

Report of Examination of

Norton Mutual Fire Association  
Barberton, Ohio

As of December 31, 2012

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Columbus, Ohio

May 9, 2013

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance (“Department”)  
50 West Town Street, 3<sup>rd</sup> 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

**Norton Mutual Fire Association**

an Ohio domiciled, mutual protective property company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 529 West Tuscarawas Avenue, Barberton, Ohio 44203.

A report of this examination is hereby respectfully submitted.

The Department last examined the Company as of December 31, 2007. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2012.

**Scope of Examination**

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.

## 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>
Wayne Ault	Retired
James Carpenter	Retired
Edward Gresser	Underwriter, Wayne Mutual Insurance Company
Thomas Harnden	Retired
Charles Novak	Insurance Agent

### Officers

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

<b>Name</b>	<b>Title</b>
Cynthia K. Keller	President
Thomas Harnden	Vice President
Dianne L. Anzaldi	Secretary and Treasurer

### Insurance Holding Company System

The Company is not a member of a holding company system as defined by ORC 3901.32.

### Reinsurance

#### Ceded

The Company has a per risk excess of loss agreement that provides coverage of \$35,000 above the Company's retention of \$10,000 and an obligatory first surplus treaty provides coverage up to 250% of the annual ceded premium with a maximum cession of \$225,000.

An aggregate excess of loss agreement provides coverage of the lesser of 95% of \$10 per \$1,000 net fire insurance in force or 95% of \$324,600 above a retention of the greater of \$2.85 per \$1,000 average net fire in force or \$61,700.

All reinsurance agreements appear to transfer risk and have the NAIC required clauses.

### **Assumed**

The Company did not assume any reinsurance.

### **Territory and Plan of Operations**

The Company is licensed to do business in the State of Ohio, however, writes mostly in Summit, Stark and Portage Counties.

### **Significant Operating Results**

The Company reported the following net underwriting results for the last 2 years.

	<u>2012</u>	<u>2011</u>
Net Premiums earned	\$ 234,475	\$ 245,926
Losses incurred	50,189	18,206
Loss adjustment exp. Incurred	6,570	6,664
Underwriting expenses incurred	<u>205,562</u>	<u>196,397</u>
Total underwriting deductions	<u>262,321</u>	<u>221,267</u>
Net underwriting gain or (loss)	<u>\$ (27,846)</u>	<u>\$ 24,659</u>
Pure loss ratio	21.4	7.4
Loss adjustment expense ratio	<u>2.8</u>	<u>2.7</u>
Loss ratio	24.2	10.1
Underwriting expense ratio	<u>87.7</u>	<u>79.9</u>
Combined ratio	<u>111.9</u>	<u>90.0</u>

## **Financial Statements**

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds**  
**As of December 31, 2011**

Bonds	\$64,825
Stocks	165,145
Cash on deposit and checking	<u>405,051</u>
Cash and invested assets	<u>635,021</u>
Investment income due and accrued	636
Assessments or premiums in course of collection	2,902
Deferred premiums, agents' balances and installments booked but deferred and not yet due	62,129
Amounts recoverable from reinsurers	10,231
Electronic data processing equipment and software	<u>2,457</u>
Total net admitted assets	<u>\$713,377</u>
Liabilities and Surplus	
Unpaid losses	\$34,114
Commissions due and payable to agents	10,261
Other expenses	14,320
Current federal income taxes	767
Unearned assessment/premium reserve	<u>200,191</u>
Total liabilities	<u>259,653</u>
Surplus	<u>453,724</u>
Total liabilities and surplus	<u>\$713,377</u>

**Statement of Income**  
**As of December 31, 2011**

Net Premiums earned	<u>\$ 234,475</u>
Losses incurred	50,189
Loss expenses incurred	6,570
Other underwriting expenses incurred	<u>205,562</u>
Total underwriting deductions	<u>262,321</u>
Net underwriting loss	<u>(27,846)</u>
Net investment income earned	11,553
Net realized capital gains	<u>8,983</u>
Net investment gain	<u>20,536</u>
Miscellaneous income	<u>9,518</u>
Total other income	<u>9,518</u>
Net income before federal income taxes	2,208
Federal income taxes incurred	<u>(2,267)</u>
Net loss	<u>\$ (59)</u>

**Statement of Changes in the Capital and Surplus Account**

	<u>2012</u>	<u>2011</u>
Capital and surplus, beginning of the year	<u>\$450,577</u>	<u>\$402,140</u>
Net income (loss)	(59)	44,243
Change in net unrealized gains or losses	148	1,136
Change in non-admitted assets	<u>3,058</u>	<u>3,058</u>
Change in surplus during the year	<u>3,147</u>	<u>48,437</u>
Capital and surplus, end of the year	<u>\$453,724</u>	<u>\$450,577</u>

### Subsequent Events

There were no material subsequent events.

### 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>713,377</u>
Liabilities	\$ 259,653
Surplus	<u>453,724</u>
Total Liabilities and Surplus	\$ <u>713,377</u>

Respectfully,

  
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David A. Cook, 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 of Norton Mutual Fire Association as of December 31, 2012.

07 Cook      5/16/13  
Assistant Chief Examiner      Date

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook 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/her knowledge and belief.

Subscribed and sworn to before me this 16 day of May, 2013.

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