REPORT ON EXAMINATION

OF THE

COUNTRYWAY INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT	APRIL 7, 2016
EXAMINER	FRANK P. SCHIRALDI

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Andrew M. Cuomo
Governor

Maria T. Vullo
Acting Superintendent

April 7, 2016

Honorable Maria T. Vullo
Acting Superintendent 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 31236 dated November 14, 2014, attached hereto, I have made an examination into the condition and affairs of Countryway Insurance Company as of December 31, 2014, 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 a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2009. This examination covered the five-year period from January 1, 2010 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Virginia, which was the coordinating state for 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, all Virginia domiciled insurance companies.

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 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company

Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
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 in 1954 under the laws of the State of New York 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. In 1964, the Cooperative Grange League Federation Exchange, Inc. merged with two other cooperatives to form the parent company, Agway Inc., a Delaware corporation. In 1966, GLF changed its name to Agway Insurance Company. Effective August 28, 2002, the Agway Insurance Company was acquired by United Farm Family Mutual Insurance Company and the Company 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.

At December 31, 2014, 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.

A. Management

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 7 nor more than 35 members. The board meets at least 4 times during each calendar year. At December 31, 2014, the board of directors was comprised of the following 7 members:

Name and Residence	Principal Business Affiliation
Will A. Barclay Syracuse, New York	Attorney, Hiscock and Barclay, LLP
David L. Hickman Horntown, Virginia	Farmer
Jordan M. Jenkins, Jr. Blackstone, Virginia	Farmer
Gordon R. Metz, Jr. Martinsville, Virginia	Farmer
Robert J. Mills, Jr. Callands, Virginia	Farmer
Wayne F. Pryor Goochland, Virginia	President and Chairman of the Board, Countryway Insurance Company
Scott E. Sink Blacksburg, Virginia	First Vice President, Countryway Insurance Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2014, 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
Jeffrey Warren Dillon	Treasurer
Scott Everett Sink	First Vice President

B. Territory and Plan of Operation

As of December 31, 2014, 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 on 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 premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a percentage of Total Premium
2010	$10,823,515	$38,742,346	27.94%
2011	$10,954,104	$40,078,952	27.33%
2012	$11,506,588	$39,969,278	28.79%
2013	$12,593,723	$36,913,182	34.12%
2014	$12,385,233	$36,276,164	34.14%

The overwhelming majority of the Company's direct written premium (approximately 95%) is written in New York, Kentucky, Pennsylvania and Maine. The Company underwrites predominantly farmowners multiple peril, private passenger automobile, auto physical damage, and homeowners multiple peril lines of business, which accounted for 36.2%, 23%, 16.2% and 15.5%, respectively, of the direct premiums written in 2014. The business originates through about 256 independent agents.

C. Reinsurance

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

Quota Share Reinsurance Agreement

The Company has a quota share reinsurance agreement with its immediate parent, whereby it cedes 100% if 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.

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. The agreement transferred initial reserves in the amount of $38,691,000, for which the Company paid an initial consideration of $38,691,000.

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.

At December 31, 2014 the Company reported approximately $31.5 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 the reinsurance recoverables.

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.

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 Excess of Loss 2 layers First Layer 100% authorized Second Layer 92.5% authorized	\$4,700,000 excess of \$300,000 ultimate net loss each risk, subject to a limit of liability to the Reinsurer of \$4,700,000 each loss, each risk and \$6,100,000 each loss occurrence.
Property Facultative 100% authorized	\$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.
Property Catastrophe 5 Layers	\$215,000,000 excess \$5,000,000 each loss event.
Aggregate Stop Loss Treaty	Coverage commences when the group sustains an ultimate net loss in excess 67.5% of the subject gross net earned premium income ('the retention'). The reinsurer's limit of liability will not exceed \$8,100,000 or an ultimate net loss amount equal to 6.0% of the Company's subject gross net earned premium whichever is greater subject to a maximum liability of \$9,900,000.

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

Casualty 6 layers 100% authorized	\$30,000,000 excess \$600,000 each loss, subject to a limit to liability to the Reinsurer of \$1,500,000 each occurrence.
Farm Pollution Liability 100% authorized	\$850,000 excess of \$150,000 ultimate net loss each event, subject to the limit of liability to the Reinsurer of \$850,000 in 9 states covered, and \$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 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	85% quota share on 1st layer, 100% quota share on layers 2 through 5. Coverage provided on umbrella policies for personal, farm and ranch, and commercial policies.

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.

During the period covered by this examination, the Company did not commute any reinsurance agreements.

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.

An 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.

D. Holding Company System

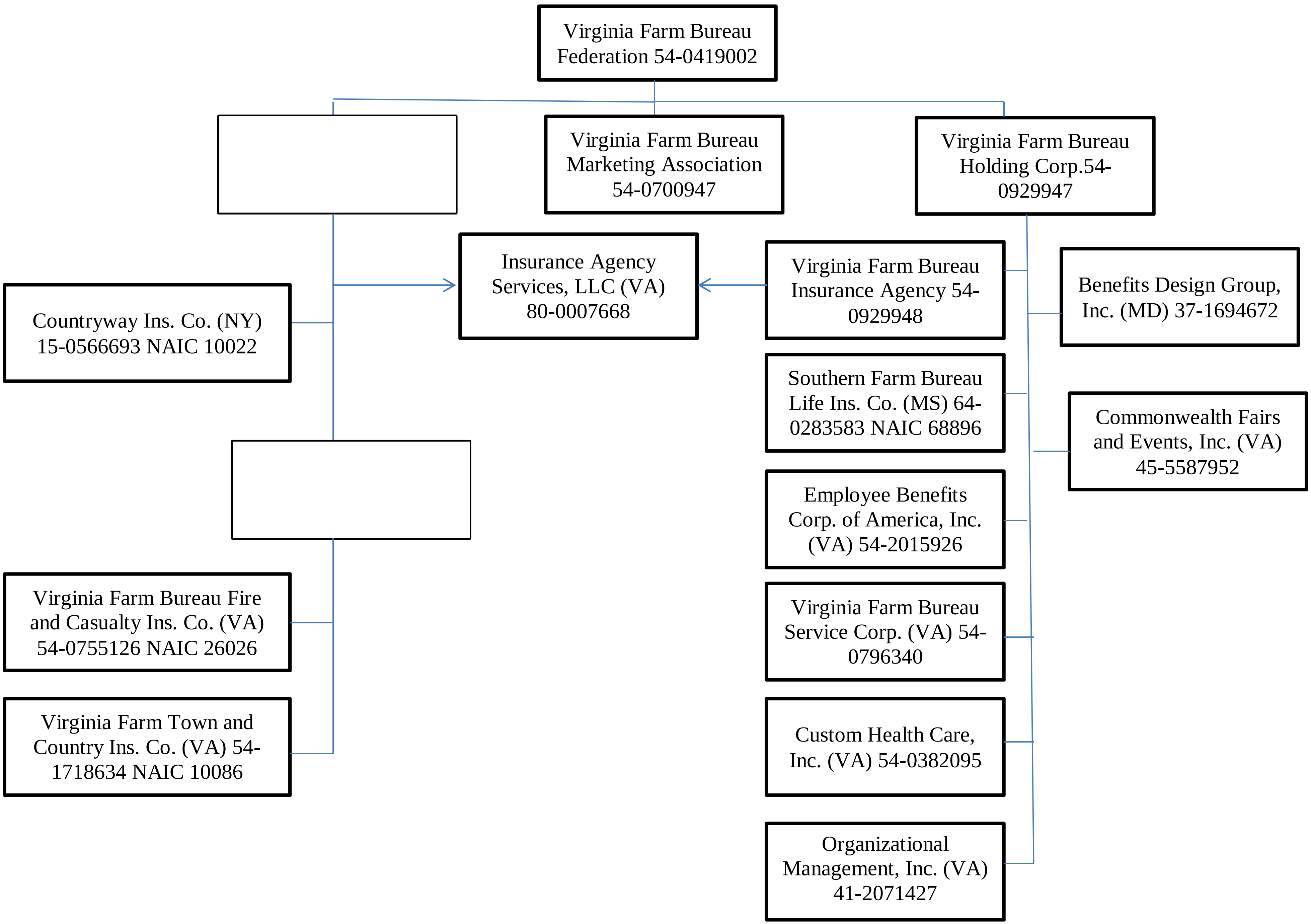
The Company is a member of the Virginia Farm Bureau Group. The Company is a wholly-owned subsidiary of Virginia Farm Bureau Mutual Insurance Company, a Virginia corporation, which is ultimately controlled by Virginia Farm Bureau Federation (“Farm Bureau”).

