EXAMINATION REPORT
on
NORTHERN NECK INSURANCE COMPANY
Irvington, Virginia
as of
December 31, 2014

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Northern Neck Insurance Company as of December 31, 2014, is a true copy of the original report on file with

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Richmond, Virginia
December 9, 2015

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, a financial condition examination of the

NORTHERN NECK INSURANCE COMPANY

Irvington, Virginia,

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a mutual assessment property and casualty insurer and was last examined by representatives of the Virginia State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2011. The current examination covers the three year period from January 1, 2012 through December 31, 2014.

HISTORY

The Company was originally chartered by a special Act of the Legislature of Virginia on March 4, 1896 (Chapter 742, Acts of 1896). The original charter provided that the Company's capital should not be more than $10,000, divided into shares of $100 each. The charter also provided that the Company should have the power to insure, on the mutual plan, properties against loss by fire and lightning.

The Company operated from the beginning on an assessment basis; however, control was not vested in its members but in the holders of the outstanding capital shares, each having one vote.

A meeting of the board of directors was held on March 13, 1954, for the purpose of considering the advisability of qualifying the Company as a mutual assessment fire association as provided by § 13-231.1 of the Code of Virginia, which permitted the conversion of certain stock fire insurance companies to non-stock corporations. Pursuant to action taken by the board at this meeting, a special meeting of the holders of the outstanding capital shares was held on March 26, 1954. At this meeting a motion was approved to take the necessary steps to bring the Company in compliance with § 13-231.1 so that it could qualify under current Chapter 25, Title 38.2 of the Code of Virginia.

The charter was amended effective June 19, 1987, to change the Company's name from The Northern Neck Mutual Fire Association of Virginia to Northern Neck Insurance Company. This amendment also restated the purpose of the Company as follows:

> The corporation shall be a Mutual Assessment Property and Casualty insurer as defined in § 38.2-2501 of the Code of Virginia, as the same may be amended from time to time. It may write all the classifications of insurance specified in § 38.2-2503 of the Code of Virginia as amended from time to time, and may further engage in any other incidental or related business. The corporation shall have all powers as set forth in § 13.1-826 of the Code of Virginia as amended from time to time.

The Company amended its Articles of Incorporation May 23, 1997, to provide for the indemnification of directors and officers against all claims, liabilities, judgments, settlements, costs, and expenses, including all attorney's fees, imposed upon or reasonably incurred by him or her in connection with or resulting from any action, suit, proceeding or claim to which he or she may be a party by reason of being or having been an officer or director of the Company, except an indemnity against his or her willful misconduct or a knowing violation of the criminal law.

MANAGEMENT AND CONTROL

Management of the Company is vested in a board of at least eight but not more than ten voting directors, each of whom shall be a member of the Company, and shall include the chairman, vice chairman, chief executive officer, and president. A quorum at any meeting shall consist of a majority of the members of the board. A majority of such quorum shall decide any question that may come before the meeting.

The bylaws state that the officers of the Company shall be a chairman, a vice chairman, a chief executive officer, a president, a secretary, and a treasurer, and may include one or more vice presidents, assistant vice presidents, assistant secretaries and assistant treasurers as may be elected by the board.

Directors and officers of the Company at December 31, 2014 were as follows:

Directors	Principal Occupation
Peter J. Cammarata	President and Chief Executive Officer Northern Neck Insurance Company Irvington, Virginia
William H. Chapman	Executive Director The Richmond Forum Richmond, Virginia
Elizabeth H. Crowther	President Rappahannock Community College Glenns, Virginia
Thomas A. Gosse	Former President and Chief Executive Officer Northern Neck Insurance Company Irvington, Virginia
Susan Horne	President and Chief Executive Officer Lead Virginia Richmond, Virginia
Benjamin H. Hubbard, III	Partner Hubbard, Terry & Kopcsak, Attorneys Irvington, Virginia
John H. Hunt, II	Retired Chesapeake Bank Kilmarnock, Virginia
Julien G. Patterson	Retired Omniplex World Services Corporation Chantilly, Virginia
R. Lee Stephens, Jr.	Attorney Lee Stephens Law, PLC Irvington, Virginia

Douglas G. Stewart	Managing Director Cary Street Partners, LLC, Investment Managers Fredericksburg, Virginia

Officers

John H. Hunt, II	Chairman
Benjamin H. Hubbard, III	Vice Chairman
Peter J. Cammarata	President and Chief Executive Officer
Pamela L. Walker	Vice President – Information Technology, Secretary
Donna P. Tibbs	Treasurer
C. Randall Conner	Senior Vice President – Product Development
Jerry M. Wachter	Executive Vice President – Insurance Operations
John D. Naum	Vice President – Finance
Diane D. Starbuck	Vice President – Claims
Elizabeth D. McKinney	Vice President – Marketing
Bruce E. Brizzi	Vice President
Kathy M. Allison	Assistant Vice President – Policyholder Services
Wendy C. Barrack	Assistant Vice President – Information Technology

An Audit Committee consisting of the following members was elected by the board of directors and held office as of December 31, 2014:

R. Lee Stephens, Jr., Chairman
Elizabeth H. Crowther
Susan Horne
John H. Hunt, II, *ex officio*
John D. Naum, staff liason
Donna P. Tibbs, staff liason

The following committees were appointed by the chairman of the board of directors and held office as of December 31, 2014:

Risk Committee

Thomas A. Gosse, Chairman
Peter J. Cammarata
Benjamin H. Hubbard III
Julien G. Patterson
Douglas G. Stewart
John H. Hunt, II, *ex officio*
John D. Naum, staff liaison

Compensation Committee
Benjamin H. Hubbard III, Chairman
Elizabeth H. Crowther
Thomas A. Gosse
Julien G. Patterson
R. Lee Stephens, Jr.
John H. Hunt, II, *ex officio*

Nominating/Governance Committee
Elizabeth H. Crowther, Chairman
Peter J. Cammarata
William H. Chapman
Julien G. Patterson
R. Lee Stephens, Jr.
John H. Hunt, II, *ex officio*

Investment Committee
Douglas G. Stewart, Chairman
Peter J. Cammarata
William H. Chapman
Thomas A. Gosse
Susan Horne
John H. Hunt, II, *ex officio*
John D. Naum, staff liaison

PENSION PLAN

The Company sponsored a non-contributory defined benefit pension plan covering its employees. As of December 31, 2007, the Company terminated the defined benefit pension plan. The distribution of plan assets was finalized in March 2009.

The Company maintains a defined contribution 401(k) plan under which participants can elect a salary reduction contribution of up to 20% of compensation, subject to a ceiling amount established annually by regulations of the Internal Revenue Service. The Company contributes 100% of the first 6% of employee contributions. The Company's contribution for the plan year was $148,780, $86,025 and $85,582 in 2014, 2013 and 2012 respectively. The Company accrued $170,000 of additional discretionary contributions to the plan for 2014.

Prior to 2008, the Company entered into an unqualified supplemental retirement plan agreement with its Senior Vice President - Claims. Pursuant to the agreement, the Company is to make annual contributions based on actuarially determined present values to provide supplemental retirement income equal to 60% of the employee's average final compensation. The payment of benefits is conditioned upon continuous employment at the Company for a period of fifteen years, subject to certain exceptions and restrictions. The Senior Vice President – Claims retired in April 2009 and started receiving payments in May 2009. The Company contributed $3,033, $3,033 and $3,033, for 2014, 2013 and 2012, respectively.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2014, the Company had a fidelity bond in force providing coverage in the amount of $600,000 to insure against losses arising from dishonest acts of its officers and employees. The Company had a directors' and officers' liability policy, including company reimbursement, in force at December 31, 2014. This coverage was for $4,000,000 net of retention limits. The Company also had property insurance, workers' compensation and employers' liability coverage, employment practices liability, fiduciary liability, a business automobile policy, and cyber liability insurance in force.

