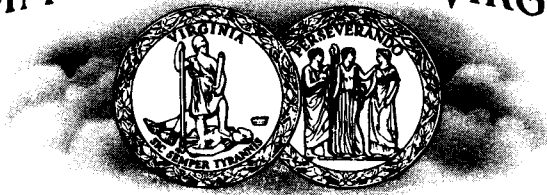


**Examination Report  
of the  
ROCKINGHAM MUTUAL INSURANCE COMPANY  
Harrisonburg, Virginia  
as of  
December 31, 2009**

# COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS  
COMMISSIONER OF INSURANCE



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## STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Rockingham Mutual Insurance Company as of December 31, 2009, 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 9<sup>th</sup> day of August, 2010

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Alfred W. Gross  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
April 28, 2010

Honorable Alfred W. Gross  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Sir:

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 MUTUAL INSURANCE COMPANY**

Harrisonburg, Virginia,

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

**DESCRIPTION**

The Company is a mutual property and casualty insurer and was last examined by representatives of the State Corporation Commission Bureau of Insurance (Bureau) as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009.

**HISTORY**

The Company was chartered on May 1, 1968 and was created as a result of a merger between Rockingham Home Mutual Fire Insurance Company and West Rockingham Mutual Fire Insurance. The merged companies were originally chartered by acts of the General Assembly on March 23, 1869 and March 22, 1872, respectively.

Since it was chartered, the Company has merged with the Brethren Mutual Fire Association on May 1, 1969, Virginia Protective Association on April 1, 1978, the Farmers and Mechanics Benevolent Fire Association on August 1, 1985 and the Henrico Mutual Fire Insurance Company on November 1, 1991.

On July 1, 2002, the Company converted from a Chapter 25 mutual assessment property and casualty insurer to a Chapter 10 mutual insurance company pursuant to Code of Virginia § 38.2-2507.

According to its restated articles of incorporation as of March 22, 2003, the Company was organized for the following purposes:

- (a) To conduct a mutual insurance company with authority to provide its members with the following classes of insurance: credit accident and sickness insurance, accident and sickness insurance, fire insurance, miscellaneous property insurance, water damage insurance, burglary and theft insurance, glass insurance, boiler and machinery insurance, animal insurance, personal injury liability insurance, property damage liability insurance, workers' compensation and employers' liability insurance, fidelity insurance, surety insurance, credit insurance, credit involuntary unemployment insurance, credit property insurance, motor vehicle insurance, aircraft insurance, marine insurance, legal services insurance, mortgage guaranty insurance, home protection insurance, homeowners insurance, farmowners insurance, and commercial multi-peril insurance.
- (b) To exercise all rights, privileges, powers and immunities given to corporations by the laws of the Commonwealth of Virginia, now existing or hereafter enacted-to the extent such laws apply to insurance companies.
- (c) To do all acts and things that may be reasonably necessary, convenient or proper for the execution of its general powers and the accomplishment of its principal purpose.

### **MANAGEMENT AND CONTROL**

According to the bylaws, management of the Company shall be vested in a board of directors (board) of not less than 9 or more than 20 persons elected by the members at annual meetings of the Company. Directors must be members who 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 board 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 members and directors, but the other officers need not be members. The chairman and the vice chairman of the board shall be elected for a term of two years with the other officers elected for a term of one year. Any two or more

offices may be held by the same person except the offices of president and secretary and the offices of chairman and vice chairman of the board.

The corporate governance committee shall consist of at least three persons, all of whom are appointed by the chairman of the board. This committee has the responsibility 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.

At December 31, 2009 the board of directors, officers and the corporate governance committee were as follows:

<u>Directors</u>	<u>Principal Business Affiliation</u>
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
Francis Timothy Hegarty	President and Chief Executive Officer Norfolk & Dedham Group Dedham, Massachusetts
Horace Rogers Higgins, III	Employee Benefits Specialist Strategic Employee Benefits Services Charlottesville, Virginia

Directors (continued)Principal Business Affiliation

Anne Burns Keeler	Vice President of Finance Bridgewater College Bridgewater, Virginia
Edward John Machado	Senior Consultant Wells, Canning & Associates Valhalla, New York
Thornton Carter Melton, Jr.	Retired President and Chief Executive Officer Rockingham Memorial Hospital Harrisonburg, Virginia
William Neal Menefee	President and Chief Executive Officer of the Company Harrisonburg, Virginia
Gregory Louis Petrini	Chief Executive Officer Petrini Corporation Needham, Massachusetts
Carolyn Faulconer Sedwick	Retired Partner/Co-owner The Boxwood Shoppe Orange, Virginia

