

Report of Examination of

**American Mutual Share Insurance Corporation**  
Dublin, Ohio

As of December 31, 2012

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Columbus, Ohio  
November 1, 2013

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

Dear Lieutenant Governor/Director:

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

**American Mutual Share Insurance Corporation**

an Ohio domiciled, mutual, credit union share guaranty corporation, hereinafter referred to as the “Company.”

**Scope of Examination**

The Department last examined the Company as of December 31, 2007. The Department’s current examination covers the period of January 1, 2008 through December 31, 2012.

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 and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Deloitte & Touche LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed 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.

| <b>Name</b>        | <b>Principal Occupation</b>   |
|--------------------|---|
| Dennis R. Adams    | President and Chief Executive Officer,<br>The Company                       |
| Craig M. Bradley   | President and Chief Executive Officer,<br>Kane County Teachers Credit Union |
| Eric D. Estes      | Chief Executive Officer,<br>Boulder Dam Credit Union                        |
| Joseph S. Fuller   | Chief Executive Officer,<br>Monterey Credit Union                           |
| William A. Herring | President and Chief Executive Officer,<br>Cincinnati Central Credit Union   |
| Bruce A. Ingraham  | Former President and Chief Executive Officer,<br>Beacon Credit Union        |
| Janice L. Thomas   | President and Chief Executive Officer,<br>PSE Credit Union                  |

### Officers

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

| <b>Name</b>      | <b>Title</b>                            |
|------------------|---|
| Dennis R. Adams  | President and Chief Executive Officer   |
| Curtis L. Robson | Vice President, Secretary and Treasurer |
| Kurt G. Kluth    | Vice President                          |
| Kurt R. Loose    | Vice President                          |
| Lori L. Solberg  | 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 Company is the ultimate controlling person in the holding company system and has one wholly owned subsidiary, Excess Share Insurance Corporation (“ESI”).

## **Territory and Plan of Operations**

The Company’s only line of business is the guaranty of share deposits in credit unions. Its product is currently sold only through a direct channel and includes both primary share insurance and excess share insurance. As primary share insurance protection, the Company provides \$250,000 coverage for each account of an individual credit union member. States in which the Company is authorized to provide primary share insurance for credit unions include Alabama, California, Idaho, Illinois, Indiana, Maryland, Nevada, Ohio and Texas. Primary share insurance is available only to state chartered credit unions.

The Company provides excess share insurance to both state and federally chartered credit unions in California. Excess share insurance provides protection above the insurance limit of its own primary share insurance or insurance provided by the National Credit Union Administration (“NCUA”). For credit unions with the Company’s primary share insurance, excess share insurance adds an additional \$250,000 in coverage for each account of an individual credit union member, which makes each account of a credit union member insured up to \$500,000. NCUA’s coverage is generally \$250,000 for the sum of all savings, certificates and checking accounts, and \$250,000 on an individual retirement account. Members exceeding the maximum level of insurance coverage provided by the NCUA are then insured up to an additional \$250,000 by the Company’s excess share insurance, which generally provides credit union members with coverage up to \$500,000 for the sum of all savings, certificates and checking accounts, and \$500,000 for an individual retirement account.

Geographic concentration of credit unions with the Company’s primary insurance is heavily weighted in the Midwestern and the Western states. Specifically, the Midwest has 54% of the concentration and the West is second with 40%.

## **Reinsurance**

The Company and ESI have reinsurance that provides per occurrence and aggregate loss coverage of \$7,500,000 in excess of the companies’ aggregate retention of \$7,500,000 on the excess share insurance business.

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

## **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

Summary of Operations

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds  
December 31, 2012**

**Assets**

|                                    |                   |
|------------------------------------|-------------------|
| Bonds                              | \$ 159,386,797    |
| Common stocks                      | 20,810,455        |
| Properties occupied by the company | 592,604           |
| Cash and short term investments    | <u>34,125,075</u> |
| Subtotal, cash and invested assets | 214,914,931       |

|   |                              |
|---|------------------------------|
| Investment income due and accrued                     | 340,667                      |
| Deferred premiums booked but deferred and not yet due | 62,670                       |
| Electronic data processing equipment and software     | 38,925                       |
| Receivable from affiliate                             | 76,135                       |
| Aggregate write-ins for other than invested assets    | <u>7,600,000</u>             |
| Total assets  | <u><u>\$ 223,033,328</u></u> |

