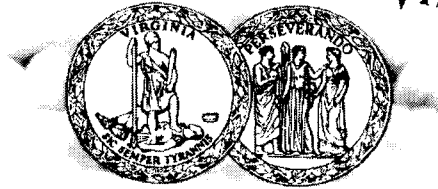


EXAMINATION REPORT
of
GRAYSON-CARROLL-WYTHE MUTUAL
INSURANCE COMPANY
Galax, Virginia
as of
December 31, 2010

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 Grayson-Carroll-Wythe Mutual Insurance Company as of December 31, 2010, 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 22nd day of August, 2011

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

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
May 20, 2011

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

**GRAYSON-CARROLL-WYTHE MUTUAL
INSURANCE COMPANY**
Galax, 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. The Company was last examined by representatives of the State Corporation Commission's (Commission) Bureau of Insurance (Bureau) as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2010.

HISTORY

The Company was originally granted a charter by the General Assembly of Virginia on February 24, 1896, under the name "Grayson County Farmers Mutual Benevolent Fire Insurance Company." The name of the Company has been changed several times. In 1977, the Farmers' Mutual Fire Insurance Association of Wythe County, Inc., was merged into the Company and the name changed to "Grayson-Carroll-Wythe Mutual Insurance Company." The purposes for which the Company was formed, according to its amended charter, are as follows:

The Conduct of a mutual assessment fire insurance business as defined in Code Section 38.1-659 including (a) fire insurance as defined in Code Section 38.1-6 and (b) miscellaneous property insurance as defined in Code Section

38.1-7 when such insurance is issued as a supplemental or comprehensive contract in connection with a fire insurance policy.

The doing of all acts necessary and incidental to the said conduct and carrying on of the business indemnifying the members thereof for loss of, or damage to, property, by the levying of assessments based upon past or anticipated future losses, throughout this State to the widest extent allowed by the laws of Virginia, and as amended from time to time.

The power to make, enter into, perform and carry out contracts for the foregoing purposes.

The power to issue bonds, or notes, which may be secured by deeds of trust on real estate, as well as chattel mortgages on personal property and conditional sales contracts, to purchase, or otherwise acquire the stocks, bonds, or other securities of other individuals, firms, or corporations, and to establish branches for more convenient operation of its business at any place, within the State of Virginia, and in general do all things to carry out the purposes of this corporation, not inconsistent with the law.

On October 27, 1992, the Bureau approved the merger of The Mutual Fire Insurance Company of Bland County into the Company. This merger became effective March 4, 1993.

MANAGEMENT AND CONTROL

According to the Company's bylaws, management is vested in a board of directors, each of whom shall be a member of the Company. Directors are elected on a rotating basis at the annual meeting of policyholders and hold office for a period of three years. The Directors shall elect, from their members, a president and a vice president; additionally they shall elect a secretary-treasurer who may or may not be a member of the board of directors. The president and vice president hold office for one year and until their successors are elected and qualified. The secretary-treasurer shall serve at the pleasure of the board.

Directors and officers were as follows at December 31, 2010:

<u>Directors</u>	<u>Principal Occupation</u>
Roger D. Burnett	Retired Galax, Virginia
Samuel H. Cassell	Retired Wytheville, Virginia
Grover H. Cornett, Jr.	Retired Mouth of Wilson, Virginia
Raymond L. Hall, Jr.	Treasurer, Vaughan Furniture Galax, Virginia
Berlie Hill	Retired Independence, Virginia
Joseph R. Liddle	Secretary-Treasurer, Grayson-Carroll- Wythe Mutual Insurance Company Galax, Virginia
G. Dallas Shumate	Retired Rural Retreat, Virginia
 <u>Officers</u>	
Roger D. Burnett	President
Joseph R. Liddle	Secretary – Treasurer
Jeffery S. Reeves	Chief Financial Officer
Randall Carpenter	Executive Vice President
David Wilson	Claims Manager

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a mutual assessment property and casualty insurer and as such may operate in any and all areas of the Commonwealth of Virginia. However, according to its bylaws, the Company confines its business to southwestern Virginia.

The Company writes fire, inland marine and homeowners' coverages and presently retains \$60,000 on such risks. The Company's bylaws allow for a maximum retention of \$60,000 on any building and its contents, or group of buildings liable to burn from a single fire. All policies, with the exception of coverages for livestock and hay, contain deductibles ranging from \$250 up to \$2500. New business solicited by agents is underwritten by the staff with final review by the secretary-treasurer who investigates and approves applications for insurance. Claims investigations and adjustments are handled by a claims adjuster, along with a final review and approval by the secretary-treasurer.

