

Report of Examination of

Republic-Franklin Insurance Company
Columbus, Ohio

As of December 31, 2014

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Columbus, Ohio
December 29, 2015

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

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, 2009. The Department’s current examination covers the period of January 1, 2010 through December 31, 2014.

Representatives of the New York State Department of Financial Services (“NY-DFS”), as Lead State regulator of Utica National Insurance Group (“UNIG”), including Utica Mutual Insurance Company (“Utica Mutual”) and its subsidiaries and affiliates, led the multi-state coordinated examination. The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the 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 Section 3901.07 of the ORC 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.

For the years ended 2010, 2011 and 2012, the Certified Public Accounting firm of PricewaterhouseCoopers LLP provided an unqualified opinion on the Combined Statutory Financial Statements of UNIG. For the years ended 2013 and 2014, the Certified Public Accounting firm of Grant Thornton LLP provided an unqualified opinion on the Combined Statutory Financial Statements of UNIG. Representatives of the NY-DFS 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
Clarence W. Bachman	Retired Vice President, Cohber Press
Alfred E. Calligaris	President, The Stebbins Engineering and Manufacturing Company
Paul A. Hagstrom, Ph.D.	Professor of Economics, Hamilton College
Gregory M. Harden	President and Chief Executive Officer, Harden Furniture Company
Alan J. Pope, Sr.	Senior Vice President, PointeNorth Insurance Group
J. Douglas Robinson	Chairman of the Board, Utica Mutual Insurance Company
Linda E. Romano	Attorney at Law, Counsel to Bond, Schoeneck & King
Eric K. Scholl	Chairman and Chief Executive Officer, Caywood-Scholl Capital Management LLC

Officers

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

Name	Title
J. Douglas Robinson	Chairman and Chief Executive Officer
Richard P. Creedon	President
Kristen H. Martin	Secretary
Brian W. Miller	Controller 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 Mutual is the ultimate controlling person within the holding company.

Utica Mutual owns 100% of Utica National Assurance Company, Utica National Insurance Company of Ohio, Utica National Insurance Company of Texas, Utica Specialty Risk Insurance Company, UNI-Service Operations Corporation, UNI-Service Life Agency, Utica Lloyd's, Inc., and Nationwide Holdings, Inc., parent company of Founders Insurance Company, and 94% of the Company.

Utica Mutual manages Graphic Arts Mutual Insurance Company ("Graphic Arts Mutual"), an affiliate, through a common management pooling agreement. Graphic Arts Mutual owns 6% of the Company. Utica Mutual also controls and manages Utica Lloyd's of Texas through a trust agreement.

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. The largest states in terms of direct premiums written are New York, \$55.2 million (31.7%); New Jersey, \$28.2 million (16.2%); and Connecticut, \$23.2 (13.3%). The table below illustrates the Company's 2014 premiums written, by line of business:

Line of Business	Direct	Assumed	Ceded	Net
Commercial multiple peril	\$ 56,154,649	\$ 5,226,056	\$ 56,154,649	\$ 5,226,056
Commercial auto liability	33,896,902	3,193,694	33,896,902	3,193,694
Workers' compensation	31,486,395	4,795,015	31,486,395	4,795,015
Homeowners multiple peril	15,289,585	1,350,872	15,289,585	1,350,872
Other liability – claims made	13,975,616	1,844,866	13,975,616	1,844,866
Auto physical damage	12,671,218	2,114,995	12,671,218	2,114,995
All other lines	<u>10,524,673</u>	<u>3,334,730</u>	<u>10,524,673</u>	<u>3,334,730</u>
Total	<u>\$173,999,038</u>	<u>\$21,860,228</u>	<u>\$173,999,038</u>	<u>\$21,860,228</u>

Reinsurance

Utica Mutual, as lead company, operates under a pooling reinsurance agreement that shares premiums, losses, expenses and other related insurance operations with its other affiliated entities. The agreement states the following percentages of participation:

Name	Domicile	Percentage
Utica Mutual Insurance Company	NY	84%
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%
Founders Insurance Company	IL	5%

Founders Insurance Company joined the pooling agreement effective July 1, 2014 with a 5% share. Prior to that date, Utica Mutual retained 89% of the pool.

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, 2014. The accompanying Notes to Financial Statements should be considered and integral part of the financial statements.

**Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2014**

Assets

Bonds	\$ 82,439,462
Common stocks	7,558,992
Cash, and short-term investments	<u>359,396</u>
Subtotal, cash and invested assets	90,357,850
Investment income due and accrued	642,641
Uncollected premiums in course of collection	6,530,516
Deferred premiums and installments booked but deferred	616,724
Amounts recoverable from reinsurers	315,945
Net deferred tax asset	2,054,962
Guaranty funds receivable or on deposit	1,128,637
Electronic data processing equipment and software	29,413
Aggregate write-ins for other than invested assets	<u>840,480</u>
Total admitted assets	<u>\$ 102,517,168</u>

**Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2014**

Liabilities

Losses	\$ 28,801,741
Loss adjustment expenses	7,415,803
Commissions payable, contingent commissions and other charges	544,270
Other expenses	1,147,027
Taxes, licenses and fees	730,388
Current federal and foreign income taxes	2,121,091
Unearned premiums	11,226,279
Advance premium	119,136
Dividends declared and unpaid - policyholders	89,844
Ceded reinsurance premiums payable	220,135
Funds held by company under reinsurance treaties	13,472
Amounts withheld or retained by company for account of others	943,516
Payable to parent, subsidiaries and affiliates	406,898
Aggregate write-ins for liabilities	<u>(298,233)</u>
Total liabilities	<u>53,481,367</u>

Surplus and Other Funds

Aggregate write-ins for special surplus funds	211,381
Common capital stock	3,500,000
Gross paid in and contributed surplus	5,139,802
Unassigned funds	<u>40,184,618</u>
Total surplus as regards policyholders	<u>49,035,801</u>
Total liabilities, surplus and other funds	<u>\$102,517,168</u>

Statement of Income
For the Year Ended December 31, 2014

Premiums earned	<u>\$ 21,490,674</u>
Losses incurred	11,512,269
Loss adjustment expenses incurred	2,709,189
Other underwriting expenses incurred	<u>7,852,482</u>
Total underwriting deductions	<u>22,073,940</u>
Net underwriting gain (loss)	<u>(583,266)</u>
Net investment income earned	2,817,083
Net realized capital gains	<u>43,607</u>
Net investment gain	<u>2,860,690</u>
Net gain (loss) from agents' or premium balances charged off	(41,736)
Finance and service charges not included in premiums	457,036
Aggregate write-ins for miscellaneous income (loss)	<u>(23,796)</u>
Total other income	<u>391,504</u>
Net income before federal income taxes and policyholder dividends	2,668,928
Dividends to policyholders	<u>234,432</u>
Net income before federal income taxes	2,434,496
Federal income taxes incurred	<u>1,321,333</u>
Net income	<u>\$ 1,113,163</u>

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

	2104	2013	2012	2011	2010
Capital and surplus, prior year-end	<u>\$47,593</u>	<u>\$41,669</u>	<u>\$40,855</u>	<u>\$40,665</u>	<u>\$37,968</u>
Net income	1,113	1,695	1,158	1,138	2,463
Change in net unreal. cap. gains (losses)	192	40	3	(999)	(56)
Change in non-admitted assets	(25)	1,667	425	66	439
Change in provision for reinsurance	6	48	6	3	(55)
Surplus adjustments	0	3,000	0	0	0
Aggregate write-ins for gains (losses)	(160)	(630)	(639)	129	(13)
Other gains (losses) to surplus	<u>316</u>	<u>104</u>	<u>(140)</u>	<u>(146)</u>	<u>(81)</u>
Net change in capital and surplus	<u>1,443</u>	<u>5,923</u>	<u>815</u>	<u>190</u>	<u>2,696</u>
Capital and surplus, current year-end	<u>\$49,036</u>	<u>\$47,593</u>	<u>\$41,669</u>	<u>\$40,855</u>	<u>\$40,665</u>

Notes to Financial Statements

Investments

The Company's 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 with the firm 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 2014 Annual Statement.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

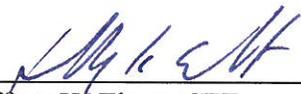
Total Admitted Assets	<u>\$ 102,517,168</u>
Liabilities	53,481,367
Surplus as Regards Policyholders	<u>49,035,801</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 102,517,168</u>

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the UNIG and its affiliates and the representatives of the NY-DFS during the course of this examination.

In addition to the undersigned, Stephen Bishel, CPA, of the Department, participated in this examination.

Respectfully,



Jeffrey K. Ebert, 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, 2014.

 5/31/2016
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 knowledge and belief.

Subscribed and sworn to before me this 31 day of May, 2016.


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