

Report of Examination of

The Eastern Ohio Mutual Fire and Tornado Insurance Company
Freeport, Ohio

As of December 31, 2015

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Columbus, Ohio

May 3, 2016

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

Dear Lt. Governor/Director:

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

The Eastern Ohio Mutual Fire and Tornado Insurance Company

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

Scope of Examination

The Department previously began an examination of the Company for the period of January 1, 2011 through December 31, 2013. A Report of Examination was not issued at that time. The Department’s current work continued that examination and additionally covered the period of January 1, 2014 through December 31, 2015.

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, 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. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the ORC Section 3901.07 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 reports but separately communicated to other regulators and/or the Company.

For all years under examination, the Certified Public Accounting firm of Combs & Company provided an unqualified opinion based on Statutory Accounting Principles. Representatives of the Department reviewed the independent auditors' reports and supporting work papers 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
William M. Bennett	Attorney
Marlene S. Bond	Funeral Director
Kevin Luster	Secretary and Treasurer of The Company
John Reid	Real Estate Agent/Broker
Jeffrey Tucker	Certified Public Accountant

Officers

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

Name	Title
Marlene S. Bond	President
Kevin Luster	Secretary and Treasurer

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is the ultimate controlling entity and owns an insurance agency, Eastern Ohio Mutual Insurance Agency, Inc.

Territory and Plan of Operations

The Company is authorized to write business in the State of Ohio and writes lines of business as authorized under ORC 3939.

Reinsurance

The Company has a per risk excess of loss agreement that provides coverage above the Company's retention of \$50,000. An aggregate excess of loss agreement provides unlimited coverage above the Company's retention of \$379,972. The Company does not assume any reinsurance.

Significant Operating Results

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Premium Earned	\$ 490,105	\$ 512,851	\$ 580,988	\$ 626,971	\$ 640,337
Losses incurred	123,397	404,220	218,976	346,010	245,889
Loss adjustment expense incurred	18,333	21,208	18,316	54,973	36,780
Underwriting expenses incurred	345,579	381,455	352,689	331,252	298,277
Total underwriting deductions	<u>487,309</u>	<u>806,883</u>	<u>589,981</u>	<u>732,235</u>	<u>580,946</u>
Net underwriting gain (loss)	<u>\$ 2,796</u>	<u>\$(294,032)</u>	<u>\$ (8,993)</u>	<u>\$(105,264)</u>	<u>\$ 59,391</u>
Pure loss ratio	25.2	78.8	37.7	55.2	38.4
Loss adjustment expense ratio	<u>3.7</u>	<u>4.1</u>	<u>3.2</u>	<u>8.8</u>	<u>5.7</u>
Loss ratio	28.9	82.9	40.9	64.0	44.1
Underwriting expense ratio	<u>70.5</u>	<u>74.4</u>	<u>60.7</u>	<u>52.8</u>	<u>46.6</u>
Combined ratio	<u>99.4</u>	<u>157.3</u>	<u>101.6</u>	<u>116.8</u>	<u>90.7</u>

Financial Statements

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2015. The accompanying Notes to Financial Statements should be considered an integral part of the financial statements.

**Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2015**

Bonds	\$ 343,604
Preferred stocks, common stocks and mutual funds	342,617
Real estate	10,213
Cash	<u>188,690</u>
Subtotal, cash and invested assets	885,124
Investment income due and accrued	3,487
Assessments or premiums in the course of collection	6,403
Deferred Premiums	<u>103,499</u>
Total admitted assets	<u>\$ 998,513</u>
Unpaid losses	\$ 26,000
Unpaid loss adjustment expenses	0
Commissions due and payable to agents	24,206
Other expenses	13,522
Taxes, licenses and fees	0
Current federal income taxes	466
Unearned assessment/premium reserve	381,485
Ceded reinsurance premiums payable	23,554
Amounts withheld or retained by Company for account of other	<u>10,054</u>
Total liabilities	<u>479,287</u>
Surplus as regards policyholders	<u>519,226</u>
Total liabilities, capital and surplus	<u>\$ 998,513</u>

Statement of Income
As of December 31, 2015

Premiums earned	<u>\$ 490,105</u>
Losses incurred	123,397
Loss adjustment expenses incurred	18,333
Other underwriting expenses incurred	<u>345,579</u>
Total underwriting deductions	<u>487,309</u>
Net underwriting gain (loss)	<u>2,796</u>
Net investment income earned	19,487
Net realized capital gains	<u>6,100</u>
Net investment gain	<u>25,587</u>
Miscellaneous income	<u>23,902</u>
Total other income	<u>23,902</u>
Net income before federal income taxes	52,285
Federal income taxes incurred	<u>697</u>
Net income	<u>\$51,588</u>

Statement of Changes in the Capital and Surplus Account

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital and surplus, prior year end	<u>\$ 482,403</u>	<u>\$ 728,570</u>	<u>\$ 680,171</u>	<u>\$ 700,769</u>	<u>\$ 623,701</u>
Net income	51,588	(231,796)	40,928	(12,383)	107,018
Change in net unrealized capital gains (losses)	(20,750)	11,525	7,354	(1,367)	(30,874)
Change in non-admitted assets	5,985	(25,896)	117	(6,848)	924
Net change in capital and surplus	<u>36,823</u>	<u>(246,167)</u>	<u>48,399</u>	<u>(20,598)</u>	<u>77,068</u>
Capital and surplus, current year end	<u>\$ 519,226</u>	<u>\$ 482,403</u>	<u>\$ 728,570</u>	<u>\$ 680,171</u>	<u>\$ 700,769</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3939 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

In 2015, the Company did not exceed their aggregate excess of loss retention and therefore established \$26,000 in unpaid claims reserves.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2015, and is summarized as follows:

Total Assets	<u>\$998,513</u>
Liabilities	479,287
Capital and Surplus	<u>519,226</u>
Total Liabilities, Capital and Surplus	<u>\$998,513</u>

Subsequent Events

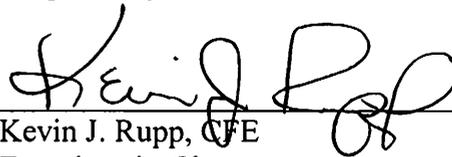
There have been no events subsequent to the examination date which would have a material effect on the financial condition of the Company.

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, Edward Nagorny, Senior Examiner, CPA, CFE, of the Department, participated in this examination.

Respectfully,

A handwritten signature in cursive script, appearing to read "Kevin J. Rupp", written over a horizontal line.

Kevin J. Rupp, CFE
Examiner-in-Charge
Office of Risk Assessment
Ohio Department of Insurance

A handwritten signature in cursive script, appearing to read "Rick Rhoades", written over a horizontal line.

Rick Rhoades, CPA
Assistant Chief Financial 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, 2015.

Kevin J. Rupp 5/26/16 Paul Hoodie 5/26/16
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Kevin J. Rupp 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 26 day of May, 2016.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named Rick Rhoades 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 26 day of May, 2016.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires