WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY

Statutory Basis Financial Statements

Report on Internal Controls

December 31, 2012

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STATUTORY BASIS
FINANCIAL STATEMENTS

WEST VIRGINIA NATIONAL
AUTO INSURANCE COMPANY

December 31, 2012

Tetrick & Bartlett, PLLC
Certified Public Accountants
Consultants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West Virginia National Insurance Company
Morgantown, WV

We have audited the accompanying financial statements of West Virginia National Insurance Company, which comprise the statutory statements of admitted assets, liabilities and surplus as of December 31 , 2012, and the related statutory statements of operations, changes in surplus and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the State of West Virginia Offices of the Insurance Commissioner. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1 to the financial statements, the financial statements are prepared on the basis of the financial reporting provisions of the State of West Virginia Offices of the Insurance Commissioner, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the State of West Virginia Offices of the Insurance Commissioner.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of West Virginia National Insurance Company as of December 31, 2012, or the results of its operations or its cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of West Virginia National Insurance Company as of December 31, 2012, and the results of its operations and its cash flows for the year then ended, on the basis of the financial reporting provisions of the State of West Virginia Offices of the Insurance Commissioner as described in Note 1.

Other Matter

The financial statements of West Virginia National Insurance Company as of December 31, 2011, were audited by other auditors whose report dated May 31, 2012, expressed an unmodified opinion on those statements.

Tetrick & Bartlett, PLLC

May 31, 2013

WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY
STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS
STATUTORY BASIS
DECEMBER 31,

	2012	2011
ADMITTED ASSETS		
CASH AND INVESTMENTS		
Bonds, at amortized cost	$ 6,953,966	$ 5,975,197
Common stocks	361,968	123,901
Cash and short-term investments	886,134	1,690,948
TOTAL CASH AND INVESTMENTS	**8,202,068**	**7,790,046**
OTHER ADMITTED ASSETS		
Premiums in course of collection	969,907	2,327,957
Reinsurance recover. on loss and loss adj. exp. payments	377,873	564,082
Accrued investment income	54,071	52,861
Premium tax refund receivable	145,943	-
Current income tax receivable	90,037	-
Net deferred tax asset	316,080	137,126
	1,953,911	**3,082,026**
TOTAL ADMITTED ASSETS	**$ 10,155,979**	**$ 10,872,072**
LIABILITIES AND SURPLUS		
LIABILITIES		
Reserves		
Losses and loss adjustment expenses	$ 3,673,089	$ 3,294,267
Unearned premiums	1,194,323	1,485,372
TOTAL RESERVES	**4,867,412**	**4,779,639**
Accounts payable and accrued expenses		
Accounts payable and other current liabilities	444,390	454,362
Ceded reinsurance premiums payable - Net	122,225	350,630
Advance premiums	124,641	126,473
Income tax liability	-	6,950
Other liabilities	116,590	82,536
	807,846	**1,020,951**
TOTAL LIABILITIES	**5,675,258**	**5,800,590**
SURPLUS		
Common stock, Class A - par value $50,000 per share, 40 shares authorized, 20 shares issued and outstanding	1,000,000	1,000,000
Common stock, Class B - par value $100 per share, 10 shares authorized, issued and outstanding - Note 10	1,000	1,000
Additional paid-in capital	1,999,000	1,999,000
Unassigned funds	1,480,721	2,071,482
TOTAL SURPLUS	**4,480,721**	**5,071,482**
TOTAL LIABILITIES AND SURPLUS	**$ 10,155,979**	**$ 10,872,072**

The accompanying independent auditors' report and notes are intergral parts of these financial statements.

WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY
STATEMENTS OF OPERATIONS
STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31,

	2012	2011
Premiums earned	$ 8,433,132	$ 8,480,333
Losses and loss adjustment expenses (net)	(6,297,781)	(5,406,096)
Commissions expense (net)	(1,107,552)	(1,066,817)
Other underwriting expenses	(1,820,991)	(1,987,999)
NET UNDERWRITING INCOME	**(793,192)**	**19,421**
Net investment income	151,242	251,506
Other (expense) income	(104,020)	141,204
STATUTORY NET INCOME BEFORE INCOME TAX	**(745,970)**	**412,131**
Provision for Federal Income Tax	90,268	(59,813)
STATUTORY NET (LOSS) INCOME	**$ (655,702)**	**$ 352,318**

The accompanying independent auditors' report and notes are intergral parts of these financial statements.

WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY
STATEMENTS OF CHANGES IN SURPLUS
STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31,

	2012	2011
SURPLUS - BEGINNING OF PERIOD	$ 5,071,482	$ 4,772,018
Change in deferred taxes	142,300	(16,993)
Change in net unrealized capital gains or (losses)	21,881	(45,211)
Change in non-admitted assets	18,510	9,350
Dividends paid	(117,750)	-
Statutory net (loss) income	(655,702)	352,318
SURPLUS - END OF PERIOD	$ 4,480,721	$ 5,071,482

The accompanying independent auditors' report and notes are intergral parts of these financial statements.

WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY
STATEMENTS OF CASH FLOWS
STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31,

		2012		2011
OPERATING ACTIVITIES				
Premiums collected - net of reinsurance	$	8,791,261	$	8,399,002
Losses and loss adjustment expense paid		(4,849,499)		(4,935,054)
Underwriting expenses paid		(3,920,886)		(3,817,359)
Taxes paid		(6,719)		(82,000)
Net investment income		177,869		264,992
Other income		328,034		141,202
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**520,060**		**(29,217)**
INVESTING ACTIVITIES				
Proceeds from sale or maturity of bonds		2,768,749		2,661,998
Proceeds from sale of common stocks		-		143,793
Cost of investments acquired		(3,991,528)		(1,252,920)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		**(1,222,779)**		**1,552,871**
FINANCING AND MISCELLANEOUS ACTIVITIES				
Dividends to stockholder		(117,750)		-
Other provisions		15,655		31,601
NET CASH (USED IN) PROVIDED BY FINANCING AND MISCELLANEOUS ACTIVITIES		**(102,095)**		**31,601**
NET (DECREASE) INCREASE IN CASH AND SHORT-TERM INVESTMENTS		**(804,814)**		**1,555,255**
CASH AND SHORT-TERM INVESTMENTS BEGINNING OF PERIOD		**1,690,948**		**135,693**
CASH AND SHORT-TERM INVESTMENTS END OF PERIOD	**$**	**886,134**	**$**	**1,690,948**

The accompanying independent auditors' report and notes are intergral parts of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

West Virginia National Auto Insurance Company (the "Company"), a wholly owned subsidiary of W VA National Company, L.L.C. (the "Parent"), was incorporated on April 29, 1998 under the laws of the State of West Virginia and is an insurer of high risk property and casualty automobile insurance risks, in the states of West Virginia and Virginia.

Method of Accounting

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the West Virginia Offices of the Insurance Commissioner. The West Virginia Offices of the Insurance Commissioner recognizes only statutory accounting practices prescribed or permitted by the State of West Virginia for determining and reporting the financial condition and results of operations of an insurance company for determining its solvency under the West Virginia Insurance Law. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual Version, effective March 2013, ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of West Virginia. There were no differences in surplus or net income between NAIC SAP and accounting practices prescribed and permitted by the State of West Virginia at December 31, 2012 and 2011.

Use of Estimates

The preparation of financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by the Company include, but are not limited to, reserves for losses and loss adjustment expenses.

Premium Recognition and Related Expenses

Premiums written are earned ratably over the terms of the related insurance policies and certain reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written using pro-rata methods. On certain contracts, the reinsurer earns ceded premiums pursuant to the Company's reinsurance agreements over the terms of the original policies. The unearned portion of ceded premium is netted against the Company's direct unearned premium.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

Reinsurance recoverables are estimates of paid and unpaid losses collectible from the Company's reinsurers. The amounts ultimately collected may be more or less than these estimates. Any adjustments of these estimates are reflected in income, as they are determined. The Company periodically reviews the financial condition of its reinsurers and amounts recoverable from them, recording an allowance when necessary for uncollectible or past due reinsurance.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments purchased with original maturities of three months or less at the date of acquisition and are carried at cost.

