



PRESIDENT'S REPORT **2010**

**Ohio Mutual Insurance Group®**

## OUR HISTORY

Ohio Mutual Insurance Group (OMIG) traces its roots to 1901, when the Ohio Mutual Tornado, Cyclone and Windstorm Insurance Association began providing insurance to farmers in northwest Ohio.

Today, with 110 years of successful history behind us, we retain the small-town location and values upon which we were founded, while offering a broad array of industry-leading products and cutting-edge technology that positions us to be a leader in the property and casualty insurance industry for many years to come. While our location and values have remained consistent over our past century in business, we now offer a full-line of personal and commercial insurance products that are marketed through a network of carefully-selected independent insurance agent partners. The 2010 acquisition of Maine-based Casco Indemnity will add additional capacity for growth and diversification.

Based in Bucyrus, Ohio, OMIG writes more than \$160 million in premiums each year – covering homes, autos, farms, and commercial properties in four states, with plans to add additional products and markets in 2011. We maintain the prestigious “A” Excellent rating from A.M. Best, and were named in 2009 and 2010 among the top 50 insurers in the country by Ward Group – recognizing our outstanding operating performance, capitalization, underwriting expertise, and prudent investment strategy.

In addition, the nation’s largest association of independent insurance agents in 2009 honored Ohio Mutual as its company of the year, awarding it the coveted National Company Award of Excellence. Independent agents in Ohio have rated us for the past three years among the top three companies in the state with which to do business. These ratings and awards reflect the efforts of our agent partners, more than 200 dedicated associates, and a stable, experienced, and forward-thinking management team. Our financial performance is among the best in the country – consistently outperforming many of our competitors in the property and casualty insurance industry.

The company recognizes the value of leveraging technology to maintain its leading position in the marketplace. Our award-winning e-Quip® agency interface tool allows our agent partners to accurately quote business in their offices and to print the policy while the customer is present. Our next generation of technological innovation features the introduction of our industry-leading 360access<sup>SM</sup> tool that allows policyholders 24/7 access to their policy information. This kind of technology enables us to maintain a competitive edge within our industry, and to maintain the personalized service and relationships that our policyholders appreciate.

Ohio Mutual Insurance Group is an organization that is deeply anchored in its history and traditional core values, while embracing the tactics and tools necessary to successfully advance into a dynamic and profitable future.

MARCH, 2011

TO OUR POLICYHOLDERS, INDEPENDENT AGENTS, BUSINESS PARTNERS, & ASSOCIATES:



**James J. Kennedy, CPCU**  
PRESIDENT & CHIEF EXECUTIVE OFFICER

The occasion of this report gives me the opportunity each year to indulge in the luxury of looking backward for a short time – and to evaluate and place the events of our world, our industry, and our company in proper context.

2010 was a year characterized both by sudden upheaval and maddening malaise. The world changed in a few dramatic ways we couldn't have foreseen and didn't want; at the same time, change we've sought after continued to tarry just over the horizon.

The year started with a devastating earthquake in Haiti and was followed by similar disasters in Chile and China. We experienced flooding and snowfall that rewrote the record books across the United States. Not all of the disasters were natural, as we watched oil gush for three months into the Gulf of Mexico. Leaks of a different kind – Wikileaks -- paralyzed governments around the world and dominated headlines for weeks. The worldwide economy continued to stagnate, and Americans' displeasure with our government's ineffective attempts to jumpstart a recovery resulted in political upheaval in the November elections.

While bad news continued to wash over us like waves on the shore, there were moments of respite, like rays of light reminding us of the sunshine above the clouds: the dramatic rescue of 33 miners trapped

underground for two months, the global sports spectacles of the Olympics and World Cup, and even the story of a frugal spinster whose \$180 stock purchase from her employer in 1935 resulted, upon her passing at age 100, in a \$7 million bequest to her college alma mater in Illinois.

