ASSOCIATION EXAMINATION REPORT
on
ROCKINGHAM CASUALTY COMPANY
Harrisonburg, 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

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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 Rockingham Casualty 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 11th day of October, 2013

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
July 15, 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 affairs and financial condition of

ROCKINGHAM CASUALTY COMPANY

Harrisonburg, Virginia,

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

DESCRIPTION

The Company is a stock property and casualty insurer. The last examination made by representatives of the State Corporation Commission's (Commission) Bureau of Insurance (Bureau) was as of December 31, 2009. This examination covers the period from January 1, 2010, through December 31, 2012.

HISTORY

The Company was granted a charter by the Commission on November 30, 1982, and licensed by the Bureau on December 1, 1983.

Effective January 1, 2010, the Rockingham Group, which includes the Company and Rockingham Mutual Insurance Company (RMIC), and the Norfolk & Dedham Group, consisting of Norfolk & Dedham Mutual Fire Insurance Company, Dorchester Mutual Insurance Company, and Fitchburg Mutual Insurance Company, a group of Massachusetts insurers, formed an Alliance to share resources while still maintaining independent boards, company autonomy and identity. Pursuant to a servicing agreement, Newbury Corporation, an affiliate of the Norfolk & Dedham Group, provided managerial, technical, and clerical services to members of the Alliance, including the Company, during 2010. The Alliance, including the servicing agreement, was dissolved as of December 31, 2010.

According to the charter, the purpose for which the Company was organized is to carry on and conduct the business of an insurance company, and undertake the issuance of coverage in the following classes of insurance:

> Accident and sickness, fire, miscellaneous property, water damage, burglary and theft, glass insurance, boiler and machinery, animal, personal injury liability, workers compensation and employers' liability, fidelity, surety, credit, motor vehicle, aircraft, marine, legal services insurance, homeowners insurance, farmowners insurance, commercial multi-peril insurance, and contingent and consequential losses.

The Company is authorized by its charter, as amended on December 31, 1987, to issue 5,000 shares of common stock with a par value of $200 per share.

MANAGEMENT AND CONTROL

According to the bylaws, management of the Company shall be vested in a board of directors (board) of not less than nine nor more than 20 persons who shall be elected at the annual meeting of the stockholders. The directors shall be elected for a term of three years each and shall serve until their successors are elected and qualified.

The bylaws provide that the directors shall elect the officers of the Company. The officers shall be a chairman of the board, a vice chairman of the board, a president, one or more vice presidents, a secretary, a treasurer, a chief financial officer and a chief information officer. The board may, if it desires, elect additional officers. The president, chairman, and vice-chairman must be directors but the other officers need not be directors. Any two or more offices may be held by the same persons except the offices of president and secretary and the offices of chairman and vice chairman of the board.

The bylaws provide for a corporate governance committee, which is responsible for providing general oversight for corporate governance matters, including the development and implementation of the appropriate governance policies and procedures to assure that the board is appropriately constituted and equipped to meet its fiduciary obligations to policyholders.

Additionally, the bylaws provide for three other standing committees: a human resources and compensation committee, a finance committee, and an audit committee. At December 31, 2012, the board and officers of the Company were as follows:

Directors	Principal Business Affiliation
Nancy Howell Agee	President and Chief Executive Officer Carilion Clinic Roanoke, Virginia
Gene Patrick Berry	Vice President and Chief Information Officer One America Financial Partners Indianapolis, Indiana
Warren Kyle Coleman	Chief Financial Officer Chesapeake Capital Corporation Richmond, Virginia
Robert Richard Copty	President Copty and Company Roanoke, Virginia
Stephen Carr Fogleman	Attorney Gannon & Cottrell, PC Alexandria, Virginia
Horace Rogers Higgins, III	Employee Benefits Specialist Strategic Employee Benefits Services Charlottesville, Virginia
Anne Burns Keeler	Vice President of Finance Bridgewater College Bridgewater, Virginia
William Neal Menefee	President and Chief Executive Officer of the Company Harrisonburg, Virginia
Christopher Scott Runion	President Eddie Edward Signs Harrisonburg, Virginia

