

Report of Examination of

Mennonite Mutual Insurance Company
Orrville, Ohio

As of December 31, 2012

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Columbus, Ohio

September 27, 2013

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

Dear Madam:

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

Mennonite Mutual Insurance Company

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

Scope of Examination

The Department last examined the Company as of December 31, 2007. The Department’s current examination covers the period of January 1, 2008 to and including December 31, 2012.

The examination was conducted 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 Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

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

For all years under examination, the Certified Public Accounting firm of Buffamante Whipple Buttafaro, P.C. provided an unqualified opinion on the Company’s financial

statements for all years under examination based on Statutory Accounting Principles. The audited financial statements 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:

<u>Name</u>	<u>Principal Occupation</u>
Robert E. Aschliman	Certified Public Accountant, Aschliman and Company
George Bixler, Jr.	Administrator, Orvilla Inc. Retirement Center
Paul Bontrager	Principal, Yoder Insurance Agency
Donald Dravenstott	Partner, Dravenstott's Investments
David L. Lehman	President and Treasurer, The Company
Craig T. Mercer	Principal, Catalpa Grove Farm
Tyson L. Stuckey	Certified Public Accountant, Steyer, Huber, and Associates
Morris Stutzman	Attorney, Logee, Hostetler, Stutzman, and Lehman

Officers

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

<u>Name</u>	<u>Title</u>
David L. Lehman	President and Treasurer
George Bixler, Jr.	Secretary
J. Mark Zook	Vice President - Underwriting
J. Todd Neville	Vice President - Claims

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company owns 100% of Orrville Insurance Agency, Inc.

Territory and Plan of Operations

The Company is licensed to do business in the states of Ohio, Indiana, and Pennsylvania. In 2012, approximately 92% of the Company's business was written in Ohio, with the remaining 8% written in Indiana.

Business is written through an independent agency distribution system, with a primary focus on farm and church business. The Company writes fire, farmowners multiple peril, homeowners multiple peril, commercial multiple peril, other liability, commercial auto liability, and auto physical damage. Farmowners multiple peril and commercial multiple peril policies account for approximately 62% of the Company's premium volume. A large portion of the Company's writings is concentrated in Northeast Ohio.

Reinsurance

Assumed Reinsurance

The Company participates as a pool member of the NAMIC Reinsurance Facility.

Ceded Reinsurance

A per-risk treaty provides property and casualty coverage of \$5,000,000 (Property only of \$3,000,000 and Property/Casualty of \$2,000,000) excess of \$150,000 (subject

to \$350,000 Annual Aggregate Deductible). Property facultative reinsurance above \$5 million is placed on an individual certificate basis.

The Company maintains catastrophic reinsurance coverage of \$10,000,000 excess of total of \$700,000.

An aggregate stop loss treaty provides coverage for the ultimate net loss over and above an initial ultimate net loss equal to the greater of \$4,444,900 or 67.5% of the Gross Net Earned Premium income, subject to a limit of liability to the reinsurers of the lesser of \$1,234,700 or 12.5% of the Gross Net Earned Premium Income.

In addition, the Company has Umbrella reinsurance coverage for liability coverage only covering \$1 million at a 95% quota share and a 100% quota share on the next \$2 million to \$5 million.

Significant Operating Results

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Premiums earned	\$ 10,022	\$ 10,738	\$ 9,998	\$ 9,656	\$ 9,297
Losses incurred	5,293	5,837	5,288	4,774	3,394
Loss adjustment exp. incurred	1,183	1,109	958	868	816
Other Underwriting exp. incurred	<u>3,681</u>	<u>4,091</u>	<u>3,712</u>	<u>3,727</u>	<u>3,922</u>
Net underwriting gain (loss)	<u>\$ (135)</u>	<u>\$ (299)</u>	<u>\$ 40</u>	<u>\$ 287</u>	<u>\$ 1,165</u>

Financial Statements

The financial condition and the results of its operations for the year ending December 31, 2012 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, Surplus and Other Funds
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2012**

Bonds	\$ 10,619,071
Common stocks	1,490,570
Properties occupied by the company	965,808
Cash, cash equivalents and short-term investments	<u>3,046,767</u>
Subtotal, cash and invested assets	<u>16,122,216</u>
Investment income due and accrued	69,260
Uncollected premiums	262,213
Deferred premiums, agents' balances, and installments	2,604,936
Amounts recoverable from reinsurers	273,244
Current federal income tax recoverable	117,377
Net deferred tax asset	495,094
Electronic data processing equipment and software	18,791
Other Assets	<u>30,000</u>
Total assets	<u>\$ 19,993,131</u>
Losses	1,168,329
Loss adjustment expenses	151,400
Commissions payable and contingent commissions	993,879
Other expenses	184,797
Taxes, licenses and fees	146,904
Unearned premiums	6,224,761
Advance premium	231,525
Ceded reinsurance premiums payable	197,483
Amounts withheld or retained for account of others	2,094
Remittances and items not allocated	<u>7,289</u>
Total liabilities	<u>9,308,461</u>
Unassigned funds	<u>10,684,670</u>
Total liabilities, surplus and other funds	<u>\$ 19,993,131</u>

**Statement of Income
For the Year Ending December 31, 2012**

Premiums earned	<u>\$ 10,021,753</u>
Losses incurred	5,293,213
Loss adjustment expenses incurred	1,183,186
Other underwriting expenses incurred	<u>3,680,593</u>
Total underwriting deductions	<u>10,156,992</u>
Net underwriting loss	(135,239)
Net investment income earned	304,024
Net realized capital gains	<u>95,624</u>
Net investment gain	399,648
Finance and service charges not included in premiums	101,067
Miscellaneous	<u>(29,576)</u>
Total other income	71,491
Net income before federal income taxes	335,900
Federal income taxes incurred	<u>75,817</u>
Net income	<u>\$ 260,083</u>

Statement of Changes in the Capital and Surplus Account

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, beginning of the year	<u>\$10,243,374</u>	<u>\$ 9,861,758</u>	<u>\$ 9,324,983</u>	<u>\$ 8,501,110</u>	<u>\$ 8,303,889</u>
Net income	260,083	136,580	407,101	418,792	1,161,588
Change in net unrealized capital gains or (losses)	105,441	(5,601)	89,808	380,734	(1,023,682)
Change in net deferred income tax	(42,374)	15,840	106,320	(49,763)	308,895
Change in non-admitted assets	(39,532)	234,797	(66,454)	74,110	(253,651)
Change in provision for reinsurance	0	0	0	0	4,071
Cumulative effect of changes in accounting principles	<u>157,678</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus during the year	<u>441,296</u>	<u>381,616</u>	<u>536,775</u>	<u>823,873</u>	<u>197,221</u>
Capital and surplus, end of the year	<u>\$10,684,670</u>	<u>\$10,243,374</u>	<u>\$ 9,861,758</u>	<u>\$ 9,324,983</u>	<u>\$ 8,501,110</u>

Notes to Financial Statements

Investments

The Company's investments in Vanguard Dividend Growth Fund and PIMCO Convertible Bond Fund exceeded permissible amounts as allowed under ORC Section 3925.08 (D)(2) by \$156,305 and \$156,305, respectively.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Joseph L. Petrelli, ACAS, MAAA, FCA, of Demotech, Inc., to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Petrelli prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2012 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, Chief Property & Casualty Actuary of the Department, reviewed the actuarial report provided by Mr. Petrelli. Based on his review, Mr. Botsko determined that the loss and loss adjustment expense reserves presented in the Company's 2012 Annual Statement were reasonably stated.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$ 19,993,131</u>
Liabilities	\$ 9,308,461
Surplus	<u>10,684,670</u>
Total Liabilities and Surplus	<u>\$ 19,993,131</u>

Subsequent Events

On April 9, 2013, the Department approved the affiliation of the Company and Mennonite Mutual Aid Society ("MMAS"). As of January 1, 2013, all of the net losses and net premiums of MMAS were transferred to the Company with MMAS receiving a ceding commission on the transferred business. The companies now share common management and members of the Boards of Directors.

Additionally, at the time of the affiliation, the Company entered into a quota share reinsurance transaction with MMAS whereby the Company assumed 100% of the retained losses and LAE expenses of MMAS in return for 100% of the direct premiums of MMAS.

Acknowledgement

In addition to the aforementioned and undersigned, David Finkler, CPA, CFE, CISA, AES; Louis Radecky, CPA (Inactive), CFE; and Bradley Schroer of the Department participated in this examination.

Respectfully,



Nicholas J. Kostoff, CPA, CFE
Examiner-In-Charge
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
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, 2012.

<u><i>Nicholas J. Kostoff</i></u>	<u>10/8/13</u>	<u><i>John Casan</i></u>	<u>10/8/13</u>
Examiner-In-Charge	Date	Assistant Chief Examiner	Date

State of Ohio

County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff 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 8 day of October, 2013.

Kimberly Ann Lowry
 (Notary Public)
3-28-2016
 My Commission Expires

KIMBERLY ANN LOWRY
NOTARY PUBLIC • STATE OF OHIO
 Recorded in Franklin County
 My commission expires Mar. 28, 2016

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook 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 8 day of October, 2013.

Kimberly Ann Lowry
 (Notary Public)
3-28-2016
 My Commission Expires

KIMBERLY ANN LOWRY
NOTARY PUBLIC • STATE OF OHIO
 Recorded in Franklin County
 My commission expires Mar 28, 2016