Bonds

Bonds are valued pursuant to the instructions of the Securities Valuation Office of the NAIC. Generally, bonds are carried at amortized cost using the interest method. Bonds with NAIC designations of 3 through 6 are carried at lower of amortized cost or fair value.

Common Stocks

Common stocks are carried at fair value. The related unrealized gain or loss is reported as an adjustment to policyholders' surplus.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Impairment

Impairment of investment securities results in a charge to operations when a market decline below cost is other than temporary. Management regularly reviews each investment security for impairment based on a variety of criteria that include the extent to which cost exceeds market value, the duration of that market decline and analysis of the financial health of and specific prospects for the issuer of the security. Outside securities' ratings services provided by Moody's, Standard & Poor's, and the NAIC Securities Valuation Office are also consulted when determining temporary versus permanent investment impairments.

Real Estate

Real estate occupied by the Company is reported at cost net of accumulated depreciation. Depreciation is calculated using declining balance methods over the estimated useful life. Maintenance, repairs and minor improvements are charged to expense as incurred while expenditures which substantially improve or increase the useful life of the asset are capitalized.

Equipment

Data processing equipment is reported at cost net of accumulated depreciation. Software, furniture, fixtures and other equipment are non-admitted and charged to policyholders' surplus. Equipment is depreciated using declining balance methods over the assets' estimated useful lives. Maintenance, repairs and minor improvements are charged to expense as incurred while expenditures which substantially improve or increase the useful life of the asset are capitalized.

Loss and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses includes an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liability is necessarily based on assumptions and estimates and, while management believes the amount is adequate, the ultimate liability may differ from that provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in current earnings. Unpaid losses and loss adjustment expenses are not reported net of anticipated salvage and subrogation. Because of the nature of the business written, management believes the Company has limited exposure to environmental claim liabilities.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, cash equivalents and investments in bonds and stocks. The Company maintains its cash balances at financial institutions located in West Virginia. The Company performs periodic evaluation of the relative credit standing of these financial institutions and limits the amount of credit exposure with these institutions. The Company primarily invests in bonds and stocks of U.S. institutions.

Capitalization Policy

The Company has a written capitalization policy for the purchases of items such as electronic data processing equipment, software, furniture and other equipment. The predefined capitalization thresholds under this policy have not changed from those of the prior year.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other

The above practices vary in some respects from accounting principles generally accepted in the United States of America in determining financial position and results of operations. Such significant differences include, but are not limited to:

Bonds are carried primarily at amortized cost unless required by the NAIC to be carried at market; premium acquisition costs, such as commissions and other items, are charged to current operations as incurred, whereas related premium income is taken into earnings on a pro-rata basis over the period covered by the policies; certain assets designated as "non-admitted assets" are charged off against policyholders' surplus; realized investment gains and losses are included in net income from operations, while unrealized gains and losses are credited or charged directly to policyholders' surplus: reserves for losses and loss adjustment expenses and unearned premiums ceded to reinsurers have been reported as reductions of related reserves; changes in deferred income taxes are recognized as a separate component of gain and losses in policyholders' surplus; and changes in accounting principles are reported as adjustments to policyholders' surplus in the period of change.

The effect of such differences on the accompanying statutory financial statements has not been determined.

Subsequent Events

Management has evaluated subsequent events through February 25, 2013, the date the Annual Statutory Statements were issued. Management has updated their evaluation of subsequent events through May 31, 2013, the date the audited financial statements were available for issuance.

Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation, and certain amounts have been classified differently than as reported in the Annual Statements. Such reclassifications did not impact earnings or total surplus.

