EXAMINATION REPORT OF

HAMILTON MUTUAL INSURANCE COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2013

Des Moines, Iowa
May 19, 2015

HONORABLE NICK GERHART
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs, and financial condition of the

HAMILTON MUTUAL INSURANCE COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2013

at its Home Office, 717 Mulberry Street, Des Moines, Iowa.

INTRODUCTION

Hamilton Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2008, under the Association Plan. The examination reported herein was conducted as a coordinated examination of an insurance holding company group with the Insurance Division of Iowa acting as the Lead State. Representatives from the North Dakota Insurance Department also participated.

The following insurance entities were examined as part of the coordinated examination, with separate examination reports prepared for each entity.

Company	Domicile
Employers Mutual Casualty Company (Ultimate Parent)	Iowa
Dakota Fire Insurance Company	North Dakota
EMC Property & Casualty Company	Iowa
EMC Reinsurance Company	Iowa
EMCASCO Insurance Company	Iowa
Illinois EMCASCO Insurance Company	Iowa
Union Insurance Company of Providence	Iowa

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2009 to the close of business on December 31, 2013, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires the examination to be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company; including corporate governance, identifying and assessing inherent risks within the organization, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, as well as applicable domestic state regulations.

All accounts and activities of the organization were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2013.

HISTORY

The Company commenced business as the German Mutual Insurance Company on May 10, 1858, following incorporation in Ohio as a direct writer of fire peril on March 15, 1858. The Company's name was changed to Hamilton County Mutual Insurance Company in 1918.

The Company merged with The Druggist Mutual Insurance Company of Mansfield on July 1, 1957 and changed its name to The Hamilton Mutual Insurance Company of Cincinnati, Ohio.

The Company entered into an Agreement of Affiliation and reinsurance Pooling Agreement with Employers Mutual Casualty Company effective January 1, 1997. In addition, the Company issued $16,500,000 in Surplus Notes to Employers Mutual Casualty Company. The Company redeemed $12,000,000 of the surplus notes during 2007, leaving a balance of $4,500,000.

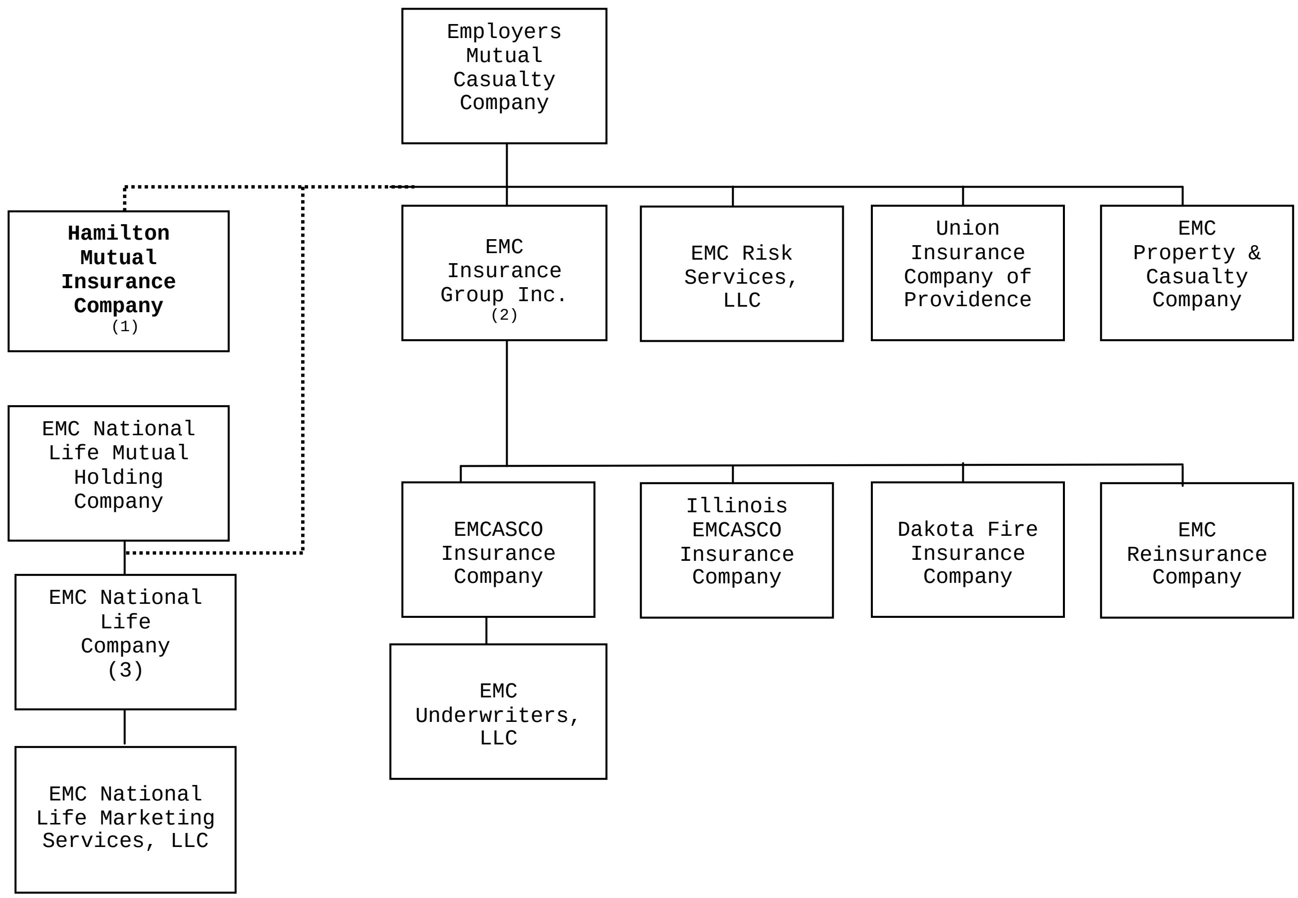
Via the Restated Articles of Incorporation adopted November 17, 2005, the Company re-domesticated to the State of Iowa from the State of Ohio and changed its name to Hamilton Mutual Insurance Company.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System (known as the EMC Insurance Companies) as defined by Chapter 521A, Code of Iowa. Employers Mutual Casualty Company (EMCC), an Iowa domestic insurance entity, is the Ultimate Parent of the Holding Company System.

