



*the power of
purpose*

PRESIDENT'S REPORT 2011

Ohio Mutual Insurance Group®

TO OUR POLICYHOLDERS, INDEPENDENT AGENTS, BUSINESS PARTNERS & ASSOCIATES



James J. Kennedy, CPCU
PRESIDENT &
CHIEF EXECUTIVE OFFICER

Each year we publish this report – it’s a little about how we did, more about who we are, and more still about how the latter impacts the former.

EVERYBODY TALKS ABOUT THE WEATHER...

The story of 2011 for many of us was the weather. When looking back at this year, we will all remember an unprecedented drumbeat of “can you top this?” weather-related news stories and the human and financial cost associated with each one. We witnessed violent tornado outbreaks, destructive wind and hail, devastating earthquakes, and the horrifying tsunami in Japan. As 2011 drew to a close, one newspaper wrote: “If our newspaper had a Person of the Year award, it would go to Mother Nature. And not for her parenting skills.”

To the extent that weather impacts each of us as individuals, our families, our friends, and communities – it impacts companies in the insurance world to the same degree. Like most companies in our industry, Ohio Mutual absorbed blow after blow from Mother Nature in 2011 – and while we added to our net worth and posted positive net income, for the first time in nine years we were unable to realize either an underwriting profit or combined ratio under 100 percent.

To give you an idea just how quickly a year’s worth of effort can be frustrated, consider this: just three spring storms, together easily lasting less than a total of 24 hours, cost us \$8.87 million in net losses. *Absent those 24 hours, Ohio Mutual would*

have finished the year with both an underwriting profit and a combined ratio once again under 100 percent.

Given the impact that our unprecedented weather had on our entire industry, our results should surprise no one. But when viewed in the context of an estimated 107.5 percent combined ratio posted in 2011 by the property & casualty industry, we feel very fortunate to have achieved a combined ratio of 105 percent. Still, by the standard we have set for ourselves, 2011 was ultimately not a successful year for our organization. We have a clearly-stated goal: “We hold as our ultimate objective the production of an underwriting profit, which enables the financial security of our mutual policyholders.”

With that in mind, we cannot confuse our definition of success with effort or accomplishment. Our associates expended great effort and realized significant accomplishments in 2011: we modernized our product portfolio, absorbed our first-ever out-of-state acquisition, prepared new products in new states, and appointed and contracted with new members of our independent agent sales force across New England.

HOW SOLID IS THE PROMISE?

In these times of turmoil and in the aftermath of a year in which Ohio Mutual failed to meet its ultimate objective, it is fair to ask “how solid is the promise?” The answer to such a question is affirmed by many of the financial metrics against which we are measured; while we cannot point to an eighth consecutive year of underwriting profit or a ninth consecutive year with a combined ratio under 100 percent, we can demonstrate the fundamental strength of our organization and offer evidence to our policyholders that we are keeping the promise.

- We earned \$2.8 million of net income
- We grew our surplus (net worth), which now stands at a record \$154.2 million
- Our direct and net written premium levels achieved new highs
- Our admitted assets reached a record \$335.3 million

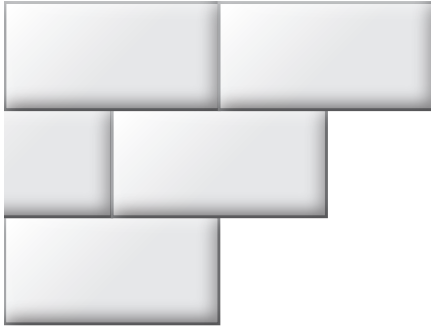
In addition, there were other significant accomplishments to highlight:

- On January 3, 2011, Ohio Mutual completed its acquisition of Maine-based Casco Indemnity Company, opening up new markets throughout New England, adding 20 new associates, and 100 new independent agent partners to our team. The effort to integrate Casco throughout 2011 positioned the company to expand our footprint and capacity for years to come.
- For the third consecutive year, Cincinnati-based Ward Group recognized Ohio Mutual in 2011 as one of the nation’s top 50 insurers – placing the company in the top echelon of the nation’s 3,000 property and casualty insurers.
- A.M. Best Co. also upgraded the company’s issuer credit rating outlook from “stable” to “positive” while affirming the company’s financial strength rating of “A” for the 19th consecutive year.
- I was privileged in the fall to begin serving a one-year term as Chairman of the National Association of Mutual Insurance Companies (NAMIC), a trade group representing the majority of our industry. This is a challenging time to be a leader in our industry, but in this capacity I have a unique vantage point from which I can observe not only our collective struggles, but also to take comfort in the fundamental strength of our industry.