2. INVESTMENTS

The aggregate statement value or cost, gross unrealized gains, gross unrealized losses and fair value for investments at December 31, 2012 and 2011 are as follows:

	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2012				
U.S. Government and agencies	$ 1,698,096	$ 16,616	$ -	$ 1,714,712
State, territories and possessions	343,658	21,757	-	365,415
Political subdivisions	995,670	45,672	-	1,041,342
Special revenue	3,816,516	134,299	4,328	3,946,487
Corporate	100,026	5,779	-	105,805
Total Bonds	$ 6,953,966	$ 224,123	$ 4,328	$ 7,173,761
	Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Common Stocks	343,882	18,086	-	361,968
Total investments	$ 7,297,849	$ 242,209	$ 4,328	$ 7,535,729

2. INVESTMENTS (CONTINUED)

	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2011				
U.S. Government and agencies	$ 1,750,628	$ 33,767	$ 246	$ 1,784,149
State, territories and possessions	380,358	19,353	-	399,711
Political subdivisions	906,192	49,988	-	956,180
Special revenue	2,587,394	143,609	-	2,731,003
Corporate	350,625	4,863	-	355,488
Total Bonds	$5,975,197	$ 251,580	$ 246	$ 6,226,531
	Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Common Stocks	127,696	-	3,795	123,901
Total investments	$ 6,102,893	$ 251,580	$ 4,041	$ 6,350,432

The statement value and fair value maturity distribution of bonds at December 31, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations without prepayment penalties.

	2012		2011	
	Statement Value	Fair Value	Statement Value	Fair Value
Due in:				
One year or less	$ 822,431	$ 831,147	$ 1,429,719	$ 1,452,845
1 to 5 years	3,104,767	3,268,960	2,334,658	2,437,535
6 to 10 years	698,867	723,577	1,292,875	1,408,198
Over 10 years	2,327,901	2,350,077	917,945	927,953
	$ 6,953,966	$ 7,173,761	$ 5,975,197	$ 6,226,531

3. PROPERTY, PLANT, AND EQUIPMENT

Current statutory accounting guidance requires reporting entities to record furniture and equipment as assets, depreciate those assets, and non-admit the undepreciated balance in the statutory financial statements. The components of furniture, equipment and improvements are as follows:

	2012	2011
Furniture, fixtures and improvements	$ -	$ -
Equipment	6,394	6,394
Vehicles	108,280	103,706
	114,674	110,100
Accumulated Depreciation or Expensed Amounts	92,953	105,066
Non-Admitted Amounts at December 31, 2012 and 2011	21,721	5,034
Admitted Value at December 31, 2012 and 2011	$ -	$ -

Depreciation expense for 2012 and 2011 was $9,378 and $14,262, respectively.

4. REINSURANCE

In May 2007, the Company entered into contracts to reinsure losses and loss adjustment expenses paid under its dwelling/homeowners line of business. The reinsurance agreement, which was in effect, calls for the Company to cede 80% of premiums written and losses and loss adjustment expenses incurred under these policies. The Company receives a provisional ceding commission in the amount of 25% of ceded premiums written to its reinsurer during under the reinsurance agreement. The reinsurance agreement terminated on April 1, 2012, which was the effective date of the Company's discontinuation of its Dwelling/Homeowners line of business. Coverage on policies in force as of April 1, 2012 shall continue beyond the expiration date until the natural expiration of such policies or March 31, 2013 whichever occurs first.

In April 2010, the Company began writing automobile insurance policies in the State of Virginia. Accordingly, the Company entered into a contract to reinsure losses and loss adjustment expenses incurred under these policies. The reinsurance agreement which lapsed on May 1, 2012 provided for the Company to cede 70% of premiums written and losses and loss adjustment expenses incurred under its Virginia Auto policies. The Company received a provisional ceding commission of 27% (2011) and 28% (2010) of ceded premiums written under this reinsurance agreement. Coverage on policies in force as of May1, 2012 shall continue beyond the expiration until the natural expiration of such policies or April 30, 2013 whichever occurs first.