Directors (continued)	Principal Business Affiliation
Carolyn Faulconer Sedwick	Retired Partner/Co-owner The Boxwood Shoppe Orange, Virginia
Pamela Lynette Turner	Chief Financial Officer University of Virginia Credit Union Charlottesville, Virginia

Officers

Warren K. Coleman	Chairman of the Board
Stephen C. Fogleman	Vice Chairman of the Board
W. Neal Menefee	President and Chief Executive Officer
John S. Barret	Vice President-Finance, Chief Financial Officer, Treasurer and Corporate Secretary
William E. Bayer	Vice President – Marketing
Deborah L. Van Horn	Vice President – Support Services
Lloyd D. Yavener	Vice President – Specialty Lines
E. Matthew Young	Vice President – Underwriting
Daniel A. Finseth	Controller

The Company is a wholly owned subsidiary of RMIC.

RELATED PARTY TRANSACTIONS

Services Agreement:

The Company entered into a services agreement with its parent, RMIC, and an affiliate, Rockingham Mutual Service Agency, Inc. (RMSA). Under the terms of this agreement, RMIC will provide facilities and services to the Company and RMSA including, but not limited to, management, administration, claims operations, accounting, and personnel. RMIC will also execute the payment of agent commissions and fees, and administer all reinsurance agreements.

In consideration for these services, RMSA and the Company will reimburse RMIC for the actual cost of agent commissions and fees that are paid by RMIC. The Company will also reimburse RMIC for the Company's net cost of reinsurance premiums that are paid by RMIC. Settlement of all services and expenses will be on an actual or allocated percentage basis. Payments pursuant to the agreement are to be made within approximately ninety days after the end of the month to which the services are applicable. During the period under review, the Company paid RMIC $1,978,270, $2,667,771 and $2,500,216 in 2010, 2011, and 2012, respectively.

Tax Sharing Agreement:

The Company is a party to a tax sharing agreement with RMIC and RMSA, which provides for the filing of a consolidated federal income tax return. The income tax expense is allocated using the separate return method with current credit for net losses. Intercompany tax balances are settled annually in the fourth quarter.

Capital Contributions:

The Company did not receive any capital contributions nor did it pay any dividends to RMIC during the period covered by this examination.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Company had a fidelity bond in force providing coverage in the amount of $1,250,000, subject to a $10,000 deductible each occurrence, to insure against losses arising from dishonest acts of its officers and employees. The Company also had the following coverage in effect at December 31, 2012: directors and officers liability, business auto policy, comprehensive business liability, workers compensation and employers' liability and commercial umbrella liability.

TERRITORY AND PLAN OF OPERATION

The Company confines its operations to Virginia and Pennsylvania. In Virginia, the Company is licensed to transact the business of auto liability, auto physical damage, fire, miscellaneous property and casualty, farmowners multiple peril, homeowners multiple peril, commercial multiple peril, inland marine, liability other than auto, fidelity, surety, glass, burglary and theft, boiler and machinery, animal, and credit property. In Pennsylvania, the Company is licensed to transact the business of auto liability, burglary and theft, inland marine, auto physical damage, personal property floater, boiler and machinery, glass, other liability, and property and allied lines.

The Company utilizes RMIC's personnel and facilities. Business is marketed by both exclusive and independent agents. The agents bind risks when applications are accepted in the field from qualified applicants. Policies are then issued from the home office. If an insured is subsequently found not to meet the Company's underwriting requirements, the policyholder may be notified that his coverage will be cancelled in accordance with policy language and state laws.

Claims in Virginia are adjusted by RMIC's personnel, where practical, otherwise they are adjusted by independent adjusters. Claims in Pennsylvania are assigned to an independent adjuster near the insured's location. All claims are processed at the home office.

