

**Examination Report
of the
ROCKINGHAM INSURANCE COMPANY
Harrisonburg, Virginia
as of
December 31, 2021**

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Rockingham Insurance Company as of December 31, 2021, 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 1st day of February 2023

Scott A. White
Commissioner of Insurance



TABLE OF CONTENTS

Scope of the Examination 1

History 2

Management and Control 3

Related Party Transactions 7

Line of Credit 7

Territory and Plan of Operation 8

Reinsurance 9

Growth of the Company 15

Financial Statements..... 16

Subsequent Event 22

Acknowledgement..... 23

Richmond, Virginia
November 3, 2022

Honorable Scott A. White
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 the

ROCKINGHAM INSURANCE COMPANY

Harrisonburg, Virginia,

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

SCOPE OF THE EXAMINATION

The Company was last examined by representatives of the State Corporation Commission Bureau of Insurance (Bureau) as of December 31, 2018. This examination covers the period from January 1, 2019 through December 31, 2021.

The 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, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

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, 2021.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

HISTORY

The Company is a stock property and casualty insurer chartered on May 1, 1968 and created because of a merger between Rockingham Home Mutual Fire Insurance Company and West Rockingham Mutual Fire Insurance. The merged companies were chartered by acts of the General Assembly on March 23, 1869 and March 22, 1872, respectively. 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.

Effective November 1, 2013, a Mutual Holding Company system was formed under a Plan of Conversion approved by policyholders and the Bureau. The Bureau's approval of the Plan of Conversion was conditioned on the prior approval of any of the following occurring after the conversion: 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 time of the approval of the Plan; 5) any dividends and distributions; and 6) the pledge, encumbrance or transfer of the stock of the converted company. Pursuant to the plan, Rockingham Mutual Group, Inc. (RMG) was formed as a mutual holding company, and Rockingham Group, Inc. (RGI) was formed as a stock holding company subsidiary of RMG. The Company was converted to a stock company and its name changed to Rockingham Insurance Company. The Company issued 5,000 shares of its common stock at a par value of \$200 to RMG. RMG transferred these shares to RGI resulting in RGI being the direct parent of the Company.

According to its restated articles of incorporation as of November 1, 2013, 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 5 nor more than 13 persons elected by the members at annual meetings of the Company. Directors shall be elected for a term of one year and each 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, and a chief financial 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. Officers shall be elected for terms of one year but shall hold such office only at the pleasure of the board of directors. 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. At December 31, 2021 the board of directors and officers were as follows:

DirectorsPrincipal Business Affiliation

| | |
|----------------------------|--|
| Gene Patrick Berry | Consultant Indianapolis, Indiana |
| Michelle Suzanne Cox | Retired Cross Junction, Virginia |
| Douglas Gene Driver | Retired Broadway, Virginia |
| Horace Rogers Higgins, III | Principal OneDigital Health & Benefits Charlottesville, Virginia |
| Anne Burns Keeler | Consultant Staunton, Virginia |
| Robert Lehman Lyon | President and Chief Executive Officer of the Company Harrisonburg, Virginia |
| Timothy Gerard O'Shea | Vice President Dayforce Benefits, Ceridian Corporation Richmond, Virginia |
| Todd Andrew Putney | Retired Roanoke, Virginia |
| Christopher Scott Runion | President Eddie Edwards Signs Harrisonburg, Virginia |
| Pamela Lynette Turner | Sr. Vice President, Corporate Strategy Compass Community Credit Union Trinidad, California |

