RE: President’s Report – 2006

To our Policyholders, Independent Agents, Business Partners, and Associates:

In 1901, what is now known as the Ohio Mutual Insurance Group was formed, and for more than 100 years, our company has remained focused on the property-casualty insurance needs of Ohio policyholders serviced through independent agents. We are now well into our second century of business, and based on our continued good performance, we are more poised than ever to continue to support our promises.

The year 2006 was the best single year in the long and distinguished history of your company - and this follows two record setting years in 2005 and 2004. This is a direct result of several elements: a very loyal group of policyholders, an outstanding agency force that represents us professionally in local communities, a dedicated and hard working team of associates, a professional Board of Directors, and a focused plan that leads all our actions each day.

In 2006, pre-tax operating income was $20.7 million. After tax net income totaled $13.5 million which allowed the policyholder surplus account to rise by 21% to $106.5 million and total assets to exceed $230 million. The significance of this to you is that the financial strength of your company continues to improve enabling you to have rock solid confidence in us to meet our obligations to you. In addition, this allows the company to continue to have competitive rates, while expanding the products and classes of business we write.

“Policyholder surplus” is the insurance name for the more commonly used term “net worth” computed by subtracting liabilities from assets. It is the life blood of a mutual company and is the fuel that enables mutual companies to sustain a quality rating from A. M. Best, grow premium while keeping leverage ratios within balance, and expand into new states, products, or lines of business. In addition, given the poor catastrophe results experienced by the industry these past few years, the rating agencies are requiring that companies have more capital to be assured that they can withstand very severe events.

As a mutual company, we do not have the luxury of selling stock that is available to our stock company colleagues. It was only a few very short years ago that we were relying on investment income alone to grow our surplus. Over an extended period, this is very risky, since the returns from the investment market can be quite fickle, placing a great reliance on us to generate an underwriting profit to grow our own capital. It gives me great pride to tell you that 2006 was our third consecutive year where we have generated both an underwriting as well as an investment profit.
Operationally, in 2006 we concluded a multi-year project to upgrade our automated systems environment. We are now running the entire company on one integrated system and transacting a large portion of our business with our agents via the internet. The significance of this to you is that we are seeing efficiencies in our business processes that will enable us to grow the company in a more cost effective manner. Our efforts were recognized in October, as our agency interface solution was named a finalist in the A. M. Best e-Fusion competition, which recognized innovative and unique applications of software to the insurance industry.

As we achieved these milestones, they did not go without notice. In April, A. M. Best, the leading nationally known independent insurance rating agency, acknowledged our performance with a renewal of our "A" (Excellent) rating. In December, the National Underwriter, one of the main industry news organizations, named us to the list of the top 100 companies with the lowest 6 year running combined ratio in the country.

These accomplishments give us every reason to be optimistic about our future – and while we have that positive outlook, we do need to balance it with a dose of reality of the marketplace in which we operate. The recent flurry of hurricanes along the US coastline, while not directly costing your company in terms of losses, will impact us as the cost of catastrophe reinsurance surges. The profitability we have enjoyed has also been experienced by many of our competitors, and it is likely that profit margins will erode as companies compete for business. And at both the state and federal levels, there continue to be challenges presented to our industry.

Despite these challenges, we continue to look for ways to grow our company in both revenue and surplus. Your Board of Directors authorized expansion of the company into Rhode Island, and we received our license there in November – and expect to be writing commercial insurance in early 2007. This is an important step for us as we seek more geographic diversification of our business to mitigate the potential negative effects a major weather event striking Ohio or an adverse legal development in Ohio could have on us.

In addition, we have applied for licenses in seven other states. We are optimistic about receiving our license to transact business in these states in 2007, and look to 2008 and beyond for them to have an impact on our company. While we expect that Ohio will continue to be our largest state, we know that we need to diversify our business both from a geographic and a product perspective.

As we work our way into our second century of business, we do so with great respect for our past, but with healthy optimism for our future. The recent strong financial gains of your company position us well to be ready to take on the challenges that will be presented in 2007 and beyond. The Guiding Principles of the company include our Mission that states that we will “enhance policyholder value by harnessing our financial strength, the ingenuity of our associates, and the shared loyalties of our business partners.” With a combination like that, we have every reason to be optimistic. (For a more complete look at all of our Guiding Principles, click here.)
To our policyholders, I offer my sincere thanks for your loyalty and your trust in our company. I assure you we are focused on making your company financially stronger each day so that you can always rely on us to meet our promises to you.

To our independent agents, I extend my thanks for your embrace of our corporate culture and business philosophy – as well as the business you entrust to us.

To our business partners, I thank you for your advice and support as we work together to make our company and yours stronger.

To our associates, I offer my deep appreciation for your tireless service each day to make the experience of our policyholders and agents a positive one.

James J. Kennedy, CPCU
President and Chief Executive Officer