

Report of Examination of

Republic-Franklin Insurance Company
Columbus, Ohio

As of December 31, 2009

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Columbus, Ohio
February 17, 2011

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Honorable Joseph Torti III
Chairman, NAIC Financial Condition (E) Committee
Deputy Director and Superintendent
Insurance and Banking
State of Rhode Island
1511 Pontiac Avenue, Bldg. #69-2
Cranston, Rhode Island 02920

Dear Directors:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Republic-Franklin Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company”.

Scope of Examination

The Department last examined the Company as of December 31, 2004. The current examination covers the period of January 1, 2005 through December 31, 2009. Concurrently, the New York Department of Insurance examined Utica Mutual Insurance Company (“UMIC”) and Graphic Arts Mutual Insurance Company (“GAMIC”). UMIC and GAMIC own 94% and 6% of the Company, respectively. These entities, along with other affiliates, are members of the Utica National Insurance Group.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of PricewaterhouseCoopers LLP provided an unqualified opinion on the combined statutory financial statements of Utica National Insurance Group. The audit reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Alfred E. Calligaris	President, The Stebbins Engineering and Manufacturing Company
Roy A. Cardia	Retired, M&M Bindery, Inc.
Paul A. Hagstrom, Ph.D.	Professor of Economics, Hamilton College
Jerry J. Hartman	Retired President, Reese Press
Brian P. Lytwynec	President and Chief Operating Officer, Utica Mutual Insurance Company
Anthony C. Paolozzi	Executive Vice President and Chief Financial Officer, Utica Mutual Insurance Company
Alan J. Pope, Sr.	President and Chief Executive Officer, Love, Douglas and Pope
J. Douglas Robinson	Chairman and Chief Executive Officer, Utica Mutual Insurance Company
Linda E. Romano	Attorney at Law, Bond, Schoeneck and King
George P. Wardley, III	Secretary, Utica Mutual Insurance Company
John R. Zapisek	Retired Executive Vice President and Treasurer, Utica Mutual Insurance Company

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
J. Douglas Robinson	Chairman of the Board and Chief Executive Officer
Brian P. Lytwynec	President and Chief Operating Officer
George P. Wardley, III	Secretary
Cynthia L. Casale	Senior Vice President, Chief Investment Officer and Treasurer

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in Section 3901.32 of the ORC. Utica National Insurance Group is a trade name under which the following insurance companies operate:

- Utica Mutual Insurance Company
- Graphic Arts Mutual Insurance Company
- Republic-Franklin Insurance Company
- Utica National Insurance Company of Texas
- Utica National Assurance Company
- Utica Lloyd's of Texas
- Utica Specialty Risk Insurance Company

Territory and Plan of Operations

The Company is licensed in the District of Columbia and nineteen states to underwrite multiple lines of property and casualty insurance. The business is focused primarily on commercial lines with an emphasis on schools, religious institutions, volunteer fire departments and light manufacturing. Products are written through independent agents.

During 2009, the largest states in terms of direct premium written were as follows: New York, \$60.2 million (42.5%); Connecticut, \$15.6 million (11.0%); Massachusetts, \$11.5 million (8.2%); New Jersey, \$10.7 million (7.5%); Georgia, \$7.5 million (5.3%); and all other states, \$36.0 million (25.5%).

The following schedule illustrates the Company's direct and net premium written in 2009 by line of business, reported in thousands:

Line of Business	Direct	Percent	Net	Percent
Commercial multi peril	\$ 48,523	34.3%	\$ 4,842	27.8%
Commercial auto liability	28,605	20.2%	2,725	15.6%
Worker's compensation	26,957	19.0%	3,561	20.4%
Auto physical damage	15,256	10.8%	1,222	7.0%
Private passenger auto liability	9,622	6.8%	812	4.6%
Homeowners	5,566	3.9%	1,060	6.1%
Other liability – occurrence	4,951	3.5%	925	5.3%
Other liability – claims made	1,658	1.2%	1,995	11.4%
All other lines	<u>471</u>	<u>0.3%</u>	<u>350</u>	<u>2.0%</u>
Total	<u>\$ 141,609</u>	<u>100.0%</u>	<u>\$ 17,492</u>	<u>100.0%</u>