Regarding the Company's business in the West Virginia auto insurance market, the Company has not carried reinsurance on new or renewal business written in the state since May 15, 2001. Company underwriting practices were established so as to minimize the effect of no reinsurance with standard 3-month terms for most policies written or renewed after October 1, 2001 and a requirement of a 12-month paid-in-full policy for any coverage with limits in excess of $25,000 / $50,000 / $25,000 to limit the exposure to un-reinsured high limit losses.

On September 1, 2012 (after a four month absence of reinsurance coverage) the Company entered into a reinsurance agreement with Swiss Reinsurance America Corporation which covers the automobile lines of business in Virginia and West Virginia. The agreement calls for the Company to cede 30% of written premiums on policies subject to the agreement as well as 30% of losses and loss adjustment expenses incurred. The agreement calls for the Company to receive a ceding commission of 30% on premiums ceded under the contract.

The following summarizes the effect of reinsurance on the Company's written and earned premiums for the periods ended December 31, 2012 and 2011:

	2012		2011	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Direct business	$ 9,272,506	$ 10,390,845	$ 10,953,841	$ 11,160,356
Ceded	(1,130,423)	(1,957,713)	(2,563,896)	(2,680,023)
Net	$ 8,142,083	$ 8,433,132	$ 8,389,945	$ 8,480,333

Reinsurance ceded to independent insurers has reduced losses and LAE by $2,020,779 and $2,599,106 for the periods ended December 31, 2012 and 2011, respectively.

The balance of unearned premiums ceded included in the liability for unearned premiums at year-end is $450,623 and $1,277,913 at December 31, 2012 and 2011, respectively.

The Company's unsecured reinsurance balance (including ceded case and IBNR reserves) at December 31, 2012 and 2011 with SCOR Reinsurance Company was $1,517,356 and $2,446,955, respectively.

5. RESERVES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table provides a reconciliation of the beginning and ending loss reserve balances, net of reinsurance recoverable as December 31, 2012 and 2011:

LOSS AND LAE RESERVE SUMMARY	2012	2011
Unpaid losses and LAE at beginning of year	$ 3,294,267	$ 3,556,823
Losses and LAE incurred in current year:		
For current year losses and LAE	6,146,438	5,796,409
For prior year losses and LAE	(151,343)	(390,314)
Income statement amounts	6,297,781	5,406,095
Losses and LAE paid in current year:		
For current year losses and LAE	3,518,795	3,559,840
For prior year losses and LAE	2,400,164	2,108,811
Underwriting exhibits amounts	5,918,959	5,668,651
Unpaid losses and LAE at end of year	$ 3,673,089	$ 3,294,267

6. SURPLUS

Under West Virginia insurance regulations, the Company is required to maintain minimum capital of $1,000,000 and is also subject to maintaining additional surplus of at least $1,000,000. Actual statutory surplus exceeded these requirements as December 31, 2012 and 2011. The Company must notify the Commissioner before the payment of any extraordinary dividend or distribution during the year. Dividends or distributions are considered extraordinary if they equal or exceed the lesser of 10% of surplus as of the preceding December 31st, or net income for the preceding calendar year.

The Company paid $117,750 in ordinary dividends in 2012. There were no extraordinary dividends paid in 2012 or 2011. Dividends on common stock are paid as declared by the Board of Directors of the Company. For 2013, the maximum dividend payout to shareholders that may be made without prior approval of the West Virginia Insurance Department is $0.

The West Virginia Insurance Commission imposes on insurance enterprises minimum risk-based capital (RBC) requirements. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by comparing the enterprise's regulatory total adjusted capital to its authorized control level RBC. Enterprises, which fail to meet the requirements, are subject to regulatory corrective action.

The Company's total adjusted capital exceeded its authorized control level RBC, at December 31, 2012 and 2011.

7. INCOME TAXES

The federal income tax returns of the Company for 2012, 2011 and 2010 are subject to examination by the Internal Revenue Service, generally for three years after they were filed. An income tax position may create an income tax contingency for the Company. As of December 31, 2012 and 2011, there were no income tax positions that create an income tax contingency. The Company records deferred tax assets and deferred tax liabilities for certain temporary differences between statutory basis income before federal income taxes, plus certain items recorded directly to surplus and taxable income as reflected in the Company's federal income tax return, subject to certain limitations.