Officers

Robert Richard Copty	Chairman of the Board
Anne Burns Keeler	Vice Chairman of the Board
William Neal Menefee	President and Chief Executive Officer
Deborah Lynn Van Horn	Vice President - Business Development
Edward Matthew Young	Vice President - Underwriting Systems
John Stuart Barret	Chief Financial Officer, Treasurer and Secretary
Daniel Alan Finseth	Controller

Corporate Governance Committee

Warren Kyle Coleman	Francis Timothy Hegarty
Anne Burns Keeler	Edward John Machado
Thornton Carter Melton, Jr.	William Neal Menefee

The Company is the sole shareholder of both Rockingham Casualty Company (RCC) and Rockingham Mutual Service Agency, Inc. (Service Agency).

**RELATED PARTY TRANSACTIONS**Services Agreement:

The Company has a services agreement in effect with its subsidiaries, RCC and Service Agency. Under the terms of the agreement, the Company provides facilities and services to RCC and the Service Agency including, but not limited to, management, administration, claims, operations, accounting, and personnel. The purpose of this agreement is to ensure that the portion of various general expenses that are incurred by the Company for the benefit of a subsidiary will subsequently be allocated to and reimbursed by the subsidiary companies. The agreement states that the settlement of allocated expenses will be on an actual or percentage basis with payments by the subsidiary companies made to the Company within approximately ninety days after the end of the month to which they are applicable. During the period under review, the Company received the following amounts pursuant to this agreement:

	<u>RCC</u>	<u>Service Agency</u>
2007	\$2,738,132	\$172,950
2008	2,737,106	111,970
2009	2,815,993	113,160



Tax Sharing Agreement:

The Company has a tax sharing agreement with its subsidiaries, RCC and Service Agency, 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 and Dividends:

The Company made no capital contributions to nor did it receive any dividends from RCC during the period covered by this examination.

Employee Pension Plans:

The Company maintains a 401(k) defined contribution retirement program for its employees.

This program provides for each employee to contribute a selected percentage of his or her salary through automatic, pre-tax payroll deductions. The employee may contribute 1% to 15% of their salary, subject to certain limitations on the maximum amount that can be contributed. The Company contributes a dollar for every dollar contributed by the employee up to 3% of the employee's salary. In addition, the Company may make an annual profit sharing contribution up to 7.5% to the program. The profit sharing contribution is determined by a formula based upon the Company's premium growth and net operating income each year and is approved by the board of directors. The Company's payments to this program are made during the year.

Additionally, the Company will also contribute up to 4.5% of the employee's salary for plan participants at year-end. These payments are made during the first sixty days of the subsequent year.

The Company's contributions to this program for the years ended December 31, 2007, 2008 and 2009 were \$384,423, \$357,159 and \$409,814, respectively.

During 2001, the Company adopted two separate incentive compensation plans and a supplemental employee retirement plan (SERP). The incentive plans provide for additional compensation based on the achievement of certain stated goals. The SERP accepts contributions from both employees and the Company that are held until the employee reaches a future specified date or is no longer employed by the Company. Expenses incurred related to these incentive compensation and SERP plans for 2007, 2008 and 2009 were \$356,049, \$201,807 and \$214,179, respectively.

**FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2009 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 coverages in effect at December 31, 2009: directors and officers liability, business auto policy, comprehensive business liability, workers compensation and employers' liability and commercial umbrella liability.

**LINE OF CREDIT**

The Company maintains an unsecured line of credit with a local bank totaling \$2,000,000. At December 31, 2009, no amount was outstanding on the line of credit.

## TERRITORY AND PLAN OF OPERATION

The Company confines its operations to Virginia. As of December 31, 2009, the majority of the Company's volume was concentrated throughout the Shenandoah Valley and east of the Blue Ridge mountains to the city of Richmond and its surrounding counties.

At December 31, 2009, the Company was licensed to write the following lines of business:

Fire	Fidelity
Miscellaneous property	Surety
Homeowners multiple Peril	Glass
Inland marine	Burglary and theft
Liability other than auto	Boiler and machinery
Farm multiple peril	Credit
Commercial multiple peril	Animal
Automobile liability	Water damage
Automobile physical damage	Home protection

Applications for insurance are solicited by approximately 151 agents, of whom 50 are exclusive and 101 are independent. Agent binding authority and underwriting requirements are set forth in the agent's manual and are approved by the chief executive officer. Coverage is effective on the date specified on the application and underwriting is completed when the application is received at the home office. Agents are required to inspect all properties and submit building replacement cost estimates, farm diagrams, supplemental woodstove inspection reports and photographs of most risks. Independent property inspections are ordered on select risks as well. Prior loss history is verified through the ISO A+ network.

A management pricing committee consisting of the president, vice president, chief financial officer, controller and claims manager reviews all rate recommendations and submits them to the chief executive officer for approval. All rate action is reviewed with the board of directors. The Company references American Association of Insurance Services data in determining rates for its lines of business.

Policies are issued for a maximum of one-year terms. Company personnel adjust claims where practical, otherwise independent adjusters are used.

**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, 2009:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Funds</u>
2000	\$32,201,342	\$10,302,047	\$21,899,295
2001	36,069,591	11,955,778	24,113,813
2002	35,999,936	12,938,820	23,061,116
2003	38,687,239	13,909,626	24,777,613
2004	44,161,854	15,624,231	28,537,623
2005	50,775,866	16,586,756	34,189,110
2006	57,709,932	17,333,556	40,376,376
2007	62,908,332	18,758,826	44,149,506
2008	60,441,103	17,593,313	42,847,790
2009	65,397,020	18,110,389	47,286,631

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Loss)</u>
2000	\$11,268,517	\$7,520,752	\$3,690,046	\$57,719
2001	11,960,874	6,713,022	4,480,500	767,352
2002	13,221,413	8,690,484	5,493,315	(962,386)
2003	14,234,041	9,655,237	5,874,943	(1,296,139)
2004	15,665,166	9,117,520	5,702,812	844,834
2005	17,066,678	8,454,529	6,154,241	2,457,908
2006	17,884,037	8,522,674	6,214,713	3,146,650
2007	17,973,966	10,002,926	6,548,581	1,422,459
2008	17,888,208	9,319,824	6,745,853	1,822,531
2009	17,602,580	10,155,081	6,697,723	749,776

**REINSURANCE**

The Company had the following reinsurance agreements in force at December 31, 2009:

**Ceded:**

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Multiple Line Excess of Loss (First Excess)	Property	\$200,000 any one risk any one occurrence	\$200,000 excess of \$200,000 any one net loss any one risk; \$600,000 any one occurrence
	Casualty	\$150,000 each loss occurrence	\$250,000 excess of \$150,000 each loss occurrence

For losses arising out of a combination of property and casualty under this agreement, the reinsurer shall be liable for the ultimate net loss over and above an initial ultimate net loss of \$200,000 each loss occurrence, subject to a limit of liability to the reinsurer of \$200,000 each loss occurrence.

Multiple Line Excess of Loss (Second Excess)	Property	\$400,000 any one risk any one occurrence	\$700,000 excess of \$400,000 any one net loss any one risk; \$1,800,000 any one occurrence
	Casualty	\$400,000 each loss occurrence	\$600,000 excess of \$400,000 each loss occurrence
Casualty Third Excess of Loss	Casualty	\$1,000,000 ultimate net loss, each loss occurrence	\$2,000,000 ultimate net loss excess of \$1,000,000 each loss occurrence

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
First Excess Catastrophe	Property	\$1,000,000 each loss occurrence	\$2,000,000 excess of \$1,000,000 each loss occurrence; \$4,000,000 in the aggregate for all loss occurrences during term of contract
Second Excess Catastrophe	Property	\$3,000,000 each loss occurrence	\$3,000,000 excess of \$3,000,000 each loss occurrence; \$6,000,000 in the aggregate for all loss occurrences during term of contract
Third Excess Catastrophe	Property	\$6,000,000 each loss occurrence	\$9,000,000 excess of \$6,000,000 each loss occurrence; \$18,000,000 in the aggregate for all loss occurrences during term of contract
Fourth Excess Catastrophe	Property	\$15,000,000 each loss occurrence	\$3,000,000 excess of \$15,000,000 each loss occurrence; \$6,000,000 in the aggregate for all loss occurrences during term of contract
Quota Share and Excess of Loss	Personal and Farm Umbrella Liability	5% of the first \$1,000,000 per occurrence	95% of the first \$1,000,000 per occurrence; 100% of \$4,000,000 excess of \$1,000,000 per occurrence

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Property Facultative Binding Authority	Property	\$100,000 minimum retention as respects any one risk	2 times the net retained liability of the Company, subject to a maximum cession of \$1,500,000 per risk
	Auto Physical Damage	\$25,000 minimum retention as respects any one risk	4 times the net retained liability of the Company, subject to a maximum cession of \$200,000 per risk

The Company offers an endorsement to its commercial, farmowners, homeowners and dwelling fire policies coverage for equipment breakdown. This business is ceded 100% to the reinsurer.