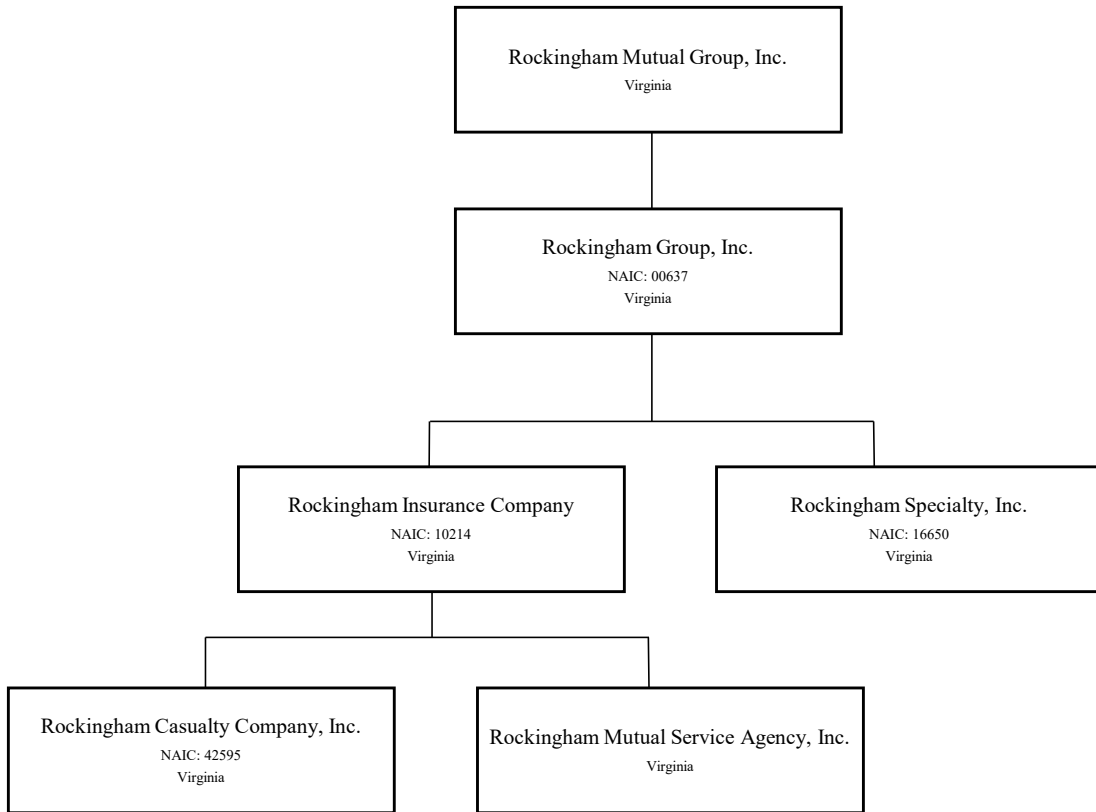
Officers

| | |
|------------------------|---------------------------------------|
| Timothy G. O'Shea | Chairman of the Board |
| Douglas G. Driver | Vice Chairman of the Board |
| Robert L. Lyon | President and Chief Executive Officer |
| John K. Schwertfuehrer | Chief Financial Officer and Treasurer |
| William E. Bayer | Vice President – Marketing |
| Deborah L. Van Horn | Vice President – Specialty Lines |
| Steven E. Kemp | Vice President – Farm Underwriting |

Chad J. Covelli
Marcia J. Engle
Karl E. Hancock
Lawrence R. Fortin

Vice President – Admitted Lines
Vice President – Human Resources
Vice President - Claims
Vice President and Chief Information Officer

The Company is a member of a holding company. The following organizational chart illustrates this relationship as of December 31, 2021:



RELATED PARTY TRANSACTIONS

Services Agreement:

The Company has services agreements in effect with its subsidiaries, Rockingham Casualty Company, Inc. (RCC), Rockingham Mutual Service Agency, Inc. (Service Agency), and Rockingham Specialty, Inc. (RSI). Under the terms of the agreements, the Company provides facilities and services to RCC, the Service Agency, and RSI including, but not limited to, management, administration, claims, operations, accounting, and personnel. The agreements ensure that general expenses incurred by the Company for the benefit of a subsidiary will be allocated to and reimbursed by the subsidiary. The agreements state that the settlement of allocated expenses will be on an actual or percentage basis with payments made to the Company within approximately 90 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 these agreements:

| | <u>RCC</u> | <u>RSI</u> | <u>Service Agency</u> |
|------|-------------|------------|-----------------------|
| 2019 | \$6,984,602 | \$0 | \$123,735 |
| 2020 | \$8,095,869 | \$0 | \$128,785 |
| 2021 | \$5,809,029 | \$893,643 | \$140,040 |

Tax Sharing Agreement:

The Company has a tax sharing agreement with RCC, RSI, 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 paid a dividend of \$4.0 million to its parent, RGI, on September 30, 2021.