7. INCOME TAXES (CONTINUED)

The amount of gross deferred tax assets and deferred tax liabilities comprising net deferred tax assets is shown below as well as admitted, non-admitted and change in non-admitted deferred tax assets.

	2012			2011			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	$ 333,024	$ -	$ 333,024	$ 184,020	$ 1,290	$ 185,310	$ 149,004	$ (1,290)	$ 147,714
Statutory valuation allowance adjustment	-	-	-	-	-	-	-	-	-
Adjusted gross deferred tax assets	333,024	-	333,024	184,020	1,290	185,310	149,004	(1,290)	147,714
Non-admitted deferred tax asset	10,119	-	10,119	46,773	-	46,773	(36,654)	-	(36,654)
Net admitted deferred tax asset	322,905	-	322,905	137,247	1,290	138,537	185,658	(1,290)	184,368
Deferred tax liabilities	(676)	(6,149)	(6,825)	-	(1,411)	(1,411)	(676)	(4,738)	(5,414)
Net admitted deferred tax asset (liability)	$ 322,229	$ (6,149)	$ 316,080	$ 137,247	$ (121)	$ 137,126	$ 184,982	$ (6,028)	$ 178,954

As of December 31, the Company had no unrecognized deferred income tax liabilities. The Company did not use tax planning strategies to admit additional deferred tax assets in 2012 or 2011.

The amount of admitted gross deferred tax assets, by tax character, under each component of Statement of Statutory Accounting Principle No. 101 at December 31, 2012 are as follows:

	2012		
	Ordinary	Capital	Total
Admission calculation components - SSAP 101, paragraph 11:			
Recovered through loss carryback 11.a	$ -	$ -	$ -
Lesser of paragraph 11.b.i and 11.b.ii	316,080	-	316,080
Deferred tax asset offset against deferred tax liabilities 11.c	6,825	-	6,825
Total admitted deferred tax assets under paragraph 11	$ 322,905	$ -	$ 322,905

The adjusted authorized control level risk based capital ratio and adjusted surplus for paragraph 11 b of Statement of Statutory Accounting Principle Number 101 are as follows:

	2012
Ratio percentage of authorized control level to risk based capital	500%
Amount of adjusted surplus	$ 4,164,641

The amount of admitted gross deferred tax assets, by tax character, under each component of Statement of Statutory Accounting Principle No. 10R at December 31, 2011 are as follows:

	2011		
	Ordinary	Capital	Total
Admission calculation components - SSAP 10R, paragraphs 10.e.i, 10.e.ii, and 10.e.iii:			
Recovered through loss carryback 10.e.i	$ -	$ -	$ -
Lesser of paragraph 10.e.ii(a) and 10.e.ii(b)	137,126	-	137,126
Deferred tax asset offset against deferred tax liabilities 10.e.iii	1,411	-	1,411
Total admitted deferred tax assets under paragraph 10.e.i, 10.e.ii, and 10.e.iii	$ 138,537	$ -	$ 138,537

7. INCOME TAXES (CONTINUED)

The ten percent of adjusted capital and surplus used for paragraph 10.e.ii.b of Statement of Statutory Accounting Principle Number 10R was $457,113 for 2011. Paragraph 10.e.ii.b did not apply for 2011. The adjusted capital and authorized control level for paragraph 10d of SSAP 10R are as follows:

	2011
Total adjusted capital	$ 5,071,482
Authorized control level	$ 839,132

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 are as follows:

	2012	2011	Change
Deferred tax assets:			
Ordinary:			
Discounting of unpaid losses and loss adjustment expense	$ 56,762	$ 58,827	$ (2,065)
Unearned and advanced premiums	81,214	101,005	(19,791)
Non-admitted assets	-	-	-
Fixed assets	21,083	24,188	(3,105)
Net operating loss carryforward	173,965	-	173,965
Subtotal	333,024	184,020	149,004
Statutory valuation allowance adjustment	-	-	-
Non-admitted deferred tax assets	10,119	46,773	(36,654)
Admitted ordinary deferred tax assets	322,905	137,247	185,658
Capital:			
Net capital loss carryforward	-	-	-
Other-than-temporary-impairment	-	1,290	(1,290)
Non-admitted deferred tax assets	-	-	-
Admitted capital deferred tax assets	-	1,290	(1,290)
Admitted deferred tax assets	322,905	138,537	184,368
Deferred tax liabilities:			
Ordinary - other	(676)	(1,411)	735
Capital - investments	(6,149)	-	(6,149)
Total deferred tax liabilities	(6,825)	(1,411)	(5,414)
Net deferred tax assets	$ 316,080	$ 137,126	$ 178,954

7. INCOME TAXES (CONTINUED)

The change in net deferred tax assets is comprised of the following, excluding the change in non-admitted deferred tax assets:

Change in net deferred tax assets:

	2012	2011	Change
Total deferred tax assets	$ 322,905	$ 138,537	$ 184,368
Total deferred tax liabilities	(6,825)	(1,411)	(5,414)
Net deferred tax assets	$ 316,080	$ 137,126	178,954
Tax effect of capital deferred tax			(36,654)
Change in net deferred tax			$ 142,300

The significant items causing a difference between statutory federal income tax and the Company's effective income tax at December 31 are as follows:

	2012	2011
Provision computed at statutory rate	$ (222,976)	$ 99,321
Tax exempt interest income	(8,251)	(27,138)
Dividends received deduction	(807)	(850)
Proration of tax exempt investment income	1,238	4,070
Other	(1,772)	1,403
Total statutory income tax expense	$ (232,568)	$ 76,806
Current year income tax incurred	(90,268)	59,813
Change in net deferred income taxes	(142,300)	16,993
Total statutory income tax expense	$ (232,568)	$ 76,806

8. FAIR VALUE MEASUREMENTS

Certain assets and liabilities of the Company are reported at their fair value in the accompanying Statutory Statements of Admitted Assets, Liabilities and Policyholders' Surplus. The fair values of the Company's other financial instruments approximate their carrying amounts, either because the expected collection or payment period is relatively short or because the terms are similar to market terms.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes significant with increasingly complex instruments or pricing models.

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by Statement of Statutory Accounting Principle No. 100, Fair Value Measurements. Level 1 inputs on the hierarchy consist of unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date. Level 2 inputs on the hierarchy consist of quoted prices for similar assets and liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Level 3 inputs on the hierarchy consist of unobservable inputs (supported by little or no market activity) and reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Assets at Fair Values as of December 31, 2012

	Level 1	Level 2	Level 3	Total
Common Stocks				
Financial	$ 97,360	$ -	$ -	$ 97,360
Natural resources	130,840	-	-	130,840
Exchange traded funds	133,768	-	-	133,768
Total	$ 361,968	$ -	$ -	$ 361,968

Assets at Fair Values as of December 31, 2011

	Level 1	Level 2	Level 3	Total
Common Stocks				
Exchange traded funds	$ 123,901	$ -	$ -	$ 123,901
Total	$ 123,901	$ -	$ -	$ 123,901

The Company's policy is to recognize transfers in and transfers out as of the date of the event or change in circumstances that caused the transfer. The fair value of common stock designated as level 2 inputs utilizes the market approach.

The following table provides information about the fair value measurements for financial instruments at December 31, 2012:

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Total
Bonds	$ 7,173,761	$ 6,953,967	$ -	$ 7,173,761		$ 7,173,761
Common Stocks	361,968	343,882	361,968	-	-	361,968
Total	$ 7,535,729	$ 7,297,849	$ 361,968	$ 7,173,761	$ -	$ 7,535,729

9. RELATED PARTY TRANSACTIONS

On January 15, 1999, the Company entered into a service agreement with its Parent for which the Parent will provide computer equipment, appliances, software and hardware to maintain, operate and account for non-standard auto insurance transactions. Services were provided at a rate of 1% of the direct written premiums each month. Effective June 1, 2004, the fee related to the intercompany service agreement increased to 2% of direct written premiums. This agreement has been approved by the West Virginia Insurance Commission in compliance with the West Virginia Insurance Holding Company Systems Act, West Virginia Code §33-27-1, et seq.