The Agreement of Affiliation and Surplus Notes provide that Employers Mutual Casualty Company shall have the right to nominate a majority of members to the Company's Board of Directors as long as any amounts are due and owing on the Surplus Notes. Further, if Employers Mutual Casualty Company's nominees cease to constitute at least a majority of the Company's Board, all Surplus Note amounts due and owning shall become immediately due and payable.

The identity of holding company members is shown as of December 31, 2013 in the following organizational chart:



(1) Employers Mutual Casualty Company controls the Board of Directors.
(2) Employers Mutual Casualty Company owns approximately 59% of the voting stock and the remainder is publicly owned.
(3) Employers Mutual Casualty Company owns 49% of the voting stock.

SURPLUS NOTES

The Company issued surplus notes to Employers Mutual Casualty Company during 1997 in the amount of $16,500,000 with an interest rate of 8%. The Company redeemed $12,000,000 of the surplus note during 2007, leaving a balance of $4,500,000. Effective February 1, 2008, the surplus note was refinanced at an interest rate of 3.60% from the previous interest rate of 3.54%. Effective February 1, 2013, the surplus note was refinanced at an interest rate of 1.35% from the previous interest rate of 3.60%.

The note does not have a stated maturity date. The principal amount of the note and interest thereon shall be repaid only out of surplus earnings of the Company. Interest payments are due January 1 and July 1 of each year upon approval of the State of Iowa Insurance Division.

MANAGEMENT AND CONTROL

MEMBERSHIP

The Articles of Incorporation provide that the holders of policies of insurance in force issued by the Company shall be members. The regular annual meeting of the members shall be held at the Ohio branch office at 1:00 P.M. on the third Monday of the month of February.

Notice of the annual meeting is not required except as otherwise provided by law. Special meetings may be called by the Chief Executive Officer and shall be called upon written request of three-fourths of the members of the Board of Directors or upon a written request of a majority of the members.

Each member shall be entitled to one vote at the meeting of the members upon matters of business, which may be exercised in person or by proxy. At any meeting 100 members present, in person or represented by proxy, shall constitute a quorum for the transaction of business.

