

**ANNUAL
REPORT**



2018

FROM THE CHAIRMAN



Charles M. Chamness
Chairman of the Board

As you may know, NAMICO was founded in the tumultuous insurance market of the 1980s to address the challenge member companies faced in obtaining professional liability coverage.

NAMICO exists for you, the NAMIC member company. And without you – the policyholders, shareholders, and reinsurance facility (pool) members – NAMICO would not be celebrating this profitable year featuring the milestones of surpassing \$16 million in premium with nearly \$29 million in surplus earned from 32 years of service to mutual insurance companies and their agents.

But NAMICO also exists by you. NAMICO's founders brilliantly tied together – in a “mutual” way – the stakeholders mentioned above. And the ongoing value of that foundation is something I'd like to highlight here: the connection of NAMICO with your trade association.

First, NAMIC appoints the majority of NAMICO directors – many of whom have typically served on NAMIC boards or committees either before or after their NAMICO board service. That connection and experience is invaluable as we work together to serve members/policyholders.

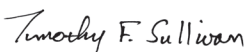
Second, NAMICO's products are exclusively marketed and sold through the NAMIC Insurance Agency (company and agency marketing under the NAMIC Insurance Solutions brand). This structure provides an important source of non-dues revenue to the association that helps keep NAMIC dues low and maximizes the advocacy value received by each member – and policyholder – company.

Third, NAMIC is not simply a 501(c)6 trade association, it is an insurance holding company. This gives us an advantage over any other insurance trade association of knowing what it is like to be in your shoes and experience insurance regulation first hand – at the state, federal, and even international level. Insurance company regulation is not an abstract concept to us – whether in governance, in data privacy, in financial solvency, in market conduct, in state examinations, etc.

Finally, as your advocacy trade connected to your professional liability insurance company, we can bring a more informed, effective, and urgent approach to advocacy on your behalf. For example, in the past year, we've seen a spike in insurance bad faith proposals, particularly in states like New Jersey, Oregon, and Virginia. I suspect everyone reading this recognizes bad faith legislation is bad medicine for insurance markets, insurance companies, and the policyholders served by them. It is, plainly and simply, solely for the benefit of plaintiffs' attorneys. NAMICO's experience with bad faith claims on behalf of its policyholders that are also NAMIC member companies is an insight and motivation few other associations possess.

So while NAMIC works to improve our industry through better public policy, NAMICO stands by to help you and your team when bad things happen to good companies. It's why we're here.

FROM THE PRESIDENT AND CEO



Timothy F. Sullivan
President & CEO

2018 was the year we wish every year could be...strong new business, few consolidations or liquidations, reasonable claim volumes, an underwriting profit, and growth in assets with continued strong surplus. Even investments were doing well...at least until December. A good year, after two successive years of challenges, for a rapidly coalescing team of new managers and leaders and the entire staff to catch their collective breath and see the hard work pay off. Like you, we will take these results any year.

The big news first: An Underwriting profit of slightly over \$500,000. Surplus decreased slightly, to just under \$29 Million (thank you, December); Assets to over \$55 Million; and Net Income of over \$1.7 Million. The value of NAMICO stock increased to more than \$318 per share (note, this is the number you'll report for 2019, not for 2018). New Business exceeded \$900,000 as more companies realized the value of being a part of the NAMICO Program. Gross Premium Written exceeded \$16.2 Million. Please review the financial report on the next page (unaudited for 2018) for further details and note the addition of percentage changes on the report. Numbers are data; the percentages help give you information. We hope you like the change.

What drives NAMICO's loss payments? Sometimes it is bad faith arising from a property claim. But especially these past few years it has been excess verdicts in bodily injury or death cases taken to trial. Chuck Chamness has discussed this in a few of his emails and speeches. Changing juror attitudes and changing perceptions regarding the value of \$1 Million seem to produce larger verdicts. And, to be honest, sometimes it is decisions by insurers. Yes, we know we benefit from hindsight when looking at a claim gone bad, but sometimes these things just jump off the page. To paraphrase a certain NAMIC member company, “we've seen some cases gone bad and have learned from those experiences”. If you would like to discuss a claim, Jen Hamilton, Vice President - Claims, or I will be happy to talk with you.

