ASSOCIATION EXAMINATION REPORT
on
ROCKINGHAM CASUALTY COMPANY
Harrisonburg, Virginia
as of
December 31, 2009

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

ALFRED W. GROSS
COMMISSIONER OF INSURANCE

COMMONWEALTH OF VIRGINIA

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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 Casualty 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 9th day of August, 2010

Alfred W. Gross

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 28, 2010

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (E) Committee
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Honorable Julie M. McPeak
Secretary-Southeastern Zone, NAIC
Executive Director
Kentucky Office of Insurance
Frankfort, Kentucky

Dear Sir or 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, 2006. This examination covers the period from January 1, 2007, through December 31, 2009.

HISTORY

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

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 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 boards 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, 2009, the board of directors, officers, and the corporate governance committee were as follows:

Directors	Principal Business Affiliation
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 Benefit Services Charlottesville, Virginia
Anne Burns Keeler	Vice President of Finance Bridgewater College Bridgewater, Virginia
Edward John Machado	Senior Consultant Wells, Canning and Associates Valhalla, New York
Thornton Carter Melton, Jr.	Retired President and Chief Executive Officer Rockingham Memorial Hospital Harrisonburg, Virginia
William Neal Menefee	President and CEO 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

Robert Richard Copty	Stephen Carr Fogleman
Thornton Carter Melton, Jr.	William Neal Menefee
Anne Burns Keeler	

The Company is a wholly owned subsidiary of Rockingham Mutual Insurance Company (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 $2,738,132, $2,737,106 and $2,815,993 in 2007, 2008, and 2009, 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, 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.

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, farm 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 generally by the same agents that market RMIC's policies. 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, 2009:

Year	Admitted Assets	Liabilities	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Funds (Surplus)
2000	$18,557,595	$12,718,411	$1,000,000	$2,000,000	$2,839,184
2001	21,773,126	15,244,101	1,000,000	2,000,000	3,529,025
2002	29,636,587	19,379,170	1,000,000	5,500,000	3,757,417
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

Year	Premiums Earned	Loss and Loss Adjustment Expenses Incurred	Other Underwriting Expenses	Net Underwriting Gains or (Loss)
2000	$9,980,611	$8,039,958	$2,910,657	($970,004)
2001	12,172,898	8,969,958	3,958,944	(756,004)
2002	16,165,371	13,416,795	4,506,593	(1,758,017)
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)

REINSURANCE

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

Ceded:

Type of Agreement	Line of Business	Company's Retention	Reinsurers' Limits
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

Type of Agreement	Line of Business	Company's Retention	Reinsurers' Limits
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

Type of Agreement	Line of Business	Company's Retention	Reinsurers' Limits
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

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 RMIC. Under this agreement, the Company will cede to RMIC 100% of the net excess liability where total net losses occurring during an agreement year exceed 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.

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

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$36,218,576		$36,218,576
Cash and short-term investments	1,596,527		1,596,527
Investment income due and accrued	457,343		457,343
Uncollected premiums and agents' balances in the course of collection	492,311	238	492,073
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,274,591		3,274,591
Amounts recoverable from reinsurers	46,319		46,319
Net deferred tax asset	756,263	96,026	660,237
Guaranty funds receivable or on deposit	7,019		7,019
Aggregate write-ins for other than invested assets	28,640		28,640
Totals	$42,877,589	$96,264	$42,781,325

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$8,868,628
Loss adjustment expenses		2,018,028
Commissions payable, contingent commissions and other similar charges		271,789
Other expenses		35,979
Taxes, licenses and fees		128,925
Current federal income taxes		379,463
Unearned premiums		7,490,002
Advance premiums		190,118
Ceded reinsurance premiums payable		63,124
Payable to parents, subsidiaries and affiliates		241,426
Total liabilities		$19,687,482
Common capital stock	$1,000,000	
Gross paid in and contributed surplus	7,000,000	
Unassigned funds (surplus)	15,093,843	
Surplus as regards policyholders		23,093,843
Totals		$42,781,325

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	$13,984,090
Deductions:	
Losses incurred	$8,539,944
Loss adjustment expenses incurred	1,200,124
Other underwriting expenses incurred	4,400,770
Total underwriting deductions	$14,140,838
Net underwriting loss	($156,748)

INVESTMENT INCOME

Net investment income earned	$1,557,614
Net realized capital losses	(79,861)
Net investment gain	$1,477,753

OTHER INCOME

Finance and service charges not included in premiums	$218,509
Aggregate write-ins for miscellaneous income	(9)
Total other income	$218,500
Net income before federal income taxes	$1,539,505
Federal income taxes incurred	381,023
Net income	$1,158,482

RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

	2007	2008	2009
Surplus as regards policyholders, December 31, previous year	$18,780,873	$20,561,019	$22,070,831
Net income	$1,851,822	$1,535,320	$1,158,482
Change in net unrealized capital gains or (losses)			(83,710)
Change in net deferred income tax	(82,599)	18,680	(84,697)
Change in nonadmitted assets	8,481	(44,188)	48,409
Change in provision for reinsurance	2,442		
Aggregate write-ins for gains and (losses) in surplus			(15,472)
Change in surplus as regards policyholders for the year	$1,780,146	$1,509,812	$1,023,012
Surplus as regards policyholders, December 31, current year	$20,561,019	$22,070,831	$23,093,843

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	$13,903,375
Net investment income	1,665,272
Miscellaneous income	189,860
Total	$15,758,507
Benefit and loss related payments	$9,205,482
Commissions, expenses paid and aggregate write-ins for deductions	4,338,968
Federal income taxes (recovered)	550,675
Total	$14,095,125
Net cash from operations	$1,663,382

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$9,209,203
Net gains on cash, cash equivalents and short-term investments	15,801
Total investment proceeds	$9,225,004
Cost of investments acquired (long-term only):	
Bonds	$10,545,538
Total investments acquired	$10,545,538
Net cash from investments	($1,320,534)

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	$1,975
Net cash from financing and miscellaneous sources	$1,975
Net change in cash and short-term investments	$344,823

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$1,251,704
End of year	1,596,527
Net change in cash and short-term investments	$344,823

SUBSEQUENT EVENTS

1. The Rockingham Group, which includes the Company and RMIC, 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.

   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 RMIC effective January 1, 2010. This agreement provides for the Company to cede 100% of its ultimate net loss, net loss adjustment expense, net underwriting expense, and finance and service charges to RMIC.

CONCLUSION

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

In addition to the undersigned, Jennifer K. Crawley, CFE, Mario A. Cuellar, CFE, and T. Bradford Earley, Jr., CFE of the Bureau participated in the work of the examination.

Respectfully submitted,

Theresa C. Lewis, CFE, AIAF
Senior Insurance Examiner

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

633 East Market Street, Harrisonburg, VA 22801-4294 ▲ Telephone: 540-434-5344 ▲ FAX: 540-434-0390 ▲ Web: www.RockinghamGroup.com

July 12, 2010

BUREAU OF INSURANCE
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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 Casualty 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

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

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