BOARD OF DIRECTORS

The Articles of Incorporation provide that the general control and management of the Company shall be vested in a Board of not less than five nor more than fifteen members. The number set in the Bylaws is nine. Directors need not be residents of the State of Iowa, but must be members of the Company. Approximately one-third of the members of the Board of Directors shall be elected at each annual meeting of the membership for a term of three years. Any vacancy on the Board may be filled by a majority of the remaining directors until a successor has been elected at the next meeting of the members. No person shall be nominated for or elected a director after they have attained the age of 72.

Directors serving at December 31, 2013 were as follows:

Name and Address	Principal Business Affiliation	Term Expires
Jeffrey E. Felts Cincinnati, Ohio	Retired President Hamilton Mutual Insurance Company	2014
Bruce G. Kelley Des Moines, Iowa	President and Chief Executive Officer Employers Mutual Casualty Company	2014
George W. Kochheiser Cincinnati, Ohio	Retired Executive Officer Employers Mutual Casualty Company	2014
William A. Murray Concord, North Carolina	Retired Executive Officer Employers Mutual Casualty Company	2015
Fredrick A. Schiek Urbandale, Iowa	Retired Executive Officer Employers Mutual Casualty Company	2015
Philip T. Van Ekeren Monroe, Iowa	Retired Executive Officer Employers Mutual Casualty Company	2015
Gale L. Griffin Williamstown, Massachusetts	Retired Corporate Communications Executive Best Foods	2016

Name and Address	Principal Business Affiliation	Term Expires
David J. W. Proctor Des Moines, Iowa	Attorney and Shareholder Bradshaw, Fowler, Proctor & Fairgrave, P.C.	2016
Lisa A. Stange Des Moines, Iowa	Vice President, Chief Investment Officer and Treasurer Employers Mutual Casualty Company	2016

Directors not otherwise salaried receive compensation of $1,050 for attendance at the regular annual meeting of the Company's board of directors. In addition, directors shall be paid $280 for attendance of any special board meeting or committee meeting not held on the date of the annual meeting (except for any meeting of the Investment Committee for which no director's fees shall be paid).

COMMITTEES

The Board of Directors at its regular annual meeting may appoint an Executive Committee and such other committees as deemed essential. All committees shall consist of three or more directors. The Chief Executive Officer of the Company shall be a member and Chairman of the Executive Committee, and may be a member of any other committee. The Committees appointed and serving as of December 31, 2013 were as follows:

Executive	Investment
Bruce G. Kelley	Raymond W. Davis
William A. Murray	Bruce G. Kelley
Fredrick A. Schiek	George W. Kochheiser
	Lisa A. Stange

Nominating	Proxy
Gale L. Griffin	Philip T. Van Ekeren
Jeffrey E. Felts	Bruce G. Kelley
George W. Kochheiser	Fredrick A. Schiek
Fredrick A. Schiek	

In addition, the Employers Mutual Casualty Company has an established Audit Committee which provides oversight to the Company. Members serving on the Audit Committee were as follows:

Bruce G. Kelley (ex officio)
Richard Koch, Jr.
J. Thomas Lockhart
Mary O'Gorman Murray

OFFICERS

The executive officers of the corporation shall be a Chair of the Board, one or more Vice Chairs, a President, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Secretary, a Treasurer, and a General Counsel, each of whom shall be elected by the Board of Directors. The Board of Directors may also elect one or more resident Vice Presidents, an Actuary, a Controller, and such other officers and assistant officers as the directors deem necessary. Any executive office, except that of President, one Vice President, Treasurer and Secretary may be left vacant as the Board may determine. Any two or more offices may be held by the same person except the offices of President and Secretary.

The principal elected officers serving as of December 31, 2013 follows:

Name	Title
Philip T. Van Ekeren	Chairman
Bruce G. Kelley	Vice Chairman and Chief Executive Officer
Kent A. Kochheiser	President, Chief Operating Officer and Treasurer
Kevin J. Hovick	Executive Vice President
Ronald W. Jean	Executive Vice President-Corporate Development
Robert L. Link	Senior Vice President and Secretary
Mark E. Reese	Senior Vice President, Chief Financial Officer and Assistant Treasurer

Other elected officers include eight vice presidents, four assistant vice presidents and three assistant secretaries.

The salaries of the principal officers are shown in Exhibit A which follows the signature page of this report.