Reinsurance

Utica National Insurance Group operates under a pooling agreement that shares premiums, losses, loss adjustment expenses, dividends and operating expenses with its affiliated entities. The agreement states the following percentages of participation:

Name	Domicile	Percentage
Utica Mutual Insurance Company	NY	89%
Graphic Arts Mutual Insurance Company	NY	5%
Republic-Franklin Insurance Company	OH	3%
Utica National Assurance Company	NY	2%
Utica National Insurance Company of Texas	TX	1%

All insurance written by Utica Lloyd's of Texas and Utica Specialty Risk Insurance Company, both domiciled in Texas, is ceded 100% to UMIC and is shared in accordance with the above-mentioned pooling agreement.

The lead company, UMIC, has individual reinsurance contracts to cover casualty, property and catastrophes as well as other reinsurance programs and facultative placements with several reinsurance companies which are with non-affiliated entities. The cession to those reinsurance companies is prior to the cessions of pooled business within the group.

Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	2009	2008	2007	2006	2005
Premiums earned	<u>\$17,585</u>	<u>\$18,229</u>	<u>\$18,344</u>	<u>\$18,778</u>	<u>\$19,471</u>
Losses incurred	9,469	7,938	8,062	7,388	8,241
Loss adjustment exp. incurred	5,758	3,301	2,652	3,398	3,722
Underwriting expenses incurred	<u>6,843</u>	<u>6,755</u>	<u>6,729</u>	<u>7,095</u>	<u>6,829</u>
Total underwriting deductions	<u>22,070</u>	<u>17,995</u>	<u>17,442</u>	<u>17,882</u>	<u>18,792</u>
Net underwriting gain (loss)	<u>\$(4,485)</u>	<u>\$ 234</u>	<u>\$ 902</u>	<u>\$ 896</u>	<u>\$ 678</u>
Pure loss ratio	53.8	43.5	43.9	39.3	42.3
Loss adjustment expense ratio	<u>32.7</u>	<u>18.1</u>	<u>14.5</u>	<u>18.1</u>	<u>19.1</u>
Loss ratio	86.6	61.7	58.4	57.4	61.4
Underwriting expense ratio	39.1	37.1	37.0	38.1	36.0
Policyholders dividend ratio	<u>2.0</u>	<u>2.8</u>	<u>2.5</u>	<u>2.3</u>	<u>2.1</u>
Combined ratio	<u>127.8</u>	<u>101.5</u>	<u>98.0</u>	<u>97.8</u>	<u>99.5</u>

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

- Statement of Assets, Liabilities, Capital and Surplus
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Capital and Surplus
December 31, 2009

Bonds	\$ 66,477,232
Common stocks	5,622,633
Cash and short term investments	<u>3,402,966</u>
Subtotal, cash and invested assets	75,502,831
Investment income due and accrued	754,131
Uncollected premiums in course of collection	4,657,424
Deferred premiums and installments booked, but not yet due	1,020,180
Amounts recoverable from reinsurers	2,067,506
Current federal income tax recoverable	837,062
Net deferred tax asset	1,381,260
Guaranty funds receivable or on deposit	956,321
Electronic data processing equipment	37,200
Receivable from affiliates	180,100
Miscellaneous assets	<u>1,192,648</u>
Total admitted assets	<u><u>\$ 88,586,663</u></u>

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2009**

Losses	\$ 27,223,488
Loss adjustment expense	10,297,579
Commissions payable	668,029
Other expenses	1,213,086
Taxes, licenses and fees	868,925
Unearned premiums	8,861,740
Advance premium	73,766
Dividends to policyholders	369,661
Ceded reinsurance premiums payable (net of ceding commissions)	242,771
Amounts withheld or retained by Company for account of others	392,662
Provision for reinsurance	8,130
Payable for securities	115,741
Miscellaneous liabilities	<u>282,672</u>
Total liabilities	<u>50,618,250</u>
Aggregate write-in for special surplus funds	153,676
Common capital stock	3,500,000
Gross paid in and contributed surplus	2,139,802
Unassigned funds	<u>32,174,935</u>
Total capital and surplus	<u>37,968,413</u>
Total liabilities, capital and surplus	<u>\$ 88,586,663</u>