FOCUS ON FUNDAMENTALS

In times of uncertainty and change, organizations like Ohio Mutual must continue to focus on the core values, human resources, and business practices upon which our company has been built for the past 110 years. In fact, one of the values expressed in our Guiding Principles is to do just that – “focus on fundamentals” – and so:

- We will continue to pursue production of an underwriting profit
- We will remain committed to the Independent Agency System
- We will be committed to long-term growth
- We will continue to seek inspiration from our Guiding Principles.



OUR MUTUAL ADVANTAGE

In addition to these fundamental goals which will continue to guide our every decision and strategy, Ohio Mutual continues to enjoy one additional advantage in the midst of our turbulent insurance market: mutuality. It's the "Mutual" part of our name – the part that tends to be overlooked – but it couldn't be any more important than it is right now. Being a mutual insurance company means that we are owned by our policyholders, formed for their collective and mutual benefit, and dedicated to long-term goals and strategies that ultimately benefit those same mutual policyholders. Mutual companies are fond of saying "we don't answer to Wall Street – we answer to Main Street." We don't have the competing pressures and short term priorities of stock companies. Instead, we can focus on the long-term growth and strength of our company. Rest assured, if you are a policyholder of Ohio Mutual Insurance Group, we answer to you, on whatever street you may reside.

THE POWER OF PURPOSE

On several occasions over the past year, I've shared an oft-repeated illustration about the power of purpose. One can find it in many variations, but here is a version I favor:

St. Paul's Cathedral is one of the most famous pieces of architecture in the world. The current structure, begun in 1675, stands on the same site upon which houses of worship have stood since 640 A.D.

After a previous wooden structure was destroyed by fire, Sir Christopher Wren was commissioned to design a new cathedral – the construction of which took 1,000 craftsmen 35 years to complete. When completed, the structure remained the tallest building in London for the next 252 years.

The story is told how, in the early days of the project, Sir Christopher encountered four bricklayers, one at each of four walls at that time under construction. As he observed their craftsmanship, he approached each bricklayer and asked them each the same simple question:

"What are you doing?"

The first bricklayer replied, "I am putting mortar on these bricks."

Rounding the corner, the architect repeated the question and the second bricklayer replied, "I am building a wall."

Sir Christopher asked the question of the third bricklayer, who replied, "I am building a church."

Finally, the architect reached the fourth bricklayer who responded to the question with the following response: "I am building a cathedral that will glorify God and inspire and comfort an entire community."

In any organization, you will likely find individuals who reflect the same perspective on their work that each of these bricklayers expressed about theirs.

We don't lay bricks in the insurance business, but we certainly have our fair share of routine, sometimes tedious work – just like that first bricklayer, whose focus was on placing brick after brick after brick to form a long wall – immersed in a continuous cadence of "decide and do" where the focus is on the smallest of tasks.

The second bricklayer is akin to one whose perspective may be larger than the immediate task, but still focused only on the project one owns – not knowing or caring what function one's wall will serve, and focused only on completing one's own individual project. This individual's focus extends only to the fulfillment of his job description and no further.

The third bricklayer understood that his efforts were intended to be synthesized with similarly important efforts by other craftsmen laboring toward a common goal. While understanding how his efforts fit into the larger plan, his focus was on completing the shared mission – a laudable, but ultimately incomplete goal.

The fourth bricklayer, like his fellow wall-builders, was engaged in putting mortar on bricks, building walls, and helping to build a church. But unlike his colleagues, he also understood the purpose for his work – a purpose that transcended the tasks at hand or his job description. He experienced ownership of the project to a much deeper degree, at a much higher level. He was engaged in the purpose of the project, and I expect Sir Christopher Wren invested all 35 years spent constructing that cathedral searching for and engaging workers who – like the fourth bricklayer – understood the power of purpose.

