

Report of Examination of

The Celina Mutual Insurance Company
Celina, Ohio

As of December 31, 2009

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Columbus, Ohio
March 25, 2011

Honorable Mary Taylor
Lieutenant Governor/Director
State of Ohio
Department of Insurance (“Department”)
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

The Celina Mutual Insurance Company

an Ohio domiciled, mutual, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 1 Insurance Square, Celina, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2004, by the Department. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

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
Philip M. Fullenkamp	Senior Vice President, Chief Financial Officer and Treasurer Celina Insurance Group
Nancy M. Goldberg	Vice President Personnel Management Systems, Inc.

Wesley M. Jetter	Chairman and Chief Executive Officer Fort Recovery Industries, Inc.
David T. Mellin	Part-time Physician Elkhart Clinic
Donald W. Montgomery	Chairman of the Board Celina Insurance Group
William W. Montgomery	President and Chief Executive Officer Celina Insurance Group

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
Donald W. Montgomery	Chairman of the Board
William W. Montgomery	President and Chief Executive Officer
Michael S. Kleinhenz	Secretary and Assistant Treasurer
Philip M. Fullenkamp	Senior Vice President, Chief Financial Officer and Treasurer
Robert M. Shoenfelt	Senior Vice President and Chief Information Officer
William R. Stapleton	Senior Vice President and Chief Operating Officer
Vincent M. Franz	Vice President and Chief Actuary
Theodore J. Wissman	Vice President

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the holding company structure as of December 31, 2009:

The Celina Mutual Insurance Company*
The National Mutual Insurance Company*
 West Virginia Farmers Mutual Insurance Association#
 First Ohio Financial Corporation
 First Indiana Insurance Agency, Inc.
Miami Mutual Insurance Company*
 Protective General Agency

*Property and Casualty Pool

#Affiliated with The National Mutual Insurance Company by a Service Agreement

Reinsurance

Ceded

As of the examination date, the Company along with its affiliates, Miami Mutual Insurance Company ("Miami") and The National Mutual Insurance Company ("National"), maintained a multi-line excess of loss reinsurance contract with \$350,000 retention, with several layers up to \$5.0 million for multiple lines and \$10.0 million for workers' compensation. 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 \$250,000. An all lines umbrella quota share was maintained covering 95% of the first \$1.0 million with a second layer of \$1.0 million provided with no company participation. The property catastrophe program provided protection in three layers up to \$22.0 million in excess of \$1.75 million retention.

All contracts examined contained all applicable clauses to meet the guidelines prescribed by the National Association of Insurance Commissioners ("NAIC").

Assumed

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

Pooling

The Company and Miami are participants in a Reinsurance Pooling Agreement with National. Under terms of this agreement, National assumes all business written by the participants and then retrocedes 36% to the Company and 30% to Miami, retaining 34%.

The contract contained all applicable clauses to meet the guidelines prescribed by the NAIC.

Territory and Plan of Operations

The Company was licensed to transact business in the states of Indiana, Iowa, Kentucky, Michigan, Ohio, Pennsylvania, Tennessee, and West Virginia.

The following illustrates the Company's percentage of net premiums written by line in 2009:

<u>Description</u>	<u>%</u>
Homeowners multiple peril	21.7
Private passenger auto liability	21.2
Farmowners multiple peril	18.1
Auto physical damage	15.7
Commercial multiple peril	7.9
Fire	5.2
Commercial auto liability	3.5
Other liability – occurrence	1.9
Inland marine	1.6
Workers' compensation	1.2
Allied lines	1.2
All other	0.8
Total	<u>100.00</u>

Scope of Examination

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2009. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For the last four years during the period under examination, the Certified Public Accounting ("CPA") firm of Buffamante Whipple Buttafaro, P.C. has provided an unqualified opinion based on statutory accounting principles. For the first year during the period under examination, the CPA firm of Ernst & Young LLP provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm during its annual audit of the Company was reviewed during the examination and incorporated into the examination workpapers.