TERRITORY AND PLAN OF OPERATION

The Company confines its operations to the cities and counties of the Commonwealth of Virginia where it is licensed to transact the business of a mutual assessment property and casualty insurance company.

Applications for insurance are submitted through approximately 130 agents who inspect the risks and make written applications to the Company. Commissions are paid at various rates dependent upon the line of insurance written. Additionally, agents participate in a profit sharing plan based on their annual production volume of premiums and their loss ratios.

The Company writes policies for dwelling fire, lightning, extended coverage, broad forms special coverage, homeowners, including mobile homeowners and rural estate, umbrella, automobile physical damage, and automobile liability on an annual basis only. Assessment rates are charged based upon classification and location of the risks and are levied annually in advance. These assessments are not collected for periods in excess of one year.

All perils contain a deductible clause with the exception of liability coverages.

GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and from examination reports, indicates the growth of the Company for the ten-year period ended December 31, 2014:

Year	Admitted Assets	Liabilities	Unassigned Funds
2005	$56,622,117	$27,453,717	$29,168,400
2006	62,768,036	29,057,538	33,710,498
2007	66,644,406	31,501,721	35,142,685
2008	55,150,871	30,883,471	24,267,400
2009	63,349,861	30,712,496	32,637,365
2010	70,076,450	32,654,392	37,422,058
2011	68,868,275	34,668,450	34,199,825
2012	74,576,122	39,570,918	35,005,204
2013	90,156,764	44,668,397	45,488,367
2014	96,899,720	45,617,915	51,281,805

Year	Premiums Earned	Incurred Loss and Loss Adjustment Expenses	Other Underwriting Expenses	Net Underwriting Gains or (Losses)
2005	$26,886,710	$11,778,282	$10,887,977	$4,220,451
2006	27,905,308	13,616,764	12,181,311	2,107,233
2007	30,103,524	16,797,907	13,520,411	(214,794)
2008	32,177,392	19,223,324	13,708,061	(753,993)
2009	34,331,889	18,719,848	13,469,116	2,142,925
2010	35,005,095	21,510,180	12,907,112	587,803
2011	36,239,825	28,610,582	13,085,492	(5,456,249)
2012	39,552,420	29,107,993	14,032,370	(3,587,943)
2013	43,971,819	25,882,923	15,172,993	2,915,903
2014	47,128,454	25,642,357	15,951,651	5,534,446

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2014:

Ceded:

Type of Agreement	Line of Business	Company's Retention	Reinsurers' Limits
Property Excess of Loss	Section One: Property	$250,000 of ultimate net loss any one risk, each loss occurrence	$150,000 of ultimate net loss any one risk, each loss occurrence; $450,000 of ultimate net loss any one loss occurrence
	Section Two: Property	$400,000 of ultimate net loss any one risk, each loss occurrence	$600,000 of ultimate net loss any one risk, each loss occurrence; $1,200,000 of ultimate net loss any one loss occurrence
	Section Three: Property	$1,000,000 of ultimate net loss any one risk, each loss occurrence	$500,000 of ultimate net loss any one risk, each loss occurrence; $1,000,000 of ultimate net loss any one loss occurrence; $1,500,000 all occurrences
	Section Four: Property	$1,500,000 of ultimate net loss any one risk, each loss occurrence	$500,000 of ultimate net loss any one risk, each loss occurrence; $1,000,000 of ultimate net loss any one loss occurrence; $1,500,000 all occurrences

Type of Agreement	Line of Business	Company's Retention	Reinsurers' Limits
	Section Five: Property	$2,000,000 of ultimate net loss any one risk, each loss occurrence	$500,000 of ultimate net loss any one risk, each loss occurrence; $1,000,000 of ultimate net loss any one loss occurrence; $1,500,000 all occurrences
Casualty Excess of Loss	Section One: Automobile and Other Liability	$250,000 any one loss occurrence	$150,000 any one loss occurrence
	Section Two: Automobile and Other Liability	$400,000 any one loss occurrence	$600,000 any one loss occurrence
	Section Three: Automobile and Other Liability	$1,000,000 any one loss occurrence	$500,000 any one loss occurrence

In the event of a loss involving a combination of the casualty business and property business subject to the above agreements, further reinsurance is provided when the Company's combined retention under these two agreements, resulting from one occurrence exceeds $250,000. In regard to such a combination loss, the Company will retain the first $250,000 of its combined retention each occurrence and the Reinsurer will reimburse the Company for the amount in excess of $250,000 subject to a maximum reimbursement under this provision of $250,000 for each occurrence.