It was also a year in which technology continued to exert its relentless influence on our lives – widespread adoption of mobile computing, streaming video replacing DVDs, e-readers replacing books, half a *billion* Facebook users, and 300,000 apps available for our smartphones.

If there was any “buzz phrase” that was omnipresent during 2010, it was “the new normal.” Google that phrase and you receive in excess of 79 million results. Search Amazon.com with that phrase and you receive a list of more than 170 books -- more than half published in the past year. Everyone from economists to pundits to CEOs are trying to explain if, how, and why the recent recession may not be merely a cyclical economic trend, but could be a fundamental restructuring of our economic order – an establishment of a “new normal.”

History reveals that this is not a new concept. In 1939, New York Mayor Fiorello La Guardia said to citizens exhausted from a decade of economic recovery: “We must realize that it is not a temporary depression, but a New Normal, and adjust ourselves accordingly.” For some, it's merely code-speak for “lower your expectations” – for others it's the revolutionary



concept that “normal” may no longer be assumed to be a permanent state.

Only hindsight will reveal whether 2010 was just 12 months in the midst of a difficult economic downturn or the redefining of “normal.” However, throughout this conversation about right-sizing our expectations, Ohio Mutual Insurance Group was able to maintain its drive and productivity – achieving new heights in sales, assets, and net worth, in addition to extending our consecutive year streaks for realizing an underwriting profit (7) and achieving a combined ratio under 100 percent (8).

We’ve been able to leverage the advantages we’ve created, and fuel our forward momentum during a time when momentum for many is in short supply. In evaluating that achievement, I believe it is due in large part to three “P’s” embedded in our corporate culture – our **Principles**, our **Partners**, and our **Preparation**.

## PRINCIPLES

### THEY DEFINE AND GUIDE OUR BUSINESS

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If you’ve spent any time as a customer, associate, business partner, or even visitor to the building of Ohio Mutual, it’s impossible to miss that this is an organization built on and beholding to a set of values that we call our Guiding Principles. These principles are the bedrock into which our company is anchored, and they define what we do, what we value, how we behave, what we believe, and who we are.

As in previous years, a copy of our Guiding Principles is included in this President’s Report. If you have need

to further understand who we are or what direction we are likely to go in the future, you need look no further than Ohio Mutual’s Guiding Principles.

## PARTNERS

### THEY ASSIST IN ACHIEVING OUR BUSINESS GOALS

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Every company utilizes vendors, as do we. But there is a core group of organizations and individuals from whom we purchase goods and services who have transcended their roles as vendors to become partners. The best partnerships are born of shared vision, aligned goals, and mutual investment in the outcome. In many ways, a partnership is not a noun; it’s a verb, defined by the way each partner works to benefit the other.

Ohio Mutual is blessed – a word not often used in the business world – with high-quality partners who share our vision, are aligned with our goals, and are invested in our success. In every sense, these unique business allies understand that a partnership is a verb, and they have demonstrated over many years that they take seriously the great responsibility they assume by partnering with our company.

Allow me to briefly introduce several of our key partners, who share credit for many of the accomplishments we celebrate:

#### CSC

CSC is an international technology firm that developed and maintains our key technology platforms – tools that enable us to effectively contend with much larger competitors. Since 2003, CSC has been a key partner with Ohio

Mutual. They are skilled at seeking and applying customer feedback to their products, and I have been privileged to be an active member of a CSC Advisory Council that offers strategic direction to the company’s management team.

#### GENERAL REINSURANCE

Gen Re has been our reinsurance partner continuously for the past decade (and for many years before that), helping us develop new products and expand into diverse markets. In a business that sells nothing more tangible than a promise, we rely on the strength and promises of the nation’s leading reinsurer to ensure that – in the face of any circumstance – our promises will be kept.

#### BRICKER & ECKLER

Bricker & Eckler is corporate counsel for Ohio Mutual, having for the past five years provided invaluable support in the areas of human resources, contracts, policy development, and governance. Most recently, they greatly aided our acquisition of Maine-based Casco Indemnity Company.