For years ending December 31, 2012 and 2011, expenses incurred in connection with this service contract were $137,253 and $150,054, respectively. At December 31, 2012 and 2011, $10,367 and $11,176 were due to the Parent company under this arrangement.

The Company also has insurance policies protecting both the Parent and Company against damages under a General Liability policy and Directors and Officers Errors and Omissions policy. The related costs of these policies are allocated based upon a cost-sharing agreement approved by the West Virginia Insurance Commission.

10. COMMITMENTS AND CONTINGENCIES

The Company does not have any significant long-term operating lease commitments or contingencies that would have a material impact on the financial position of the Company as of December 31, 2012. Various lawsuits against the Company have arisen in the normal course of the Company's insurance business. The Company is not aware of any material contingent commitments at December 31, 2012.

11. EQUITY CONVERTIBLE TO DEBT

At the option of the Corporation, the shares of Class B Common Stock may be exchanged for the Corporation's subordinated notes pursuant to a number of "conditions" stipulated in the Company's Articles of Incorporation. No such exchange can take place:

- Unless Company surplus after such exchange complies with West Virginia Code
- Unless Risk Based Capital requirements are met after such exchange
- Until the Company is able to demonstrate to the Insurance Commission that the exchange would not "place the Corporation in a financial condition which may be deemed hazardous"
- Until application has been made to and approved by the Insurance Commissioner of the State of West Virginia.

No filing was made to the Insurance Commissioner of West Virginia in connection to this exchange of Class B Common Stock for subordinated notes.

12. RETIREMENT PLAN

During 2003, the Company created a Savings Incentive Match Plan for Employees (Internal Revenue Service designated "SIMPLE IRA" Plan). The Plan is a defined contribution plan allowing employees to make pre-tax voluntary contributions through payroll deductions of up to $11,500 per year in 2012. The Company matches each employee's contributions to the plan up to 3% of the employee's salary. The Company's matching contributions to the plan were $21,323 and $21,650 in 2012 and 2011, respectively..

13. LEASES

The Company leases its office facilities and equipment under various operating lease agreements. Rental expense for 2012 and 2011 was $70,895 and 63,627, respectively. At December 31, 2012, the minimum aggregate rental commitments are as follows:

Year:	Amount
2013	64,416
2014	3,916
2015	3,916
2016	979
Total	$73,227

14. DISCONTINUED OPERATIONS

The Company entered into an agreement, effective February 1, 2012, to sell its property insurance book of business to Inland Mutual Insurance Company ("Inland"). This book of business includes all of the following lines of business: Fire, AlliedLines, Homeowners Multiple Peril, Other Liability-Occurrence and Mine Subsidence. The Company stopped writing new property business in December, 2011, but continued to renew its in-force policies until March 31, 2012. The Company will be responsible for all claims on policies effective prior to this date. Beginning April 1, 2012 (or later depending on regulatory approval of Inland's rates and forms), Inland will provide rewrite offers to our property insured policyholders in an attempt to rollover the policies into their Company. The West Virginia Insurance Commission approved our withdrawal plan on January 25, 2012. The Company had approximately $500,000 of in-force property premiums as of December 31, 2011 and this book of business was reinsured under a quota share agreement whereby 80% of the premiums and losses are ceded. Therefore, the Company does not expect this discontinuation to have a material overall impact on its financials. The results of the property book of business have been reported consistently with the Company's reporting of continued operations. The Company reported $30,000 of income associated with the sale of its property insurance book of business during the year ended December 31, 2012.

REPORT ON
INTERNAL CONTROLS

WEST VIRGINIA NATIONAL
AUTO INSURANCE COMPANY

December 31, 2012