Type of Agreement	Line of Business	Company's Retention	Reinsurers' Limits
First Catastrophe Excess of Loss	Property	$2,500,000 any one loss occurrence	100% of $2,500,000 in excess of $2,500,000 loss per occurrence; $5,000,000 with respect to all loss occurrences
Second Catastrophe Excess of Loss	Property	$5,000,000	100% of $5,000,000 in excess of $5,000,000 loss per occurrence; $10,000,000 with respect to all loss occurrences
Third Catastrophe Excess of Loss	Property	$10,000,000	100% of $15,000,000 in excess of $10,000,000 loss per occurrence; $30,000,000 with respect to all loss occurrences
Fourth Catastrophe Excess of Loss	Property	$25,000,000	100% of $35,000,000 in excess of $25,000,000 loss per occurrence; $70,000,000 with respect to all loss occurrences
Fifth Catastrophe Excess of Loss	Property	$60,000,000	100% of $15,000,000 in excess of $60,000,000 loss per occurrence; $30,000,000 with respect to all loss occurrences
Quota Share and Excess of Loss	Personal Umbrella and Farm Personal Umbrella Liability	10% of the first $1,000,000 each occurrence	90% of first $1,000,000 each occurrence; 100% of the difference between the policy limit and the first $1,000,000 each occurrence, not to exceed $4,000,000 each occurrence

All agreements contain an insolvency clause and, where applicable, a reinsurers' guarantee of the intermediaries credit. At the request of the Company, any portion of the reinsurance credits for outstanding losses and loss adjustment expenses recoverable provided by the aforementioned agreements that is placed with unauthorized reinsurers shall be funded by the unauthorized reinsurer by a letter of credit or a cash advance.

Assumed:

The Company participates in a reciprocal catastrophe pool administered by the Mutual Reinsurance Bureau (MRB). Rights and obligations associated with participation in this pool are set forth in a contract between MRB and insurers specified in the interests and liabilities agreements. Pool participants agree to reinsure MRB for losses under any of its aggregate and catastrophic excess contracts, known as "original agreements." The Company has assumed a 3.00% share of the interests and liabilities of the pool contract. MRB cedes to the Company its proportionate share of premiums received on each original agreement subject to the pool contract.

The Company is liable for its pro rata share of each and every loss occurring on the business covered by the pool agreement, not to exceed a maximum of $45,000,000 on any one original agreement. The pool contract warrants that all original agreements are the top layers of each respective program. MRB's net liability on any one original agreement will not exceed $45,000,000 any one occurrence when the original agreement is written on an occurrence basis or $45,000,000 in the aggregate during any one agreement year when written on an aggregate basis.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2012 through December 31, 2014. Assets were verified and liabilities were established at December 31, 2014.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An 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 accounts and activities of the Company were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2014, a statement of income for the period ending December 31, 2014, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2014. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$39,686,485		$39,686,485
Common stocks	38,440,271		38,440,271
Real estate properties occupied by the company	2,244,266		2,244,266
Cash and short-term investments	7,257,246		7,257,246
Receivables for securities	1,068		1,068
Investment income due and accrued	360,528		360,528
Uncollected premiums and agents' balances in the course of collection	4,116,046		4,116,046
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,418,935		4,418,935
Amounts recoverable from reinsurers	50,523		50,523
Current federal income tax recoverable and interest thereon	158,074		158,074
Guaranty funds receivable or on deposit	3,359		3,359
Electronic data processing equipment	1,158,409	1,069,762	88,647
Furniture and equipment	124,100	124,100	
Aggregate write-ins for other than invested assets	182,570	108,298	74,272
Totals	$98,201,880	$1,302,160	$96,899,720