As always, my thanks to a collection of people and companies that make NAMICO go and grow. Thanks to the members of the Board of Directors, past, present, and future. Your insights and dedication help keep this going in the right direction. To the policyholders, thank you for trusting us with your company's (and directors', officers', and employees') financial well-being. The members of the Pool make it all possible for everyone. And, finally, to my fellow team members at NAMICO and NAMIC Insurance Agency – NAMIC Insurance Solutions – thank you for your dedication and energy.

FINANCIAL REPORT (2018 DATA UNAUDITED)

| | 2018 | 2017 | % Change |
|-----------------------------------|---------------------|---------------------|-----------|
| ASSETS | | | |
| Cash In Bank | \$1,934,122 | \$741,447 | 161% |
| Bonds | 26,004,368 | 25,441,955 | 2% |
| Stocks | 14,976,072 | 13,784,410 | 9% |
| Short Term Investments | 861,950 | 1,584,242 | -46% |
| Agent Balances | 2,193,798 | 2,154,659 | 2% |
| Funds Held by Reinsured Companies | 8,632,230 | 8,265,784 | 4% |
| Reinsurance Recoverables | 11,686 | 71,848 | -84% |
| Federal Income Tax - Current | 285,196 | 262,973 | 8% |
| Federal Income Tax - Deferred | 248,216 | - | NA |
| Accrued Investment Income | 282,482 | 272,748 | 4% |
| Other Assets | 15,860 | - | NA |
| TOTAL ASSETS | \$55,445,980 | \$52,580,066 | 5% |

LIABILITIES AND SHAREHOLDERS EQUITY

| | | | |
|---|---------------------|---------------------|------------|
| Reserve for Unearned Premium | \$2,521,568 | \$2,521,467 | 0% |
| Reserve for Losses / Loss Adjustment Expenses | 6,374,000 | 5,866,808 | 9% |
| Accrued Expenses & Other Liabilities | 842,187 | 1,021,084 | -18% |
| Reinsurance Premiums Payable | 42,209 | 208,206 | -80% |
| Federal Income Tax - Deferred | - | 318,638 | -100% |
| Funds Held Under Reinsurance Treaties | 16,694,478 | 13,650,395 | 22% |
| TOTAL LIABILITIES | \$26,474,442 | \$23,586,598 | 12% |

COMMON STOCK:

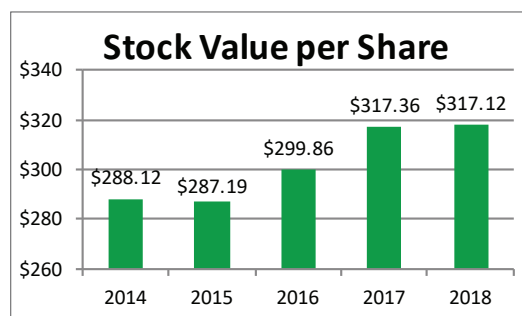
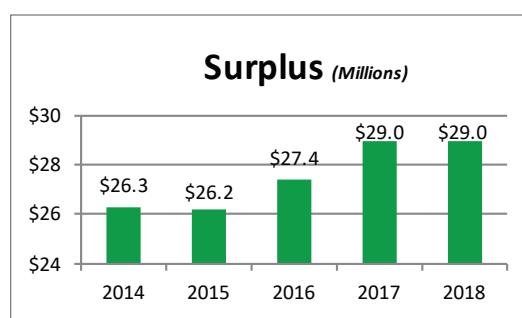
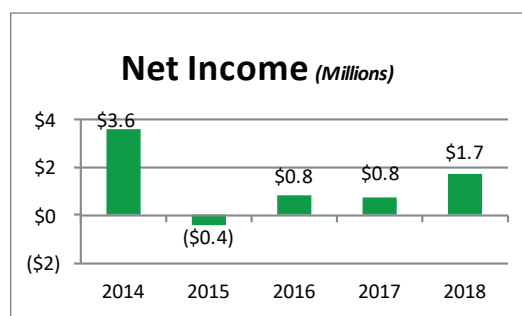
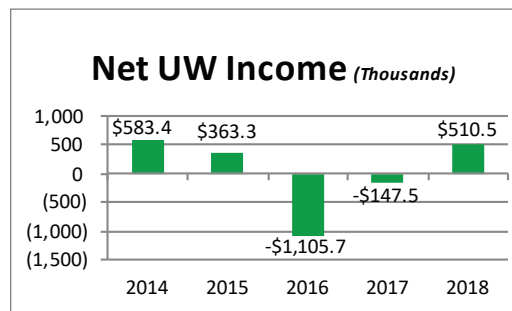
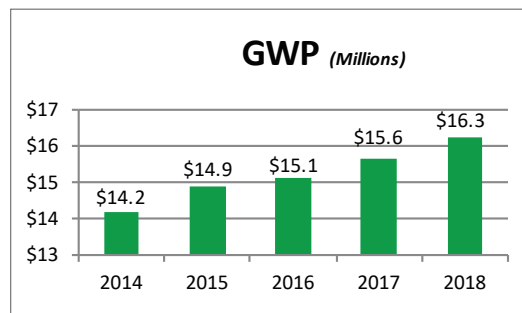
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|---|---------------------|---------------------|-----------|
| Class A Stock | \$102,000 | \$102,000 | 0% |
| Class B Stock | 4,557,309 | 4,557,309 | 0% |
| Unassigned Surplus | 24,312,229 | 24,334,159 | 0% |
| Total Shareholders Equity | 28,971,538 | 28,993,468 | 0% |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$55,445,980 | \$52,580,066 | 5% |