LINE OF CREDIT

The Company maintains an unsecured line of credit of \$2,000,000 with a local bank. At December 31, 2021, no amount was outstanding on the line of credit.

TERRITORY AND PLAN OF OPERATION

The Company is a multi-line insurance carrier underwriting primarily personal property and casualty insurance coverage in Virginia. The Company also writes surplus lines business on a non-admitted basis in New York, California and Pennsylvania. In 2018, the Company hired an experienced commercial underwriting team to grow the commercial lines segment and further diversify the Company's overall insurance portfolio. At December 31, 2021, the Company was licensed to write the following lines of business:

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

Applications for insurance are solicited by approximately 180 agents. 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 must 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. Prior loss history is verified through the ISO A+ network.

A management pricing committee, consisting of the president, vice president, chief financial officer 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. In addition, the Insurance Services Office is used for certain Specialty programs.

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

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2021:

Ceded Reinsurance:

| <u>Type of Agreement</u> | <u>Line of Business</u> | <u>Company's Retention</u> | <u>Reinsurers' Limits</u> |
|---|-------------------------|--|---|
| Multiple Line Excess of Loss (Core Program) | Property | \$250,000 any one risk any one occurrence | \$750,000 excess of \$250,000 any one net loss any one risk; \$2,250,000 any one occurrence |
| | Casualty | \$200,000 each loss occurrence | \$800,000 excess of \$200,000 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 \$250,000 each loss occurrence.

| <u>Type of Agreement</u> | <u>Line of Business</u> | <u>Company's Retention</u> | <u>Reinsurers' Limits</u> |
|---|------------------------------|-----------------------------------|---|
| Casualty Excess of Loss (Atlas General) | Commercial General Liability | \$250,000 each loss occurrence | \$750,000 excess of \$250,000 each loss occurrence |
| Quota Share (Atlas General) | Casualty | 80% | 20% of net liability (placed 78.5%); \$50,000 any one loss occurrence; annual aggregate limit is 200% of Company's ceded net written premium |

| <u>Type of Agreement</u> | <u>Line of Business</u> | <u>Company's Retention</u> | <u>Reinsurers' Limits</u> |
|---------------------------|-------------------------|---|--|
| Property Per Risk | Property | \$1,000,000 ultimate net loss, each loss | \$2,000,000 excess of \$1,000,000 ultimate net loss, each loss, each risk |
| Casualty Excess of Loss | Casualty | \$1,000,000 ultimate net loss, each loss occurrence | \$3,000,000 ultimate net loss excess of \$1,000,000 each loss occurrence |
| First Excess Catastrophe | Property | \$5,000,000 each loss occurrence | \$5,000,000 excess of \$5,000,000 each loss occurrence |
| Second Excess Catastrophe | Property | \$10,000,000 each loss occurrence | \$15,000,000 excess of \$10,000,000 each loss occurrence |
| Third Excess Catastrophe | Property | \$25,000,000 each loss occurrence | \$47,000,000 excess of \$25,000,000 each loss occurrence |
| Fourth Excess Catastrophe | Property | \$72,000,000 each loss occurrence | \$53,000,000 excess of \$72,000,000 each loss occurrence |
| Fifth Excess Catastrophe | Property | \$125,000,000 each loss occurrence | \$22,000,000 excess of \$125,000,000 each loss occurrence; \$22,000,000 in the aggregate for all loss occurrences during term of contract |

| <u>Type of Agreement</u> | <u>Line of Business</u> | <u>Company's Retention</u> | <u>Reinsurers' Limits</u> |
|--------------------------------|--------------------------------------|---|---|
| Quota Share and Excess of Loss | Personal and Farm Umbrella Liability | 10% of the first \$1,000,000 per occurrence | 90% of the first \$1,000,000 per occurrence; 100% of \$4,000,000 excess of \$1,000,000 per occurrence |
| Quota Share (Ethos) | Property | 70% | 30% of gross liability, \$75,000 of any one loss occurrence; annual aggregate limit is \$6,000,000 |
| Property Facultative (Atlas) | Property | \$3,000,000 | \$7,000,000 ultimate net loss |
| Quota Share (iDemand) | Flood | 10% of net liability | 90% of net liability; to not exceed 90% of \$20,000,000 as respects any one loss occurrence; net written premium shall not exceed \$10,000,000 during the term of the agreement |

| <u>Type of Agreement</u> | <u>Line of Business</u> | <u>Company's Retention</u> | <u>Reinsurers' Limits</u> |
|---|-------------------------|--------------------------------|--|
| Multiple Line Excess of Loss (Commercial Elite) | Property | \$300,000 each loss occurrence | \$700,000 excess of \$300,000 any loss occurrence; \$3,000,000 any one occurrence |
| | Casualty | \$300,000 each loss occurrence | \$700,000 excess of \$300,000 any loss occurrence; \$2,500,000 any one 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 \$300,000 each loss occurrence, subject to a limit of liability to the reinsurer of \$300,000 each loss occurrence.

| <u>Type of Agreement</u> | <u>Line of Business</u> | <u>Company's Retention</u> | <u>Reinsurers' Limits</u> |
|---|-------------------------------|--|---|
| Property Facultative (Commercial Elite) | Property | \$3,000,000 | \$12,000,000 ultimate net loss |
| Property Facultative (Core Program) | Property | \$3,000,000 | \$6,000,000 ultimate net loss |
| Quota Share and Excess of Loss | Commercial 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 |

The Company secures individual facultative coverage on any Commercial Elite risks that exceed the automatic facultative limits.

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.

The Company offers an endorsement to its commercial policies coverage for inland flood, employment practices liability, identity recovery, contractors errors and omissions, and cyber liability. 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 Reinsurance:

Intercompany:

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. This agreement was terminated effective December 31, 2019.

The Company entered into an intercompany pooling agreement with RSI and RCC effective January 1, 2020. This agreement provides for the Company to assume 100% of the covered business by RSI and RCC. The Company agrees to then cede, and the parties assume, the specified participation percentage.

| | |
|------------------------------|------|
| Rockingham Insurance Company | 46% |
| Rockingham Casualty Company | 32% |
| Rockingham Specialty, Inc. | 22% |
| | 100% |

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 1.25% 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 \$60,000,000 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 \$60,000,000 any one occurrence when the original agreement is written on an occurrence basis or \$120,000,000 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 0.58337% 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) 85% 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 1.16675% of the net retained liability.

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, 2021:

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Common Capital Stock</u> | <u>Unassigned Funds</u> |
|-------------|------------------------|--------------------|-----------------------------|-------------------------|
| 2012 | \$96,696,809 | \$41,904,186 | | \$54,792,623 |
| 2013* | 107,735,733 | 49,142,824 | 1,000,000 | 57,592,909 |
| 2014 | 116,711,191 | 55,114,729 | 1,000,000 | 60,596,462 |
| 2015 | 121,819,991 | 58,183,113 | 1,000,000 | 62,636,878 |
| 2016 | 133,275,246 | 64,423,674 | 1,000,000 | 67,851,572 |
| 2017 | 144,689,854 | 67,871,829 | 1,000,000 | 75,818,025 |
| 2018 | 152,951,780 | 79,651,707 | 1,000,000 | 72,300,073 |
| 2019 | 152,187,010 | 93,220,567 | 1,000,000 | 57,966,443 |
| 2020 | 166,666,995 | 105,296,035 | 1,000,000 | 60,370,960 |
| 2021 | 169,190,250 | 111,449,896 | 1,000,000 | 56,740,354 |

| <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> |
|-------------|------------------------|---|------------------------------------|---|
| 2012 | \$31,579,112 | \$23,588,448 | \$12,447,616 | \$(4,456,952) |
| 2013 | 34,645,506 | 23,906,364 | 13,123,726 | (2,384,584) |
| 2014 | 38,273,109 | 23,472,945 | 14,204,648 | 595,516 |
| 2015 | 41,795,358 | 26,036,449 | 15,501,690 | 257,219 |
| 2016 | 45,959,195 | 28,106,134 | 17,399,723 | 453,338 |
| 2017 | 52,159,547 | 29,089,612 | 21,369,402 | 1,700,533 |
| 2018 | 58,743,576 | 39,855,592 | 23,502,231 | (4,614,247) |
| 2019 | 71,508,806 | 45,798,436 | 33,099,963 | (7,389,593) |
| 2020 | 43,190,617 | 24,839,514 | 19,615,445 | (1,264,342) |
| 2021 | 52,767,924 | 34,820,088 | 22,839,097 | (4,891,261) |

*Company converted to a stock insurance company in 2013.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the company for the period ending December 31, 2021. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2021.

ASSETS

| | <u>Assets</u> | <u>Nonadmitted Assets</u> | <u>Net Admitted Assets</u> |
|--|-----------------------------|-------------------------------|------------------------------------|
| Bonds | \$95,068,800 | | \$95,068,800 |
| Preferred stocks | 500,000 | | 500,000 |
| Common stocks | 47,987,853 | 11,063 | 47,976,790 |
| Real estate | 1,055,701 | | 1,055,701 |
| Cash and short-term investments | 8,718,632 | | 8,718,632 |
| Investment income due and accrued | 556,864 | | 556,864 |
| Uncollected premiums and agents' balances in the course of collection | 10,011,662 | | 10,011,662 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 1,905,833 | 31,575 | 1,874,258 |
| Amounts recoverable from reinsurers | 1,117,648 | | 1,117,648 |
| Current federal income tax recoverable | 409,832 | | 409,832 |
| Net deferred tax asset | | | |
| Guaranty funds receivable or on deposit | 189 | | 189 |
| Electronic data processing equipment and software | 599,548 | 181,688 | 417,860 |
| Furniture and equipment | 346,610 | 346,610 | |
| Receivables from parent, subsidiaries and affiliates | 906,430 | | 906,430 |
| Aggregate write ins for other than invested assets | <u>1,075,444</u> | <u>499,860</u> | <u>575,584</u> |
| Totals | <u><u>\$170,261,046</u></u> | <u><u>\$1,070,796</u></u> | <u><u>\$169,190,250</u></u> |

LIABILITIES, SURPLUS AND OTHER FUNDS

| | | |
|--|-------------------|---------------------------------|
| Losses | | \$20,004,939 |
| Loss adjustment expenses | | 6,944,946 |
| Commissions payable, contingent commissions and other similar charges | | 861,959 |
| Other expenses | | 1,487,520 |
| Taxes, licenses and fees | | 746,564 |
| Net deferred tax liability | | 1,356,068 |
| Unearned premiums | | 32,435,022 |
| Advance premium | | 1,106,858 |
| Ceded reinsurance premiums payable | | 2,574,396 |
| Funds held by company under reinsurance treaties | | 41,025,000 |
| Amounts withheld or retained by company for account of others | | 61,740 |
| Drafts outstanding | | 20,221 |
| Payable to parent, subsidiaries and affiliates | | 818 |
| Payable for securities | | (31) |
| Aggregate write-ins for liabilities | | <u>2,823,876</u> |
| Total liabilities | | \$111,449,896 |
| Common capital stock | \$1,000,000 | |
| Unassigned funds (surplus) | <u>56,740,354</u> | |
| Surplus as regards policyholders | | <u>57,740,354</u> |
| Totals | | <u><u>\$169,190,250</u></u> |

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

| | |
|--------------------------------------|----------------------|
| Premiums earned | <u>\$52,767,924</u> |
| Deductions: | |
| Losses incurred | \$28,926,364 |
| Loss adjustment expenses incurred | 5,893,724 |
| Other underwriting expenses incurred | <u>22,839,097</u> |
| Total underwriting deductions | <u>\$57,659,185</u> |
| Net underwriting loss | <u>(\$4,891,261)</u> |

INVESTMENT INCOME

| | |
|------------------------------|--------------------|
| Net investment income earned | \$3,403,094 |
| Net realized capital gains | <u>4,217,227</u> |
| Net investment gain | <u>\$7,620,321</u> |

OTHER INCOME

| | |
|--|---------------------------|
| Finance and service charges not included in premiums | \$144,653 |
| Aggregate write-ins for miscellaneous income | <u>18,350</u> |
| Total other income | <u>\$163,003</u> |
| Net income before federal income taxes | \$2,892,063 |
| Federal income tax incurred | <u>(224,078)</u> |
| Net income | <u><u>\$3,116,141</u></u> |