Certain agreements provide for deposit and minimum premiums, reinstatement premiums and/or specific ceding commissions. In some cases contingent commissions or profits are to be calculated and paid. All agreements contain an insolvency clause. Any portion of the reinsurance credits for outstanding losses and loss adjustment expenses recoverable provided by the aforementioned agreements, and placed with unauthorized reinsurers, shall be, at the request of the Company, funded by the unauthorized reinsurer by a Letter of Credit or cash advance.

Assumed:

Intercompany:

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

Non-Affiliated:

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 1.0% 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 \$30,000,000 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 \$30,000,000 any one occurrence when the original agreement is written on an occurrence basis or \$30,000,000 in the aggregate during any one agreement year when written on an aggregate basis.

NAMIC Insurance Company, Inc.:

The Company assumed reinsurance from the NAMIC Insurance Company, Inc. under a retrocessional agreement. The Company assumed 0.61788% of:

- (a) 50% of the first \$1,000,000 each claim, each policy, and in the aggregate where applicable of the primary insurer of directors and officers liability insurance, insurance company professional liability insurance, insurance agents and brokers errors and omissions liability insurance, insurance company trustees and fiduciaries liability insurance and professional liability for insurance related organizations; and
- (b) 80% of the next \$4,000,000 each claim, each policy, and in the aggregate where applicable, in excess of \$1,000,000 each claim, each policy, and in the aggregate where applicable of the primary insurer of directors and officers liability insurance, insurance company professional liability insurance, insurance agents and brokers errors and omissions liability insurance, insurance company trustees and fiduciaries liability insurance and professional liability for insurance related organizations.

The aggregate share of the Company's assumption shall not exceed 1.23575% of the net retained liability.



## **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, 2007 through December 31, 2009. Assets were verified and liabilities were established at December 31, 2009.

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 AMI Risk Consultants, Inc. were engaged pursuant to the provisions of Code of Virginia § 38.2-1318 E. This engagement was made to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves reported as of December 31, 2009

## **FINANCIAL STATEMENTS**

There follows a statement of financial condition as of December 31, 2009 a statement of income for the period ending December 31, 2009, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2009. The financial statements are presented in accordance with Statutory Accounting Principles.

**ASSETS**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$18,694,937		\$18,694,937
Common stocks	35,587,410	36,197	35,551,213
Real estate	1,255,645		1,255,645
Cash and short-term investments	3,964,535		3,964,535
Investment income due and accrued	276,798		276,798
Uncollected premiums and agents' balances in the course of collection	235,716	342	235,374
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,128,191		1,128,191
Amounts recoverable from reinsurers	29,962		29,962
Federal income tax recoverable	444,207		444,207
Net deferred tax asset	1,422,156	517,298	904,858
Guaranty funds receivable or on deposit	87,716		87,716
Electronic data processing equipment and software	595,229	480,625	114,604
Furniture and equipment	98,139	98,139	
Receivables from parent, subsidiaries and affiliates	261,186		261,186
Aggregate write-ins for other than invested assets	2,577,603	129,809	2,447,794
Totals	<u>\$66,659,430</u>	<u>\$1,262,410</u>	<u>\$65,397,020</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$3,891,500
Reinsurance payable on paid losses and loss adjustment expenses		41,345
Loss adjustment expenses		1,029,120
Commissions payable, contingent commissions and other similar charges		232,574
Other expenses		415,456
Taxes, licenses and fees		201,721
Unearned premiums		9,434,407
Advance premiums		500,376
Ceded reinsurance premiums payable		(77,567)
Amounts withheld or retained by company for account of others		3,334
Payable to securities		(3)
Aggregate write-ins for liabilities		<u>2,438,126</u>
Total liabilities		\$18,110,389
Unassigned funds (surplus)	<u>47,286,631</u>	
Surplus as regards policyholders		<u>47,286,631</u>
Totals		<u><u>\$65,397,020</u></u>