FIDELITY BOND AND OTHER INSURANCE

The Company had fidelity bond coverage in force at December 31, 2010, to insure against losses arising from dishonest acts of the secretary-treasurer and office employees. The bond provides coverage in the amount of \$250,000, subject to a \$10,000 deductible.

Additionally, the Company had professional liability and directors and officers coverage in force at December 31, 2010. The coverage limit was in the amount of \$1,000,000, with a \$25,000 deductible for each loss event. The Company also had commercial automobile coverage, workers compensation coverage, insurance agents errors and omissions coverage, and coverage on its office buildings and contents.

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2010:

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Underlying Per Risk Excess of Loss	Property	\$60,000 each risk each loss occurrence	100% of \$60,000 in excess of \$60,000 per risk
Property First Surplus	Property	\$50,000 minimum any one risk	2.4 times net retained subject to maximum cession of \$120,000 per risk
Casualty Excess of Loss	Liability	\$50,000 each risk each loss occurrence	\$500,000 in excess of \$50,000 per occurrence
Special Casualty Excess of Loss	Liability	\$500,000 combined net loss	100% of \$500,000 in excess of \$500,000 combined net loss, per occurrence, covering Bodily Injury and Property Damage Liability including Medical Payments
Aggregate Excess of Loss	Property and Casualty	80% of subject net premiums earned or \$1,782,400, whichever is the greater, plus the remaining 10% of any excess loss recoverable hereunder	90% of an amount of such excess up to but not exceeding an amount equal to 90% of 125% of net premiums earned during the respective calendar year, or 90% of \$4,177,500, whichever is the lesser

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Property Facultative Pro Rata	Property	\$50,000 any one risk	\$750,000 in excess of \$50,000
Umbrella Facultative	Property and Casualty	5% of the first \$1,000,000 of ultimate net loss	95% of the first \$1,000,000; 100% of \$4,000,000 in excess of \$1,000,000

All reinsurance is placed through Guy Carpenter & Company, Inc., a reinsurance intermediary. All agreements contain an insolvency clause and a guarantee of the intermediary's credit.

GROWTH OF THE COMPANY

The following data obtained from annual statements filed with the Bureau of Insurance and from examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2010:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2001	\$7,865,348	\$1,166,407	\$6,698,941
2002	8,154,874	1,287,239	6,867,635
2003	9,041,929	1,526,770	7,515,159
2004	9,607,128	1,624,745	7,982,383
2005	10,239,459	1,738,918	8,500,541
2006	10,751,635	1,634,779	9,116,856
2007	11,511,295	1,748,087	9,763,208
2008	11,816,309	1,760,789	10,055,520
2009	13,161,937	1,814,380	11,347,557
2010	13,878,750	1,875,221	12,003,529

<u>Year</u>	<u>Net Assessments</u>	<u>Investment Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Insurance Inforce</u>
2000	\$1,775,950	\$441,598	\$673,650	11,329	\$756,981,262
2001	1,811,622	357,685	619,769	11,482	821,207,032
2002	1,981,833	275,961	670,663	11,745	909,829,003
2003	2,057,210	339,886	623,691	12,173	1,011,381,745
2004	2,201,820	431,782	845,867	12,275	1,071,662,551
2005	2,333,666	426,835	926,001	12,181	1,103,433,199

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Net Underwriting Gains or (Losses)</u>
*2006	\$2,458,112	\$1,089,950	\$1,243,612	\$124,550
2007	2,744,662	921,431	1,486,884	336,347
2008	2,514,144	969,085	1,376,555	168,504
2009	2,533,985	849,328	1,360,508	324,149
2010	2,474,871	1,214,003	1,347,225	(86,357)

*The Company began filing a NAIC Property and Casualty Annual Statement as of December 31, 2006. Prior to 2006, the Company filed a Bureau-developed Mutual Assessment Property and Casualty Annual Statement.

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, 2008, through December 31, 2010. Assets were verified and liabilities were established at December 31, 2010.