In 2011, I was more fully awakened to the power of purpose, and we undertook an effort to identify and articulate that purpose. Ohio Mutual Insurance Group may design insurance products, sell policies, or process claims on any given day – laying those individual bricks – but we recognize that ultimately, our purpose as an organization is much higher.

We often hear that the concept of insurance is difficult to grasp because it's not something tangible – the item you bring home from your independent agent's office is just paper, and on it are some promises. By keeping those promises – effectively and affordably transferring everyday risks from our policyholders – we enable those policyholders to pursue their dreams, such as owning a car, buying a house, starting a business, or operating a farm. The risks of pursuing these dreams would be too high if carried by any individual, so ultimately, the ability to pursue those dreams is what we sell and that is why we exist.

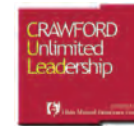
The purpose of Ohio Mutual Insurance Group is *“to keep the promises that secure dreams”*. We believe in and strive to live this purpose every day, and we've baked this purpose into our Guiding Principles, which is included in this publication every year. In your interaction with Ohio Mutual Insurance Group and the 220 associates who work for this organization, it's my sincere hope that you encounter more cathedral-builders than bricklayers.

As I always close this narrative, I again wish to extend thanks to key groups of people whose loyalty and effort are integral to our success as an organization. To our policyholders, thank you for entrusting us with your dreams; to our agents, thank you for your loyalty, your partnership, and your service to our shared customers; to our associates, thank you for your consistently high level of passionate commitment to this organization and to the people we serve as together we “build our cathedral”; to our key business partners, thank you for catching our vision and working alongside us in support of our mission; and to our board of directors, thank you for the strong foundation of leadership and resources you provide that permit us all to keep the promises that secure so many dreams.

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



COMMUNITY SUPPORT & CHARITABLE INITIATIVES



Crawford 20/20 Vision & CU Lead

Ohio Mutual helped create a community leadership development institute, Crawford Unlimited Leadership (CULead), to develop the next generation of local leaders in order to create and sustain a strong community in its hometown Crawford County, Ohio.

Chamber of Commerce “Business of the Year”

Ohio Mutual was honored as “Business of the Year” in 2011 by the local chamber of commerce, recognizing its commitment to and level of involvement in supporting area business development initiatives.



Shoes for School (S4S)

Ohio Mutual expanded a program (piloted the previous year with one local school district) to provide shoes for needy children at the four school districts in our hometown county. To date, more than 100 children have received school shoes through this effort.

CPCU Society Coats / Gloves

As part of the annual winter coat drives sponsored by the CPCU Society chapters in Cleveland and Cincinnati, Ohio Mutual purchased and donated 2,000 pairs of adult and children's gloves – one pair to accompany each donated winter coat.

COMPANY MANAGEMENT

James J. Kennedy CPCU, LUTCF
President & Chief Executive Officer

Randy T. O'Conner CPCU, AIM
Executive Vice President

Michael R. Horvath CPCU
Vice President, Human Resources

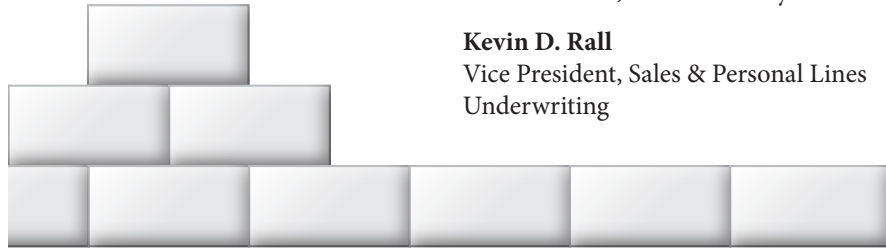
David G. Hendrix CPA, CPCU
Treasurer & Chief Financial Officer

Michael A. Brogan SCLA, AIC
Vice President, Claims

Thomas M. Holtshouse CPCU
Vice President, Product Management

Todd E. Albert
Vice President, Information Systems

Kevin D. Rall
Vice President, Sales & Personal Lines
Underwriting



BOARD OF DIRECTORS

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Chair of the Board, Executive Committee
– Chair, Audit Committee, Governance
Committee

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Vice Chair of the Board, Governance
Committee, Budget & Compensation
Committee, Executive Committee,
Secretary of the Company

Randy Walker
Governance Committee– Chair,
Investment Committee

Thomas Woolley
Budget & Compensation Committee,
Investment Committee

A. Michael Heister CIC
Budget & Compensation Committee –
Chair, Audit Committee

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President, Chief Executive Officer

R. Bruce Albro CFA
Investment Committee – Chair, Audit
Committee

David A. Siebenburgen
Audit Committee – Chair, Investment
Committee

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OHIO AGENTS COUNCIL

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Murfin Insurance Agency Inc.

