

Report of Examination of

The National 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 National 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, The Celina Mutual Insurance Company (“Celina”) and Miami Mutual Insurance Company (“Miami”), 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, 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.

Territory and Plan of Operations

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

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 three 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	\$31,000,306
Preferred Stocks	130,292
Common Stocks	4,651,271
Real estate	1,861,972
Cash and short-term investments	1,994,805
Total cash and invested assets	<u>39,638,645</u>

Accrued investment income	262,266
Uncollected premiums and agents' balances	5,008,677
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,592,068
Amounts recoverable from reinsurers	2,626,211
Funds held by or deposited with reinsured companies	1,802
Electronic data processing equipment and software	112,699
Net deferred tax asset	1,275,924
Receivables from parent, subsidiaries and affiliates	176,681
Total admitted assets	<u>\$53,694,974</u>

December 31, 2009

Liabilities, capital and surplus

Liabilities:

Losses	\$7,711,725
Reinsurance payable on paid losses	2,170,418
Loss adjustment expenses	2,366,060
Commissions payable	253,473
Other expenses	237,011
Taxes, licenses and fees	197,846
Current federal and foreign income taxes	28,408
Unearned premiums	13,215,817
Advance premium	62,070
Ceded reinsurance premiums payable	3,651,547
Amounts withheld or retained by company for account of others	2,452,933
Remittances and items not allocated	28,431
Drafts outstanding	16,938
Payable to parent, subsidiaries and affiliates	783,534
Total liabilities	<u>33,176,212</u>

Capital and surplus:

Aggregate write-ins for other than special surplus funds	110,746
Unassigned funds	<u>20,408,016</u>
Total capital and surplus	<u>20,518,762</u>
Total liabilities, capital and surplus	<u>\$53,694,974</u>

Statement of Operations

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

Premiums earned	\$25,102,171
Losses incurred	14,722,175
Loss expenses incurred	2,386,527
Other underwriting expenses incurred	9,177,420
Underwriting loss	<u>(1,183,950)</u>
Net investment income earned	1,482,987
Net realized capital gains	29,228
Net investment gain	<u>1,512,215</u>
Net loss from agents' or premium balances charged off	(39,331)
Finance and service charges not included in premiums	423,442
Aggregate write-ins for miscellaneous income	(10,906)
Total other income	<u>373,205</u>
Income before federal income taxes	701,469
Federal income taxes	188,082
Net income	<u><u>\$513,387</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>\$11,316</u>	<u>\$13,775</u>	<u>\$16,724</u>	<u>\$19,566</u>	<u>\$18,504</u>
Net income	2,561	3,219	2,759	1,250	513
Net unrealized capital gains (losses)	51	(476)	(41)	(1,497)	634
Change in net deferred income tax	(649)	(561)	47	(18)	37
Change in nonadmitted assets	497	776	67	(653)	575
Change in provision for reinsurance		(10)	10	(144)	144
Aggregate write-ins					111
Net change in capital and surplus	<u>2,459</u>	<u>2,949</u>	<u>2,842</u>	<u>(1,062)</u>	<u>2,014</u>
Capital and surplus December 31, current year	<u><u>\$13,775</u></u>	<u><u>\$16,724</u></u>	<u><u>\$19,566</u></u>	<u><u>\$18,504</u></u>	<u><u>\$20,519</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, 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:

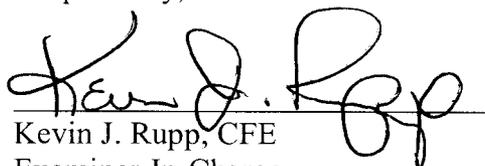
Total Admitted Assets	<u>\$53,694,974</u>
Liabilities	\$33,176,212
Surplus as Regards Policyholders	<u>20,518,762</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$53,694,974</u>

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
Examiner-In-Charge 5/16/11
Date

William C. Harrington
Assistant Chief Examiner 5/16/11
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 Ohio
County of Franklin

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