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

Premiums earned	<u>\$17,602,580</u>
Deductions:	
Losses incurred	\$8,905,523
Loss adjustment expenses incurred	1,249,558
Other underwriting expenses incurred	<u>6,697,723</u>
Total underwriting deductions	<u>\$16,852,804</u>
Net underwriting gain	<u>\$749,776</u>

INVESTMENT INCOME

Net investment income earned	\$987,574
Net realized capital losses	<u>111,701</u>
Net investment gain	<u>\$1,099,275</u>

OTHER INCOME

Finance and service charges not included in premiums	120,791
Aggregate write-ins for miscellaneous income	<u>7,258</u>
Total other income	<u>\$128,049</u>
Net income before federal income taxes	\$1,977,100
Federal income taxes incurred	<u>500,580</u>
Net income	<u><u>\$1,476,520</u></u>

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR PERIOD UNDER REVIEW**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Surplus as regards policyholders, December 31, previous year	<u>\$40,376,376</u>	<u>\$44,149,506</u>	<u>\$42,847,790</u>
Net income	\$1,972,916	\$2,126,839	\$1,476,520
Change in net unrealized capital gains or losses	1,887,026	(2,002,808)	2,342,941
Change in net deferred income tax	285,051	118,120	(103,276)
Change in nonadmitted assets	(169,246)	(1,539,585)	716,299
Change in provision for reinsurance	1,486	(5,104)	5,104
Aggregate write-ins for gains and losses in surplus	<u>(204,103)</u>	<u>822</u>	<u>1,253</u>
Change in surplus as regards policyholders for the year	<u>\$3,773,130</u>	<u>(\$1,301,716)</u>	<u>\$4,438,841</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$44,149,506</u></u>	<u><u>\$42,847,790</u></u>	<u><u>\$47,286,631</u></u>

**CASH FLOW****Cash From Operations**

Premiums collected net of reinsurance	\$17,144,680
Net investment income	1,051,228
Miscellaneous income	124,453
Total	<u>\$18,320,361</u>
Benefit and loss related payments	\$9,649,260
Commissions, expenses paid and aggregate write-ins for deductions	6,925,981
Federal income taxes paid	570,075
Total	<u>\$17,145,316</u>
Net cash from operations	<u>\$1,175,045</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$6,137,441
Stocks	6
Total investment proceeds	<u>\$6,137,447</u>
Cost of investments acquired (long-term only):	
Bonds	\$6,141,240
Stocks	484,339
Real estate	11,580
Total investments acquired	<u>\$6,637,159</u>
Net cash from investments	<u>(\$499,712)</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash provided	<u>\$316,747</u>
Net cash from financing and miscellaneous sources	<u>\$316,747</u>
Net change in cash and short-term investments	<u>\$992,080</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

Cash and short-term investments:	
Beginning of year	\$2,972,455
End of year	3,964,535
Net change in cash and short-term investments	<u>\$992,080</u>

### **SUBSEQUENT EVENTS**

1. The Rockingham Group, which includes the Company and RCC, and The Norfolk & Dedham Group (Norfolk & Dedham), 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 company autonomy and identity. Both organizations will work together in order to serve their policyholders, but will maintain independent boards of directors and the insurance companies will continue to be regulated by their respective domestic insurance department. All employees of the respective groups will be employees of the Newbury Corporation, a Massachusetts company, which will perform all management and administrative functions for the two groups.

Under this alliance, the insurance companies of the two groups entered into an inter-company reinsurance pooling agreement. Under this agreement, the Company will cede 100% of its premiums to Norfolk & Dedham Mutual Fire Insurance Company, the lead company in the pool. The Company will receive a 20% retrocession of the entire pool.

On September 9 and September 17, 2010, respectively, the Virginia Bureau of Insurance and the Massachusetts Division of Insurance approved Form A exemptions for their respective domestic entities indicating no change of control is intended by either party over the other.

2. The Company entered into a quota share reinsurance agreement with RCC 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 the Company.

**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. Crawley, CFE, Mario A. Cuellar, CFE, and Theresa C. Lewis, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. Bradford Earley, Jr.", written in a cursive style.

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



July 12, 2010

10 JUL 19 AM 10:16

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 June 28, 2010, regarding the Rockingham Mutual Insurance Company Examination Report as of December 31, 2009 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  
President

C: Mr. H. Roger Higgins, III, Chairman of the Board of Directors  
Mr. Warren K. Coleman, Chair of the Audit Committee  
Mr. Daniel A. Finseth, Treasurer and Assistant Corporate Secretary