CONFLICT OF INTEREST

The Company has an established procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers or key employees which is in or likely to, conflict with their official duties. Conflict of interest statements are circulated and reviewed annually. While conflicts were disclosed, none were identified that would materially impact the Company and all were addressed by the Employers Mutual Casualty Company’s Audit Committee.

CORPORATE RECORDS

The recorded minutes of the membership, Board of Directors and committee meetings were read and noted. They were found to be properly attested. The Examination Report as of December 31, 2008 prepared by the Iowa Insurance Division was accepted at the Board of Directors meeting held September 30, 2010.

Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

RELATED PARTY AGREEMENTS

Service Agreements

EMCC shall provide certain management, operational and administrative services to named affiliated and subsidiary companies. Payment for costs shall be due no later than 45 days after the end of each quarter. The term of the agreements is one year, automatically renews for a period of one year, and may be terminated by either party with at least prior written 90 day notice or shorter period if agreed upon by both parties.

Inter-Company Loan Agreements

Effective January 31, 2012, the loan agreement allows the EMC property and casualty companies to borrow or loan money to each other on short-term basis (up to 180 days) at market-based interest rates and sets loan repayment terms. No loans made pursuant to the Loan Agreement, in the aggregate, may exceed 5% of the lending party's admitted assets as of December 31 of the current preceding year.

Investment Management Agreement

EMCC shall perform those mutually agreed upon investment management services reasonably required to assist the named affiliated and subsidiary companies in overseeing investment activities. Payment for costs shall be due no later than 45 days after the end of each quarter. The term of the agreement is one year, automatically renews for a period of one year, and may be terminated by either party with at least prior written 90 day notice or shorter period if agreed upon by both parties.

Agreements for Payment of Taxes

EMCC shall advance on behalf of the named affiliated and subsidiary companies any tax owed at the time of the filing of the respective returns. Each named affiliate or subsidiary shall reimburse the Company for the payment of such advanced funds no later than 45 days after the end of each applicable quarter. The term of the agreements is one year, automatically renews for a period of one year, and may be terminated by either party with at least prior written 90 day notice or shorter period if agreed upon by both parties.

FIDELITY BONDS AND OTHER INSURANCE

Employers Mutual Casualty Company (EMCC) its subsidiaries and affiliate are included as joint insureds on policies of insurance currently in force that afford protection against loss for the usual hazards to which the companies have exposure, including cyber security. The blanket fidelity bond has a basic limit of $10,000,000 and aggregate limit of $20,000,000, which exceeds the minimum amount suggested by the N.A.I.C. EMCC writes a policy on itself for property, auto, commercial general liability, umbrella and insurance company professional liability coverages.

EMPLOYEE WELFARE

Employers Mutual Casualty Company performs all operations such as data processing, claims, financial, actuarial, legal, auditing, marketing and underwriting, for all of its subsidiaries and affiliate. Subsidiaries and the affiliate are allocated employee expenses based on their respective pooling participation or employee utilization.

REINSURANCE

INTERCOMPANY POOLING ARRANGEMENT

Employers Mutual Casualty Company (EMCC) and its affiliated property and casualty insurance companies are parties to a reinsurance pooling agreement. Under the terms of the pooling agreement, the affiliated companies cede all of their gross insurance business to EMCC and assume from EMCC an amount equal to their participation in the pool. All losses, loss adjustment expenses and other underwriting and administrative expenses, excluding the voluntary reinsurance business assumed by EMCC from unaffiliated insurance companies, are prorated among the companies on the basis of participation in the pool. EMCC will make up any shortfall or difference resulting from an error in its systems and/or computational process that would otherwise result in the required restatement of the pool participants' financial statements. Intercompany balances related to pooling activities are settled no later than 45 days after the end of each month. The investment activities and income tax liabilities of the pool participants are not subject to the pooling agreement.

Participation in the pooling agreement has remained unchanged during the examination period and as of December 31, 2013 was as follows:

Employers Mutual Casualty Company	62.0%
EMCASCO Insurance Company	13.5
Illinois EMCASCO Insurance Company	10.0
Dakota Fire Insurance Company	6.5
EMC Property & Casualty Company	3.5
Union Insurance Company of Providence	2.5
Hamilton Mutual Insurance Company	2.0

Pooled net written premiums for 2013 totaled $1,350,162,830. EMCC and pooling affiliates ceded written premiums to the pool of $837,100,955 and $512,961,875, respectfully.