#### NAMIC

NAMIC (The National Association of Mutual Insurance Companies) provides Ohio Mutual a wealth of services, training, public policy expertise, effective advocacy, and an equal voice among its 1,400 property & casualty member companies. The Association has served our needs for many years, and it will be my privilege to serve its members as NAMIC Chairman in 2012.

## AGENT PARTNERS

Our nearly 400 independent agent partners are the lifeblood of our business – without their dedicated efforts to effectively market our products, serve our mutual customers, and establish strong relationships in communities across the seven states in which we currently operate, we simply could not accomplish what our Guiding Principles call for us to do.

James Cash Penney – yes, that J.C. Penney – once stated “I will have no man work for me who has not the capacity to become a partner.” In evaluating and selecting our key partners, we apply this same criterion (although not limited by gender), and as a result, we receive superior products and service that ultimately inures to the benefit of our policyholders, agent partners, and associates.

## PREPARATION

### ESTABLISHING A VISION AND CAPACITY FOR OUR FUTURE

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History is replete with organizations that lost their leadership position because they failed to leverage present strengths while keeping a keen eye on the farthest horizon.

Eight years ago, we embarked on a journey to prepare our company for the challenges of the future and to define what success looked like in our years ahead. We objectively evaluated our strengths and weaknesses and established a new strategic direction

for the company, which led us to adopt several tactical changes in how we operate.

For example, we invested more than \$5 million in new technology to allow us to keep pace with the ever-increasing demands of our industry and our customers’ expectations. We updated our business model with in-depth succession planning, disaster recovery programs, involvement as an advocate for our industry, management development programs, and a laser-like focus on becoming financially impregnable. After all, our product is an intangible promise to indemnify our customers for covered losses – so our financial condition is paramount to allowing us to meet those obligations.

In these past eight years, revenues have increased 35%, we have generated \$81 million of net income, assets have risen by \$153 million or 93%, and surplus (net worth) has increased by \$84 million or 124%. This financial performance has earned us membership in the “Ward’s 50” for the past two years as one of the 50 best financially performing insurance companies in the entire United States.

This strong financial performance has also meant that we can take on additional challenges and further invest in our business and our community. In 2010, we successfully pursued our first out-of-state acquisition when we purchased Casco Indemnity of Saco, Maine, a transaction that was finalized the first week of 2011. Since risk diversification is very important to

any insurance company, this helps spread our risk geographically, as Casco is active in Maine, New Hampshire, Rhode Island, Connecticut, and Vermont. Eight years ago we had one license in one state – we have prepared for Ohio Mutual’s future by expanding both our reach and diversification.

Coaches, athletes, and movie characters have often quoted the Latin proverb: *amat victoria curam* – which is translated “Victory favors careful preparation.” Ohio Mutual continues to position itself for victory and success tomorrow through its careful preparation today.

As always, I wish to extend personal words of thanks – first to our mutual policyholders, for their loyalty and trust; next to our agents for their trustworthiness and valued partnership; to our associates for their passionate commitment to our mission, agents, and customers; to our board of directors for their visionary and supportive leadership; and finally to our many business partners for their shared commitment to our values, customers, and success.

**James J. Kennedy, CPCU**  
PRESIDENT & CHIEF EXECUTIVE OFFICER

# HISTORICAL RESULTS 2003-2010

Ohio Mutual Insurance Group.