The Department's property and casualty actuary reviewed the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

Financial Statements

The financial condition and the results of its operations for the five year 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, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds

December 31, 2009

Admitted assets

Cash and invested assets:

Bonds	\$33,275,142
Preferred Stocks	158,784
Common Stocks	3,681,799
Properties occupied by the company	811,733
Cash and short-term investments	<u>1,929,733</u>
Total cash and invested assets	39,857,190

Accrued investment income	273,898
Uncollected premiums and agents' balances	3,231,560
Deferred premiums	4,862,190
Amounts recoverable from reinsurers	1,143,884
Funds held by or deposited with reinsured companies	27,703
Net deferred tax asset	1,406,876
Electronic data processing equipment and software	174,922
Receivables from parent, subsidiaries and affiliates	506,168
Aggregate write-ins for other than invested assets	<u>355</u>
Total admitted assets	<u>\$51,484,746</u>

December 31, 2009

Liabilities, capital and surplus

Liabilities:

Losses	\$8,165,355
Reinsurance payable on paid losses and loss adjustment expenses	1,594,585
Loss adjustment expenses	2,505,240
Commissions payable	268,383
Other expenses	230,738
Taxes, licenses and fees	209,484
Current federal and foreign income taxes	173,648
Unearned premiums	13,993,218
Advance premium	51,290
Ceded reinsurance premiums payable	2,547,955
Amounts withheld or retained by company for account of others	12,245
Remittances and items not allocated	62,668
Drafts outstanding	2,148
Total liabilities	<u>29,816,958</u>

Capital and surplus:

Aggregate write-ins for special surplus funds	1,400,000
Aggregate write-ins for other than special surplus funds	149,697
Unassigned funds	<u>20,118,091</u>
Total capital and surplus	<u>21,667,788</u>
Total liabilities, capital and surplus	<u>\$51,484,746</u>

Statement of Operations

**For the Year Ended
December 31, 2009**

Premiums earned	\$26,578,770
Losses incurred	15,588,186
Loss adjustment expenses incurred	2,526,911
Other underwriting expenses incurred	9,717,268
Underwriting loss	<u>(1,253,595)</u>
Net investment income earned	1,545,763
Net realized capital gains (losses)	48,458
Net investment gain	<u>1,594,221</u>
Net gain (loss) from agents' or premium balances charged off	(41,645)
Finance and service charges not included in premiums	448,351
Aggregate write-ins for miscellaneous income	(11,750)
Total other income	<u>394,956</u>
Income before federal income taxes	735,582
Federal income taxes	176,493
Net income	<u><u>\$559,089</u></u>

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2005	2006	2007	2008	2009
Capital and surplus December 31, previous year	<u>\$12,609</u>	<u>\$15,709</u>	<u>\$17,589</u>	<u>\$20,443</u>	<u>\$19,579</u>
Net income	3,505	1,982	2,956	898	559
Net unrealized capital gains (losses)	(655)	227	(20)	(1,360)	575
Change in net deferred income tax	31	33	(125)	68	86
Change in nonadmitted assets	218	(362)	43	(470)	719
Change in provision for reinsurance	1				
Aggregate write-ins for gains and losses in surplus					150
Net change in capital and surplus	<u>3,100</u>	<u>1,880</u>	<u>2,854</u>	<u>(864)</u>	<u>2,088</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$15,709</u></u>	<u><u>\$17,589</u></u>	<u><u>\$20,443</u></u>	<u><u>\$19,579</u></u>	<u><u>\$21,668</u></u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with Section 3925.08 of the ORC.

Loss and Loss Adjustment Expense Reserves

The Company had an outside actuary, Peter G. Wick, FCAS, MAAA of Milliman, Inc., opine on the reasonableness of the total reserves for the years covered by the examination. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2009.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2009.

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:

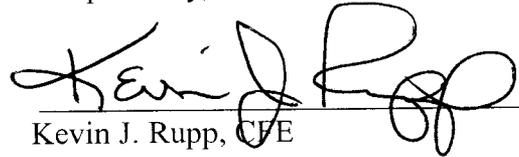
Total Admitted Assets	<u>\$51,484,746</u>
Liabilities	\$29,816,958
Surplus as Regards Policyholders	<u>21,667,788</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$51,484,746</u>

Acknowledgement

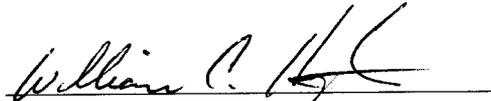
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and the undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CIDM, CISA, CISSP; Aaron R. Hibbs, CPA, FLMI, ChFC; Floyd D. Meeks, AES, CFE, CIDM, CISA, CPA, MBA; Leroy J. Moster, CFE, CPA; and Louis F. Radecky, CPA.

Respectfully,

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

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

A handwritten signature in black ink, appearing to read "William C. Harrington", written over a horizontal line.

William C. Harrington, CFE
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, 2009

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

William C. Harrington 5/16/11
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 knowledge and belief.

Subscribed and sworn to before me this 16 day of May, 2011.

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

State of
County of

Personally appeared before me the above named William C. Harrington, 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 16 day of May, 2011.

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