The Company is also a named participant in the EMCC ceded reinsurance program which provides property, casualty and umbrella excess of loss cover and catastrophe excess of loss cover for property and workers compensation business.

STATUTORY DEPOSITS

As of December 31, 2013, the book/adjusted carrying value of special deposits held in trust by the Iowa Insurance Commissioner, for the benefit of all policyholders, totaled $1,049,230. The book/adjusted carrying values of special deposits held in trust, which are not held for the protection of all policyholders of the Company, are as follows:

North Carolina	$331,780	Virginia	$199,925

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 14 jurisdictions with the majority of direct premium written in Michigan, Kentucky and Ohio. The EMC Insurance Companies is a multiple-line property and casualty insurance writer that is licensed in all fifty states and the District of Columbia. The majority of direct business is written in other liability, commercial auto liability and workers’ compensation lines of coverage.

Marketing of products for the pooling EMC Insurance Companies is conducted through 16 branch offices located throughout the U.S. and produced by approximately 3,400 independent insurance agencies. The branch offices perform underwriting, claims, marketing, and risk improvement functions; and include field auditors and branch administrative technicians. Each branch office acts as its own profit center with the largest direct writers located in Des Moines, Omaha and Wichita.

GROWTH OF COMPANY

The following significant data, as taken from the office copies of the Company's filed annual statements for the years indicated, reflects the growth of the Company:

Year	Admitted Assets	Surplus to Policyholders	Net Premiums Earned	Net Losses Incurred	Investment Income Earned
2009	$66,400,711	$27,565,982	$20,538,604	$10,863,625	$2,669,058
2010	67,502,608	28,543,907	20,376,442	11,222,326	3,241,060
2011	68,375,379	28,059,469	21,443,281	13,912,526	2,564,936
2012	70,661,998	29,181,220	23,809,247	12,605,555	2,391,711
2013	74,206,717	31,057,500	26,181,256	14,370,337	2,412,248

ACCOUNTS AND RECORDS

The Company's general ledgers are maintained on an accrual basis. Trial balances were prepared for the examination years under review. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed annual statements for assets, liabilities, income and disbursements.

During the course of examination, no statutory violations or material differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2013, were identified.

FINANCIAL STATEMENTS

AND COMMENTS THEREON

Note: The financial statements contained herein reflect only the transactions of the year ended December 31, 2013, and the assets and liabilities as of that date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	Ledger	Not Admitted	Admitted
Bonds	$67,799,832	$ -	$67,799,832
Preferred stocks	574,650		574,650
Cash and short-term investments	1,993,268		1,993,268
Aggregate write-ins for invested assets	87,500		87,500
Investment income due and accrued	618,009		618,009
Uncollected premium balances in course of collection	1,570,613		1,570,613
Premiums booked but not yet due	10,018	1,002	9,016
Current federal and foreign income tax recoverable and interest thereon	20,949		20,949
Net deferred tax asset	1,937,732	464,470	1,473,262
Guaranty funds receivable or on deposit	59,618		59,618
Qualified pension plan prepaid expenses	1,196,484	1,196,484	
Postretirement benefit plans	318,244	318,244	
Other prepaid expenses	257,442	257,442	-
Total assets	$76,444,359	$2,237,642	$74,206,717

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$20,948,724
Reinsurance payable on paid losses	1,312,633
Loss adjustment expenses	6,086,876
Commissions payable, contingent and other	588,845
Other expenses	1,277,115
Taxes, licenses and fees	292,905
Borrowed money and interest thereon	69,188
Unearned premiums	12,472,414
Payable to parent and affiliates	797,807
Postretirement benefit plans liability not recognized in income	(766,353)
Nonqualified pension plan liability not recognized in income	69,063
Total liabilities	$43,149,217
Surplus notes	$ 4,500,000
Unassigned funds (surplus)	26,557,500
Surplus as regards policyholders	$31,057,500
Total liabilities and surplus	$74,206,717