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, 2010, a statement of income for the period ending December 31, 2010, a reconciliation of capital and surplus for the period under review, and a statement of cash flow for the period ending December 31, 2010. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$9,507,145		\$9,507,145
Preferred stocks	1,424,800		1,424,800
Common stocks	1,327,555		1,327,555
Real estate	407,662		407,662
Cash	721,665		721,665
Investment income due and accrued	121,679		121,679
Uncollected premiums and agents' balances in course of collection	61,256	1,992	59,264
Premiums and agents' balances booked but deferred and not yet due	124,177		124,177
Amounts recoverable from reinsurers	9,973		9,973
Federal income tax recoverable	69,348		69,348
Net deferred tax asset	105,482		105,482
Furniture and equipment	87,282	87,282	
Aggregate write-ins for other than invested assets	66,490	66,490	
Totals	<u>\$14,034,514</u>	<u>\$155,764</u>	<u>\$13,878,750</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$144,119
Loss adjustment expenses		2,100
Commissions payable, contingent commissions and other similar charges		145,797
Other expenses		64,343
Taxes, licenses and fees		33,247
Unearned premiums		1,406,870
Advance premium		39,788
Ceded reinsurance premiums payable		<u>38,957</u>
Total liabilities		\$1,875,221
Unassigned funds (surplus)	<u>12,003,529</u>	
Surplus as regards policyholders		<u>12,003,529</u>
Totals		<u><u>\$13,878,750</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$2,474,871
Deductions:	
Losses incurred	\$1,050,735
Loss adjustment expenses incurred	163,268
Other underwriting expenses incurred	1,347,225
Total underwriting deductions	\$2,561,228
Net underwriting loss	(\$86,357)

INVESTMENT INCOME

Net investment income earned	\$481,804
Net realized capital losses	(14,750)
Net investment gain	\$467,054

OTHER INCOME

Aggregate write-ins for miscellaneous income:	
Finance and service charges	\$60,540
Aggregate write-ins for miscellaneous income	79,601
Total other income	\$140,141
Net income before federal income taxes	\$520,838
Federal income taxes incurred	62,850
Net income	\$457,988

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Surplus as regards policyholders, December 31, previous year	<u>\$9,763,208</u>	<u>\$10,055,520</u>	<u>\$11,347,557</u>
Net income	\$427,400	\$530,825	\$457,988
Change in net unrealized capital gains or losses	(510,531)	304,670	160,741
Change in net deferred income tax	329,571	(163,240)	14,416
Change in nonadmitted assets	(8,601)	619,782	22,827
Aggregate write-ins for gains in surplus	<u>54,473</u>	<u> </u>	<u> </u>
Change in surplus as regards policyholders for the year	<u>\$292,312</u>	<u>\$1,292,037</u>	<u>\$655,972</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$10,055,520</u></u>	<u><u>\$11,347,557</u></u>	<u><u>\$12,003,529</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$2,443,816
Net investment income	482,295
Miscellaneous income	140,141
Total	<u>\$3,066,252</u>
Benefit and loss related payments	\$1,019,940
Commissions, expenses paid and aggregate write-ins for deductions	1,463,550
Federal income taxes paid	86,971
Total	<u>\$2,570,461</u>
Net cash from operations	<u>\$495,791</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$1,211,271
Stocks	425,453
Total investment proceeds	<u>\$1,636,724</u>
Cost of investments acquired (long-term only):	
Bonds	\$1,391,880
Stocks	486,256
Real estate	2,544
Miscellaneous applications	4,735
Total investments acquired	<u>\$1,885,415</u>
Net cash from investments	<u>(\$248,691)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	<u>(\$31,992)</u>
Net cash from financing and miscellaneous sources	<u>(\$31,992)</u>
Net change in cash and short-term investments	<u>\$215,108</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

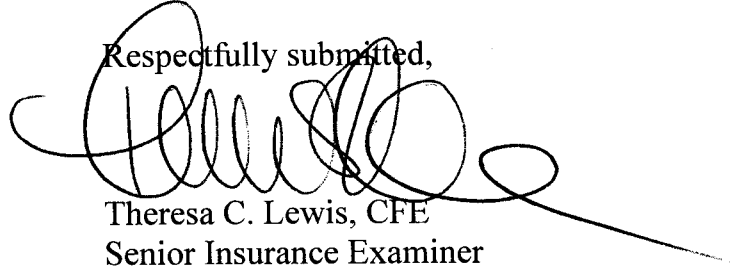
Cash and short-term investments:	
Beginning of year	\$506,557
End of year	721,665
Net change in cash and short-term investments	<u>\$215,108</u>

CONCLUSION

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

In addition to the undersigned, Jennifer K. Blizzard, CFE, Chris Collins, AFE, and Mario A. Cuellar, CFE, of the Bureau participated in the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Theresa C. Lewis', with a long horizontal flourish extending to the right.

Theresa C. Lewis, CFE
Senior Insurance Examiner



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07/27/2011

David H Smith, CFE, CPA, CPCU
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

RE: Grayson-Carroll-Wythe Mutual Insurance Company
Examination Report as of December 31, 2010

Mr. Smith,

This letter is to confirm the receipt of the Examination Report above mentioned. As requested in your letter, we would like 3 copies of the report.

Sincerely,

Roger Burnette
President
Grayson-Carroll-Wythe Mutual Insurance Company