The Company pays expenses that can be directly attributed to it. Expenses applicable to more than one company in the group are pro-rated using the most appropriate methodology for the subject expense.

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 ending December 31, 2012:

Year	Admitted Assets	Liabilities	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Funds (Surplus)
2003	$34,977,639	$23,023,825	$1,000,000	$7,000,000	$3,953,814
2004	36,811,925	22,979,660	1,000,000	7,000,000	5,832,265
2005	39,320,786	22,610,297	1,000,000	7,000,000	8,710,489
2006	40,573,715	21,792,842	1,000,000	7,000,000	10,780,873
2007	42,030,260	21,469,241	1,000,000	7,000,000	12,561,019
2008	41,502,891	19,432,060	1,000,000	7,000,000	14,070,831
2009	42,781,325	19,687,482	1,000,000	7,000,000	15,093,843
2010	45,102,148	20,581,579	1,000,000	7,000,000	16,520,569
2011	46,959,927	21,058,789	1,000,000	7,000,000	17,901,138
2012	29,600,002	2,643,811	1,000,000	7,000,000	18,956,191

Year	Premiums Earned	Loss and Loss Adjustment Expenses Incurred	Other Underwriting Expenses	Net Underwriting Gains or (Loss)
2003	$19,630,189	$15,872,996	$4,898,727	($1,141,534)
2004	20,556,608	13,909,256	5,407,044	1,240,308
2005	18,922,624	11,464,992	5,000,556	2,457,076
2006	17,459,383	11,504,355	4,662,942	1,292,086
2007	15,377,144	10,294,032	4,300,500	782,612
2008	13,987,221	9,178,529	4,394,650	414,042
2009	13,984,090	9,740,068	4,400,770	(156,748)
2010	0	0	0	0
2011	0	0	0	0
2012	0	0	0	0

REINSURANCE

Effective January 1, 2003, the Company entered into an aggregate stop loss reinsurance agreement with RMIC. Under this agreement, the Company ceded to RMIC 100% of the net excess liability where total net losses occurring during an agreement year exceeded an amount equal to 63% of the Company's net premiums and assessments earned during the agreement year. This agreement was terminated effective January 1, 2010.

The Company entered into a quota share reinsurance agreement with RMIC effective January 1, 2010. This agreement provides for RCC to cede 100% of its ultimate net loss, net loss adjustment expense, net underwriting expense, and finance and service charges to RMIC.

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.

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, and 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.

The services of Merlinos & Associates, Inc. were employed to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves reported as of December 31, 2012.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2012, a statement of income for the period ending December 31, 2012, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2012. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$22,116,135		$22,116,135
Cash and short-term investments	1,334,289		1,334,289
Investment income due and accrued	231,680		231,680
Uncollected premiums and agents' balances in the course of collection	617,289	273	617,016
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,973,354		3,973,354
Amounts recoverable from reinsurers	1,313,395		1,313,395
Net deferred tax asset	1,330		1,330
Guaranty funds receivable or on deposit	12,570		12,570
Aggregate write-ins for other than invested assets	233		233
Totals	$29,600,275	$273	$29,600,002

LIABILITIES, SURPLUS AND OTHER FUNDS

Commissions payable, contingent commissions and other similar charges		$90,614
Other expenses		21,303
Taxes, licenses and fees		196,275
Current federal income taxes		351,611
Advance premiums		200,172
Ceded reinsurance premiums payable		1,483,637
Payable to parents, subsidiaries and affiliates		283,588
Aggregate write-ins for liabilities		16,611
Total liabilities		$2,643,811
Common capital stock	$1,000,000	
Gross paid in and contributed surplus	7,000,000	
Unassigned funds (surplus)	18,956,191	
Surplus as regards policyholders		26,956,191
Totals		$29,600,002

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	$0
Deductions:	
Losses incurred	$0
Loss adjustment expenses incurred	0
Other underwriting expenses incurred	0
Total underwriting deductions	$0
Net underwriting gain	$0