The Farm Bureau is Virginia’s largest 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.

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.

The following is a chart of the holding company system at December 31, 2014:


Virginia Farm Bureau Federation 54-0419002
Virginia Farm Bureau Marketing Association 54-0700947
Virginia Farm Bureau Holding Corp.54-0929947
Insurance Agency Services, LLC (VA) 80-0007668
Countryway Ins. Co. (NY) 15-0566693 NAIC 10022
Virginia Farm Bureau Insurance Agency 54-0929948
Benefits Design Group, Inc. (MD) 37-1694672
Southern Farm Bureau Life Ins. Co. (MS) 64-0283583 NAIC 68896
Commonwealth Fairs and Events, Inc. (VA) 45-5587952
Employee Benefits Corp. of America, Inc. (VA) 54-2015926
Virginia Farm Bureau Fire and Casualty Ins. Co. (VA) 54-0755126 NAIC 26026
Virginia Farm Bureau Service Corp. (VA) 54-0796340
Virginia Farm Town and Country Ins. Co. (VA) 54-1718634 NAIC 10086
Custom Health Care, Inc. (VA) 54-0382095
Organizational Management, Inc. (VA) 41-2071427

At December 31, 2014, the Company was party to the following agreements with other members of its holding company system:

1. Service Agreement

The Company and Virginia Farm Bureau Mutual Insurance Company entered into a services 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.

2. Tax Allocation Agreement

Effective May 11, 2011 the Company participates in a tax allocation agreement under which the Company's federal income tax return is consolidated with its immediate parent and the following affiliates:

- Farm Bureau Holdings of Virginia, Inc.
- Virginia Farm Bureau Fire and Casualty Insurance Company
- Virginia Farm Bureau Town and Country Insurance Company

The agreement stipulates that the Company's tax liability on a consolidated basis will not exceed the liability had the Company filed its tax return on a stand-alone basis. The Company has filed the tax allocation agreement with the Department in accordance with Department Circular Letter No. 33 (1979).

3. Quota Share Reinsurance Agreement

Effective May 1, 2011 the Company entered into a 100% quota share treaty whereby it cedes 100% of its net premium and losses to its parent, Virginia Farm Bureau Mutual Insurance Company. This agreement is also discussed in Item 2C of this report.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	-6%*
Premiums in course of collection to surplus as regards policyholders	23%

*The negative ratio reflects an aspect of the calculation of this formula under which deferred premiums are deducted from liabilities in calculating this formula. The 100% quota share agreement with Mutual combined with the Company retaining its premiums on its balance sheet creates this anomalous result.

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$33,719,247	75.80%
Other underwriting expenses incurred	17,498,672	39.34
Net underwriting loss	(6,735,211)	(15.14)
Premiums earned	$44,482,708	100.00%

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$10,979,939	$ 0	$10,979,939
Cash, cash equivalents and short-term investments	2,979,704		2,979,704
Investment income due and accrued	87,288		87,288
Uncollected premiums and agents' balances in the course of collection	5,386,242	53,119	5,333,123
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,024,566		4,024,566
Amounts recoverable from reinsurers	2,228,957		2,228,957
Net deferred tax asset	1,144,713	925,047	219,666
Guaranty funds receivable or on deposit	71		71
Electronic data processing equipment and software	130,391	130,391	0
Furniture and equipment, including health care delivery assets	332	332	0
Receivables from parent, subsidiaries and affiliates	98,499		98,499
Aggregate write-ins for other than invested assets	889,546	862,101	27,445
Total assets	$27,950,248	$1,970,990	$25,979,258