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$12,568,116
Loss adjustment expenses		584,136
Commissions payable, contingent commissions and other similar charges		2,167,584
Other expenses		424,967
Taxes, licenses and fees		469,970
Net deferred tax liability		604,050
Unearned premiums		26,602,968
Advance premium		1,000,784
Ceded reinsurance premiums payable		642,549
Amounts withheld or retained by company for account of others		5,427
Aggregate write-ins for liabilities		547,364
Total liabilities		$45,617,915
Unassigned funds	$51,281,805	
Surplus as regards policyholders		51,281,805
Totals		$96,899,720

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	$47,128,454
Deductions:	
Losses incurred	$23,025,232
Loss adjustment expenses incurred	2,617,125
Other underwriting expenses incurred	15,951,651
Total underwriting deductions	$41,594,008
Net underwriting gain	$5,534,446

INVESTMENT INCOME

Net investment income earned	$985,020
Net realized capital gains	4,158,965
Net investment gain	$5,143,985

OTHER INCOME

Aggregate write-ins for miscellaneous income	($454)
Total other income	($454)
Net income before federal income taxes	$10,677,977
Federal income taxes incurred	1,893,113
Net income	$8,784,864

RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

	2012	2013	2014
Surplus as regards policyholders, December 31, previous year	$34,199,825	$35,005,204	$45,488,367
Net income	($510,098)	$6,196,400	$8,784,864
Change in net unrealized capital gains or (losses)	1,110,235	3,975,224	(2,419,069)
Change in net deferred income tax	460,245	(228,713)	338,995
Change in nonadmitted assets	(255,003)	540,252	(911,352)
Change in surplus as regards policyholders for the year	$805,379	$10,483,163	$5,793,438
Surplus as regards policyholders, December 31, current year	$35,005,204	$45,488,367	$51,281,805

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	$47,730,836
Net investment income	1,241,535
Miscellaneous income	(454)
Total	$48,971,917
Benefit and loss related payments	$21,925,274
Commissions, expenses paid and aggregate write-ins for deductions	17,904,806
Federal income taxes paid	4,041,000
Total	$43,871,080
Net cash from operations	$5,100,837

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$6,017,371
Stocks	13,857,864
Total investment proceeds	$19,875,235
Cost of investments acquired (long-term only):	
Bonds	$16,689,407
Stocks	5,365,860
Miscellaneous applications	1,068
Total investments acquired	$22,056,335
Net cash from investments	($2,181,100)

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided (applied)	($1,123,925)
Net change from financing and miscellaneous sources	($1,123,925)
Net change in cash and short-term investments	$1,795,812

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$5,461,434
End of year	7,257,246
Net change in cash and short-term investments	$1,795,812

CONCLUSION

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

In addition to the undersigned, Mario A. Cuellar, CFE, T. Bradford Earley, Jr., CFE, CPCU, AIAF, and Benjamin B. MacKercher, of the Bureau participated in the work of the examination.

Respectfully submitted,

Jennifer K. Blizzard

Jennifer K. Blizzard, CFE, AIAF
Senior Insurance Examiner

northern neck
VIRGINIA INSURANCE

February 9, 2016

David H. Smith, Chief Examiner
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

Re: Examination Report as of December 31, 2014

Dear Mr. Smith:

We have received and reviewed the referenced examination report. Please extend to Jennifer Blizzard, Senior Insurance Examiner, our appreciation for the manner in which the examination was conducted and the professionalism extended by your entire staff.

Please consider this acknowledgement of receipt of the examination report. We are pleased that there were no recommendations for corrective action.

Thank you for forwarding the final report for review by our Board. We would appreciate twenty copies.

Very truly yours,

Peter J. Cammarata
President & Chief Executive Officer