Statement of Income
As of December 31, 2009

Premiums earned	<u>\$ 17,584,989</u>
Losses incurred	9,468,547
Loss adjustment expenses incurred	5,758,165
Other underwriting expenses incurred	<u>6,843,290</u>
Total underwriting deductions	<u>22,070,002</u>
Net underwriting gain (loss)	<u>(4,485,013)</u>
Net investment income earned	3,320,315
Net realized capital gains (losses)	<u>(529,031)</u>
Net investment gain	<u>2,791,284</u>
Net gain (loss) from premium balances charged off	(30,656)
Finance and service charges not included in premiums	449,455
Miscellaneous income	<u>(48,002)</u>
Total other income	<u>370,797</u>
Net income (loss) before federal income taxes	(1,322,932)
Dividends to policyholders	359,596
Federal income taxes incurred	<u>(685,309)</u>
Net income (loss)	<u>\$ (997,219)</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital and surplus, prior year end	\$37,076	\$38,540	\$35,477	\$31,649	\$29,068
Net income (loss)	(997)	2,416	3,408	3,831	2,508
Change in net unrealized cap. gains	1,153	(1,489)	(162)	162	1
Change in non-admitted assets	255	(2,235)	2	(137)	(211)
Change in provision for reinsurance	45	118	(121)	(13)	(37)
Agg. write-ins for gains (losses)	346	(48)	33	(7)	(525)
Other gains (losses) to surplus	<u>90</u>	<u>(226)</u>	<u>(97)</u>	<u>(8)</u>	<u>845</u>
Change in surplus for the year	<u>892</u>	<u>(1,464)</u>	<u>3,063</u>	<u>3,828</u>	<u>2,581</u>
Capital and surplus, current year end	<u>\$37,968</u>	<u>\$37,076</u>	<u>\$38,540</u>	<u>\$35,477</u>	<u>\$31,649</u>

Notes to Financial Statements

Investments

The Company's investment portfolio consists primarily of investment grade bonds and common stocks. The investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Mark Littmann, FCAS, MAAA, Principal, PricewaterhouseCoopers LLP, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Littmann prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2009 Annual Statement.

Gloria Huberman, ACAS, MAAA, an employee of the New York Insurance Department, performed an actuarial analysis of the loss and loss adjustment expense ("LAE") reserves carried by the Utica National Insurance Group. Ms. Huberman also reviewed the work of the opining actuary and the ground-up asbestos and environmental analysis performed by an external consulting firm. Ms Huberman concluded the gross and net carried reserves were adequate.

Mary D. Miller, FCAS, MAAA, Assistant Director, Product Regulation and Actuarial Services of the Department, reviewed the documentation prepared by Ms. Huberman and determined the loss and loss adjustment expense ("LAE") reserves presented in the 2009 Annual Statement make a reasonable provision for the Company's loss and LAE reserves.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Assets	<u>\$ 88,586,663</u>
Liabilities	50,618,250
Capital and Surplus	<u>37,968,413</u>
Total Liabilities, Capital and Surplus	<u>\$ 88,586,663</u>

Subsequent Events

The Department issued a qualifying examination report, dated August 31, 2010, of Utica National Insurance Company of Ohio (“Utica National of Ohio”), a new Ohio domestic insurance company formed by Utica National. All business written by Utica National of Ohio is ceded to Utica Mutual pursuant to a 100% quota share reinsurance agreement.

Effective June 30, 2010, UMIC, the Company's parent, acquired Nationwide Holdings, Inc. and with it, ownership and control of Founders Insurance Company, an Illinois insurer, and Founders Insurance Company of Michigan, a Michigan insurer.

In 2010, Anthony Paolozzi retired from his position as Chief Financial Officer and Cynthia Casale was named to that position. Later in 2010, Cynthia Casale left the companies of the Utica National Insurance Group, including the Company. As of the current date, a new Chief Financial Officer has yet to be named.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, David Finkler, CPA; Mary Miller, FCAS, MAAA; and Brad Schroer, of the Department, participated in this examination.

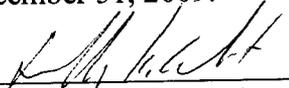
Respectfully,



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

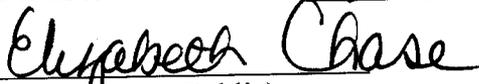
 2/28/2011
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 28 day of February, 2011.


(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires