

Report of Examination of

The National Mutual Insurance Company
Celina, Ohio

As of December 31, 2014

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Columbus, Ohio
April 4, 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 National Mutual Insurance Company

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

Scope of Examination

The Department performed a multi-state coordinated examination of the Company in which the West Virginia Department of Insurance was also a participant. The last examination covered the period of January 1, 2005, through December 31, 2009. This examination covers the period of January 1, 2010, through December 31, 2014.

The Department conducted the examination 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 is 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 last three years of the period under examination, the Certified Public Accounting (“CPA”) firm of BKD, LLP, provided an unqualified opinion on the Consolidated Statutory-Basis Financial Statements of the Company based on Statutory Accounting Principles. For the first two years during the period under examination, the CPA firm of Buffamante Whipple Buttafaro, P.C, provided an unqualified opinion on the Consolidated Statutory-Basis Financial Statements of the Company 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 W. Montgomery	President and Chief Executive Officer Chairman of the Board Celina Insurance Group
Philip M. Fullenkamp	Senior Vice President – Chief Financial Officer and Treasurer Celina Insurance Group
Nancy M. Goldberg	Vice President Personnel Management Systems, Inc.
David T. Mellin	Doctor of Internal Medicine Elkhart Clinic
Wesley M. Jetter	Chairman and Chief Executive Officer Fort Recovery Industries, Inc.
John M. Lazarich	President and Owner 3D Goldens Inc.
Collin J. Bryan	Retired Vice President/Trust Officer First Financial Bank

Officers

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

Name	Title
William W. Montgomery	Chairman, President, and Chief Executive Officer
Philip M. Fullenkamp	Senior Vice President – Chief Financial Officer and Treasurer
Michael S. Kleinhenz	Secretary
William R. Stapleton	Senior Vice President and Chief Operating Officer
Robert M. Shoenfelt	Senior Vice President – Chief Information Officer and Marketing
Vincent M. Franz	Vice President – Chief Actuary and Commercial Lines
Theodore J. Wissman	Vice President – Claims and Personal Lines
Martha J. Meinerding	Vice President – Human Resources

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Celina Group consists of four mutual insurance companies and a non-insurance entity affiliated through cost sharing and service agreements. The National Mutual Insurance Company, The Celina Mutual Insurance Company (“Celina”) and Miami Mutual Insurance Company (“Miami”) are Ohio domiciled insurers. West Virginia Farmers Mutual Insurance Association is a West Virginia domiciled insurer. First Ohio Financial Corporation, an Ohio domiciled non-insurer and a wholly owned subsidiary of National, currently serves as the in-house agent for cancelled agent business and the employee insurance program. Its financial statements are immaterial to the Celina Group.

The Celina Mutual Insurance Company*

The National Mutual Insurance Company*

First Ohio Financial Corporation

Miami Mutual Insurance Company*

West Virginia Farmers Mutual Insurance Association#

*Property and Casualty Pool

#Affiliated with The National Mutual Insurance Company through a Service Agreement and The Celina Mutual Insurance Company through an inter-company reinsurance agreement

Territory and Plan of Operations

The Company was licensed to transact business in the states of Indiana, Iowa, Kentucky, Ohio, Pennsylvania and Tennessee. Business is written through a network of independent agents. The table below illustrates the Company's 2014 premiums written, in thousands, by line of business:

Line of Business	Direct	Assumed	Ceded	Net	Net %
Fire	\$ 1,616	\$ 2,271	\$ 2,801	\$ 1,086	3.0
Allied lines	679	1,779	1,774	684	1.9
Farmowners multiple peril	-	13,964	9,630	4,334	12.0
Homeowners multiple peril	28,533	-	19,755	8,779	24.3
Commercial multiple peril	-	7,177	5,106	2,071	5.7
Inland marine	842	913	1,268	486	1.3
Earthquake	360	189	398	152	0.4
Workers' compensation	-	1,445	1,021	424	1.2
Other liability – occurrence	1,084	1,753	2,183	653	1.8
Products liability – occurrence	-	270	187	83	0.2
Private passenger auto liability	15,848	10,556	17,590	8,814	24.4
Commercial auto liability	-	2,696	1,813	882	2.4
Auto physical damage	14,340	9,355	15,958	7,737	21.4
All other	<u>-</u>	<u>13</u>	<u>9</u>	<u>5</u>	<u>0.0</u>
Totals	<u>\$ 63,302</u>	<u>\$ 52,381</u>	<u>\$ 79,493</u>	<u>\$ 36,190</u>	<u>100.0</u>

The Company reported the following underwriting percentages during the examination period:

	2014	2013	2012	2011	2010
Loss and LAE Ratio	66.8	67.1	69.9	76.7	72.1
Expense Ratio	32.2	32.2	32.4	34.0	34.5
Policyholder Dividend Ratio	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Combined Ratio	<u>99.0</u>	<u>99.3</u>	<u>102.3</u>	<u>110.7</u>	<u>106.6</u>

Reinsurance

Ceded

As of the examination date, the Company along with its affiliates, Celina and Miami, maintained a multi-line excess of loss reinsurance contract with \$350,000 retention, with several layers up to \$5.0 million for property lines, \$7.0 million for casualty lines (including umbrella) and \$10.0 million for workers' compensation. Property aggregate excess coverage is maintained for up to \$4.0 million excess of \$3.5 million, with an \$800,000 occurrence deductible. A 100% quota share agreement on mechanical breakdown was maintained up to \$15.0 million. A 100% quota share agreement was maintained for

employment practices liability up to \$1.0 million. A 10% quota share agreement on all property business was initiated on January 1, 2013 and was reduced to 5% as of January 1, 2014. The property catastrophe program provided protection in three layers up to \$30.0 million in excess of \$4.0 million retention. The principal reinsurers are Everest Reinsurance Company, Lloyd's of London and Hannover Ruckversicherungs AG.

All contracts reviewed contained the necessary clauses that meet the guidelines prescribed by the NAIC.

Assumed

Aside from business assumed from affiliates, the Company does not assume a material amount of business.

Pooling

Under a Reinsurance Pooling Agreement, the Company assumes all business written by Celina and Miami and then retrocedes 36% to Celina and 30% to Miami, retaining 34%. The contract contained all applicable clauses to meet the guidelines prescribed by the NAIC.

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 an integral part of the financial statements.

**Statement of Assets
December 31, 2014**

Assets

Bonds	\$ 40,490,428
Preferred stocks	760,107
Common stocks	7,361,725
Real estate – occupied by the company	1,790,662
Cash, cash equivalents and short-term investments	784,546
Receivable for securities	<u>200,000</u>
Subtotal, cash and invested assets	51,387,469
Investment income due and accrued	245,072
Uncollected premiums and agents’ balances	4,173,091
Deferred premiums, agents’ balances and installments	7,293,114
Amounts recoverable from reinsurers	4,107,375
Current federal and foreign income tax recoverable	71,574
Net deferred tax asset	1,598,326
Electronic data processing equipment and software	34,925
Receivables from parent, subsidiaries and affiliates	<u>1,640,645</u>
Total admitted assets	<u>\$ 70,551,591</u>

**Statement of Liabilities, Capital and Surplus
December 31, 2014**

Liabilities

Losses	\$ 9,621,938
Reinsurance payable on paid losses and loss adjustment expenses	2,541,839
Loss adjustment expenses	2,470,440
Commissions payable, contingent commissions and other charges	408,555
Other expenses	191,499
Taxes, licenses and fees	351,981
Unearned premiums	17,981,536
Advance premium	681,635
Ceded reinsurance premiums payable	4,855,168
Amounts withheld or retained by company for account of others	3,782,367
Remittances and items not allocated	31,445
Drafts outstanding	13,263
Payable to parent, subsidiaries and affiliates	<u>1,244,046</u>
Total liabilities	<u>44,175,712</u>

Capital and Surplus

Common capital stock	0
Unassigned funds	<u>26,375,878</u>
Total capital and surplus	<u>26,375,878</u>
Total liabilities, capital and surplus	<u>\$ 70,551,591</u>

Statement of Income
For the Year Ended December 31, 2014

Premiums earned	\$ <u>35,931,827</u>
Losses incurred	20,892,227
Loss adjustment expenses incurred	3,104,753
Other underwriting expenses incurred	<u>11,644,839</u>
Total underwriting deductions	<u>35,641,818</u>
Net underwriting gain	<u>290,009</u>
Net investment income earned	1,133,463
Net realized capital gains	<u>286,421</u>
Net investment gain	<u>1,419,884</u>
Net (loss) from agents' or premium balances charged off	(42,665)
Finance and service charges not included in premiums	452,643
Aggregate write-ins for miscellaneous income	<u>9,500</u>
Total other income	<u>419,478</u>
Net income before federal income taxes and policyholder dividends	2,129,371
Dividends to policyholders	<u>0</u>
Net income before federal income taxes	2,129,371
Federal income taxes incurred	<u>451,745</u>
Net income	<u>\$ 1,677,626</u>

Statement of Changes in the Capital and Surplus Account

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and surplus, prior year end	\$ 23,969,142	\$ 21,341,193	\$ 20,278,025	\$ 21,096,916	\$ 20,518,762
Net income	1,677,629	1,591,005	886,556	(1,355,556)	(205,447)
Change in net unrealized capital gains (losses)	342,211	832,948	175,050	(20,267)	428,547
Change in net deferred income tax	(36,296)	83,722	(37,569)	250,372	178,105
Change in non-admitted assets	423,196	120,223	212,396	195,481	225,510
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>0</u>	<u>(173,265)</u>	<u>111,080</u>	<u>(48,561)</u>
Net change in capital and surplus	<u>2,406,737</u>	<u>2,627,948</u>	<u>1,063,168</u>	<u>(818,891)</u>	<u>578,154</u>
Capital and surplus, current year end	<u>\$ 26,375,878</u>	<u>\$ 23,969,142</u>	<u>\$ 21,341,193</u>	<u>\$ 20,278,025</u>	<u>\$ 21,096,916</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 Travis J. Grulkowski, FCAS, MAAA, a Principal with Milliman Inc., to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Grulkowski prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's 2014 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, the Department's Chief Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the reserves. On the basis of his analysis, Mr. Botsko concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2014.

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:

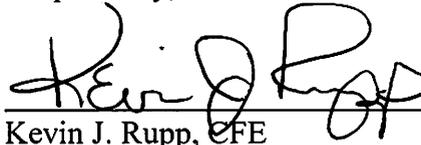
Total Admitted Assets	<u>\$ 70,551,591</u>
Liabilities	44,175,712
Capital and Surplus	<u>26,375,878</u>
Total Liabilities, Capital and Surplus	<u>\$ 70,551,591</u>

Acknowledgement

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

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, CFE, AES, CISA, CISSP, CIDM; Stephen W. Bishel, CPA; Edward J. Nagorny, AES, CFE, CISA, CPA; and Mary K. Raps, AFE.

Respectfully,



Kevin J. Rupp, CFE
Examiner-In-Charge
Ohio Department of Insurance



Rick A. Rhoades, CPA
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.

Kevin J. Rupp
Examiner-In-Charge 5/11/16
Date

Pat Rhoades
Assistant Chief Examiner 5/11/16
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 knowledge and belief.

Subscribed and sworn to before me this 11th day of May, 2016.

[Signature]
(Notary Public)

No expiration
My Commission Expires



Darcy A. Moulin
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.

State of Ohio
County of Franklin

Personally appeared before me the above named, Rick A. 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 knowledge and belief.

Subscribed and sworn to before me this 11th day of May, 2016.

[Signature]
(Notary Public)

No expiration
My Commission Expires



Darcy A. Moulin
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.

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Sect 147.03 R.C.
My commission expires on 03/31/2011
State of Ohio
Attorney General
Eric F. Hoge



18
Sect 147.03 R.C.
My commission expires on 03/31/2011
State of Ohio
Attorney General
Eric F. Hoge

