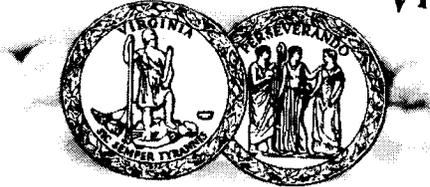


**EXAMINATION REPORT
of the
HIGHLAND MUTUAL FIRE
INSURANCE COMPANY
McDowell, Virginia
as of
December 31, 2012**

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
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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 Highland Mutual Fire Insurance Company as of December 31, 2012, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 9th day of January, 2014

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

Description 1

History 1

Management and Control 2

Fidelity Bond 3

Territory and Plan of Operation 3

Growth of the Company 4

Reinsurance 5

Scope 6

Financial Statements..... 6

Conclusion..... 10

Richmond, Virginia
October 22, 2013

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, an examination of the records and affairs of the

HIGHLAND MUTUAL FIRE INSURANCE COMPANY

McDowell, 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 licensed under Chapter 25 of Title 38.2 of the Code of Virginia. It was last examined by representatives of the State Corporation Commission's Bureau of Insurance ("Bureau") as of December 31, 2009. The current examination covers the three-year period from January 1, 2010 through December 31, 2012.

HISTORY

The Company was chartered on September 2, 1916. According to the charter, the purpose for which it was organized is as follows:

The insurance of dwelling houses, barns and their contents, growing crops, and other property not more hazardous, and buildings not more hazardous in towns and villages, detached at such distances as the bylaws of the corporation may prescribe, and their contents and livestock owned on the premises, and while in barns and stables insured, upon the mutual assessment plan without distribution of profits among its members, and

upon the terms and conditions provided in the bylaws, against loss or damage caused by fire, storm or lightning.

MANAGEMENT AND CONTROL

The management of the Company is vested in a Board of Directors ("Board") composed of five members elected annually by the membership. The bylaws provide for the Board to elect a President, a Vice President and a Secretary-Treasurer from its membership for a term of one year.

It is the Board's responsibility to audit claims, to approve or reject applications for insurance, to adopt forms of policy and applications and to serve as agents. When in the interest of the Company, the Board may levy an assessment based on an estimate of the amount that will be necessary to pay all losses, damages and expenses for the current year and to make up any deficiencies in funds for the preceding year. If the Board deems necessary, an additional assessment may be included for a safety fund to serve as a reserve for claims. However, no more than one such general assessment may be made in any six-month period. The directors and officers of the Company at December 31, 2012 were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Roy M. Gutshall	Farmer Mustoe, Virginia
Elizabeth H. Hefner	Retired Monterey, Virginia
Joseph T. Neil	Farmer McDowell, Virginia
Dareld G. Puffenbarger	Farmer Hightown, Virginia
Ronald J. White	Farmer Monterey, Virginia
 <u>Officers</u>	
Elizabeth H. Hefner	President
Roy M. Gutshall	Vice President
Joseph T. Neil	Secretary-Treasurer

FIDELITY BOND

At December 31, 2012, the Company had an employee dishonesty policy in force providing coverage in the amount of \$25,000 to insure against losses arising from dishonest acts of its President and Secretary-Treasurer.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a mutual assessment property and casualty insurer and operates in Highland and Bath Counties as provided by its charter.

Applications for fire and lightning insurance are solicited by the Board who appraise the property to be insured. Upon approval of the Board, a continuous policy is issued and the Company retains a maximum of \$25,000 on each risk. Applicants are required to pay an initiation fee of \$10 per policy, plus prevailing premiums for new business. Applicants are then subject to all future assessments levied against members. Assessments are levied in advance whenever the Board deems that additional funds are necessary for operation. If, however, members should withdraw from the Company by giving 30 days notice, a refund of any advance assessment is made. Members are also entitled to a refund of the unearned portion of an assessment when a policy is canceled before its expiration date.

Property insured by the Company is classified into three groups:

- | | |
|----------|--|
| Class 1: | Brick, stone, or wooden buildings, with metal, slate, slate-surfaced asphalt or asbestos roofs |
| Class 2: | Barns, other outbuildings and unoccupied dwellings |
| Class 3: | Mobile homes |

Losses are adjusted by the directors and the payment of all claims is approved by the Board. Directors receive the following compensation for their services: \$75 for attending Board meetings and \$30 per policy (\$10 paid by the policyholder and \$20 paid by the Company) for new or revised policies written.

GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and examination reports, reflect the growth of the Company for the ten-year period ending December 31, 2012:

<u>Year</u>	<u>Admitted</u>			<u>Number of Policies</u>	<u>Insurance In Force</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>		
2003	\$349,719	\$1,977	\$347,742	487	\$24,695,450
2004	392,478	2,507	389,971	495	25,561,400
2005	388,904	2,339	386,565	507	27,210,750
2006	400,542	27,069	373,473	513	28,470,800
2007	421,690	1,809	419,881	503	27,824,800
2008	417,120	3,623	413,497	488	27,946,850
2009	413,958	25,125	388,833	488	29,412,035
2010	394,140	4,108	390,032	479	28,828,235
2011	397,056	5,566	391,490	457	28,848,210
2012	388,565	1,319	387,246	448	28,064,210