**Liabilities**

|                                     |                   |
|-------------------------------------|-------------------|
| Losses                              | \$ 36,675,000     |
| Loss adjustment expenses            | 40,000            |
| Other expenses                      | 2,239,394         |
| Taxes licenses and fees             | 31,712            |
| Current federal income taxes        | 6,912             |
| Aggregate write-ins for liabilities | <u>696,603</u>    |
| Total liabilities                   | <u>39,689,621</u> |

**Capital and Surplus**

|   |                              |
|---|------------------------------|
| Aggregate write-ins for special surplus funds | 155,520,266                  |
| Unassigned funds                              | <u>27,823,441</u>            |
| Total capital and surplus                     | <u>183,343,707</u>           |
| Total liabilities, capital and surplus        | <u><u>\$ 223,033,328</u></u> |

**Summary of Operations**  
**For the Year Ended December 31, 2012**

|  |                     |
|--|---------------------|
| Premiums earned                              | \$ <u>231,102</u>   |
| Losses incurred                              | 6,110,570           |
| Loss adjustment expenses incurred            | 580,319             |
| Other underwriting expenses incurred         | <u>5,968,131</u>    |
| Total underwriting deductions                | <u>12,659,020</u>   |
| Net underwriting (loss)                      | (12,427,918)        |
| Net investment income earned                 | 2,093,232           |
| Aggregate write-ins for miscellaneous income | <u>11,730,339</u>   |
| Net income before federal income taxes       | 1,395,653           |
| Federal income taxes incurred                | <u>4,500</u>        |
| Net income                                   | <u>\$ 1,391,153</u> |

**Statement of Changes in the Capital and Surplus Account**  
**As of and For the Year Ended December 31**  
(In thousands)

|  | <u>2012</u>      | <u>2011</u>      | <u>2010</u>      | <u>2009</u>      | <u>2008</u>      |
|--|------------------|------------------|------------------|------------------|------------------|
| Capital and surplus, prior year end    | <u>\$173,391</u> | <u>\$170,709</u> | <u>\$148,232</u> | <u>\$170,377</u> | <u>\$210,548</u> |
| Net income (loss)                      | 1,391            | 5                | 1,849            | (18,901)         | 501              |
| Change in net unrealized capital gains | 118              | 229              | 201              | 356              | 2,143            |
| Change in nonadmitted assets           | 537              | (326)            | 327              | (256)            | (1,359)          |
| Aggregate write-ins                    | <u>7,907</u>     | <u>2,774</u>     | <u>20,100</u>    | <u>(3,344)</u>   | <u>(41,456)</u>  |
| Net change in capital and surplus      | <u>9,953</u>     | <u>2,682</u>     | <u>22,477</u>    | <u>(22,145)</u>  | <u>(40,171)</u>  |
| Capital and surplus, current year end  | <u>\$183,344</u> | <u>\$173,391</u> | <u>\$170,709</u> | <u>\$148,232</u> | <u>\$170,377</u> |

## Notes to Financial Statements

### Investments

The Company's investments were in compliance with ORC Section 1761.13 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

### Reserves for Losses and Loss Adjustment Expenses

The Company's Board of Directors appointed Elissa M. Sirovatka, FCAS, MAAA, of Towers Watson, to render the Company's Statement of Actuarial Opinion ("Opinion"). Ms. Sirovatka prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's 2012 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, the Department's Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the Company's reserves for losses and loss adjustment expenses. On the basis of his analysis, Mr. Botsko determined that the reserves for losses and loss adjustment expenses presented in the 2012 Annual Statement are consistent with requirements in Ohio law, and furthermore, that the reserves for losses and loss adjustment expenses held by the Company are adequate and appropriate.

### Conclusion

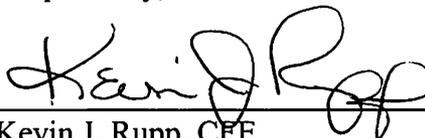
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

|  |                       |
|--|-----------------------|
| Total Admitted Assets                  | <u>\$ 223,023,328</u> |
| Liabilities                            | \$39,689,621          |
| Capital and Surplus                    | <u>183,343,707</u>    |
| Total Liabilities, Capital and Surplus | <u>\$ 223,023,328</u> |

## Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Ryan S. Gibson, CFE, FLMI; and Aaron R. Hibbs, CFE, ChFC, CPA, FLMI.

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 "Jeffrey K. Ebert", written over a horizontal line.

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, 2012.

Kevin J. Rupp  
Examiner-In-Charge

11/1/13  
Date

[Signature]  
Assistant Chief Examiner

11/1/13  
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 1 day of November, 2013.

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 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 1 day of November, 2013.

Elizabeth Chase  
(Notary Public)

**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2017~~  
My Commission Expires