Jeanie Giesler
Diversified Insurance Service LLC

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Bodey Insurance Agency Inc.

Ryan Woolley
Allenbaugh Insurance Agency Inc.

Neil Coleman
Neil Coleman Insurance Services Inc.

Brent Phelan
Phelan Insurance Agency Inc.

Bob Love
Love Insurance Agency

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Jeff Kirk
Dostal & Kirk Inc.

Jay Byrnes
Byrnes Agency Inc.

Steve Brown
Payne & Brown Insurance Agency Inc.

Neil Coleman
Neil Coleman Insurance Services Inc.

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John Maschi
Peter M. Bakker Agency Inc.

John Tickner
Babcock & Helliwell Inc.

Brian Dehm
Tracy Driscoll & Company Inc.

Dave Hanuschak
Hanuschak Insurance Agency

Jay Byrnes
Byrnes Agency Inc.



HISTORICAL RESULTS 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2003 - 2011
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	\$180.7 M	
DWP Growth Rate	11.1%	-0.2%	-1.0%	-0.3%	8.3%	8.5%	4.0%	4.2%	3.9%*	
Net Written Premium	\$122.8 M	\$120.1 M	\$117.7 M	\$120.8 M	\$131.0 M	\$139.4 M	\$146.3 M	\$154.4 M	\$169.4 M	
Loss Ratio	63.8%	60.0%	49.8%	45.5%	57.3%	53.5%	52.3%	59.5%	64.5%	56.6%
Loss Adjusting Expense	8.4%	6.1%	8.0%	8.5%	8.7%	6.7%	7.6%	7.2%	9.1%	7.8%
Commissions	17.0%	18.2%	19.4%	19.1%	17.6%	17.4%	17.1%	16.7%	16.4%	17.6%
Other Underwriting Expense	10.5%	11.7%	14.5%	15.4%	14.2%	15.6%	15.4%	14.8%	15.0%	14.2%
Combined Ratio	99.7%	96.0%	91.7%	88.5%	97.8%	93.2%	92.4%	98.2%	105.0%	96.2%
LAE / Comm / OUE Ratio	35.9%	36.0%	41.9%	43.0%	40.5%	39.7%	40.1%	38.7%	40.5%	39.6%
Underwriting Profit	(\$0.6) M	\$4.2 M	\$8.8 M	\$12.6 M	\$0.6 M	\$8.9 M	\$9.8 M	\$1.4 M	(\$8.8) M	\$37.0 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	\$8.0 M	\$64.0 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	\$2.8 M	\$84.1 M
Surplus	\$72.5 M	\$75.3 M	\$88.3 M	\$106.5 M	\$114.9 M	\$123.6 M	\$142.5 M	\$153.5 M	\$154.2 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	1.10:1	
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	\$335.3 M	
AM Best Rating	A	A	A	A	A	A	A	A	A	
Rating Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	
OMIG BCAR	214.0	213.4	254.0	295.9	291.5	294.1	332.9	344.0		
Industry BCAR	163.6	155.5	166.7	166.3	210.5	216.1	202.4	210.7		
Comparison	130.8%	137.2%	152.4%	177.9%	138.5%	136.1%	164.5%	163.3%		

*excludes Casco Indemnity



GUIDING PRINCIPLES

Ohio Mutual
Insurance Group

omig.com

PURPOSE

To keep the promises that secure dreams.

STRATEGIC OBJECTIVES

We hold as our ultimate objective the production of an underwriting profit, which enables the financial security of 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

SERVICE

Build solid relationships
Be customer focused
Seek a "win-win" result
Exceed expectations

COMMUNICATION

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

INITIATIVE

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