OPERATING RESULTS

| | 2018 | 2017 | % Change |
|-------------------------------------|--------------------|------------------|-------------|
| Premiums Earned | \$5,682,530 | \$5,236,086 | 9% |
| Losses and Loss Expenses Incurred | 2,855,106 | 3,022,219 | -6% |
| Underwriting Expenses Incurred | 2,316,966 | 2,361,383 | -2% |
| Underwriting Gain (Loss) | 510,458 | (147,516) | NA |
| Net Investment Income | 404,060 | 485,219 | -17% |
| Realized Capital Gain (Loss) | 1,410,872 | 858,311 | 64% |
| Federal Income Tax Expense (Income) | 587,777 | 437,673 | 34% |
| NET INCOME (LOSS) | \$1,737,613 | \$758,341 | 129% |

SUMMARY OF CAPITAL AND SURPLUS

| | 2018 | 2017 | % Change |
|---|---------------------|---------------------|-----------|
| Shareholders Equity - Beginning of Year | \$28,993,468 | \$27,394,998 | 6% |
| Net Income | 1,737,613 | 758,341 | 129% |
| Change in Unrealized Capital Gains | (2,032,360) | 625,250 | NA |
| Change in Net Deferred Federal Income Tax | 131,008 | 184,224 | -29% |
| Change in Non Admitted Assets | (5,691) | 70,130 | NA |
| Change in Minimum Pension Liability | 147,500 | (39,475) | NA |
| Change in Shareholders Equity | (21,930) | 1,598,470 | NA |
| SHAREHOLDERS' EQUITY - END OF YEAR | \$28,971,538 | \$28,993,468 | 0% |



BOARD OF DIRECTORS

DIRECTORS

Charles M. Chamness
NAMIC
Indianapolis, Indiana

Don H. Adams, CIC
Bear River Mutual Insurance Company
Salt Lake City, Utah

Patrick (Pat) Faga
Farmers Mutual Hail Ins. Co. of Iowa
West Des Moines, Iowa

Douglas P. Fincannon, PFMM
Alamance Farmers' Mutual Insurance Company
Graham, North Carolina

Brad M. Fowler, CPCU, ARe, AIC
Cameron Mutual Insurance Company
Cameron, Missouri

Jeffery D. Howell, CIP
Bay of Quinte Mutual Insurance Company
Picton, Ontario, Canada

Byron K. Long
Allegany Insurance Group
Cuba, New York

Tricia A. Mickley, CPA, PFMM
Frontier - Mt Carrol Mutual Insurance Company
Mount Carrol, Illinois

Sandra G. Parrillo, CPCU
Providence Mutual Fire Insurance Company
Providence, Rhode Island

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NAMIC

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Timothy F. Sullivan, RPLU
NAMICO

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NAMICO

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Gregg A. Dykstra, J.D.
NAMIC

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Jennifer M. Hamilton, Esq.
NAMICO

Vice President - Underwriting

Ted W. Doughman, CPCU, RPLU, AFSB
NAMICO

Vice President - Information Technology & Security

Brian J. Stanek, C|CISCO
NAMICO

Vice President - Compliance and Product Development

Lisa E. Sladek
NAMICO