Liabilities, surplus and other funds

Liabilities		
Reinsurance payable on paid losses and loss adjustment expenses		$ 26,679
Commissions payable, contingent commissions and other similar charges		463,751
Other expenses (excluding taxes, licenses and fees)		950,122
Taxes, licenses and fees (excluding federal and foreign income taxes)		229,459
Current federal and foreign income taxes		8,033
Advance premium		226,511
Ceded reinsurance premiums payable (net of ceding commissions)		1,249,180
Amounts withheld or retained by company for account of others		23,389
Payable to parent, subsidiaries and affiliates		1,838
Aggregate write-ins for liabilities		67,037
Total liabilities		$3,245,999
Surplus and Other Funds		
Common capital stock	$ 5,300,000	
Gross paid in and contributed surplus	31,258,729	
Unassigned funds (surplus)	(13,825,470)	
Surplus as regards policyholders		22,733,259
Total liabilities, surplus and other funds		$25,979,258

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2011. All material adjustments made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. 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

Net income for the five-year examination period, January 1, 2010 through December 31, 2014, was $3,580,606 detailed as follows:

Underwriting Income		
Premiums earned		$44,482,708
Deductions:		
Losses and loss adjustment expenses incurred	$33,719,247	
Other underwriting expenses incurred	17,498,672	
Total underwriting deductions		51,217,919
Net underwriting gain or (loss)		$(6,735,211)
Investment Income		
Net investment income earned	$ 4,703,149	
Net realized capital gain	1,635,219	
Net investment gain or (loss)		6,338,368
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (689,827)	
Finance and service charges not included in premiums	2,316,394	
Aggregate write-ins for miscellaneous income	54,922	
Total other income		1,681,489
Net income before federal and foreign income taxes		1,284,646
Federal and foreign income taxes incurred		(2,295,960)
Net income		$ 3,580,606

C. Capital and Surplus

Surplus as regards policyholders increased $1,968,639 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2009			$20,764,620
Net income	$3,580,606		
Net unrealized capital gains or (losses)	153,070		
Change in net deferred income tax		4,769,570	
Change in non-admitted assets	2,759,391		
Aggregate write-ins for gains and losses in surplus	245,142		
Total gains or losses in surplus	$6,738,209	$4,769,570	
Net increase (decrease) in surplus			$ 1,968,639
Surplus as regards policyholders per report on examination as of December 31, 2014			$22,733,259

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $0 is the same as reported by the Company as of December 31, 2014. This zero liability is reflective of:

1. The 100 percent quota share agreement with its immediate Parent, Mutual.
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 four recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Market Conduct Activities	
i.	It was recommended that the Company comply with Section 3426(5)(C)(i) of the New York Insurance Law by continuing coverage for another required policy period in the event that it sends a late non-renewal notice on or after the expiration date of any commercial policy. The Company has complied with this recommendation.	12
ii.	It was recommended that the Company comply with Part 160.2(g) of Department Regulation 57 by establishing adequate procedures to minimize the occurrence of improperly charged rates and then actually following these procedures. The Company has complied with this recommendation.	12
iii.	It was recommended that the Company comply with Part 161.7(c) of Department Regulation 129 by either filing rates of letting the Department know that its analysis shows that no new rates are needed at least every three years for all applicable lines of business. The Company has complied with this recommendation.	12
B.	Accounts and records	
	It was recommended that the Company revise its current and all future contracts with its independent certified public accountant to include all provisions required by Part 89.2 of Department Regulation 118 The Company has complied with this recommendation.	13

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report.

Respectfully submitted,

/s/
Frank P. Schiraldi
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

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

/s/
Frank P. Schiraldi

Subscribed and sworn to before me

this__________ day of ____________________, 2015.

APPOINTMENT NO. 31236

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, 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:*

Frank Schiraldi

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 14th day of November, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Rolf Kaumann
Deputy Chief Examiner