statement preparation, and electronic data processing services. This agreement became effective on May 1, 2011 and was non-disapproved by the Department as part of the application for acquisition of control by Mutual.

Tax Allocation Agreement

The Company has a written tax allocation agreement with its Parent, Mutual, and the following members of the holding company: Farm Bureau Holdings of Virginia, Inc., Virginia Farm Bureau Fire and Casualty Insurance Company, and Virginia Farm Bureau Town and Country Insurance Company. The agreement was entered and made effective May 11, 2011. The tax allocation is based on separate return calculations. The Company has filed the tax allocation agreement with the Department in accordance with Department Circular Letter No. 33 (1979).

2. Quota Share Reinsurance Agreement

The Company also has a quota share reinsurance agreement with Mutual whereby it cedes to Mutual 100% of its losses, liabilities and expenses included within the agreement definition of Ultimate Net Loss and Allocated Loss Adjustment Expenses, as incurred by the Company on or after May 1, 2011 with respect to Policies in effect on or issued on or after May 11, 2011 as well as certain other operating expenses.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

Operating Ratios	Result
Net premiums written to surplus as regards policyholders	0
Liabilities to liquid assets (cash and invested assets less investments in affiliates)*	(10)%
Two-year overall operating	0
Premiums in course of collection to surplus as regards policyholders	22%

* The negative result for adjusted liabilities to liquid assets reflects the calculation of this ratio under which deferred premiums are deducted from liabilities. The 100% quota share agreement with Mutual creates this unusual result.

Underwriting Ratios

The Company cedes 100% of earned premiums and incurred losses to Mutual, net of applicable reinsurance, with no retrocession to the Company, therefore, all net underwriting ratios are zero.

The Company's reported risk-based capital score ("RBC") was 17,596% as of December 31, 2017. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

F. Accounts and Records

Compliance with Department Regulation 118

A review of the 2017 CPA engagement letter shows the following language, required by Regulation 118, was not included.

Department Regulation 118, Section 89.8 (a) states in part the following:

"Every company required to furnish an annual audited financial report shall require the CPA to submit written notification to the superintendent, the board of directors and the company's audit committee within five business days of any determination by the CPA that the company has materially misstated its financial condition as reported to the superintendent as of the balance sheet date currently under audit or that the company does not meet the minimum capital or surplus requirement of the insurance law as of that date…"

Department Regulation 118, Section 89.11 further states in part the following:

"Every company shall require the CPA to make available for review by Department examiners, all work papers prepared in the conduct of the CPA's audit and any communications related to the audit between the CPA and the company, at the offices of the company, at the Department, or at any other reasonable place designated by the superintendent. Every company shall require that the CPA retain the audit work papers and communications for six calendar years from the date of the audit report or until the filing of the report on examination covering the period of the audit, whichever is longer, as required by Part 243 of this Title (Regulation 152)."

It is recommended that the Company ensure that its engagement letters with its appointed CPA firm include all language required by Regulation 118, Sections 89.8 (a) and 89.11.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017, as reported by the Company:

Assets

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$13,880,934		$13,880,934
Cash, cash equivalents and short-term investments	1,363,802		1,363,802
Investment income due and accrued	107,931		107,931
Uncollected premiums and agents' balances in the course of collection	5,353,156	79,341	5,273,815
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,832,737		5,832,737
Accrued retrospective premiums	0		0
Amounts recoverable from reinsurers	1,726,933		1,726,933
Net deferred tax asset	667,999	667,999	0
Guaranty funds receivable or on deposit	45		45
Electronic data processing equipment and software	1,027,114	1,027,114	0
Receivables from parent, subsidiaries and affiliates	4		4
Equities and Deposits in Pools and Associations	26,232		26,232
Other Receivables	181,489	181,489	0
Totals	$30,168,376	$1,955,943	$28,212,433

Liabilities, Surplus and Other Funds

Liabilities		
Losses and Loss Adjustment Expenses		$ 0
Reinsurance payable on paid losses and loss adjustment expenses		44,010
Commissions payable, contingent commissions and other similar charges		435,455
Other expenses (excluding taxes, licenses and fees)		838,755
Taxes, licenses and fees (excluding federal and foreign income taxes)		350,768
Current federal and foreign income taxes		155,700
Advance premium		363,556
Ceded reinsurance premiums payable (net of ceding commissions)		1,753,739
Amounts withheld or retained by company for account of others		38,281
Remittances and items not allocated		(11,302)
Payable to parent, subsidiaries and affiliates		382,720
Other payables		4,938
Accrued Lease Obligation		9,976
Total liabilities		$ 4,366,596
Surplus and Other Funds		
Common capital stock	5,300,000	
Gross paid in and contributed surplus	31,258,729	
Unassigned funds (surplus)	$(12,712,892)	
Surplus as regards policyholders		$23,845,837
Total liabilities, surplus and other funds		$28,212,433

NOTE: The Internal Revenue Service did not audit any of the Company's federal income tax returns during the period under examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the three-year examination period as reported by the Company was $1,601,496 as detailed below:

Underwriting Income		
Premiums earned		$ 0
Underwriting deductions		0
Net underwriting gain or (loss)		$ 0
Investment Income		
Net investment income earned	1,104,516	
Net realized capital gains	$ 18,820	
Net investment gain or (loss)		$1,123,336
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(313,960)	
Finance and service charges not included in premiums	$ 1,293,882	
Total other income		979,922
Net income before federal income taxes		2,103,258
Federal income taxes incurred		501,762
Net Income		$1,601,496

C. Capital and Surplus Account

Surplus as regards policyholders increased $1,112,578 during the three-year examination period January 1, 2015 through December 31, 2017 as reported by the Company, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as of December 31, 2014			$ 22,733,259
Net income	$1,601,496		
Net unrealized capital gains or (losses)	13,665		
Change in net deferred income tax		$490,381	
Change in nonadmitted assets	15,048		
Change in Funded Status-Pension & Postretirement	0	27,250	
Net increase (decrease) in surplus	$1,630,209	$517,631	$ 1,112,578
Surplus as regards policyholders per report on examination as of December 31, 2017			$23,845,837

No adjustments were made to surplus as a result of this examination.

As of December 31, 2017, capital paid in was $5,300,000 consisting of 265,000 shares of $20 par value per share common stock. Gross paid in and contributed surplus is $31,258,729. There were no changes in gross paid in and contributed surplus during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $0 is the same as that reported by the Company as of December 31, 2017. This reflects the impact of the following two agreements between the Company and its immediate parent, Mutual.

1. The 100 percent quota share agreement described in section D.3 of this report.

2. The loss portfolio transfer that was effective on May 1, 2011 whereby the Company ceded 100% of the net loss and loss adjustment reserves outstanding as of April 30, 2011 to Mutual.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no comments or recommendations.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
	Compliance with Department Regulation 118	
	It is recommended that the Company ensure that its engagement letters with its appointed CPA firm include all language required by Regulation 118, Sections 89.8 (a) and 89.11.	13

Respectfully submitted,

____________ __/S/______________

Wayne Longmore

Associate Insurance Examiner

STATE OF NEW YORK)

________________________)ss:

COUNTY OF ONONDAGA)

Wayne Longmore, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

__________/S/_____________

Wayne Longmore

Subscribed and sworn to before me

this_________ day of __________________, 2019.

APPOINTMENT NO. 31716

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **Maria T. Vullo**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Wayne Longmore

as a proper person to examine the affairs of the

Countryway Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 22nd day of March, 2018

MARIA T. VULLO
Superintendent of Financial Services

By: Joan P Riddell

Joan Riddell
Deputy Bureau Chief