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

| | <u>2019</u> | <u>2020</u> | <u>2021</u> |
|---|-----------------------|-----------------------------|----------------------|
| Surplus as regards policyholders, December 31, previous year | <u>\$73,300,073</u> | <u>\$58,966,443</u> | <u>\$61,370,960</u> |
| Net income | \$5,023,195 | \$2,240,083 | \$3,116,141 |
| Change in net unrealized capital gains or (losses) | (3,682,630) | 1,887,615 | (3,286,828) |
| Change in net deferred income tax | 463,513 | (1,010,152) | 358,810 |
| Change in nonadmitted assets | (137,708) | (713,029) | 181,271 |
| Dividends to stockholders | <u>(16,000,000)</u> | <u> </u> | <u>(4,000,000)</u> |
| Change in surplus as regards policyholders for the year | <u>(\$14,333,630)</u> | <u>\$2,404,517</u> | <u>(\$3,630,606)</u> |
| Surplus as regards policyholders, December 31, current year | <u>\$58,966,443</u> | <u>\$61,370,960</u> | <u>\$57,740,354</u> |

CASH FLOW**Cash From Operations**

| | |
|--|---------------------|
| Premiums collected net of reinsurance | \$60,656,665 |
| Net investment income | 4,065,217 |
| Miscellaneous income | 163,003 |
| Total | <u>\$64,884,885</u> |
| Benefits and loss related payments | \$28,322,625 |
| Commissions, expenses paid and aggregate write-ins for deductions | 28,453,733 |
| Federal income taxes paid | (998,888) |
| Total | <u>\$55,777,470</u> |
| Net cash from operations | <u>\$9,107,415</u> |

Cash From Investments

| | |
|---|----------------------|
| Proceeds from investments sold, matured or repaid: | |
| Bonds | \$20,539,112 |
| Stocks | 7,861,060 |
| Net gains on cash, cash equivalents, and short-term investments | 43 |
| Miscellaneous proceeds | 11,429 |
| Total investment proceeds | <u>\$28,411,644</u> |
| Cost of investments acquired (long-term only): | |
| Bonds | \$30,519,832 |
| Stocks | 1,632,438 |
| Real estate | 74,629 |
| Total investments acquired | <u>\$32,226,899</u> |
| Net cash from investments | <u>(\$3,815,255)</u> |

Cash From Financing and Miscellaneous Sources

| | |
|---|----------------------|
| Cash provided (applied): | |
| Dividends to stockholders | (\$4,000,000) |
| Other cash applied | (1,681,340) |
| Net cash from financing and miscellaneous sources | <u>(\$5,681,340)</u> |
| Net change in cash and short-term investments | <u>(\$389,180)</u> |

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

| | |
|---|--------------------|
| Cash and short-term investments: | |
| Beginning of year | \$9,107,812 |
| End of year | 8,718,632 |
| Net change in cash and short-term investments | <u>(\$389,180)</u> |

SUBSEQUENT EVENT

On July 28, 2022, the Board of Directors appointed Kevin Vance as Chief Risk Officer.

ACKNOWLEDGEMENT

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, T. Bradford Earley, Jr., AIAF, CFE, CPCU and Mario A. Cuellar, CFE, Danielle T. Ellis, and Benjamin B. MacKercher, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

Jennifer K. Blizzard

Jennifer K. Blizzard, AIM, AIAF, CFE
Insurance Principal Financial Analyst



633 East Market Street
Harrisonburg, VA 22801

(540) 434-5344

(800) 434-7736

Fax (800) 847-7625

www.ROCKINGHAM.Insure

January 26, 2023

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

Via E-Mail

Re: Rockingham Insurance Company
Examination Report as of December 31, 2021

Dear Mr. Smith:

This is in response to your letter dated January 10, 2023, regarding the Rockingham Insurance Company Examination Report as of December 31, 2021 that was recently completed by the Virginia Bureau of Insurance.

We acknowledge receipt of the draft examination report and have no issues with the findings contained therein. Therefore, 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 completing the examination fieldwork.

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

Sincerely,

Robert L. Lyon
President and Chief Executive Officer

cc: Mr. Douglas G. Driver, Chairman of the Board of Directors
Ms. Anne B. Keeler, Chair of the Audit Committee
Mr. John K. Schwertfuehrer, Chief Financial Officer & Treasurer

Wherever you are, we're *here*.