INVESTMENT INCOME

Net investment income earned	$1,176,775
Net realized capital gains	150,075
Net investment gain	$1,326,850

OTHER INCOME

Finance and service charges not included in premiums	$0
Aggregate write-ins for miscellaneous income	0
Total other income	$0
Net income before federal income taxes	$1,326,850
Federal income taxes incurred	288,792
Net income	$1,038,058

RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

	2010	2011	2012
Surplus as regards policyholders, December 31, previous year	$23,093,843	$24,520,569	$25,901,138
Net income	$1,972,911	$1,371,358	$1,038,058
Change in net unrealized capital gains	138,964		
Change in net deferred income tax	(781,160)	10,940	15,288
Change in nonadmitted assets	96,011	(1,729)	1,707
Change in surplus as regards policyholders for the year	$1,426,726	$1,380,569	$1,055,053
Surplus as regards policyholders, December 31, current year	$24,520,569	$25,901,138	$26,956,191

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	($369,214)
Net investment income	1,498,285
Total	$1,129,071
Benefit and loss related payments	$382,285
Commissions, expenses paid and aggregate write-ins for deductions	420,137
Federal income taxes recovered	(508,691)
Total	$293,731
Net cash from operations	$835,340

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$22,827,880
Total investment proceeds	$22,827,880
Cost of investments acquired (long-term only):	
Bonds	$6,888,795
Total investments acquired	$6,888,795
Net cash from investments	$15,939,085

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	($18,625,657)
Net cash from financing and miscellaneous sources	($18,625,657)
Net change in cash and short-term investments	($1,851,232)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$3,185,521
End of year	1,334,289
Net change in cash and short-term investments	($1,851,232)

SUBSEQUENT EVENT

On June 20, 2013, the Commission approved the RMIC's Mutual Holding Company Plan of Conversion. The approval was conditioned on the Commission's prior approval of the following: 1) any acquisition or formation of affiliate entities of the mutual holding company; 2) the capital structure of any intermediate holding company or subsequent change thereto; 3) any initial public offering or other issuance of equity or debt securities of an intermediate holding company or the converted company by private sale or public offering; 4) expansion of the activities of the mutual holding company into lines of business, industries or operations not identified or apparent at the time of approval of the Plan; 5) any dividends and distributions; and 6) the pledge, encumbrance or transfer of the stock of the converted company.

RMIC is currently distributing detailed information related to the Plan of Conversion to its policyholders. RMIC will hold a policyholders' meeting in September 2013 to vote on the proposed change to convert to a mutual holding company. If approved by the policyholders, the change in organization structure will occur prior to the conclusion of 2013.

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, Jennifer K. Blizzard, CFE, Allison Bohrer, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

T. Bradford Earley, Jr., AIAF, CFE, CPCU
Insurance Principal Financial Analyst

Rockingham Group®
Rockingham Mutual Insurance Company
Rockingham Casualty Company
Rockingham Mutual Service Agency, Inc.

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STATE CORP. COMMISSION
2013 SEP 23 AM 9:05
BUREAU OF INSURANCE

September 20, 2013

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, Virginia 23218

Dear Mr. Smith:

This is in response to your letter dated September 13, 2013, regarding the Rockingham Casualty Company Examination Report as of December 31, 2012 that was recently completed by the Virginia Bureau of Insurance.

We have reviewed the draft copy of the examination report and since we do not take issue with any item contained in it, we do not wish to request a hearing before the State Corporation Commission.

I would like to express my thanks to the examination team for the efficient and professional manner in which they handled themselves while they were on-site completing the examination fieldwork.

In terms of the final report, 20 copies should be sufficient for our needs.

Sincerely,

W. Neal Menefee

W. Neal Menefee
President

C: Mr. Warren K. Coleman, Chairman of the Board of Directors
Ms. Anne B. Keeler, Chair of the Audit Committee
Mr. Daniel A. Finseth, Finance Manager and Assistant Corporate Secretary

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