	2003	2004	2005	2006	2007	2008	2009	2010	2003 - 2010
Direct Written Premium	\$129.8 M	\$129.6 M	\$128.3 M	\$128.0 M	\$138.6 M	\$150.4 M	\$156.5 M	\$163.0 M	
DWP Growth Rate	11.1%	-0.2%	-1.0%	-0.3%	8.3%	8.5%	4.0%	4.2%	
Net Written Premium	\$122.8 M	\$120.1 M	\$117.7 M	\$120.8 M	\$131 M	\$139.4 M	\$146.3 M	\$154.4 M	
Loss Ratio	63.8%	60.0%	49.8%	45.5%	57.3%	53.5%	52.3%	59.5%	55.3%
Loss Adjusting Expense	8.4%	6.1%	8.0%	8.5%	8.7%	6.7%	7.6%	7.2%	7.6%
Commissions	17.0%	18.2%	19.4%	19.1%	17.6%	17.4%	17.1%	16.7%	17.7%
Other Underwriting Expense	10.5%	11.7%	14.5%	15.4%	14.2%	15.6%	15.4%	14.8%	14.1%
Combined Ratio	99.7%	96.0%	91.7%	88.5%	97.8%	93.2%	92.4%	98.2%	94.8%
LAE/Comm/OUE Ratio	35.9%	36.0%	41.9%	43.0%	40.5%	39.7%	40.1%	38.7%	39.4%
Underwriting Profit	(\$0.6) M	\$4.2 M	\$8.8 M	\$12.6 M	\$0.6 M	\$8.9 M	\$9.8 M	\$1.5 M	\$45.8 M
Net Investment Income	\$5.2 M	\$5.6 M	\$6.7 M	\$7.0 M	\$7.6 M	\$8.0 M	\$8.1 M	\$7.8 M	\$56.0 M
Net Income	\$3.1 M	\$6.3 M	\$13.5 M	\$13.5 M	\$7.9 M	\$10.9 M	\$15.6 M	\$10.5 M	\$85.5 M
Surplus	\$72.5 M	\$75.3 M	\$88.3 M	\$106.5 M	\$114.9 M	\$123.6 M	\$142.5 M	\$153.4 M	
NWP to Surplus Ratio	1.69:1	1.59:1	1.33:1	1.13:1	1.14:1	1.13:1	1.03:1	1.01:1	
Admitted Assets	\$185.9 M	\$194.7 M	\$210.2 M	\$232.5 M	\$250.5 M	\$264.3 M	\$287.1 M	\$315.1 M	
AM Best Rating	A	A	A	A	A	A	A	A	
Rating Outlook	Stable								
OMIG BCAR	214.0	213.4	254.0	295.9	291.5	294.1	332.9		
Industry BCAR	163.6	155.5	166.7	166.3	210.5	216.1	202.4		
Comparison	130.8%	137.2%	152.4%	177.9%	138.5%	136.1%	164.5%		

# GUIDING PRINCIPLES

Ohio Mutual Insurance Group



## STRATEGIC OBJECTIVES

We hold as our ultimate objective the production of an underwriting profit which enables the financial security for our mutual policyholders.

We are steadfastly committed to the Independent Agency System recognizing our independent agents as our business partners.

We are committed to long-term controlled growth.

We will seek inspiration from our Guiding Principles.

## VISION

To be recognized as an industry leader through our reputation with our business partners making us the preferred choice for property-casualty insurance by our customers.

## MISSION

To enhance policyholder value by harnessing our financial strength, the ingenuity of our associates, and the shared loyalties of our business partners.

## VALUES

We see our associates, our independent agents, and our other business partners focused by one set of aligned values.

### CHARACTER

Be passionate about what you do.  
Do the right thing.  
Keep your ego in check.  
Help each other achieve balance.

### RESULTS

Focus on underwriting profit.  
Maintain strong internal controls.  
Seek balanced growth.  
Own every issue to conclusion.

### COMMUNICATIONS

Encourage honest feedback.  
Use objective measurements.  
Build a trusting environment.  
Be candid without regard to position.

### SERVICE

Build solid relationships.  
Be customer focused.  
Seek a “win-win” result.  
Exceed expectations.

### INITIATIVE

Focus on fundamentals.  
Embrace change.  
Try something new.  
Keep your skills current.

Passionate  
*Innovative*  
PARTNERSHIP



**Ohio Mutual  
Insurance Group**®