STATEMENT OF INCOME
ONE-YEAR PERIOD ENDING DECEMBER 31, 2013

Underwriting Income		
Premiums earned		$26,181,256
Deductions		
Losses Incurred	$14,370,337	
Loss expenses incurred	3,211,541	
Other underwriting expenses incurred	8,885,789	
Aggregate write-ins for underwriting deductions		
Total underwriting deductions		26,467,667
Net underwriting gain (loss)		$ (286,411)
Investment Income		
Net investment income earned	$ 2,367,481	
Net realized capital gains (losses)	44,767	
Net investment income		2,412,248
Other Income		
Net gain or (loss) from agents' balances charged off	$ (25,129)	
Finance and service charges not included in premiums	17,401	
Aggregate write-ins for miscellaneous income	12,631	
Total other income		4,903
Net income before dividends to policyholders		$ 2,130,740
Dividends to policyholders		561,851
Net income before Federal income tax		$ 1,568,889
Federal and foreign income taxes incurred		317,685
Net income		$ 1,251,204

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012	$29,181,220
Gains and (Losses) in Surplus	
Net income	$ 1,251,204
Change in net unrealized capital gains or (losses)	(22,604)
Change in net deferred income tax	34,002
Change in nonadmitted assets	131,893
Change in postretirement benefit and pension plans	481,785
Change in surplus as regards policyholders for the year	$ 1,876,280
Surplus as regards policyholders, December 31, 2013	$31,057,500

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	$26,738,300	
Net investment income	2,722,669	
Miscellaneous income	28,787	
Total		$29,489,756
Benefit and loss related payments	$13,342,409	
Net transfers to protected cell accounts		
Commissions, expenses paid and aggregate write-ins for deductions	11,530,989	
Dividends to policyholders	556,145	
Federal income taxes (paid) recovered	400,000	
Total		25,829,543
Net cash from operations		$ 3,660,213

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	$12,922,441	
Total investment proceeds		$12,922,441
Cost of investments acquired (long-term only):		
Bonds	$16,256,477	
Stocks	500,000	
Miscellaneous applications	87,500	
Total investments acquired		16,843,977
Net cash from investments		$(3,921,536)

Cash from Financing and Miscellaneous Sources

Cash provided:		
Other cash provided (applied)	$ 43,828	
Net cash from financing and miscellaneous sources		$ 43,828

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	$ (217,495)
Cash and short-term investments:	
Beginning of year	2,210,763
End of year	$ 1,993,268

STATEMENT OF INCOME
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2013

Underwriting Income		
Premiums earned		$112,348,830
Deductions		
Losses Incurred	$62,974,369	
Loss expenses incurred	14,717,248	
Other underwriting expenses incurred	39,051,715	
Total underwriting deductions		116,743,332
Net underwriting gain (loss)		$ (4,394,502)
Investment Income		
Net investment income earned	$12,620,908	
Net realized capital gains (losses)	658,105	
Net investment income		13,279,013
Other Income		
Net gain or (loss) from agents' balances charged off	$ (127,073)	
Finance and service charges not included in premiums	105,873	
Aggregate write-ins for miscellaneous income	68,237	
Total other income		47,037
Net income before dividends to policyholders		$ 8,931,548
Dividends to policyholders		2,652,145
Net income before Federal income tax		$ 6,279,403
Federal and foreign income taxes incurred		957,991
Net income		$ 5,321,412

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2008	$ 23,314,809
Gains and (Losses) in Surplus	
Net income	$ 5,321,412
Change in net unrealized capital gains or (losses)	1,572,083
Change in net deferred income tax	141,826
Change in nonadmitted assets	(1,047,869)
Change in postretirement benefit and pension plans	1,755,239
Change in surplus as regard policyholders for the exam period	$ 7,742,691
Surplus as regards policyholders, December 31, 2013	$ 31,057,500

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

In addition to the undersigned, the following Iowa Insurance Division examiners participated in the examination and preparation of this report:

Bob Wong, CFE
Bouavan Kha

Emilie Brady, CFE with Eide Bailly, LLP, also participated in the examination and preparation of this report.

A review of loss and loss adjusting expense reserves was performed under the direction of Charles C. Emma, FCAS, MAAA, and Principal with EVP Advisors, Inc.

A review of the information technology systems was performed under the direction of Eide Bailly, LLP.

Respectfully submitted,

/s/ Virginia West
VIRGINIA R. WEST, CFE
Examiner-in-Charge
Insurance Division
State of Iowa