<u>Year</u>	<u>Net Assessments</u>	<u>Investment Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Insurance In Force</u>
2003	\$31,691	\$8,114	\$63,125	487	\$24,695,450
2004	35,400	5,952	232	495	25,561,400
2005	37,680	7,771	30,047	507	27,210,750
2006	36,811	11,571	17,583	513	28,470,800
2007	34,707	13,895	8,414	503	27,824,800
2008	37,807	11,938	35,000	488	27,946,850
2009	34,696	7,650	25,000	488	29,412,035
2010	38,697	5,507	49,620	479	28,828,235
2011	31,532	3,343	4,025	457	28,848,210
2012	33,994	2,155	26,157	448	28,064,210

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2012:

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company Retention</u>	<u>Reinsurers' Limit</u>
Property Facultative Pro Rata	Property	\$25,000	Seven times the net retained liability of the Company plus the amount ceded, and shall be subject to a maximum amount of \$300,000 and a minimum retention of \$7,500 as respects any one risk
Aggregate Excess of Loss	Property	100% of net premiums and assessments earned or \$36,000, whichever amount is the greater	100% of 150% of net premiums and assessments earned, or 100% of \$81,000, whichever amount is the lesser

All reinsurance has been placed through Guy Carpenter & Co., LLC, a reinsurance intermediary. Both agreements contain an insolvency clause.

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, 2010 through December 31, 2012. Assets were verified and liabilities were established at December 31, 2012. A review of income and disbursements for the period was made to the extent deemed necessary.

This examination was conducted in accordance with the NAIC Financial Condition *Examiners' Handbook* (Handbook). The Handbook allows flexibility in the conduct of the examination based upon the nature and size of the entity being examined. This flexibility allows the examiners the ability to structure the examination in the manner best suited for each entity.

For this examination, all accounts and activities of the Company were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of income and disbursements for the period under review and a statement of financial condition as of December 31, 2012.

INCOME FOR THE PERIOD UNDER REVIEW

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net assessments received	\$38,697	\$31,532	\$33,994
Interest on cash deposits	5,507	3,343	2,155
Reconciling amounts			
Social security	642	475	503
Federal withholding	240	240	240
Other income	<u>969</u>		<u>618</u>
Total income	\$46,055	\$35,590	\$37,510
Deduct total disbursements for the year	<u>73,132</u>	<u>24,445</u>	<u>45,924</u>
Net income	(\$27,077)	\$11,145	(\$8,414)
Add ledger assets December 31, previous year	<u>412,649</u>	<u>385,572</u>	<u>396,717</u>
Ledger assets December 31, current year	<u><u>\$385,572</u></u>	<u><u>\$396,717</u></u>	<u><u>\$388,303</u></u>

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net losses paid	\$49,620	\$4,025	\$26,157
Net commission and brokerage	1,230	960	630
Gross salaries	8,400	8,400	8,900
Directors' fees	1,800	1,875	1,800
Travel and travel items	1,357	350	422
Boards, bureaus and associations	260	335	385
Legal and auditing, not in connection with losses	436	460	525
Furniture, fixtures and equipment	735		410
Rent, office and equipment maintenance	185	132	
Advertising	708	649	655
Printing and stationery	788	380	469
Postage, telephone and express	857	558	873
Insurance and fidelity bonds		500	
Data processing	50		
Charitable contributions	2,775	2,775	1,425
Other expenses	1,133	377	583
Taxes, licenses and fees	1,273	1,312	1,266
Payroll items	1,525	1,357	1,424
	<u> </u>	<u> </u>	<u> </u>
Total disbursements	<u><u>\$73,132</u></u>	<u><u>\$24,445</u></u>	<u><u>\$45,924</u></u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash on deposit	\$388,303			\$388,303
Interest due or accrued		262		262
Totals	<u>\$388,303</u>	<u>\$262</u>	<u>\$0</u>	<u>\$388,565</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

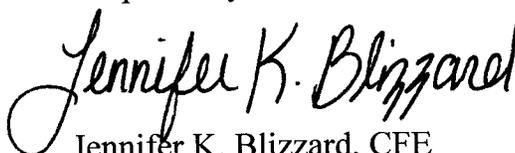
Net unpaid losses	\$0
Taxes, licenses and fees	1,163
Assessments unearned	<u>156</u>
Total liabilities	\$1,319
Excess of admitted assets over liabilities (surplus)	<u>387,246</u>
Totals	<u>\$388,565</u>

CONCLUSION

The courteous cooperation extended to the Examiners by the Company is hereby acknowledged.

In addition to the undersigned, Allison L. Bohrer of the Bureau participated in the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Blizzard". The signature is written in a cursive style with a large initial "J".

Jennifer K. Blizzard, CFE
Senior Insurance Examiner



Highland Mutual Fire Insurance Company

Protecting properties in Bath and Highland since 1916.
206 Neil Lane, McDowell, VA 24458 (540)396-4674 highlandmutual@yahoo.com

December 29, 2013

State Corporation Commission
Bureau of Insurance
PO Box 1157
Richmond, VA 23218

ATTENTION: David H Smith, Chief Examiner

This is to confirm that Highland Mutual Fire Insurance Company is in receipt of your Examination Report as of December 31, 2011.

Yours truly,

Joe Neil, Secretary/Treasurer

